Senate Budget and Fiscal Review

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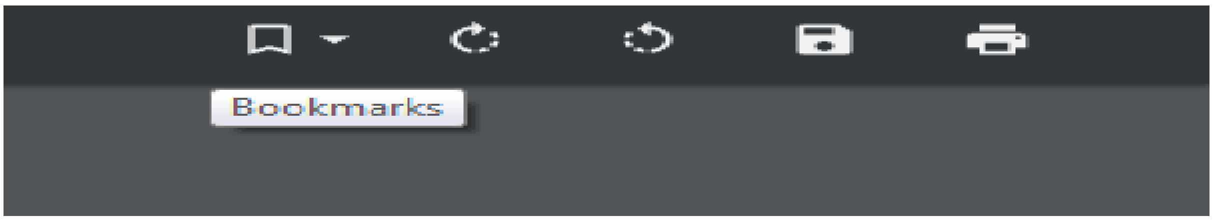

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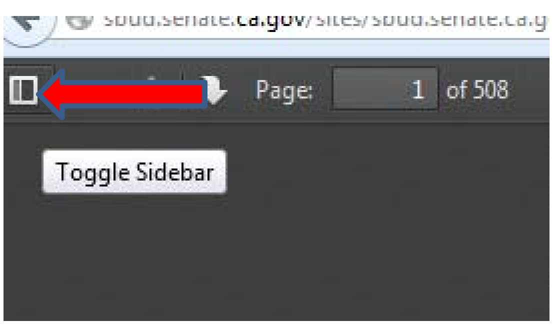

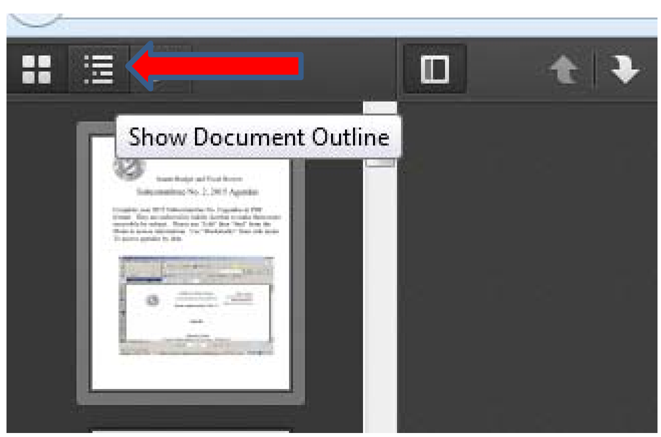

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 8, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION/VOTE

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ISSUES PROPOSED FOR VOTE-ONLY

7760 DEPARTMENT OF GENERAL SERVICES

Issue 1: Institutional Purchasers - Sale of California Produce (AB 822)

Budget. The Department of General Services (DGS) is requesting $308,000 from the Service Revolving Fund and two permanent positions to implement the provisions of Assembly Bill 822 (Caballero), Chapter 785, Statutes of 2017.

Background. AB 822 creates a five percent bid preference for California-grown agricultural products purchased by state-owned or state-run institutions, with the exception of state universities. The bill will apply every time a state-owned or state-run institution intends to accept a bid or price for agricultural products grown outside the state, amending Food and Agricultural Code Section 58595(b). As a result, state agencies and institutions will now need to require suppliers to indicate whether they are proposing any agricultural products grown outside California. To implement AB 822 DGS is requesting resources for the development of necessary regulations and updates to the State Contracting Manual.

In order to comply with the provisions of this bill, DGS will implement a two-step verification and validation process. During the award process, DGS and departments purchasing agricultural products will be responsible for verifying each bidder's supply chain to determine whether a bid preference applied to products grown in California or products processed and packaged in California should be applied. Once awarded, DGS and purchasing departments will again need to verify the supply chain to ensure that contractors who received a preference deliver California-grown or California-processed or packaged agricultural products. Compliance checks will also be performed to ensure acquisitions continue to comply with any bid preference received. This will create a new and non-absorbable workload for DGS.

Staff Recommendation. Approve as requested.

Issue 2: Public Contracts Bid Specifications (AB 262)

Budget. The department is requesting one permanent position, $638,000 from the Service Revolving Fund in 2018-19, and $138,000 annually thereafter to implement the provisions of Assembly Bill 262 (Bonta), Chapter 816, Statutes of 2017.

Background. DGS is the state's central purchasing authority for all state executive branch departments, agencies, and institutions. DGS is responsible for assisting state agencies in describing and developing standard technical specifications that can be competitively bid to acquire quality goods and services (State Administrative Manual 3510.1 and 3510.3). As part of the commodity bid process, DGS also evaluates products for compliance to solicitation specifications.

AB 262, the Buy Clean California Act, requires DGS to establish a maximum acceptable global warming potential for four categories of building materials, using a specified methodology, by January 1, 2019. The bill generally prohibits building materials that exceed the maximum acceptable global warming potential from being used for University of California, California State University, and other types of state public works contracts entered on or after July 1, 2019. DGS would be required to review the maximum global warming potential standards every three years to determine whether they should be lowered further to reflect industry improvements. DGS must establish the reporting framework and maximum acceptable global warming potential for each category of eligible materials and thresholds for global warming potential in eligible materials. The State Contracting Manual will be updated to reflect the policy for evaluating environmental product disclosures and maximum allowable global warming potentials acceptable in public work contracts. In addition, DGS is required to submit reports to the Legislature with the first report due January 1, 2019, and a subsequent report due January 1, 2022, and every three years thereafter regarding status of the implementation and its effectiveness in reducing global warming potential. Proposed duties of the requested position include preparation of these reports; ongoing contract management for all impacted public works contracts; data analysis, retention, and management; providing information and technical assistance to DGS customer departments; and ensuring transparency in purchasing.

Staff Recommendation. Approve as requested.

Issue 3: New Certification for Small Business in Public Works Contracts (SB 605)

Budget. The department is requesting two permanent positions, $374,000 Service Revolving Fund authority in 2018-19, and $274,000 annually thereafter to implement the provisions of Senate Bill 605 (Galgiani), Chapter 673, Statutes of 2017.

Background. SB 605 amended the Government Code to create a new small business certification type specifically for the purpose of public works. The size limit eligibility criteria for this type of small business certification has more than doubled from a 100 employee count to a 200 employee count, and from the current $15 million in gross annual receipts to $36 million. The Small Business certification program affects all state departments as they are required to meet the Executive Order mandate of 25 percent in small business participation. More than 40 local government partners also use the certification in their own local programs. To participate in state contracts and be counted toward the participation goals, businesses must become certified by the department. Certification is issued for two years, and re-certification can be requested within 90 days of the certification expiration.

To implement this bill, the department will need to develop and apply the new certification type for small businesses for the purpose of public works. Additional duties required to implement this bill include developing new program guidelines, training, policy, procedures and regulations; working closely with the Financial Information System for California (FI$Cal) and Cal eProcure to modify the certification module; developing and implementing new reporting requirements; and increasing efforts in the dissemination of information and outreach. The department has estimated an increase of 1,000 to 1,300 applications for certification, as well as a steady workload increase due to re-certification of these firms.

Staff Recommendation. Approve as requested.

Issue 4: Mercury Cleaners Site Monitoring

Budget. The department is requesting $578,000 in ongoing General Fund authority to continue monitoring the results of remediation efforts of the former Mercury Cleaners site, a state-owned property.

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. Without remediation of the site, there is a potential health risk to occupants of surrounding residential housing sites, commercial businesses, and an adjacent child daycare facility.

Continued monitoring and testing of the site is now needed. The table below provides cost estimates for monitoring and testing activities in fiscal year 2018-19. Monitoring and reporting activities will continue for the next 10-20 years.

Activity	Cost
Groundwater Monitoring and Reporting	$516,000
Supplemental Air Quality Studies	$62,000
Total	$578,000

Staff Recommendation. Approve as requested.

8940 CALIFORNIA MILITARY DEPARTMENT

Issue 1: State Active Duty Compensation Increase

Budget. The California Military Department (CMD) requests $1.18 million ($514,000 General Fund, $617,000 Federal Trust Fund, $26,000 Reimbursement authority, and $23,000 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, pursuant to Military and Veterans Code (MVC) sections 320 and 321.

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. MVC 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.

Staff Comment. Since the writing of this proposal the NDAA has been signed into law. The department will submit spring finance letter that will adjust the amount requested to align with the signed NDAA. The spring finance letter will reduce the amount requested by $234,954.

Staff Recommendation. Approve as requested.

Issue 2: Capital Outlay Proposals

Budget. The department requests a total of $25.2 million ($12.6 million General Fund and $12.6 million federal matching funds) for the five capital outlay proposals listed below.

- Advance Plans and Studies: The department requests $300,000 ($150,000 General Fund and $150,000 federal matching funds) for architect-engineering services to conduct design studies and programming charrettes for future capital projects. These services will allow the department to develop conceptual designs and cost estimates for future projects.

- Burbank Armory Renovation: The department requests $5.7 million ($2.86 million General Fund and $2.86 million federal matching funds) for the performance criteria and design-build phase of the Burbank project. The request would provide funds to renovate the 31,800 square foot Burbank Readiness Center, built in 1951.

- San Diego Readiness Center Renovation (Phase 3): The department requests $3.9 million ($1.96 million General Fund and $1.96 million federal matching funds) for Phase 3 of construction for the continuing San Diego Readiness Center Renovation project.

- San Jose Armory Renovation: The department requests $4.9 million ($2.46 million General Fund and $2.46 million matching federal funds) for the performance criteria and design-build phase of the San Jose project. The request would provide funds to renovate the 31,800 square foot San Jose Readiness Center, built in 1950.

- Santa Rosa Armory Renovation: The department requests $5.6 million ($2.8 million General Fund and $2.8 million federal matching funds) for performance criteria and the design-build phase of the Santa Rosa project. The request would provide funds to renovate the 16,900 square foot Santa Rosa Readiness Center, built in 1951.

- Torrance Armory Renovation: The department requests $4.8 million ($2.4 million General Fund and $2.4 million federal matching funds) for performance criteria and the design-build phase of the Torrance project. The request would provide funds to renovate the 10,600 square foot Torrance Readiness Center, built in 1955.

Background. The department maintains 95 active armories, four aviation centers, 24 field maintenance shops, two combined support maintenance shops, and two maneuver area training equipment sites. The department also operates three major training facilities.

Staff Recommendation. Approve as requested.

8955 Department of Veterans Affairs

Issue 1: Information Services Staffing

Budget. The department is requesting nine positions, an augmentation of $1.235 million ($1.09 million General Fund and $145,000 Farm and Home Building Fund of 1943) in fiscal year 2018-19, and $1.185 million ($1.045 million General Fund and $140,000 Farm and Home Building Fund of 1943) annually thereafter to provide support for CalVet's information security and information technology projects. The requested positions are:

- Four Staff Information Systems Analysts
- Senior Information Systems Analyst
- Staff Programmer Analyst
- System Software Specialist I
- System Software Specialist II
- System Software Specialist III

Background. The CalVet's major lines of business are Veteran Services and Benefits, Veterans Homes, and Farm and Home Loans. The Information Services Division (ISD) supports the business through services provided by application and web support, infrastructure and operational support, information security office, and IT projects and procurement.

In an effort to meet its strategic goals, the CalVet is turning to technology to provide the highest quality of CalVet-sponsored care and services. As CalVet's business partners become more technology savvy and interested in technology solutions, there has been a significant increase in requests by business staff and management to evaluate new technologies and software applications to provide enhanced resources to veterans and improve efficiencies in the staff that provide these services. The ISD staff resources are strained with the need to provide appropriate procurement and project management services, systems design and analysis, employment of advanced security needs, and improvement of current infrastructure, to meet a growing demand of technology offerings. While the project work and initiatives are implemented, staff must continue to maintain and support existing services and their underlying technology, as well as develop skillsets to address the increasing needs, security risks, and challenges of new technologies.

Current staffing levels within all ISD sections were confirmed as insufficient through an independent workload study conducted by CPS HR Consulting. Results of the study indicate insufficient staffing levels to manage the breadth and scope of current responsibilities; many tasks were identified as "not getting done." Without adequate staffing for the ISD sections, activities are delayed, contractors are necessary to provide an array of consulting services, IT assets face security risks, customer satisfaction is diminished, and ISD loses the ability to accurately plan for maintaining and supporting existing technology.

Staff Recommendation. Approve as requested.

Issue 2: Central Coast Veterans Cemetery

Budget. The department requests $571,000 (California Central Coast State Veterans Cemetery at Fort Ord Operations Fund) to complete the working drawings for the California Central Coast Veterans Cemetery.

Background. The cemetery is located on approximately 12 acres at the former Fort Ord Army base and serves the interment needs of California veterans in the counties of Alameda, Monterey, San Mateo, Santa Cruz, San Benito, and Santa Clara. As of September 30, 2017, there are approximately 159,000 veterans living within the six counties based on 2016 data.

In 2017-18, $1.5 million General Fund ($1.212 million for preliminary plans, $50,000 for working drawings, and $238,000 for construction) was appropriated for the state's share of the California Central Coast Veterans Cemetery project, to expand the existing cemetery by 4.29 acres. Expansion will include approximately 2,000 in ground crypts, 1,700 in-ground cremains plots, and 400 linear feet of additional roadway. This request will allow the department to utilize private donations in the amount of $571,000, which will be deposited into the fund to complete the working drawings phase of the project. It is anticipated that the construction phase of the project ($7.384 million) will be funded by: (1) private donations in the amount of $268,000, (2) federal funds in the amount of $6.878 million, and (3) General Fund in the amount of $238,000 (appropriated in 2017-18).

Staff Recommendation. Approve as requested.

Issue 3: Annual Reporting on the Veterans Homes of California (AB 1365)

Budget. The department requests two positions, $232,000 General Fund in 2018-19, and $343,000 annually thereafter to satisfy the requirements of Assembly Bill 1365 (Reyes), Chapter 509, Statutes of 2017. The request includes ongoing funding for one Research Program Specialist currently funded through June 30, 2019.

Background. AB 1364 requires an annual report to the Legislature, and a post on CalVet's website, that includes the budget of the Veterans Homes of California, revenue, cost of care, and deferred maintenance costs. CalVet is also required to review the use restrictions imposed by federal law on the Veterans' Homes. The bill requires that report to be submitted by February 1, 2019, and every year thereafter. The Budget Act of 2017 included provisional language requiring CalVet to prepare a master plan for the operation of the veterans' homes system no later than July 1, 2019. The language included two-year limited-term funding for one Research Program Specialist which expires June 30, 2019. This request includes permanent funding for this position.

Operating funds for the VHCs are provided by the state General Fund and partially offset by revenues collected from the VA per diem program, private insurance, Aid and Attendance, Medi-Cal, and Medicare. Additionally, the residents pay a percentage of their income dependent upon the level of care they are receiving, in accordance with statute.

Staff Comment. Note that the data required by AB 1365 is different from the information the department is required to provide in its master plan for the operation of the Veterans Homes system, required in the 2017 Budget Act. The information gathered, as required in AB 1365, will help to inform the master plan.

Staff Recommendation. Approve as requested.

Issue 4: Veterans Claims Representatives (SB 776)

Budget. The department requests seven positions, $907,000 General Fund in 2018-19, and $868,000 annually thereafter to fulfill the requirements of Senate Bill 776 (Newman), Chapter 599, Statutes of 2017.

Background. Senate Bill 776 requires the department to provide one employee, who is trained and accredited by CalVet, for every five state prisons, to assist incarcerated veterans in applying for and receiving any federal or other veterans benefits. According to the California Department of Corrections and Rehabilitation (CDCR) about 5.3 percent (6,800 individuals) of the state's total in-custody population are veterans.

Access to veterans' benefits can serve as vital support resources to incarcerated veterans upon their transition out of state custody as they undertake efforts toward reintegration into general society. Currently, County Veteran Service Offices (CVSOs) are the most important resources in assisting veterans in accessing the federal and state veteran benefits for which they may be eligible. A large number of incarcerated veterans are fully eligible for a wide range of benefits as a result of their service prior to their incarceration. In general, federal law mandates significant reductions in USDVA benefits available during the period of the veteran's incarceration. However, a veteran released from incarceration may reinstate the full compensation benefit by submitting an application to the USDVA. This form may be submitted up to 30 days prior to release to help expedite reinstatement. Unfortunately, in many counties where state prisons are located, CVSOs are already occupied in serving the many and varied needs of their local veteran populations and consequently may have difficulty servicing the incarcerated veteran population in a timely manner.

This proposal requests seven positions to aid incarcerated veterans in applying for and receiving federal veterans' benefits. The positions will provide dedicated support for incarcerated veterans. The proposal also requests a position upgrade of a Staff Services Manager II to a Staff Services Manager III.

Staff Recommendation. Approve as requested.

ISSUES PROPOSED FOR DISCUSSION/VOTE

7760 DEPARTMENT OF GENERAL SERVICES

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

Budget. The budget includes $1.085 billion ($19 million General Fund (GF), $1.06 billion special funds, and $5.7 million reimbursements) to support the department and its various programs.

Issue 1: Modification of Funding Structure for Contracted Fiscal Services

Budget. The department requests a permanent net budget augmentation of $2.503 million in 2018-19 to fully recover costs in providing fiscal services. The department also requests requests a modification to the funding structure; a reduction of $3.07 million in Service Revolving Fund authority, an increase of $3.177 million in General Fund authority, and an increase of $2.396 million in Central Services Cost Recovery Fund authority.

Background. The Contracted Fiscal Services (CFS) unit within DGS provides budgeting and accounting services to other state departments, boards, and commissions that do not have the staff or expertise necessary to perform budget and/or accounting functions. Currently, CFS provides services to 43 boards, commissions, conservancies, authorities, and state agencies, and recovers its costs by billing customers through an interagency agreement. Each year, as part of the rates process, CFS estimates the number of hours that will be required to perform the budget and/or accounting services for each client-agency in the forthcoming fiscal year and establishes a contract with each client-agency for these services. Each year, a significant amount of DGS staff time is used for the preparation, billing, and cash receipt functions related to these contracts. In addition to the time spent by DGS staff on CFS contract-related tasks, each client-agency spends administrative time each year on the authorization and monitoring of CFS contracts.

This net budget augmentation will align the budget for CFS with the costs incurred in providing fiscal services. The change in the funding structure will allow the Department of Finance (DOF) to allocate CFS' funding needs through Pro Rata assessments to various client-agency special funds and adjustments to the GF. DOF will directly charge each client-agency's fund to appropriately recover the Central Services Cost Recovery Fund allocations for the services provided by CFS. The appropriate budget reduction amount for each client-agency will be determined and each client-agency's expenditure authority will be reduced through Control Section 25.40. Instead of preparing annual contracts for CFS services and paying for these services out of each client-agencies' state operations budget, this request proposes to fund CFS services using GF and the Central Services Cost Recovery Fund.

Staff Recommendation. Approve as requested.

Issue 2: Electric Vehicle Service Equipment Infrastructure

Budget. The DGS requests one permanent positon and a one-time augmentation of $15.6 million ($7.8 million General Fund and $7.8 million Service Revolving Fund) to continue the installation of Electric Vehicle Service Equipment (EVSE) in state facilities.

Background. The Zero Emission Vehicle (ZEV) Five Year Infrastructure Plan requires DGS to oversee plans to make electric vehicle charging infrastructure available in at least five percent of workplace parking spaces at state facilities, and to increase state fleet ZEV purchases to 50 percent by 2025. DGS assists state agencies in developing and implementing workplace charging plans that will result in EVSE, and reports the results of EVSE-related facility assessments to the Administration. DGS is also charged with supporting state agencies in completing readiness surveys, conducting site assessments, oversight of architectural and engineering functions, construction management, system activation, and identification of alternative funding options if available.

In 2017-18, DGS received a one-time augmentation of $6.7 million and three permanent positions to fund facility assessments, design, installation and program oversight for year one of the ZEV Five-Year Infrastructure Plan. This included surveying departments on their EVSE needs. Initial surveys and assessments were completed in 2017. Candidate locations for in-field site assessments and preliminary architecture and engineering services have been selected. The office is also planning on conducting annual updates to these surveys. Beginning on December 31, 2017, agencies were asked to submit updates that describe any changes to their plans.

This request is to fund year two of the DGS ZEV Five-Year Infrastructure Plan to install EVSE in state facilities to support both the state fleet and state employee charging needs. $14.3 million will support approximately 1,200 EVSE installations and the remaining $1.3 million will support 1,600 facility assessments throughout California.

Legislative Analyst's Office (LAO). The LAO suggests the Legislature consider other state funding sources for this project, given the costs. While DGS has been exploring the use of non-state funding sources, the use of other state funding sources would need to be appropriated by the Legislature. In the Governor's Cap-and-Trade expenditure plan $235 million is proposed for EVSE installation for private use in 2018-19. It is unclear why two different fund types (special vs. General) were proposed for these installations.

Staff Comment. The subcommittee may wish to inquire about other state funding sources for the proposal.

Staff Recommendation. Hold open.

Issue 3: Capital Outlay - State Printing Plan Demolition

Budget. The department requests $815,000 General Fund for the working drawings phase of the State Printing Plant Demolition project. The project includes the demolition and hazardous materials mitigation of the 17-acre property to prepare it for new office space development.

Background. Since the mid-1990s, the state has targeted the 17.3-acre parcel on which the existing Printing Plant is located for future office development. The existing State Printing Plant located at 344 North Seventh Street in Sacramento was built in 1954 and has well-documented health and safety, infrastructure and programmatic deficiencies. The Office of State Publishing is in the process of programming replacement space with the intention of using leased facilities for the new Printing Plant. Leased space is more appropriate due to the changing nature of the printing industry. The DGS-sponsored 2008 Sacramento Region State Office Planning Study (Study)—updated in 2015 per legislative requirements—identifies the Printing Plant site as a desirable office development area. The site is well situated to transit, offering another benefit for office development; and offers an attractive solution to meeting the state's identified need for new and/or renovated office space. Before office development can occur, demolition of the existing structures and hazardous materials clean up, including removing/replacing contaminated soil, must take place.

Staff Recommendation. Approve as requested.

Issue 4: Capital Outlay - Richards Boulevard Complex

Budget. The department requests $18 million General Fund for the performance criteria phase of a new Richards Boulevard Complex project.

Background. This project would continue implementation of the Ten Year Sequencing Plan by constructing a new office campus of approximately one million net usable square feet on the state property at the corner of Richards Boulevard and North Seventh Street, the current site of the State Printing Plant. The demolition of the State Printing Plant, scheduled for completion in early 2021, will create a vacant state-owned clean parcel on which to develop office space to house agencies currently located in leased space or in buildings requiring renovation.

This proposal to develop an office complex on the site will create a future opportunity to relocate business, consumer services and housing agency departments out of leased space; as well as relocating the Department of Tax and Fee Administration staff out of the 450 N Street Building and other leased space. The complex would consist of four buildings, and include office space, retail and childcare. Total project costs are estimated at approximately $1 billion.

LAO. The LAO recommends rejection of this proposal, as the office does not believe it is a cost-effective way to address the state’s office building needs. The LAO states that DGS’ payback period estimate of 45 years is not based on realistic assumptions. The DGS estimate, according to the LAO, has no discounting of future savings and costs, a high interest rate assumption, and low inflation rate on state costs. It is also recommended that the Legislature seek additional information on the Administration’s construction strategy.

Staff Comment. Staff notes that should the Legislature choose to reject this proposal it must consider the effect of that decision on other projects included in the Ten Year Sequencing Plan. Projects included in the plan are interrelated and rejection of any proposal will disturb the completion of the plan.

Staff Recommendation. Hold open.

Issue 5: Capital Outlay - Gregory Bateson Building Renovation

Budget. The department requests $5.2 million General Fund for the performance criteria phase of a project to renovate the Gregory Bateson Building.

Background. This project would continue implementation of the Ten Year Sequencing Plan by renovating the historically significant Gregory Bateson Building located at 1600 Ninth Street in Sacramento. Infrastructure studies and building assessments conducted in 2008 and 2015 found a variety of deficiencies within the Bateson building. The building is ranked fifth statewide for state-owned, DGS- controlled office buildings requiring renovation or replacement.

The building contains approximately 215,000 net usable square feet that is included in the DGS Ten Year Sequencing Plan. The current occupants, the Health and Human Services Agency, Department of Developmental Services, and Department of State Hospitals, will be relocated to the New O Street Office Building in March 2021. Proposed tenants for the renovated Bateson Building include California Natural Resources Agency departments from leased space that are not consolidating into the New Natural Resources Agency Headquarters Building.

The project includes renovation of all major building systems, applicable reinstatement of energy systems, and corrections to ADA and fire and life safety deficiencies. The mechanical, plumbing, electrical, and telecommunications systems will be replaced. In addition, repairs to prevent water intrusion and hazardous material abatement will be performed. A security officer station and physical barriers will also be placed at one of the building entrances. Total project cost is estimated to be $161 million ($5.2 million for performance criteria, and $155.8 million for design-build).

LAO. The LAO has expressed concerns with the cost of the proposed renovations. The renovations are anticipated to cost $750 per net useable square foot. The cost is significantly higher than the Library and Courts Building renovation which, when adjusted for inflation, cost close to $550 per net useable square foot. It is also recommended that the Legislature require the department to report on the renovation’s high cost and alternative scopes to reduce project costs.

Staff Comment. The subcommittee may wish to inquire about the renovation’s high costs compared to previous renovations of other historic buildings.

Staff Recommendation. Hold open.

Issue 6: Capital Outlay - Jesse Unruh Building Renovation

Budget. The department requests $6.3 million General Fund for the performance criteria phase of a project to renovate the historic Jesse Unruh Building.

Background. This project would continue implementation of the Ten Year Sequencing Plan by renovating and restoring the Jesse Unruh Building, which was ranked ninth in the statewide rankings for buildings needing renovation or replacement. Infrastructure studies conducted in 2008 and 2013 identified several deficiencies within the building. The building contains approximately 125,000 net usable square feet that is included in the DGS Ten Year Sequencing Plan. The current occupants of the building include the State Treasurer's Office and the California State Transportation Agency. The State Treasurer's Office will be returned to the building.

The project includes renovation of all major building systems, restoration of historic elements, and corrections to ADA and fire and life safety deficiencies. The mechanical, plumbing, electrical, and telecommunication systems will be replaced. Other project elements include elevator replacement, roof and window replacement, repairs to exterior terra cotta, and lead paint and asbestos abatement. Total project cost is estimated to be $89.9 million ($6.3 million for performance criteria, and $83.5 million for design-build).

LAO. The LAO has expressed concerns with the cost of the proposed renovations. The renovations are anticipated to cost $750 per net useable square foot. The cost is significantly higher than the Library and Courts Building renovation which, when adjusted for inflation, cost close to $550 per net useable square foot. It is also recommended that the Legislature require the department to report on the renovation's high cost and alternative scopes to reduce project costs.

Staff Comment. The subcommittee may wish to inquire about the renovation's high costs compared to previous renovations of other historic buildings.

Staff Recommendation. Hold open.

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 approximately $183 million ($61.5 million General Fund, $111.6 million federal funds, $7.3 million reimbursements, and $2.3 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.

Issue 1: California Cadet Corps Program Expansion

Budget. The department requests 12 positions, $7.2 million General Fund in 2018-19, and various amounts in subsequent years (detailed in table below) to expand the California Cadet Corps (CACC) programs to over 100 schools across the state. Note that costs in the table below have been updated by the department since submission of the BCP.

	2018-19	2019-20	2020-21	2021-22	2022-23	Subsequent Years
Positions	12	11	11	11	11	11
Uniforms	$2.8 million	$2.1 million	$2.6 million	$3 million	$2.6 million	$2.6 million
Activities	$793,045	$1.2 million	$1.6 million	$2.1 million	$2.5 million	$2.5 million
Supplies	$619,845	$319,346	$367,063	$403,154	$292,680	$292,680
Staff	$1.7 million	$1.5 million	$1.5 million	$1.5 million	$1.5 million	$1.5 million
Curriculum	$583,590	$223,159	$223,159	$223,159	$223,159	$223,159
Commandants (in-classroom military instructors)	$226,125	$483,600	$520,875	$606,750	$692,625	$559,312
Equipment	$409,562	$149,225	$156,016	$166,109	$177,175	$155,676
Total requested funding	$7.2 million	$6.2 million	$7.1 million	$8.1 million	$8.1 million	$7.9 million

Background. The CACC was established through statute in 1911. The CACC is the State of California's only school-based, applied leadership program conducted within a military framework. Students in the CACC program participate in an optional class as well as additional military-themed extracurricular activities. Currently, about 6,000 students at 51 middle and high schools participate in CACC. Currently, schools must fund local CACC activities. Many schools are not able to participate due to resource constraints. The CACC does not have funds for schools to acquire transportation or food for these events. The state provides about $1.5 million from the General Fund annually to support CACC, allocated mostly to purchase cadet uniforms, support statewide activities such as drill competitions and encampments, and support three CMD positions to administer the program. The CACC does not have funds available for payroll, bus contracts, meals, and travel. Schools currently participating in CACC pay for these additional costs. This proposal requests funding for uniforms, payroll, classroom supplies, curriculum, and other equipment.

In 2016, funding was provided through a budget change proposal that fulfilled the current uniform requirements for Cadets enrolled in the Program. These funds provided uniforms to all cadets in the 50 schools in the program. This proposal will expand the program into 100 total schools by 2019-20. The department aims to set up programs in high schools where a CACC program has been established at a nearby middle school, and vice versa. Also, the department hopes to return to school districts that previously housed CACC programs that were shuttered due to the program's elimination from the state budget from 1992-1999.

LAO. The Local Control Funding Formula (LCFF) is a method used to allocate K-12 education funding. LCFF provides schools with funding on a per-pupil basis with additional supplemental funding for certain student groups. Schools receive an additional 20 percent of the base grant for English learner students and low income students, and another 50 percent of the base grant for those same students served in excess of 55 percent of district enrollment. With this formula schools are able to choose how to spend education funds. Schools wishing to participate in the CACC program have the option of using LCFF funds for this program. Currently, all participant schools use LCFF funds to pay for the program. Due to the above reasons, and that the effects of CACC on student outcomes can be uncertain, the LAO recommends rejecting the proposal.

Staff Comment. Since the release of the LAO analysis of this proposal the department has provided updated numbers and additional information on the proposal beyond what was provided in the BCP. The subcommittee may wish to inquire if the LAO recommendation remains the same in the light of these new details.

Staff Recommendation. Hold open.

Issue 2: California Military Institute and Porterville Military Institute

Budget. The department requests twenty-one positions, $3.5 million General Fund in 2018-19, and $3.3 million General Fund annually thereafter to support the California Military Institute (CMI) and the Porterville Military Institute (PMI).

Background. The Military Academy model combines traditional academic rigor with an established character education curriculum that emphasizes teamwork, leadership, and responsibility. Students at the CMD military academies are all members of the California Cadet Corps, whose more than 100 years-old tradition stresses leadership, citizenship, patriotism, basic military knowledge, academic excellence, and personal health and wellness. Statute dictates that the CMD is responsible for providing uniforms, equipment, developing curriculum, and conducting state level competitions, activities, and awards programs for the cadets.

CMI is a public charter school located in Perris, California. The school opened in 2003 and serves over 1,000 students in grades five through twelve. Close to 90 percent of the school's students are English learners or low income. Porterville city officials are currently working to establish PMI. The school is scheduled to open in the fall of 2018. Enrollment at PMI is expected to be about 500 students. The school is expected to serve a high number of English learners and low income students as 85 percent of students in the surrounding school district meet those criteria. Both CMI and PMI are modeled after the Oakland Military Institute, the only military academy currently supported by CMD. All of these schools were founded as an answer to rising violent crime in the areas where the schools are located.

LAO. As with the previous proposal LCFF funding is an option these schools can use to support CMD activities. The LAO recommends rejecting the requested appropriation, but approving the positions and $2.9 million in reimbursement authority annually to allow CMD to support CMI and PMI should the schools allocate some of their LCFF funds to these activities.

Staff Comment. The subcommittee may wish to inquire about the resources supported by the CMD at CMI, compared to the CMD-supported resources within the CACC (discussed in the previous proposal).

Staff Recommendation. Hold open.

Issue 3: Cyber Network Defense Team

Prior to presenting this proposal the department will present an informational overview of the Cyber Network Defense Team (CNDT), its mission, and accomplishments.

Budget. The department requests ten positions, and ongoing reimbursement authority of $2.6 million to increase assessment capability from 35 cyber security assessments per year to 70 cyber security assessments per year.

Background. The CNDT leverages federal military cyber security training and experience to provide assistance and expertise to state agencies before, during, and after a cyber-attack. The CNDT performs independent cyber vulnerability assessments and is the only state entity capable of performing these assessments. The CNDT identifies cyber security vulnerabilities and assists state agencies to resolve those vulnerabilities. The CNDT began as a pilot program in 2013 with a grant from the Speaker of the Assembly. In 2014, six permanent positions were approved for the program. The next year, the CMD partnered with the California Department of Technology (CDT) to implement a plan to improve the security of the state government network.

Cybercrime is a dangerous and growing threat to the State of California. The cost of repairing compromised networks is vastly higher than investing to prevent a cyber-attack. In 2011-12 the CDT reported that cyber incidents in state government cost the state over $2.5 million. The CDT requires state agencies to receive cyber security assessment every two years, and Assembly Bill 670 (Irwin), Chapter 518, Statutes of 2015 requires that no fewer than 35 state agencies per year receive these assessments. Currently, approximately 63 agencies per year must be evaluated through these assessments, conducted by the CNDT or a private sector vendor. Departments can choose who conducts their assessments. About 80 percent of cyber security assessments are conducted by the CNDT, as the CNDT is more cost effective than contracting with a vendor. This proposal will provide resources so that the CNDT can double its capability to perform cyber security assessments. CDT's policy is that all 126 state government agencies receive an independent cyber security assessment every two years.

Questions.

- *Please explain the differences between audits conducted by the CDT and the assessments conducted by the CNDT.*

Staff Recommendation. Approve as requested.

Issue 4: STARBASE Program

Background. STARBASE is a Department of Defense program that inspires fifth grade students to pursue careers in science, technology, engineering and math. While attending the week-long program, students receive 25 hours of hands-on instruction and activities. STARBASE teaches students to complete simulated missions using skills and principles from physics, computer science, chemistry and statistics. Students program a robot to complete a Mars Rover mission, design prototypes on Computer Aided Design, test experiments to learn the unique characteristics of elements and conduct their own experiments.
There are STARBASE sites in Sacramento and Los Alamitos. STARBASE Los Alamitos runs a competitive rocket team every year in which students participate in the Team America Rocket Challenge while learning the basics of rocket science. All students are given an online interactive posttest as they leave; with over 90 percent of students scoring at 80 percent or higher for comprehension of the science standards they learned at STARBASE (up from average scores of 52 percent before they attended the program). All STARBASE missions are aligned to the Next Generation Science Standards, and offer extension materials to teachers.

Staff Comment. The STARBASE program is a much sought after benefit for many schools across the state. While the federal government pays for all operating costs associated with STARBASE, California must provide classrooms for the program. Unfortunately, many schools that desire to participate are not able to due to a lack of classroom space for the program. The Legislature may want to consider providing additional funding for more classroom space to help more schools take advantage of this program.

Staff Recommendation. Informational Issue. No action necessary.

Issue 5: Work for Warriors

Background. According to the U.S. Department of Veterans Affairs, California is home to the largest population of Veterans in the country, with nearly 2 million. There are also over 190,000 active duty personnel, reserve personnel, and military civilians living in California. 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. California is currently one of only 15 states to have a higher unemployed veteran population than unemployed non-veteran population.

Currently, The WFW uses a direct placement model, which walks service members through each step of the hiring process, including resume preparation, and interviews. To date, WFW has assisted in placing over 6,300 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 18 team members who help match military personnel, veterans and military family members into employment commensurate with their education and experience.

Now in its 6th year, the WFW program remains relevant. The number of new Veterans requesting employment assistance has grown dramatically each year (**2015**: 2,131 new requests; **2016**: 3,352 new requests; **2017**: 4,602 new requests). The total number enrolled in the program has also more than doubled in the last 3 years (**2015**: 7,017 and **2017**: 14,971). From 2012 to 2015 the program was funded by a $500,000 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).

Staff Comment. The WFW program has a direct, measurable, positive impact on the California economy. Although the department has successfully applied for and received funding in the last three years, it remains uncertain whether additional funding to maintain the program will be available.

Staff Recommendation. Informational Issue. No action necessary.

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 $467.7 million ($405.9 million General Fund, $2.6 million federal funds, and $59.2 million special funds) to support the department and its programs.

Issue 1: Rector Dam and Reservoir

Budget. The department requests five positions; $1.5 million General Fund in 2018-19; and $596,000 General Fund annually thereafter to make improvements to the Rector Dam and Reservoir.

Background. Rector Creek is located in Napa County. In 1946, the state constructed the Rector Dam, impounding water to the Rector Reservoir. The dam and reservoir are operated by the department to provide water to the Veterans Home of California in Yountville, the town of Yountville, the Department of Fish and Wildlife (DFW), Napa State Hospital, and several small wineries located near the Rector Dam.

In November 2016, Water Audit California filed a lawsuit alleging that the department was in violation of Fish and Game Code section 5937 and various federal regulations. With the guidance of counsel from California's Attorney General's Office, the parties (CalVet and Water Audit California) acknowledge that the historic operation of Rector Dam has resulted in portions of Rector Creek between the base of Rector Dam and the creek's confluence with Conn Creek being dry in some years. The parties have reached an agreement on a conceptual resolution of the case within the terms and conditions stated in a proposed stipulation of settlement agreement. As part of the settlement CalVet is installing measurement and monitoring equipment and is requesting the DFW to produce a fish habitat study and a water flow evaluation.

The requested funding would provide the resources for monitoring the dam and for the DFW produced studies. The department will develop a plan for the operation of Rector Dam and Reservoir based on the results of monitoring activities and studies. The proposal also requests five positions to operate and monitor the dam and reservoir according to DFW and State Water Resources Control Board requirements.

Staff Recommendation. Approve as requested.

Issue 2: VHC Yountville Private Domiciliary Rooms

Budget. The Department of Veterans Affairs (CalVet) is requesting a reduction of $732,000 General Fund and two and a half positions to convert rooms in the domiciliary level of care at the Veterans Home of California (VHC) Yountville.

Background. The Veterans Homes provide long-term care to veterans and their spouses within different levels of care, including Skilled Nursing Facility (SNF), SNF Memory Care (SNF-MC), Intermediate Care Facility (ICF), Residential Care Facility for the Elderly (RCFE), and domiciliary (DOM), based on residents' needs. The Veterans Homes range in capacity from 60 residents on a campus more than 10 acres in size to more than 1,000 residents on more than 615 acres. Collectively, the Veterans Homes have the capacity to house and care for more than 2,500 residents at once. The Homes are open to veterans who are age 55 or older, or have a disability as determined by the United States Department of Veterans Affairs (VA) or California Department of Social Services.

The DOM level of care is provided to those applicants who need little to no support in their day-to-day activities. Unlike all other levels of care offered in the Veterans Homes, these residents are considered to be living fully independently. VHC-Yountville has 514 DOM rooms and is budgeted for 637 residents in this level of care. Of the 514 rooms, 123 have previously been designated for dual occupancy. This proposal requests moving all VHC-Yountville DOM residents into private rooms. This is due to the fact they reside in the oldest, most cramped living spaces. A large proportion of these rooms are approximately 14 feet by 14 feet and house two residents apiece. Each half of a typical room accommodates a twin-size bed, dresser, desk, detached storage closet, and a small amount of space to maneuver. Residents have expressed concerns with the current living arrangements; in particular, the small rooms make it difficult for roommates to keep from disturbing one another and increase the likelihood of disputes and conflicts.

The Department regards quality of life as critical to successful operation of the Veterans Homes. By adopting single rooms in VHC-Yountville's DOM, the CalVet will improve living conditions. Maintaining a high quality of life is a cornerstone in creating a "home-like environment" and in meeting the CalVet's goals of maximizing resident dignity and independence.

LAO. The 2017 Budget Act required the department to complete and submit a master plan for the Veterans Homes system and each individual home. The plans should include an assessment the current and projected long-term care needs of California's veterans and an evaluation of the need for each level of care at each home, among other things. The LAO has expressed concerns about the timing of this proposal in relation to the completion of the master plan.

Staff Comment. The subcommittee may want to inquire about the timing of this proposal and if the department should develop that master plan before following through with this proposal. Also, note that cost savings associated with this proposal (with the exception of the position reductions) are already being realized in the budget of the home since the DOM is not at its full budgeted capacity.

Staff Recommendation. Hold open.

Issue 3: Capital Outlay - VHC Yountville Skilled Nursing Facility

Budget. The department requests $15.7 million General Fund for the preliminary plans phase for a new skilled nursing facility at the Veterans Home of California in Yountville.

Background. The department proposes to construct a new 240-bed Skilled Nursing Facility (SNF) at the Veterans Home of California-Yountville. The new facility will replace the 156 SNF beds currently located in the Holderman building and 75 memory care beds currently located in the Roosevelt Building, with a total replacement of 231 existing beds. The new approximately 280,000 square foot facility will be constructed on 11 acres adjacent to the existing Holderman Hospital on the Yountville campus.

The Holderman building was built as a hospital in 1932. The hospital was closed in 2009 and the building continues to be used as a long-term care facility. The Holderman building is institutional in nature, with all rooms lining long, narrow hallways, which are easily congested as clinical staff and residents in wheelchairs move from point to point. The current space does not meet USDVA standards and Code of Federal Regulations, which is to include a natural, home-like environment, and maximize the residents' degree of personal autonomy and freedom. The Roosevelt building currently houses the memory care unit. The existing facility has long hallways, sloped and alternating ramps, and viewable exit doors that are not conducive to a safe and secure environment for memory-care patients.

The new facility will take direct advantage of the changing nature of long term care, emphasizing a non-institutional character in both physical plant and operations. The most significant changes from the current SNF program will be private and enhanced shared bedrooms with private bathrooms and improved resident dining options. The new design will allow all 240 beds to operate as memory care beds, if needed. The facility is anticipated to be two and three stories of steel construction and will include kitchens, a loading dock, and will be designed to meet or exceed Leadership in Energy and Environmental Design (LEED) silver standards. The new SNF will also house the central health services offices. It is anticipated that the existing memory care facility will be converted to a Residential Care Facility for the Elderly housing unit. Total project costs are estimated to be $317 million ($15.7 million for preliminary plans, $12.9 million for working drawings, and $288.4 million for construction).

LAO. The 2017 Budget Act required the department to complete and submit a master plan for the Veterans Homes system and each individual home. The plans should include an assessment the current and projected long-term care needs of California’s veterans and an evaluation of the need for each level of care at each home, among other things. The LAO has expressed concerns about the timing of this proposal in relation to the completion of the master plan.

Staff Comment. The subcommittee may want to inquire about the timing of this proposal and if it the department should develop that master plan before following through with this proposal. The subcommittee may also want to consider if approval of this proposal aligns with its legislative priorities. Also, note that a master plan for the Yountville home completed in 2013, found a replacement SNF to be the highest priority. Lastly, the subcommittee may wish to further clarify and define its intent and purpose in requiring the department to develop a master plan.

Staff Recommendation. Hold open.

Issue 4: Position Funding Alignment

Budget. The department requests an augmentation of $1.6 million (an increase of $4.9 million General Fund and a decrease of $3.3 million Farm and Home Building Fund) to correctly align funding associated with General Fund sourced programs and to adjust rental payments to the Farm and Home (F&H) Loan program to the standard DGS price book rate for rental space occupied by other CalVet programs.

Background. The F&H Loan program was established in 1921. The program does not receive any General Fund monies and is funded through a combination of General Obligation Bonds and Revenue Bonds with principal and interest paid through the proceeds of the veteran home loan payments. The F&H Loan program currently supports 33 administrative positions in Information Services, Legal, Accounting, Communications, Legislative, Human Resources, and Contracts and Procurement, as well as absorbing roughly 15 percent of the distributed administration costs for some administrative positions.

The CalVet headquarters building is an asset of the F&H Loan program. The building was built in 1956 with F&H Loan program bond proceeds. The operational costs of the building are born by the F&H Loan Program. The F&H Loan Program rents all excess space to the rest of CalVet. The DGS price book currently calls for a rent of $2.58 per square foot whereas CalVet's General Fund programs pay the F&H Loan Program a rate of roughly $1.20 per square foot, a difference of $1.6 million annually.

A 1974 court decision determined that the F&H Building fund was created to provide a benefit of home loans to veterans and may only be used for that purpose and for the costs associated with meeting that purpose, i.e. only those costs necessary to administer the F&H Loan Program. Currently that fund is being used to subsidized General Fund-sourced programs. This proposal seeks to rectify that issue by transferring administrative positions currently supported by the F&H Loan program to distributed administration, and providing an augmentation to reflect rent at $2.58 per square foot. Using General Fund in lieu of the 1943 Fund will properly align program costs with the correct funding source. This should enable the maximum amount of funds to go to the Veterans Home Loan program.

Staff Recommendation. Approve as requested.

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 8, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

OUTCOMES

PROPOSED FOR VOTE-ONLY

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 15, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

PART A

Consultant: James Hacker

Vote Only Calendar

Items Proposed for Discussion

Public Comment

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

VOTE-ONLY CALENDAR

2240– Department of Housing and Community Development (HCD)

1. **Roberti Affordable Sales Program.** The budget requests a baseline increase in reimbursement authority of $370,000 in 2018-19 and $350,000 ongoing for staffing expenses to ensure the sale of Department of Transportation (Caltrans) surplus property is maintained as affordable housing. This proposal supports Caltrans administration of the "Roberti Act" Affordable Sales Program on the State Route 710 corridor.
2. **Transactions Unit Fund Shift.** The budget requests a net-zero technical shift of $1,894,000 in expenditure authority among funds to continue workload in the Transactions Unit to restructure and extend previous loans. This request is a net-zero change that moves funds from the Roberti Affordable Housing Fund, the California Earthquake Safety and Housing Rehabilitation Bond Account, and an account within the Housing Rehabilitation Loan Fund to the general Housing Rehabilitation Loan Fund.
3. **Mobilehome Purchase Program Technical Assistance (SB 136).** The budget requests $161,000 in 2018-19 and $151,000 ongoing from the Mobilehome Park Rehabilitation and Purchase Fund for one position to oversee technical assistance grants with potential applicants of the Mobilehome Park Rehabilitation and Resident Ownership Program (MPRROP), pursuant to SB 136 (Leyva), Chapter 766, Statutes of 2017.
4. **Mobilehome Release of Liability (SB 542).** The budget requests $289,000 in 2018 -19 and $259,000 ongoing from the Mobilehome and Manufactured Home Revolving Fund for three positions to implement the notice of transfer and release of liability provisions of SB 542 (Leyva), Chapter 832, Statutes of 2017.

Staff Recommendation:
Approve as budgeted.

1700 – Department of Fair Employment and Housing

1. **Job Applicant Criminal History (AB 1008).** The Department of Fair Employment and Housing (DFEH) requests $1,919,000 in 2018-19 and $1,244,000 ongoing from the General Fund for nine positions to process additional employment discrimination complaints associated with AB 1008 (McCarty), Chapter 789, Statutes of 2017.
2. **New Parental Leave Act (SB 63).** The budget requests $218,000 in 2018-19 and $210,000 ongoing from the General Fund for two positions to process additional complaints resulting from new parent leave labor protections under SB 63 (Jackson), Chapter 686, Statutes of 2017.

Staff Recommendation:
Approve as budgeted.

Issues Proposed for Discussion

2240 California Department of Housing and Community Development

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

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

Governor's Budget: The budget provides $1.2 billion and supports 856 positions at HCD in 2018-19, including roughly $39 million and 255 positions at the California Housing Finance Agency. This is an increase of roughly $470 million from 2017-18, mostly due to the implementation of the statewide housing package passed in 2017.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
1660	Codes and Standards Program	191.4	166.2	170.2	$30,502	$34,445	$34,803
1665	Financial Assistance Program	188.2	201.6	274.1	486,602	653,034	994,883
1670	Housing Policy Development Program	14.8	17.1	39.1	36,798	4,532	130,405
1675	California Housing Finance Agency	235.3	254.9	254.9	35,605	38,822	38,689
1680	Loan Repayments Program	-	-	-	-2,969	-1,944	-1,944
1685	HPD Distributed Administration	-	-	-	-141	-150	-150
9900100	Administration	147.4	107.0	117.5	14,753	16,893	20,216
9900200	Administration - Distributed	-	-	-	-14,753	-16,893	-20,216
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**777.1**	**746.8**	**855.8**	**$586,397**	**$728,739**	**$1,196,686**

Issue 1: Legislative Proposal: Office of Homeless Youth (SB 918)

Legislative Proposal: Senator Scott Wiener and Assemblymember Blanca Rubio, along with six sponsors, request $61 million in one-time General Fund resources to establish $60 million in grants to develop services statewide for youth who are homeless. An additional $1 million is requested to create an Office of Homeless Youth within the Department of Housing and Community Development. The grant funding will be replaced in subsequent years by funding from the state's Cannabis Tax Fund. Sponsors of this bill include the California Coalition for Youth, Corporation for Supportive Housing (CSH), Housing California, John Burton Advocates for Youth, Tipping Point and Equality California.

Background: More than one-third of the nation's homeless youth live in California – 15,458 youth were sleeping in warehouses, in fields, behind businesses and along river beds, or living with friends or strangers, according to the 2017 HUD count. Statewide, one in nine homeless persons is an unaccompanied youth. The federal government defines a homeless youth as a minor younger than 18 or a young adult between 18 and 24 years old who is living individually (without their parents or their own children). Exact counts vary substantially based on definition and methodology, but reports across various systems show a growing number of homeless unaccompanied youth, a group that often stays hidden from view and may be easily overlooked. Prior to 2015, the count did not break out this group at all.

The Senate and Assembly Human Services Committees held a joint informational hearing on Oct. 10, 2017 to evaluate the state's response to youth homelessness. Providers of services and shelter testified that youth tend to avoid adult homeless shelters because they are often victimized there, instead believing they are safer in youth encampments or other situations until they can access shelter care. Within the population of homeless youth, some distinct groups are disproportionately represented, including those who are LGBTQ, formerly or currently involved with the foster care system, involved with the juvenile justice system and youth who are African American.

Experts say it is critical to develop and fund services that are developmentally appropriate for teenagers and young adults who are homeless. Services that have proven successful for youth include those that are trauma-informed, teach life skills, and offer educational degrees and job training.

Staff Comments: This request accompanies SB 918 (Wiener) which would establish the Homeless Youth Act of 2018, which is currently pending in the Senate Committee on Human Services.

Staff Recommendation:
Hold Open.

Issue 2: Statewide Housing Package (SB 2 and SB 3)

Governor's Proposal: The Department of Housing and Community Development (HCD) requests $16 million and 81.0 positions 2018-19, $21 million and 128.0 positions in 2019-20, and $23 million and 146.0 positions ongoing for State Operations to implement the 2017 Statewide Housing Package. HCD also requests Local Assistance authority of $522 million in 2018-19 and $773 million in out years.

Background: In 2017 the Legislature passed a package of 15 bills aimed at increasing the affordability of housing in California. The package included proposals to place a general obligation bond on the November 2018 ballot, create a permanent funding source for affordable housing by levying a transaction fee on new real estate transactions, and a variety of regulatory reforms to speed up development and construction of new housing. The bills included in the package are detailed below.

Statute	Housing Package Component
Dedicated Housing Funding	
SB 2 (Atkins), Chapter 364, Statutes of 2017	Create a permanent source of funding for affordable housing with a document recording fee on real estate transactions.
SB 3 (Beall), Chapter 365, Statutes of 2017	Invest in a $4 billion housing bond with $3 billion for affordable housing and $1 billion for veterans housing.
Streamlining Housing Development	
SB 35 (Wiener), Chapter 366, Statutes of 2017	Streamline multifamily housing developments with an affordable component in infill areas across the state.
SB 540 (Roth), Chapter 369, Statutes of 2017	Establish Workforce Housing Opportunity Zones to streamline development in priority areas.

AB 73 (Chiu), Chapter 371, Statutes of 2017	Form Housing Sustainability Districts to streamline development in infill areas.
Accountability and Enforcement	
AB 72 (Santiago), Chapter 370, Statutes of 2017	Allow for interim housing element monitoring; enforce existing housing laws through collaboration with the Attorney General.
AB 879 (Grayson), Chapter 374, Statutes of 2017	Improve local reporting on housing outcomes; conduct a fee reasonableness study to evaluate local development fees.
AB 678 (Bocanegra), Chapter 373, Statutes of 2017	Strengthen the Housing Accountability Act.
SB 167 (Skinner), Chapter 368, Statutes of 2017	
AB 1515 (Daly), Chapter 378, Statutes of 2017	
AB 166 (Skinner), Chapter 367, Statutes of 2017	Secure "No Net Loss" in housing element sites inventory.
AB 1397 (Low), Chapter 375, Statutes of 2017	Promote feasibility of sites included in sites inventory.
AB 1505 (Bloom), Chapter 376, Statutes of 2017	Clarify that local governments may adopt inclusionary ordinances that require affordable housing set-asides.
AB 1521 (Bloom), Chapter 377, Statutes of 2017	Strengthen preservation requirements on rent-restricted affordable housing units.

AB 571 (Eduardo Garcia), Chapter 372, Statutes of 2017	Support farmworker housing by easing access to tax credit financing and allowing extensions for seasonal housing centers.

SB 2 imposes a fee on recording of real estate documents, excluding sales, for the purposes of funding affordable housing. This fee is to be collected by county recorders and remitted to the state on a quarterly basis. Collections began on January 1, 2018. The first remittances will occur in March of 2018. The Administration has estimated that this fee will raise roughly $129 million in 2017-18 and $258 million in 2018-19.

Funding allocations are specified in statute for the first year of proceeds and on an ongoing basis. These allocations are based on the calendar year in which the fees are collected, and not the state fiscal year in which the funds are expended. Under SB 2, one half of the revenue from the fees collected during 2018 is designated for planning and zoning grants and technical assistance programs, and one half for homelessness programs. In year two and onward, 70 percent of the funds will be distributed directly to locals and 30 percent to the state for farmworker housing, state incentive programs, and mixed income multifamily residential housing affordable to lower and moderate income housing. Should the SB 3 bond be approved by voters in November 2018, proceeds from bond sales shall be split among a variety of currently existing housing and homelessness programs.

SB 3 places a $4 billion bond on the November 2018 general election ballot. Of this amount, $1 billion will support veterans housing in the California Department of Veterans Affairs Farm and Home Loan Program, repaid by participants' loan repayments. HCD will administer the $3 billion General Obligation bond through existing housing programs.

Throughout the development process, each local government faces factors that discourage housing development, including community opposition, incentives to approve sales-tax generating development over residential development, and market conditions, such as high land and construction costs. These decisions drive up cost of housing and negatively affect the supply of housing in California. To address this, the housing package includes a number of bills aimed at holding local governments accountable for accommodating their share of development and ensuring compliance with existing laws.

A number of barriers exist to the timely development of housing. Discretionary local land use permitting and review processes have lengthened the approval process and increased production costs. These delays and denials place a strain on the state's housing supply by increasing project risks and costs. The housing package includes provisions that streamline approvals for housing developments that are compliant with existing zoning requirements and meet other specified criteria. These policies contain development costs, increase certainty and reduce project risks, and improve the pace of housing construction.

Staff Comments: The housing package goes into effect during the latter half of 2017-18. The real estate transaction fee implemented by SB 2 went into effect in January of 2018, and revenue collected by the counties will be remitted to the state beginning in March of 2018. Under the requirements of the package, half of this first-year revenue is to be spent on planning and zoning programs, and half on homelessness issues. However, HCD was not given any additional resources to implement the requirements of the package as part of the 2017-18 budget.

The 2018-19 budget addresses this by declaring the 2018-19 budget year the first program year for the relevant programs created or funded by the housing package. HCD has indicated that a half year of revenue raised between January and June of 2018, estimated at roughly $129 million, would be remitted to HCD before any funding is disbursed for either homelessness or planning purposes. Additionally, HCD has indicated that the program design for the homelessness funds is still underway, and the final shape of the program is still uncertain. However, the Administration has proposed trailer bill language that allocates roughly half of the homelessness funds in a specified manner. This includes $5 million to Orange County for a specified shelter project, $10 million or eight percent of available funds to Los Angeles County, and smaller specified amounts to each county depending on population and estimated homeless population.

While the overall proposal has merit, and follows the overall intent of the statewide housing package, there are a number of issues. While the majority of the new funding will go out via already-existing housing programs, several new programs must be created from scratch. For example, first year funding for both planning and zoning grants and a new homelessness program both require the creation of new program guidelines, administrative processes, and new processes for granting, disbursing, and evaluating grant funding. While HCD is well-versed in the creation and administration of similar grant programs, the final design of many of these programs has not been completed. It is premature to approve this proposal until some of the outstanding program design issues have been resolved.

Questions:

- What shape does HCD anticipate the first-year homelessness program will take? What program design work has been performed to date? What other stakeholders have been consulted on program design?
- What is the timeline for the distribution of first year funds?

Staff Recommendation
Hold Open.

Issue 3: Affordable Housing and Sustainable Communities Program

Governor's Proposal: The budget requests $2,782,000 in 2018-19 and $2,622,000 ongoing from the Greenhouse Gas Reduction Fund (GGRF) for 16.0 positions to implement the later phases of the Affordable Housing and Sustainable Communities (AHSC) program.

Background: The AHSC program was established by SB 862 (Committee on Budget and Fiscal Review), Chapter 36, Statutes of 2014, which sought to further the purposes of AB 32 (Nunez), Chapter 488, Statutes of 2006, the Global Warming Solutions Act of 2006, and SB 375 (Steinberg), Chapter 728, Statutes of 2008, the Sustainable Communities and Climate Protection Act of 2008. The program provides funding for housing and transportation projects that support in fill and compact development. These projects reduce greenhouse gas (GHG) emissions through the reduction of the number of miles individuals drive each day, or vehicle miles traveled (VMT). HCD implements the program under the guidance of the Strategic Growth Council (SGC) and the Air Resources Board (ARB).

The program is funded through the GGRF. Funding for the AHSC program is provided through a continuous appropriation to the SGC, based on 20 percent of annual proceeds. Roughly $886 million has been made available to the program since 2014-15. The program has awarded roughly $695 million to date.

HCD currently has 22 positions to administer the AHSC program. HCD's role in the program includes assisting SGC in developing guidelines, reviewing applications, recommending awards; performing construction loan closing, contract management, and permanent loan closing activities; performing asset monitoring, compliance, and reporting activities; and providing overall administrative support to the program.

Staff Comments: HCD has indicated that the administration of affordable housing projects engenders a lifecycle of four to five years from application to occupancy. The Administration has indicated that they expect construction of the first affordable housing projects to be completed during 2018-19. Once these developments meet occupancy and other administrative requirements, HCD converts construction financing to permanent financing. This stage is workload-intensive and requires the greatest scrutiny of the legal and financial transactions.

Each AHSC award includes at least one housing related infrastructure, transportation infrastructure, or funded program (bicycle safety class, transit pass program, etc.) component. Funds will be disbursed incrementally, with nearly a dozen disbursements for each contract. HCD anticipates a substantial increase in the number of projects from prior funding rounds that will reach this phase in the project lifecycle in 2018-19.

It is reasonable to believe that HCD's workload will increase as the number of projects reaching to later stages of the project cycle increase. While construction loan closings are anticipated to decrease in 2018-19 and 2019-20, the Administration has indicated that this is largely due to a decline in GGRF revenues in prior years. The Administration has indicated that the recent reauthorization of the cap and trade program is anticipated to increase GGRF funding available to the program in out years.

Staff Recommendation:
Hold Open.

Issue 4: Veteran's Housing and Homelessness Prevention Program

Governor's Proposal: The budget requests $370,000 in 2018-19 and $350,000 ongoing from the Housing for Veterans Fund for two positions to execute loan closings and mitigate litigation costs related to the Veterans Housing and Homelessness Prevention Program (VHHP).

Background: ln 2008, California voters approved the Veteran's Bond Act of 2008 (Proposition 12), a $900 million general obligation bond intended to help veterans purchase single family homes, farms, and mobile homes through the CalVet Home Loan Program. Chapter 727, Statutes of 2013, (AB 639) restructured the Veteran's 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.

California authorized $600 million in bond authority to be repurposed to fund multifamily housing for veterans through Proposition 41, the Veterans Housing and Homelessness Prevention Bond Act of 2014. Approved by California voters on June 3, 2014, Proposition 41 authorized $600 million in state general obligation bonds to fund affordable multifamily rental, supportive and transitional housing for veterans through VHHP. After setting aside funds for bond issuance costs, default reserves, and program administration, approximately $540 million is available for development assistance and operating subsidies for veterans' rental housing. Since VHHP's implementation in 2014, HCD has issued three rounds of Notice of Funding Available (NOFAs) and awarded $241.7 million in local assistance for the development, assistance, and operating subsidies for veterans' rental housing. This has funded 2,019 units to support over 3,052 homeless veterans with permanent housing and supportive services.

Staff Comments: The Administration has indicated that the requested positions will enable HCD to meet additional loan closing and legal workload as projects move through the program cycle into later stages. Specifically, the positions are needed to support workload related to with construction loan-closing and permanent loan-closing stages for projects funded from Round 1 (FY 2014-15), Round 2 (FY 2015-16), Round 3 (FY 2016-17), and Round 4 (FY 2017-18). HCD estimates that 15 percent of projects in a given NOFA round move through each stage of the award cycle in year one, 60 percent in year two, and 25 percent in year three. The incremental movement of projects generates a "stacking effect," and subsequently increases workload to manage compounding projects at each stage of the award lifecycle. Additionally, the department has indicated that the legal work necessary to process VHHP awards, draft loan documents, and disburse funds requires significant Legal Affairs Division workload. VHHP permanent loan documents must be ready to timely record when the applicant and other lenders are ready. Failure to close on time would result in higher carrying costs for the applicant, as well as litigation costs for HCD. These two factors lead to an increase in overall program workload as the VHHP program matures. HCD has indicated that this increased workload cannot be met within existing resources.

Staff Recommendation:
Approve as budgeted.

Issue 5: Long-Term Monitoring and Default Reserve

Governor's Proposal: The budget requests $322,000 from the Housing Rehabilitation Loan Fund (0929), 2.0 positions to award funds previously held as default reserves, and 2.0 positions for long-term monitoring for the Veterans Housing and Homelessness Prevention Program (VHHP) and Affordable Housing and Sustainable Communities (AHSC) portfolio. This request includes trailer bill language intended to streamline the administration of long-term monitoring, provide consistency across all rental programs, and decrease the risk of default of affordable housing projects.

Background: SB 1121 (Alarcon), Chapter 67, Statutes of 1999, authorized the Multifamily Housing Program (MHP) financing model, in which HCD provides permanent financing for rental housing projects with an affordability requirement of 55-years. The MHP model includes a required annual 0.42 percent interest payment on the loan principal to fund HCDs long-term monitoring efforts. Since 1999, all of HCD's new rental housing construction programs operate under this MHP financing model.

Presently, only the MHP family of programs and the Transit-Oriented Development (TOD) program have collected 0.42 percent interest. Beginning in 2018-19 the AHSC and VHHP projects will transition to long-term monitoring and begin submitting annual 0.42 payments. In the future, NPLH projects will also begin to submit 0.42 payments.

SB 1121 also authorized HCD to set aside up to four percent of funds appropriated for default reserve. The purpose of a default reserve account is to have a resource available to help cure or avert projects from defaulting over their 55-year regulatory period, which would lead to a loss of affordable housing supply. Since funding is appropriated on a program-by-program basis, each has its own default reserve account. Statute has been inconsistent across these programs, with default reserve language ranging from no cap to amounts equal to three percent, not to exceed three percent, or in the case of MHP, four percent. As of June 30, 2017, HCD had $68.5 million in available default reserves, spread across 16 programs. This includes roughly $12 million in legacy programs and non-bond funded programs.

Staff Comments: VHHP and NPLH programs are administered from bond funds. There is therefore no place to deposit the fee revenue to support long-term monitoring. Additionally, HCD is not the administrator of the Housing for Veterans Fund (Fund 6082) or the Greenhouse Gas Reduction Fund (Fund 3228) and will require annual appropriations from other agencies to fund long-term monitoring, decades after the roles of those agencies in the program have ended. The proposed Trailer Bill Language will deposit the 0.42 percent revenue into one single fund (Fund 0929). The Administration has indicated that this will reduce the number of budget appropriations and agencies involved, and make HCD solely accountable for the monitoring of these funds. The Administration has indicated that the requested long-term monitoring positions will perform fiscal and occupancy compliance workload as the VHHP and AHSC projects transition into the long-term monitoring phase.

HCD has indicated that, while statute currently sets default reserves between zero and four percent, historical data suggests that 1.5 percent. The proposed trailer bill language would also allow for the expenditure of default reserve funds across programs while reducing the overall required default reserve to 1.5 percent. HCD has indicated that HCD believes allowing default reserve expenditures across programs would create a pool of resources that would reduce the risk level of the entire portfolio, and that reducing the overall level to 1.5 percent would free up a significant amount of funding for additional local assistance. The department has indicated that, should this trailer bill be approved, they would prepare an immediate NOFA round worth roughly $11 million. The requested default reserves position would facilitate the awarding of unused default reserve funds available as a result of a reduction of the default reserve. These positions will be funded from administrative resources available from the continuously appropriated Multifamily Housing Program Proposition 46 and Proposition 1 C allocations. HCD requests position authority rather than budget augmentations as part of this request.

While these proposals have merit, more information regarding the proposed reduction in default reserve ratios, the use of the proposed NOFA round, and the proposed portfolio approach to long-term monitoring is required.

Questions:

- How many projects, and of what types, does HCD anticipate funding with the proposed new NOFA round?
- Are there any mismatches between monitoring fees paid and long term monitoring workload? Will pooling long-term monitoring resources result in one program subsidizing another?

Staff Recommendation

Hold Open.

Issue 6: Housing for a Healthy California (AB 74)

Governor's Proposal: The budget requests $450,000 in 2018-19, $927,000 in 2019-20, $477,000 in 2020-21, and $343,000 ongoing from the Federal Trust Fund to implement AB 74 (Chiu), Chapter 777, Statutes of 2017. The request includes authority for 2.0 positions, an interagency agreement with the Department of Health Care Services (DHCS), and a contract with an independent evaluator in 2019-20. HCD also requests trailer bill language to establish authority to collect monitoring fees and deposit the fees into the Housing Rehabilitation Loan Fund.

Background: In March 2015, the DHCS proposed using MediCal to fund services and housing assistance – supportive housing – acknowledging decades of research demonstrating supportive housing decreases Medicaid costs among homeless beneficiaries. The Federal Centers for Medicare & Medicaid Services (CMS) approved use of federal Medicaid dollars to fund services in supportive housing. Though CMS rejected using federal Medicaid dollars to pay for housing, CMS clarified that the state could use its own dollars (through MediCal or otherwise) to fund housing subsidies. In fact, a number of other states and jurisdictions within California, including the State of New York and the County of Los Angeles, pay for housing costs through health systems.

The state's most recent 1115 Medicaid Waiver, which allows the state to extend MediCal eligibility to extend its safety net care pool for five years, and to include alternative payment and treatment methodologies, includes the Whole Person Care Pilot Program, which allows counties to tap into federal funds to pay for care management supports, services helping people find housing, and services promoting housing stability. DHCS is also working to implement a new Health Home Program that would fund services for high-cost homeless beneficiaries.

Section 1338 of the Housing and Economic Recovery Act (HERA) established the federal National Housing Trust Fund (NHTF) Program to provide states an ongoing source of funds to support the production of affordable housing targeted to extremely-low and very-low income households. HCD began designing and developing the NHTF program in 2016-17, but has not issued a Notice of Funds Available (NOFA) to make local assistance awards. HCD intends to issue the first NHTF NOFA by the end of 2017 for the first two NHTF federal grants, totaling approximately $33 million. This NOFA will be a joint NHTF and Home Investment Partnerships Program (HOME) NOFA, and will be issued under existing program guidelines.

AB 74 (Chiu), Chapter 777, Statutes of 2017, requires HCD to re-design the NHTF Program and reestablish it as the Housing for Healthy California Program on or before January 1, 2019. This shifts the program focus away from assisting new construction of permanent housing for extremely low-income households, to providing supportive housing opportunities for persons experiencing homelessness. AB 74 requires the distribution of NHTF funds for permanent supportive housing as either competitive grants to counties for capital and operating assistance or as direct awards to developers for operating reserve grants and capital loans, or both. It also requires HCD to coordinate with DHCS to collect data, report outcomes, and prepare evaluations/annual adjustments for three years to the federal allocation plan starting in August 2018 to meet program goals.

Under Section 92.214(1)(i) of Housing and Economic Recovery Act, HCD is authorized to "charge certain reasonable fees, such as application, homebuyer counseling, and ongoing rental monitoring."

HCD currently uses this authority to charge fees to support long-term monitoring activities for its HOME program, but has no place to deposit the fees collected.

This proposal includes resources to support DHCS efforts to collect data, report outcomes, and prepare evaluations and annual adjustments to the program. It also includes funding for a one-year consulting contract to perform program evaluation in 2019-20, as called for in statute.

Staff Comments: Supportive housing, which is affordable housing with intensive services, allows people experiencing significant barriers to housing stability to improve their health and decrease their Medicaid costs. National studies comparing formerly homeless Medicaid beneficiaries living in supportive housing with homeless beneficiaries receiving usual care demonstrate Medicaid cost savings of almost $9,000 per year after the costs of services.

The Administration has indicated that HCD initially plans to use appropriated revenues from NHTF allocations for 2018 to 2021 to provide supportive housing opportunities through operating reserve grants and capital loans to developers to create affordable housing for those experiencing frequent homelessness. Furthermore, this assistance will complement existing supportive housing production resources at HCD (such as the Veterans Housing and Homeless Prevention Program, the No Place Like Home Program, and the Multifamily Housing Program - Supportive Housing). The ability to pair this resource will accelerate the time it takes to secure all financing to build supportive housing faster to serve homeless and extremely low-income households.

The Housing for a Healthy California program will incur the same long-term workload as other affordable housing programs. Specifically, as NHTF projects move from initial NOFA and loan closing stages into long-term monitoring, HCD shifts to support long-term monitoring activities. The proposed trailer bill language will authorize federal programs, including the NHTF, to charge monitoring fees and deposit those fees into the Housing Rehabilitation Loan Fund. This is intended to allow the department to fund long-term monitoring workload in a consistent and sustainable manner.

Questions:

- Is there any concern about the long-term availability of federal funds? How will the program be funded in future years should federal funds disappear?

Staff Recommendation:
Approve as Budgeted.

Issue 7: Informational Item - Community Development Block Grant (CDBG) Program Redesign

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. HCD has indicated that CDBG funds have been 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.

SB 106 (Committee on Budget and Fiscal Review), Chapter 96, Statutes of 2017, took steps to streamline and modify the CDBG program. Specifically, it authorized HCD to adopt guidelines to implement the federal and State CDBG program, subject to approval by the Department of Finance (DOF) and notification of the Joint Legislative Budget Committee (JLBC). It also requires HCD to ensure potential applicants have access to instructions that allow them to successfully compete for CDBG funds set aside for economic development purposes.

HCD convened a CDBG program Redesign Working Group (RWG) to facilitate the redesign process laid out in SB 106, and to ensure that the final outcome meets the needs of both HCD and the various local governments involved in the CDBG program. The RWG's duties include, but are not limited to:

- Analyzing and reporting on HCD's award process, contract management processes and policies, and fiscal processes, identifying efficiencies that can be implemented to improve the processing of applications, contract management and fiscal processes, and communications with local agencies.
- Identifying requirements previously adopted by the state that are in excess of the minimum requirements applicable under the federal CDBG program that, if eliminated, would facilitate greater subscription of program funds and reduce HCD's administrative workload.
- Identifying impediments and ways to streamline access to funds for economic development.
- Reporting on the results of this analysis to DOF and budget committees of both houses of the Legislature by June 30, 2018.
- Reporting on any subsequent amendments to the guidelines to both DOF and the JLBC.
- Updating the department's Grant Management Manual to facilitate the subscription of and reflect all federal requirements for economic development business assistance loans by June 30, 2018.
- Ensuring that program staff are trained on the applicable federal law, regulations, or guidelines published by HUD applicable to eligible economic development activities by January 1, 2018.

SB 106 also led to the allocation of roughly $35 million in disencumbered CDBG funds in a NOFA released in September of 2017.

Staff Comments: The RWG has made good progress on implementing the requirements of SB 106. The department is actively seeking input form important stakeholders, and the RWG has made important strides in creating trust and improving relationships between the department and local stakeholders. Much work remains, but initial efforts are promising.

Questions

- How is HCD balancing the need to get program dollars out the door with supporting local governments who may not have the resources to effectively pursue CDBG funds?
- How does HCD plan to address the factors that have historically prevented funds from reaching grantees in a timely manner?

Staff Recommendation

No Action Required.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

The Department of Fair Employment and Housing (DFEH) is responsible for protecting the civil rights of the people of California. The department receives, investigates, conciliates, mediates, and prosecutes complaints alleging unlawful discrimination in employment, housing, and public accommodation, and acts of hate violence and human trafficking. The department is authorized to commence prosecution by filing cases directly in court, and to seek attorney's fees and costs when it is the prevailing party. The department's jurisdiction extends to individuals, private and public entities, housing providers, and business establishments within California.

Governor's Budget: The budget provides $31.4 million and supports 196 positions at DFEH in 2018-19. This is an increase of roughly $2.3 million from 2017-18, mostly due to the implementation of several new anti-discrimination statutes passed in 2017.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
1490	Administration of Civil Rights Law	200.2	184.8	195.8	$27,999	$28,682	$31,064
1495	Fair Employment and Housing Council	-	-	-	9	10	10
1500	Department of Justice Legal Services	-	-	-	210	346	346
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**200.2**	**184.8**	**195.8**	**$28,218**	**$29,038**	**$31,420**

FUNDING	**2016-17***	**2017-18***	**2018-19***
0001 General Fund	$22,879	$23,349	$25,460
0890 Federal Trust Fund	3,950	5,689	5,698
3246 Fair Employment and Housing Enforcement and Litigation Fund	1,389	-	262
TOTALS, EXPENDITURES, ALL FUNDS	**$28,218**	**$29,038**	**$31,420**

Issue 1: Systemic Litigation Unit

Governor's Proposal: The budget requests $262,000 in 2018-19 and ongoing to fund one position reclassified from the Federal Trust Fund to the Fair Employment and Housing Enforcement Fund (Fund 3246) in order to litigate large scale, systemic discrimination cases in accordance with California Civil Rights laws.

Background: DFEH receives approximately 23,000 employment and housing discrimination complaints annually and is required to investigate all complaints. ln addition to handling individual complaints of discrimination that originate through investigations by DFEH's Enforcement Division, the director of the department is also authorized to bring group and class discrimination cases under Government Code Section 12961 to obtain recoveries for large groups and classes of individuals. These "systemic" cases are so denominated because of the number of employees or members of the public that are subjected to discrimination due to unlawful policies or practices.

DFEH has brought a handful of high-profile, large systemic cases in recent years against actors such as Verizon, AirBnb, Winco, and the Irvine Company. Several of these cases resulted in the award of attorney fees to DFEH in the amount of nearly $1.7 million, which have been deposited into the Fair Employment and Housing Enforcement and Litigation Fund. Government Code Section 12907 created the fund as a repository for attorney fees and costs awarded when DFEH is the prevailing party in a civil action under the Fair Employment and Housing Act. The purpose of the fund is to offset, upon appropriation by the Legislature, the costs incurred by DFEH.

DFEH has a single senior attorney assigned to these cases on a full-time basis, the Associate Chief Counsel for Systemic Litigation. ln this capacity, the Associate Chief Counsel sets strategy for cases, identifies tasks, and leads and trains two to three less experienced attorneys who assist in bringing such cases. This position has historically been funded by federal dollars.

Staff Comments: This proposal also includes a baseline increase of $43,000 for related litigation and investigative expenses. Systemic cases generally require contracting out for additional services such as expert witnesses, jury consultants, and deposition expenses. DFEH has indicated that this proposal is necessary because federal funding has been declining and may no longer support the single position DFEH currently dedicates to systemic litigation. The department has indicated that the Fair Employment and Housing Enforcement Fund has sufficient fund balance to support this ask, and generates significant revenue in the form of attorney fees awarded as part of settlements. The department has received an average of $248,000 annually from FY 2014-15 through FY 2016-17, and $322,000 so far for FY 2017-18 from attorney fees. In the event there is a shortfall for this specific position, DFEH has indicated that they believe other attorneys' fees deposited into the fund will support these costs.

Questions

- How will DFEH support this position if the anticipated attorney fees do not materialize?
- Would DFEH prosecute more systemic litigation cases if additional resources were provided?

Staff Recommendation

Approve as Budgeted.

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 $570 million and 69.5 positions to support OPR in the budget year, as shown in the figure below. This is an increase of 24 positions and a decrease of $330 million, mainly due to a decline in Greenhouse Gas Reduction Fund resources and the addition of resources related to the Census 2020 effort.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
0360	State Planning & Policy Development	24.2	10.2	34.2	$11,188	$18,859	$85,146
0365	California Volunteers	16.0	21.3	21.3	35,861	31,900	31,894
0370	Strategic Growth Council	10.5	14.0	14.0	7,220	851,253	453,370
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**50.7**	**45.5**	**69.5**	**$54,269**	**$902,012**	**$570,410**

FUNDING		2016-17*	2017-18*	2018-19*
0001	General Fund	$11,140	$15,302	$84,125
0890	Federal Trust Fund	34,870	27,966	27,959
0995	Reimbursements	877	7,166	4,500
3228	Greenhouse Gas Reduction Fund	7,076	851,102	453,218
9740	Central Service Cost Recovery Fund	306	476	608
TOTALS, EXPENDITURES, ALL FUNDS		**$54,269**	**$902,012**	**$570,410**

Issue 1: California Institute to Advance Precision Health and Medicine

Governor's Proposal: The budget includes trailer bill language to establish the California Institute to Advance Precision Health and Medicine as a non-profit entity, and to appropriate $30 million in one-time General Fund resources for the Institute.

Background: The California Initiative to Advance Precision Medicine, launched in 2015 by Governor Brown, is currently hosted by the University of California, San Francisco, under the direction of OPR and through an interagency contract between OPR and UC/UCSF. Grants to demonstration projects flow through UCSF and are approved by OPR.

To date, the state has appropriated $23 million in General Fund to OPR for precision medicine. Provisional language was included in each appropriation to ensure that funding was available for projects in both northern and southern California. The Initiative utilized a competitive, merit-based application process, with a peer-reviewed selection process. Eight demonstration projects have been funded, an asset inventory and economic analysis are both in progress, multiple convenings have been held, and a new RFP is in development. A Precision Medicine Advisory Committee was established in fall of 2017, which will issue recommendations to the state by December 2018.

Staff Comments: The Administration has indicated that the new Institute is intended to be a nonprofit corporation, governed by a 19-member Board of Directors, including the Director of the Office of Planning and Research, who will serve as an ex officio member of the Board. Sixteen members are to be appointed by the Governor, while two public members are to be appointed by the Legislature.

The transition to a nonprofit institute will change the administration of funds (from calls for proposals to grant oversight) from a single institution model with oversight by OPR, to an independent nonprofit with oversight from a board with broad public and private institutional representation. Additionally, the activities of the institute will be broader than the initiative. As projects mature, new technologies, tools, datasets and protocols will become available for wider use. Findings will become more actionable, and recommendations may be relevant across the health delivery network. The mission of the institute will include integrating successful precision health and medicine practices into the healthcare system.

While the Legislature has determined precision medicine enough of a priority to fund it over the last four years, this proposal raises several questions. First, staff notes that establishing a non-profit entity may not be the best approach for funding this type of research, as doing so would remove funding decisions from the annual appropriations process. Second, it is unclear whether $30 million is the appropriate level of funding. Lastly, given the potentially significant investment of General Fund dollars, a more robust level of reporting than proposed in the trailer bill is appropriate.

Questions:

- What kinds of flexibility does the non-profit approach give the Institute that using the annual budget process does not?
- What kind of outcomes is OPR targeting with this shift?

Staff Recommendation:
Hold open.

Issue 2: OPR Housing Package Response

Governor's Proposal: The budget requests $333,000 in reimbursement authority and 2.0 positions in 2018-19 and 2019-20 to provide technical assistance as required by SB 2 (Atkins), Chapter 364, Statutes of 2017, and to create a technical advisory on recent statutory changes that affect the California Environmental Quality Act (CEQA).

Background: SB 2 created a $75 fee on the recording of every real estate instrument, paper, or notice. Fifty percent of the funds collected between January 1, 2018 and December 31, 2018, will be made available for local governments to update planning documents and zoning ordinances in order to streamline housing production. Five percent of those funds are available to the Department of Housing and Community Development (HCD) and OPR to provide technical assistance to local jurisdictions updating specified planning documents.

Public Resources Code section 21083 requires OPR to prepare and develop proposed guidelines for CEQA implementation, and OPR is responsible for drafting technical advisories on new CEQA legislation. SB 35 (Wiener), Chapter 366, Statutes of 2017; AB 73 (Chiu), Chapter 371, Statutes of 2017; and SB 540 (Roth), Chapter 369, Statutes of 2017, all provide CEQA streamlining benefits for housing projects. Specifically, SB 35 authorizes a streamlined, ministerial approval process for multifamily housing developments in localities that have failed to meet their regional housing needs assessment numbers. AB 73 provides local governments with the option of creating "housing sustainability districts" via a zoning ordinance. The ordinance must be analyzed in an environmental impact report and future housing development in the district meeting specified criteria is exempt from CEQA requirements. SB 540 permits a local government to establish a "workforce housing opportunity zone" by preparing a master plan and accompanying environmental impact report. The purpose of all three bills is to expedite housing projects by providing alternatives to project-specific environmental review.

Staff Comments: Staff finds this request generally reasonable. OPR has a statutorily-designated role in the implementation of the statewide housing package, and the Office has indicated that it is unable to absorb this workload within existing resources. However, it would be premature to approve this request at this juncture, given the ongoing discussions about the implementation of the first year of the housing package.

Questions:

- What factors in program implementation could result in more or less work for OPR in implementing the housing package?

Staff Recommendation:
Hold open.

Issue 3: California Complete Count – Census 2020

Governor's Proposal: The budget requests $40.3 million (General Fund) and 22.0 limited-term positions to staff the California Complete Count effort to complement U.S. Census outreach, focusing on hard-to-count populations. This funding will be appropriated in 2018-19 and available for the duration of a three year effort crossing over fiscal years 2018-19, 2019-20, and 2020-21.

Background: Only once each decade, the U.S. Census Bureau attempts to count every resident in the United States. The next enumeration will be April 1, 2020, and will be the first to rely heavily on online responses. The primary and perpetual problem facing the Census Bureau is the undercount of certain population groups. Foreign-born residents, especially undocumented, non-white residents, children under five years old, especially those younger than one year old, and renters comprise the most undercounted populations. California has more residents in each of these categories than any other state.

California invested $24.7 million in outreach efforts for the 2000 Census and increased the Mail Participation Rate to 76 percent. California gained an additional Congressional seat as a result. California invested only $2 million in outreach efforts for the 2010 Census. As a result, the Mail Participation Rate declined to 73 percent. The Complete Count Committee raised roughly $10 million in private funding to augment its efforts for the 2010 Census. California's Congressional apportionment did not change as a result.

The 2010 Census cost the Federal government over $12 billion over the life cycle of the enumeration (which includes the preparation for and aftermath of the count). The Census Bureau estimated that completing the 2020 Census in a similar manner as 2010 would cost over $17 billion. To keep costs closer to the costs of the 2010 Census, the Census Bureau is making a number of significant changes to count operations, including moving to a primarily online response system; relying on local government data for address lists, rather than manually updating the lists; and reducing the follow-up field visits to increase response rates by up to 50 percent. The Census Bureau also canceled the 2017 field test of the online response system and reduced the end-to-end "field test" of the census system from three locations to one.

Moving to a primarily internet-based census is a significant change from prior practice. Only a portion of households will receive a paper census; the rest will receive instructions by mail for how to respond online (or by phone). Concerns have been raised about individuals' willingness to respond via the internet given concerns about information security. These concerns—in combination with the potential for a question about citizenship—raise the possibility of an undercount in California in 2020.

The 2017-18 Budget Act provided up to $10 million for initial census preparation activities. Of that amount, $7 million was provided for grants to local governments for participating in the Census Bureau's Local Update of Census Address (LUCA) program. (As noted previously, the Census Bureau is relying heavily on administrative data to update its national address list.) The Department of Finance also received authority to spend up to $3 million on initial outreach activities for the 2020 Census. These funds are being used to support initial activities of the Complete Count Committee.

Staff Comments: The Administration has indicated that the funding proposed for 2018-19 would support the activities of the committee through the 2020 Census. Almost three-quarters of the funds would be dedicated to a media campaign ($17 million) and working with local community based organizations ($12.5 million). Community organizations would conduct most of the direct outreach to individuals to encourage them to complete the census.

The decennial census is one of the main factors that underlie how hundreds of billions of dollars of federal assistance are distributed. For instance, the census count is used to determine states' Federal Medical Assistance Percentage (FMAP) for Medicaid, known in California as Medi-Cal, which is based on per-capita income. A lower per-capita income can result in a higher FMAP and more federal funds per Medi-Cal participant. The census is used to determine each state's per-capita income. This year, California expects to receive over $60 billion in federal assistance for the Medi-Cal program. Other major federal assistance programs that use census data include highway funding, Section 8 housing vouchers, and special education grants.

Staff notes that this proposal would bring total state funding for census-related activities to $50 million between 2017-18 and 2019-20. Due to the significant changes to the census, providing state funding to target hard-to-count populations is reasonable. However, the specific mix of spending categories is a source of concern. The 2020 Census will be taking place in a presidential election year when advertising can be particularly expensive. Census day, however, will occur after the California primaries (which move to March in 2020). Consequently, media costs may not be as high in the weeks leading up to the census as they will be earlier in the year. Given the large amount of funding set aside for community-based organizations, it is important to determine which organizations are involved and to ensure that they have the requisite resources and capabilities to perform adequate outreach.

LAO Comments: California is the first state to set aside funds for census outreach. Given the major changes to the upcoming census—and the potential impacts to state funding—preparing for a significant outreach campaign can be in the state's fiscal interest.

Questions:

- Where are the pain points and the major risk factors? What factors could lead to a low response rate in California? How does OPR plan to address them?
- What are the key activities in the California Complete Count effort? Which activities will give us the most "bang for our buck?"

Staff Recommendation:
Hold open.

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 15, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

PART A

Consultant: James Hacker

Public Comment

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 15, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

PART B

Consultants: Christopher Francis and Joe Stephenshaw

Vote Only Calendar

Item	**Department**	
0984	**Secure Choice Retirement Savings Investment Board**	
Issue 1	CalSavers Program Implementation	2

Items Proposed for Discussion

Item	**Department**	
	Proposition 2 Proposal	
Issue 1	Proposition 2 Reserve	3
0950	**State Treasurer's Office**	
Issue 1	Infrastructure Support and Sustainability	9
0971	**Alternative Energy & Advanced Transportation Financing Authority**	
Issue 1	Administration of California Hub for Energy Efficiency Financing Pilot Programs	11

Public Comment

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ISSUES PROPOSED FOR VOTE ONLY

0984 California Secure Choice Retirement Savings Investment Board

Issue 1: CalSavers Program Implementation (BCP)

Governor's Proposal. The California Secure Choice Retirement Savings Investment Board (Board) requests a General Fund loan of $2,500,000 for fiscal year 2018-19 to provide resources for the Board and the CalSavers program including funding for new and existing staff, external consultants, and administrative and overhead costs.

Background. The Board and the CalSavers (formerly California Secure Choice Retirement Savings Program) were established pursuant to SB 1234 (de León), Chapter 734, Statutes of 2012, for the purpose of creating a statewide savings plan for private-sector workers who lack access to an employer-sponsored retirement savings plan. The legislation requires that the Board 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 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 completed in Spring 2016 indicated 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).

As the Board begins the process of program implementation, the necessity of startup funding to make this possible is apparent. The Board stated that the program is currently on target to launch a pilot program in late 2018 and a full statewide launch in 2019. Between the budgetary savings from 2016-17 and 2017-18, and the $2.5 million loan request for FY 2018-19, they do not anticipate having to come back in the fiscal year with an additional request.

Staff Comments. Staff has no concerns with this proposal.

Staff Recommendation. Approve as budgeted.

Vote:

ISSUES PROPOSED FOR DISCUSSION AND VOTE

PROPOSITION 2 PROPOSAL

Issue 1: Proposition 2 Reserve

Governor's Proposal. The Governor's budget proposes a $15.7 billion reserve for 2018-19, which includes $13.5 billion in the Budget Stabilization Account (BSA) and $2.3 billion in the Special Fund for Economic Uncertainties (SFEU). The BSA reserve level includes a supplemental deposit of $3.5 billion, in addition to the constitutionally required deposit of $1.5 billion, bringing the BSA to its constitutional maximum of ten percent of General Fund revenues. The constitutionally required BSA deposit is based on projected General Fund revenues of $134.8 billion of which $13.3 billion (9.9 percent) is projected to come from personal income tax on capital gains. The following chart outlines the Governor's proposed BSA fund.

Proposal for Proposition 2 – Rainy Day Fund
(Dollars in Millions)

	2018-19
1.5% of General Fund (GF) Revenues	
GF Revenues and Transfers (before BSA transfer)	$134,835
1.5% of GF Revenues and Transfers	**$2,023**
Capital Gain Revenues	
GF Tax Proceeds	$134,605
Personal Income Taxes from Capital Gains	13,259
Percent of GF Tax Proceeds	9.9%
8% of GF Tax Proceeds	10,768
Excess of 8%	2,491
Prop 98 Share of Capital Gains above 8%	1,444
Non Prop 98 Share of Capital Gains above 8%	**$1,047**
Total Available	$3,070
Debt Repayment (50%)	1,535
Deposit to Rainy Day Fund (50%)	***1,535***
Supplemental BSA Deposit	***3,515***
Total Deposit to the Rainy Day Fund	**5,050**
Cumulative Balance	**$13,461**

In addition to the reserve, the Governor's budget proposes $1.5 billion in debt and liability payments pursuant to Proposition 2, as displayed in the following chart.

Proposal for Debts and Liabilities Payments
(Dollars in Millions)

Category	Amount Beginning of 2018-19	Payment in 2018-19
Budgetary Borrowing		
Special Fund Loans and Interest	$1,248	$205
Proposition 98 Settle-Up Underfunding	440	100
Weight Fee Payments	1,117	325
Transportation Loans (Pre-Proposition 42)	471	235
Subtotal Debt	**$3,276**	**$865**
Retirement Liabilities		
State Retiree Health	76,533	195
State Employee Pensions	59,578	475
Teacher Pensions[1]	101,586	0
Judges' Pensions	3,489	0
CalPERS Deferred Payment	682	0
UC Employee Pensions	10,851	0
UC Retiree Health	19,331	0
Subtotal Liabilities	**$272,050**	**$670**
Grand Total	**$275,326**	**$1,535**

[1] The state portion of the unfunded liability is $29.3 billion.

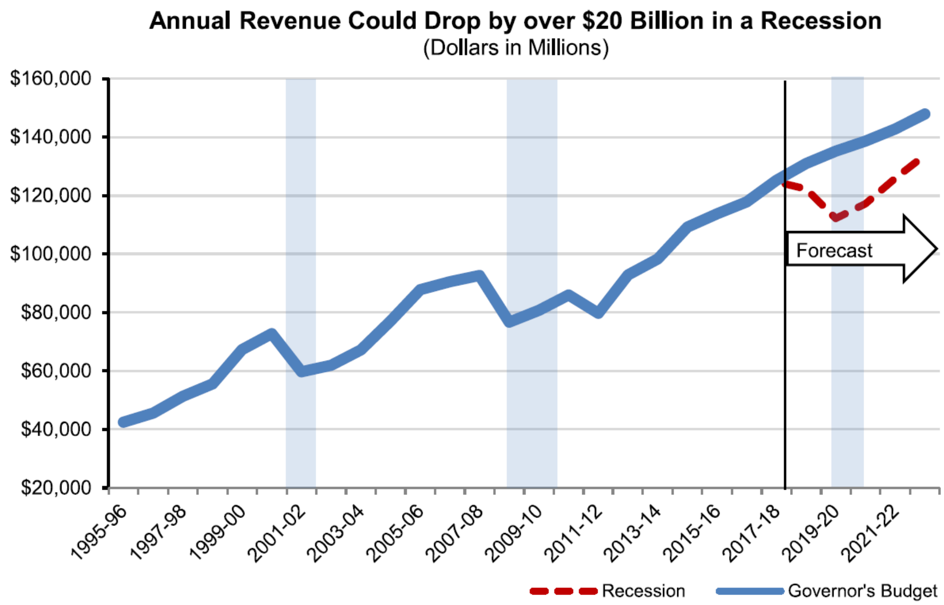
Background. Proposition 2, which revised the state's BSA, was approved by the voters in November 2014. The measure changes the way the state sequesters money in reserves, as well as how it pays down debts and liabilities. Key components of Proposition 2 include:

- Requires annual transfer of 1.5 percent of General Fund revenues to the BSA.
- Requires additional transfer of personal capital gains tax revenues exceeding eight percent of General Fund revenues to the BSA and, under certain conditions, a dedicated K–14 school reserve fund.
- Requires that half of the budget stabilization account revenues be used to repay state debts and unfunded liabilities.
- Allows limited use of funds in case of emergency or if there is a state budget deficit.
- Caps the BSA at 10 percent of General Fund revenues, directs remainder to infrastructure.

The SFEU is the state's discretionary reserve and is the difference between spending and available resources in any given fiscal year. There are two statutorily triggered reductions in the state's sales tax rate if balances in the SFEU reach a certain threshold. Under either statute, the state's sales tax rate would automatically decline by one-quarter cent for one calendar year. Under the first statute, the trigger would occur if the Director of Finance projects the SFEU to exceed about four percent of General Fund revenues (currently, about $5.4 billion) in the prior and current year. Under the second statute, the trigger would occur if 1) the General Fund reserve exceeds about three percent of revenues (currently, around $4 billion) and 2) actual General Fund revenues between May 1st and September 30th exceed the Administration's forecasted amounts.

The Governor points to the need for a healthy reserve to ensure the ongoing fiscal stability of the state. The Governor's budget proposal points out that previous short periods of balanced budgets in the 2000s were followed by massive budget shortfalls. While each of these prior crises was preceded by a stock market crash, actions by the federal government could also easily overwhelm the fiscal capacity of the state. According to the Administration, the budget, now more than ever, demands caution and prudence. Among the uncertainties highlighted by the Administration is a:

- **Possible Recession.** The Governor's budget assumes the continued expansion of the economy. Yet, also notes that economic expansions do not last forever. In the post-war period, the average expansion has lasted about five years. By the end of the 2018-19 fiscal year, the expansion will have matched the longest in modern history. As shown in the figure below from the Governor's budget proposal, a moderate recession will drop state revenues by over $20 billion annually for several years.



Legislative Analyst's Office (LAO) Comments. In its analysis the LAO notes that while the Governor's proposed overall reserve level of $15.7 billion is high historically for California, it is not particularly remarkable by national standards. The LAO points out that the Governor's reserve proposal this year raises fundamental questions about the state's current—and potential future—level of reserves. In particular: is the Legislature satisfied with the level of preparation for the next recession?

According to the LAO, the Governor's proposed level is a reasonable minimum. However, they suggest that the Legislature consider future ideal levels of reserves in order to be fully prepared for the next downturn and point out that the Governor's proposal, counterintuitively, makes building greater future reserves more difficult. This is because hitting the constitutional maximum level of 10 percent in the BSA creates an ongoing spending obligation of roughly $1 billion per year on infrastructure (under the Administration's current revenue estimates). As such, funds that would have been set aside in the BSA would be spent on infrastructure instead, lowering the amount of resources available for building more reserves. The following chart outlines options that the LAO suggests the Legislature consider.

LAO Reserve Options for the Legislature to Consider	
Alternatives to Build More Reserves	
Amend the Statutory SFEU Rules	The Legislature could revisit the statutory rules that automatically reduce the SFEU balance if it meets certain criteria. For example, the Legislature could increase the thresholds under which the rules are triggered. Then, the Legislature could leave the optional deposit funds in the SFEU.
Create Third Reserve Fund	The Legislature could create a third reserve fund and deposit the optional $3.5 billion there instead of the BSA.
Other Options	
Prepaying Pension Costs	The Legislature could prepay $3.5 billion of future years' pension costs. Prepaying pension costs today would allow the state to reduce future constitutionally required pension costs by $3.5 billion. This arrangement would free up $3.5 billion of resources in any future year, when the funds would be needed to address a budget problem.
Appropriating Expenditures for Future Use	In the budget year, the state could set aside $3.5 billion for future use, such as debt service or another specific use, earmarking the funds for when they will be needed in the future. Then, when the state faces a budget problem in the future, it could use the $3.5 billion in set-aside funds to offset future costs, effectively freeing up $3.5 billion for any other purpose.

Staff Comment. Given the length of the current recovery, California's volatile tax structure, and the state's experience during the last recession, the Governor's reserve proposal appears reasonable. However, in assessing the Governor's proposal, the LAO has raised important points for the Legislature to consider, such as how the proposal impacts future reserves and whether additional options should be explored.

Additionally, because, beginning in 2019-20, the Governor's proposal projects a little under $1 billion in revenue in excess of BSA's ten percent of General Fund maximum that must be used for infrastructure, it is important that the Legislature understand how these funds can be used and to begin planning for their expenditure.

Staff Recommendation. Hold open.

Vote:

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 75 percent – from reimbursements. The General Fund contribution to the office is roughly 15 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 2016-17	Estimated 2017-18	Proposed 2018-19
Investment Services	$3,855	$3,768	$3,774
Centralized Treasury & Securities Management	12,848	14,606	14,628
Public Finance	15,701	17,692	10,749
Administration	16,163	6,201	6,559
Distributed Administration	-11,433	--	--
Total Expenditures	**$37,134**	**$42,267**	**$35,710**

State Treasurer's Office
Position Authority
(actual positions)

Program	Actual 2016-17	Estimated 2017-18	Proposed 2018-19
Investment Services	16.6	17.0	17.0
Centralized Treasury & Securities Management	56.0	62.5	63.0
Public Finance	54.9	53.3	47.3
Administration	98.2	87.8	87.9
Total Positions	**225.7**	**220.6**	**215.2**

Issue 1: Infrastructure Support and Sustainability (BCP)

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

Background. The Information Technology Division **(**ITD) of STO is responsible for the development, maintenance and IT infrastructure that supports the STO's core business operations, in addition to the IT needs of the fourteen BCAs under the Treasurer's purview. ITD provides computing services to more than 400 state staff, and a variety of services to most state agencies, online banking for thousands of local government entities, in addition to electronic services for constituents.

STO distributes the costs of IT services, including infrastructure licensing and technical training to all of STO's primary business divisions and the BCAs. In their BY 2015-16 Spring Finance Letter (SFL), the STO requested expenditure authority from the BCAs to fund, with special funds, eleven new positions in the ITD for personnel supporting enterprise computing services and advanced application delivery. In the SFL, the STO noted that a technology-personnel true-up had not been undertaken since 2007. Ongoing license expenses, equipment upgrades and technical training accreted during this same decade, and were paid with the redirection of funds from other departmental budgeted expenses. The BY 2017-18 BCP requested resources to augment the IT security tools but did not fund any of the ongoing licensing, equipment upgrades, and technical training that the requested resources in this year's BCP would be used on.

The STO argues that this current method of allocating costs to keep up with the emergence in complex technology is unsustainable—citing funding shortfalls of their current baseline budget associated with sustaining the infrastructure that has evolved over the last decade and compromises to planned expenditures in other business areas. The General Fund will resolve the shortfall by establishing an ongoing funding allotment and expenditure authority. Additionally, increasing the STO's budget will help the ITD maintain its infrastructure through software licensing renewals, upgrade/maintenance of hardware, and corresponding technical training.

Legislative Analyst's Office comments. The LAO raises no specific concerns with the proposed activities or the amount of the requested augmentation. However, they recommend a modification of the proposal to fund the augmentation through the various funds associated with the BCAs and STO rather than exclusively from the General Fund. By modifying the proposal in this way, the costs are spread across entities receiving benefits.

Staff Comments. The STO indicated that the BCP will assist in a true-up of budgeted and actual expenditure on IT infrastructure as well as change the funding source for IT infrastructure. Instead of redirecting year-end funds from other sources, the BCP would instead draw these funds from the General Fund. However, the negative effects of the current practice on planned business expenditures are unclear. Moreover the growth in STO's IT infrastructure expenditure over the last decade, owing to the increased complexity of IT infrastructure, and the potential continued increase in the future may occur. The STO indicated that, in this situation, they may draw upon both the current funding source and proposed funding source to address shortfalls between budgeted and actual expenditures.

Questions.

- *Please describe the negative impacts of distributing IT service costs on planned and approved business expenditures. What is being sacrificed through the redirection of funding?*

Staff Recommendation. Hold open.

0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

The Governor's budget provides $10.3 million for the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) in BY 2018-19, a net increase of $4.5 million above the amount provided in BY 2017-18. This increase is almost entirely driven by a request for one-time reimbursement authority to continue administering the California Hub for Energy Efficiency Financing (CHEEF) pilots.

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

Governor's Proposal. CAEATFA requests reimbursement and expenditure authority in the amount of $8.2 million for FY 2018-19 and available through FY 2020-21 to appropriately carry out its functions as the administrator of the CHEEF pilots on behalf of the California Public Utilities Commission (PUC). This request will not impact the General Fund or any state special funds. This program is funded with ratepayer funds that have been approved and authorized by the PUC in a total amount of $15.36 million.

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 the Senate Committee on Budget and Fiscal Review Subcommittee No. 2. The pilots were originally to be implemented through 2016-17.

The development and implementation of the pilots has taken longer than anticipated, largely due to (1) the short period initially established for the pilots (limited to two years for development and implementation 2) the complexity of the overall project and the time intensity related to the infrastructure development for both CAEATFA and participating stakeholders (e.g. lenders and IOUs); and depth of stakeholder engagement and coordination, and (3) staffing challenges which were not anticipated by CAEATFA at inception. CAEATFA and PUC staff began discussions on CAEATFA's resource needs to complete the pilots as they were originally designed - as well as challenges and opportunities of the pilots - over the summer of 2016. After consideration of public comment, in March 2017, the PUC released D 17-03-026 that approved several of CAEATFA's requested modifications to assist in streamlining and address challenges of the pilots. 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 2020-21.

Legislative Analyst's Office comments. The LAO recommends that the Legislature modify the one-time $8.2 million appropriation in 2018-19 by instead providing specific reimbursement authority over a three-year period as follows: $3.6 million in 2018-19, $3 million in 2019-20, and $1.6 million in 2020-21. They also recommend that the Legislature add budget bill language that gives Department of Finance the ability to increase annual CAEATFA spending authority (but not to exceed the full budget authority requested over the three years), with a 30-day notification to the Joint Legislative Budget Committee (JLBC), if a change in the expected pilot timelines results in annual costs that exceed CAEATFA's annual budget authority.

Staff Comments. The Legislature previously approved CHEEF pilot programs and the PUC committed long-term funding for pilot administration that enabled the authority to convert temporary positions to permanent positions, upgrade positions, and on-board staff. 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 request for ratepayer funds would be consistent with prior actions and are required to be formally approved by the PUC through its standard governance process. However, the requested expenditure authority and anticipated expenditures in BY 2018-19 are not aligned. If the requested amount is approved, then the Legislature will have a reduced budget authority role if one or more of these pilot programs do not see completion—a relevant consideration given the history of timeline changes. It is important to balance the goals of the Legislature and CAEATFA as well as the difficulties and complexities—past and present—associated with developing and implementing these pilot programs.

Staff Recommendation. Modify the proposal to grant CAEATFA specific reimbursement authority over a three-year period as follows: $3.6 million in 2018-19, $3 million in 2019-20, and $1.6 million in 2020-21. Adopt trailer bill language that gives DOF the ability to increase annual CAEATFA spending authority (but not to exceed the full budget authority requested over the three years), with a 30-day notification to the JLBC, if a change in the expected pilot timelines results in annual costs that exceed CAEATFA's annual budget authority.

Questions.

- *What is CAEATFA's response to the LAO's recommendation? Are there downsides to the structure of the LAO's proposal and if so, what are they?*

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 15, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

PART B
OUTCOMES

Consultants: Christopher Francis and Joe Stephenshaw

Vote Only Calendar

Item	**Department**	
0984	**Secure Choice Retirement Savings Investment Board**	
Issue 1	CalSavers Program Implementation, **Item moved to discussion. Held open and to be revisited at 4/5/18 hearing pending presentation of legal opinion, activities taken with 2017-18 BY loan, and review of future activities.**	2

Items Proposed for Discussion

Item	**Department**	
	Proposition 2 Proposal	
Issue 1	Proposition 2 Reserve, **Held open**	3
0950	**State Treasurer's Office**	
Issue 1	Infrastructure Support and Sustainability, **Held open**	9
0971	**Alternative Energy & Advanced Transportation Financing Authority**	
Issue 1	Administration of California Hub for Energy Efficiency Financing Pilot Programs, **Modified proposal approved 3-0**	11

Public Comment

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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, April 12, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultants: Joe Stephenshaw

Items Proposed for Discussion

Item	Department	
	0860 Board of Equalization **0870 Office of Tax Appeals** **7600 Department of Tax and Fee Administration**	
Issue 1	State Tax Agencies Reorganization	2
	7600 Department of Tax and Fee Administration	
Issue 1	Centralized Revenue Opportunity System Project	6
	7730 Franchise Tax Board	
Issue 1	Earned Income Tax Credit	8
Issue 2	New Employment Credit	12
Issue 3	Audit Staffing Increase	14
Issue 4	Enterprise Data to Revenue Project	17
Issue 5	Information Technology Security Enhancements	18
Issue 6	Information Technology Classification Consolidation	19

Public Comment

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ISSUES PROPOSED FOR DISCUSSION AND VOTE

0860 STATE BOARD OF EQUALIZATION
0870 OFFICE OF TAX APPEALS
7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION

Issue 1: State Tax Agencies Reorganization

Governor's Proposal. The Governor's budget proposes $713.9 million in total funds ($404.1 million General Fund) and 4,553.1 positions to support the Board of Equalization (BOE), Office of Tax Appeals (OTA), and the California Department of Tax and Fee Administration (CDTFA) in 2018-19, as follows:

State Tax Agencies
Program Expenditure
(dollars in thousands)

Department	Actual 2016-17	Estimated 2017-18	Proposed 2018-19
Board of Equalization	$555,274	$30,826	$30,445
Office of Tax Appeals	-	7,554	19,951
Department of Tax and Fee Administration	-	624,358	663,538
Total Expenditures	**$555,274**	**$662,738**	**$713,934**

State Tax Agencies
Position Authority

Program	Actual 2016-17	Estimated 2017-18	Proposed 2018-19
Board of Equalization	4,229.5	207.6	203.6
Office of Tax Appeals	-	80.0	80.0
Department of Tax and Fee Administration	-	4,287.0	4,269.5
Total Positions	**4,229.5**	**4,574.6**	**4,553.1**

Background. In 2017, the Legislature passed two bills (AB 102 (Committee on Budget), Chapter 16, Statutes of 2017, and AB 131 (Committee on Budget), Chapter 252, Statutes of 2017) that made major changes to tax administration and appeals in California. The bills created two new departments, the CDTFA and OTA, and transferred most of the BOE's duties to these departments. Specifically, the OTA was established for purposes of adjudicating tax disputes related to state taxes and fees, administrative activities of the BOE were shifted to CDTFA, and the BOE was rededicated to its core tax administration responsibilities as set forth in the California Constitution.

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. Prior to the new laws, BOE's primary responsibility was to administer the sales and use tax. It also administered dozens of smaller tax and fee programs, including alcoholic beverages, insurance and some programs related to property taxes. Additionally, BOE was the quasi‑judicial body that heard appeals for state tax programs. The five‑member board presided over appeals hearings and ruled on appeals by a majority vote of the board. Taxpayers who disagreed with the board's decisions could have their appeals heard in the trial courts.

Under the new laws, CDTFA administers most of the tax and fee programs formerly administered by BOE. Accordingly, the new laws transferred most of BOE's budget, staff, facilities, and other resources to CDTFA. CDTFA is a department within the Government Operations Agency. The head of the department is a director appointed by the Governor and confirmed by the Senate. AB 102 and AB 131 did not amend the State Constitution, so BOE maintained its constitutional authority over taxes on alcoholic beverages, insurance, and property. However, under a memorandum of understanding, CDTFA administers the alcoholic beverage tax and the insurance tax on behalf of BOE. The Department of Finance (DOF) is currently conducting a mission−based review of CDTFA's administration of the sales and use tax.

OTA is now responsible for hearing tax appeal cases formerly assigned by statute to BOE, including personal income, franchise, and sales tax appeals. OTA is to hear cases in tax appeals panels, each consisting of three administrative law judges (ALJs). These panels are to hear cases in three locations: Sacramento, Fresno, and Los Angeles. Unlike CDTFA, OTA is not part of a state agency. Like CDTFA, however, the head of the department is a director appointed by the Governor and confirmed by the Senate. OTA's director reports directly to the Governor.

As noticed above, due to the enactment of AB 102 and AB 131, BOE's budget has gone from $555.3 million and 4,229.5 positions in 2016-17 to $30.4 million and 203.6 positions in 2018-19. The 2017 budget act required the DOF to evaluate the ongoing personal staffing needs of BOE's Board Members, and to report any recommended changes to the Legislature by April 1, 2018. DOF's report, dated March 28, 2018, provides recommendations on staffing of the four Board Members who represent equalization districts (the State Controller is not assigned staff for BOE duties).

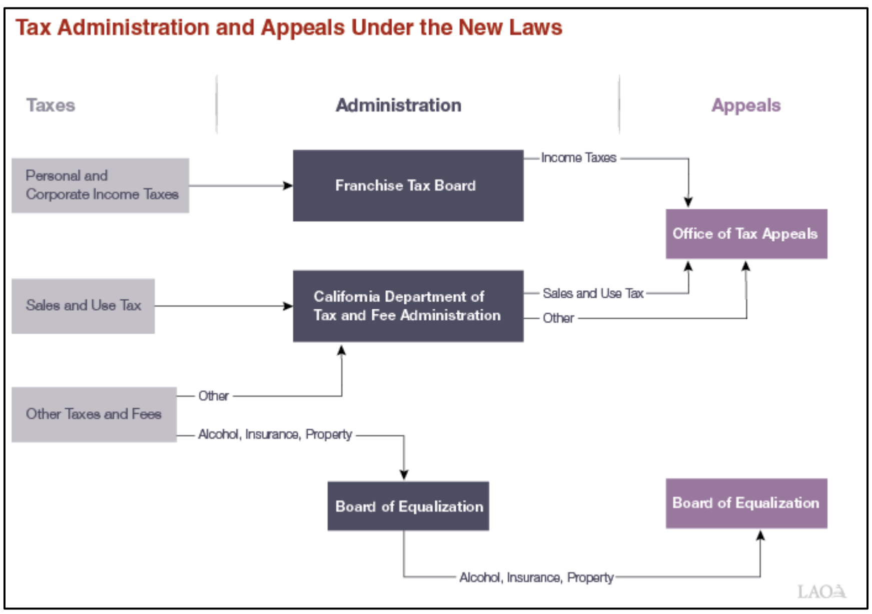
Since 2006-07, Board Members each have had 12 total staff (six exempt and six civil service positions). While the classifications of the six civil service positions has varied, the six exempt staff are: 1) Deputy to the Board Member, 2) CEA Level A (two positions), 3) Tax Consultant Expert II, 4) Assistant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

Two of the Board Member's exempt positions are authorized in the State Constitution and two were authorized by statute (Government Code (GC) Sections 15605.5 (a) and 15623 (a)). DOF's report notes that the legal authority for the remaining two exempt positions is unclear and that they were added in the 1998-99 and 2006-07 state budgets. AB 102 deleted GC Sections 15605.5 (a) and 15623 (a).

In order to provide flexibility to transition staff, the current budget act provides Board Members with authority to employ the same level in the 2017-18 fiscal year as they employed on June 15, 2017. DOF notes that, as of February 2018, Board Members had not yet begun to reduce their exempt staffing levels. Beginning July 1, 2018 each Board Member will have legal authority for only two exempt positions.

Based on DOF's analysis of workload, they estimated an overall workload reduction of approximately 30 percent, suggesting a need for eight positions to support each Board Member. DOF recommends that each Board Member retain six civil service staff, in addition to the two exempt staff authorized by the State Constitution, to address the workload need that they identified.

Legislative Analyst's Office (LAO) Comments. The LAO published a recent overview of the changes to California's tax agencies pursuant to AB 102 and AB 131. Their report included the following chart, which displays tax administration under the new law (including those administered by the Franchise Tax Board, which have not changed).



The LAO has also provided comments and recommendations regarding BOE Board Member staffing. They note that Board Members and their personal staff account for $12 million and 52 positions, 39 percent and 25 percent of the respective totals, of BOE's total budget for 2017-18 ($30.8 million and 208 positions).

The LAO noted that DOF's method for assessing Board Members' staffing needs - they surveyed board members' offices regarding their staff's work activities in 2017; then they identified specific, readily quantifiable workload reductions associated with AB 102 - likely overestimates the board's staffing requirements for the following reasons:

- It does not consider whether board members' existing staffing was necessary for its pre-AB 102 duties, which was one of the questions that led the Legislature to place this requirement in the budget act.

- It makes a variety of assumptions that are highly deferential toward the status quo. For example, it assumes that one-third of "business tax" appeals are still under BOE's jurisdiction. The LAO's review of 2016-17 board meeting agendas suggests that the actual share is much closer to zero.

- It assumes no fundamental changes in the structure of board member offices. In particular, it assumes that all four board members will continue to have separate, individual offices in Sacramento in addition to their district offices.

Based on the LAO's review of DOF's report, they believe that the appropriate staffing level is significantly lower than eight positions per board member. They note that some of the additional savings, however, would involve major changes to the structure of board members' offices - changes that could not be implemented immediately. The LAO presented the following recommendations:

- **Short-Term Recommendation: Reduce Board Members' Staff by One-Half.** Within the current office structure, the Legislature could achieve further savings by reducing staffing to six positions per board member.

- **Long-Term Recommendation: Consolidate Sacramento Offices.** Instead of having four separate offices in Sacramento, the four district-elected board members should share a single office. Under this structure, board members could share some staff (such as administrative assistants and attorneys), resulting in additional savings.

Staff Comment. The changes to our tax administration and appeals made by AB 102 and AB 131 are significant and, although they have made tremendous progress to this point, BOE, CDTFA and OTA are still in the process of transitioning to the new structure. In particular, as noted above, BOE is adjusting to a significant downsizing, while CDTFA and OTA have had to bring new state departments online and subsume significant responsibility in a short period of time. The Legislature should continue to monitor progress on these fronts to ensure that the intent of the reorganization is realized and that, particularly from a budget perspective, it is done in a responsible and efficient manner.

Lastly, in regards to BOE member staffing, staff notes that Board Member offices have raised concern with reductions in staff pursuant to DOF's report.

Staff Recommendation. Hold open.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION

Issue 1: Centralized Revenue Opportunity System Project

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

Background. The CROS Project is an information technology modernization effort designed to expand tax and fee payer services, improve the efficiency and effectiveness of the operation and enhance its ability to generate increased revenues. The CROS Project's objective is to establish an integrated, responsive and effective tax and fee payer centric solution that will use up-to-date tax collection, storage, account management, and data retrieval technologies to maximize effectiveness of CDTFA's operations through the following activities:

- Replacing legacy mainframe-based revenue and collection information systems with an integrated and automated tax and fee system;
- Providing an enterprise data warehouse;
- Enhancing eServices services to tax and fee payers and other stakeholders;
- Improving case and contact management;
- Reengineering and improving program processes;
- Improving data sharing capability and real-time data access, especially to field staff;
- Enhancing the department's capability to quickly implement legislative, judicial or electoral changes to tax/revenue codes.

The project scope includes:

- Integrating registration, reporting obligations, cashiering, refunds, collections, audits, appeals, accounting and General Ledger functions for all sales and use and special tax and fee programs, and timber tax functional areas into the CROS Solution;
- Replacing the Integrated Revenue Information System and Automated Compliance Management System, as well as Timber Tax legacy systems;
- Integrating enterprise software Including Avaya (call center) and Documentum (enterprise content management) software.

On August 30, 2016 the department approved selection of the CROS Contractor (Fast Enterprises, Inc.) as the contractor responsible for implementing the CROS Solution. The resources requested in this proposal are necessary to support the implementation phase of the project and are derived from the roles and responsibilities of the department as defined in the Request for Proposal; the milestones, deliverables, and resource needs defined in the Integrated Master Schedule; the contractor's schedule submitted in the proposal; and discussions between California Department of Technology, the CROS contractor, and the department's program and technical management.

The next major project rollout – the development and implementation of the CROS solution that includes sales and use tax, lumber, cigarette, retail license fee, tire, and electronic waste tax programs - is expected to go live in the first couple of weeks of May 2018. The total project costs are estimated at $281.4 million. The CROS project is projected to generate $334.8 million in revenue between 2017-18 and 2022-23.

Legislative Analyst's Office comments. The Legislative Analyst's Office (LAO) has noted that the CROS project has experienced high vacancy rates, which has led to a lot of staff overtime. However, they also noted that CDTFA has recently filled two vacancies of particular concern: a Contract Manager and an Organizational Change Management consultant.

The LAO also reports that projected costs in most areas have remained roughly the same or decreased since Special Project Report (SPR) 4 (February 2017). The data conversion contract is an exception: it is currently projected to cost $1.7 million total over the next three years, up from $1.3 million in the SPR. According to CDTFA, design sessions in spring 2017 brought to light data conversion requirements that exceeded the assumptions made in the SPR.

Staff Comments. As noted last year, the CROS project is a necessary undertaking for the state, given the age and status of the legacy mainframe-based revenue and collection information systems. The budget proposal for continued funding of the CROS project appears reasonable with respect to anticipated workload during the implementation phase. In addition, the benefits-based funding approach has been used successfully by the Franchise Tax Board.

Staff Recommendation. Hold open.

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 $793.2 million ($759.5 General Fund) and 5,742.8 positions for FTB in 2018-19. The following display from the Governor's budget shows positions and expenditures for FTB over the prior, current, and proposed budget years.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
6280	Tax Programs	5,404.8	5,145.3	5,189.7	$737,642	$761,914	$757,288
6285	Political Reform Audit	14.2	13.0	13.0	1,767	1,932	-
6290	Department of Motor Vehicles Collections Program	64.9	81.1	81.1	7,724	9,079	9,102
6295	Court Collection Program	101.0	111.2	112.2	11,543	13,057	13,009
6300	Legal Services Program	-	-	-	1,311	2,489	2,489
6305	Contract Work	59.0	62.2	62.2	8,499	11,296	11,303
9900100	Administration	262.3	284.6	284.6	27,515	28,506	28,506
9900200	Administration - Distributed	-	-	-	-27,515	-28,506	-28,506
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**5,906.2**	**5,697.4**	**5,742.8**	**$768,486**	**$799,767**	**$793,191**

Issue 1: Earned Income Tax Credit

Governor's Proposal. The Governor does not have a new proposal related to this item.

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 established 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. 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.

SB 106 (Committee on Budget and Fiscal Review), Chapter 96, Statutes of 2017, among other things, expanded California's EITC. This legislation expanded the state EITC to allow previously ineligible self-employed workers to qualify for the CalEITC, and raised the credit's income eligibility limits so that workers higher up the income scale can qualify for it. This change better aligns California's EITC with the federal EITC and ensures that the state credit incentivizes all types of paid work.

Prior to the expansion, many workers who struggled to get by were not eligible for the CalEITC because the income limits to qualify for the credit were extremely low. SB 106 raised these limits in order to allow additional low-earning workers to qualify for the credit. For workers with qualifying children, the new income limit is $22,300. This is more than double the previous income limit for parents with one child and more than one-and-a-half times the previous limit for parents with two or more children. The budget agreement also more than doubles the income limit for workers without qualifying children, from about $6,700 in tax year 2016 to roughly $15,000 in tax year 2017.

According to research by the California Budget and Policy Center, State EITCs, like California's, are important tools for boosting economic security among working families. By piggybacking on the federal EITC, these state credits further boost families' incomes, helping them to better make ends meet. In addition, state EITCs may enhance the federal EITC's well-documented benefits to children, families, and communities. Decades of research shows that the federal EITC reduces poverty, encourages work, may improve families' health, may boost children's school achievement, may increase children's future earnings, and boosts California-based businesses and the state's economy. The following charts from the California Budget and Policy Center show California EITC claims and credits for the last three years.

CalEITC Claims and Credit Amounts

Tax Year 2015 (As of August 20, 2016)					
Filers With:	Total Claims	Percentage of Total Claims	Total Credit Paid	Percentage of Total Credit Paid	Average Credit
3+ Dependents	35,212	9%	$39,284,908	20%	$1,116
2 Dependents	77,885	21%	$76,533,374	39%	$983
1 Dependent	101,287	27%	$61,954,210	32%	$612
0 Dependents	158,915	43%	$17,717,082	9%	$111
All Filers	373,299	100%	$195,489,574	100%	$524

Tax Year 2016 (As of August 19, 2017)					
Filers With:	Total Claims	Percentage of Total Claims	Total Credit Paid	Percentage of Total Credit Paid	Average Credit
3+ Dependents	35,124	10%	$39,970,185	20%	$1,138
2 Dependents	77,339	21%	$78,154,657	40%	$1,011
1 Dependent	96,039	26%	$59,073,215	30%	$615
0 Dependents	159,841	43%	$18,897,260	10%	$118
All Filers	368,343	100%	$196,095,317	100%	$532

Tax Year 2017 (As of March 17, 2018)					
Filers With:	Total Claims	Percentage of Total Claims	Total Credit Paid	Percentage of Total Credit Paid	Average Credit
3+ Dependents	83,069	10%	$39,728,823	19%	$478
2 Dependents	169,977	21%	$76,204,623	37%	$448
1 Dependent	270,771	34%	$68,851,517	34%	$254
0 Dependents	268,118	34%	$19,756,820	10%	$74
All Filers	791,935	100%	$204,541,783	100%	$258

Note: Tax year 2017 data are not comparable to prior years because California extended the CalEITC to self-employed workers who otherwise qualify for the credit and raised the income limit to qualify for the credit for all workers.
Source: California Budget & Policy Center analysis of Francise Tax Board data

Outreach Efforts. The Legislature and the Governor provided $2 million in 2016-17 and 2017-18, for a CalEITC outreach grant program to reach the 10 target counties with the estimated highest potentially eligible number of households, as well as one small rural and one statewide grant pool. In total, there are 15 grantees with grants ranging from $55,000 to $300,000.

In its outreach efforts, FTB collaborated with a wide breadth of government and nongovernment 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.

According to advocates, increased outreach is essential because of the following reasons:

- Current state funding only covers portions of California (10 Counties), despite EITC eligible people living everywhere.
- Eligibility for the CalEITC has expanded greatly with addition of self-employed workers and higher income eligibility, while public funding for outreach has not.
- Increased state EITC outreach draws down untapped federal dollars for low-income areas by increasing Federal EITC uptake (according to UC Irvine research) and boosting state economy.
- EITC outreach needs to be a year-round activity, focused on those who are NOT currently filing their taxes, therefore not impacted by "tax-season".
- Increased and continued funding, with evaluation of best practices, will allow for more effective outreach through list-building, data management, and effective targeting.

Staff Comments. In addition to an update of the program, 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.

Lastly, staff notes that in addition to additional outreach, a coalition of stakeholders has submitted the following recommendations to enhance CaEITC to the committee:

- Create a multi-year target for increasing the CalEITC, as proposed by the Assembly Budget Committee's 2018-19 Budget Blueprint.
    - Increasing the size of the credit for the lowest-income working families, up to a total $6,000 credit for a family with two children when combined with the federal EITC.
    - Increasing the size of the credit for workers without dependent children (including non-custodial parents and childless workers).
    - Raising the CalEITC income eligibility limit to $31,000 to preserve eligibility for full-time workers as the minimum wage rises.

- Include low-income working young adults ages 18-24 in the CalEITC.
    - Currently, working young adults under age 25 without qualifying dependent children are not eligible for the CalEITC.
    - The age limit leaves out young adults who often lack financial security early in their careers, working students struggling to get by, and former foster youth.

- Include low-income working seniors in the CalEITC by eliminating the upper age limit.
    - Currently, working seniors over the age of 65 without qualifying dependent children or grandchildren are not eligible for the CalEITC.

- Include low-income working immigrant families with federally assigned Individual Taxpayer Identification Numbers (ITINs) and Social Security Numbers (SSNs) in the CalEITC.

- Many immigrant working families are excluded from the CalEITC because the credit is granted only if every person in the household has a SSN valid for work. Many immigrants use an IRS-issued ITIN to pay federal and state income taxes and file their tax returns.

Staff Recommendation. Informational item.

Issue 2: New Employment Credit

Governor's Proposal. The Governor's budget proposes trailer bill language to create a California Hiring Credit. This credit would be an expansion of the existing New Employment Credit. The new credit, calculated at the same 35 percent rate of qualified wages as the existing credit, would be expanded in several ways: by geography, industry, and the range of qualified wages. The new credit would be available for hires on or after January 1, 2019, and before January 1, 2024.

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.
- 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 Franchise Tax Board (FTB) (within 30 days of complying with the Employment Development Department 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.

In order to provide a stronger incentive, the trailer bill creates a credit that expands on the current credit in several ways. The wage range for qualified wages would be 100 percent to 350 percent of minimum wage. Another change is that the new credit uses the maximum of the local minimum wage or the statewide minimum wage to determine qualified wages. The existing credit uses the statewide minimum wage. The new credit would apply to qualified hires in all of California, whereas the existing credit applies only to qualified hires within qualified zones (designated census tracts plus former Enterprise Zones). Finally, the types of qualified employers would be expanded under the new credit to include retail and food services.

Other changes to the existing New Employment Credit include: 1) the credit would be available for the first 24 months that a qualified employee works for the employer versus 60 months for the existing New Employment Credit, and 2) the credit rate would be set in the Budget each year for the following taxable year. The existing credit would continue to exist for any employers who wish to continue using that credit until it sunsets. (The final day a new hire would qualify for that credit is December 31, 2020, but the credit can continue to be generated for 60 months after the date of hire). The new credit is expected to cost about $50 million per year once it is fully phased-in.

This proposal also retains several features of the existing credit. The categories of qualified employee stays the same: long-term unemployed, veterans, ex-offenders, recipients of CalWORKs or General Assistance, and recipients of the federal Earned Income Tax Credit. Additionally, employers will still be required to make a credit reservation when they hire a qualified employee, show a net increase in jobs for the year, and claim the credit on their original filed return.

Utilization of the current credit. According to the LAO, when the existing credit was first proposed, the Administration estimated that taxpayers would claim $22 million in the 2014 tax year and $69 million in the 2015 tax year. Final, valid claims were $340,822 in 2014 (two percent of the initial estimate) and $693,323 in 2015 (one percent of the initial estimate). Over these first two tax years the credit was available, at least 1,829 taxpayers claimed the credit but 83 percent of the claims were invalid. The 310 valid returns were generated from hiring by a total of 62 individual businesses. (The number of taxpayers claiming the credit exceeds the number of affiliated businesses because pass‑through businesses, such as partnerships and LLCs, generally have multiple investors and each investor may claim a proportional share of the credit.) These results suggest that the existing tax credit has been challenging or unappealing for businesses to use.

Legislative Analyst's Office comments. The LAO made the following observations in regards to the Administration's proposal:

- **A Stronger Incentive.** The Administration has proposed changes to the credit that should make it more attractive to employers. In particular, the proposed reduction in the wage floor from 150 percent to 100 percent of the minimum wage would reduce the starting wage requirement and increase the amount of the credit across the board.

- **More Businesses Would Qualify.** Under the proposal, all businesses in the retail and food services industries—about 170,000 establishments, according to EDD—would become eligible for the proposed credit. This change alone opens up eligibility for the credit to more than 10 percent of the state's roughly 1.4 million private business establishments.
- **Statewide Credit Preferable to Geographically Limited Credit**. Unlike the existing credit, which is only available to businesses in certain areas of the state, the proposed credit would be available to businesses statewide. This change treats similar taxpayers—employers hiring new workers from among the targeted categories—similarly. This change also reduces the possibility of jobs shifting within the state without growing the overall economy.
- **Fiscal Estimate Uncertain.** The Administration estimates that the proposed credit would reduce General Fund revenues by $50 million per year, but this estimate is uncertain. Estimating the fiscal effect of a new tax provision is difficult. For example, the Administration initially estimated the cost of the existing credit to be $91 million over the 2014 and 2015 tax years combined, but taxpayers ultimately claimed only about $1 million over that period. The changes proposed by the Administration, however, likely will increase the proposed credit's use. The cost of the proposed credit would also depend on the credit percentage set by the Legislature in the annual budget act.
- **Reducing Duration of Credit Is Reasonable.** While the proposal limits the credit to two years of qualified wages, the proposed credit amount would be larger than the existing credit at any wage. The LAO believes that this change is reasonable because it creates a larger upfront incentive—by providing a greater tax reduction—for a business to hire an individual from one of the targeted categories. Few employers would let go of a trained employee once their tax credit is no longer available.

Staff Comments. The Administrations goals in revising the New Employment Tax Credit make sense given the substantial underutilization of the existing credit. However, given that the existing credit was just one component of the state's overhaul of economic development incentives in 2013 and the time that has passed; the Legislature should assess how the Administration's proposed changes align with current priorities.

Staff Recommendation. Hold open.

Issue 3: Audit Staffing Increase

Governor's Proposal. The Governor's budget proposes $7.8 million General Fund in 2018-19, and ongoing, to address unfunded needs for staff resources performing audits. The funding will allow the FTB to hire 50 auditors into positions that have been held vacant and fund 25 upgrades. According to the FTB, these resources will enable them to generate an additional $90 million in revenue.

Background. The audit division administers the Revenue and Taxation Code for individuals and business entities that do business in California. The program works with taxpayers and their representatives to administer and enforce the law effectively to ensure that all taxpayers meet their obligations to file and pay the correct amount due. The program utilizes innovative methods to promote these objectives through customer service, education, self-compliance letters, initiatives, and partnerships with other federal and state agencies. In performing these activities, the program considers the effects on taxpayers, increases the timeliness and effectiveness of enforcement actions, and focuses on adherence to FTB Regulation Section 19032, Audit Procedures, to complete audits in a timely manner. The audit program is organized into the following key operating units:

- National Business Audit Bureau (NBA) -audits business entities including corporations, banks, and financials that conduct business both within and outside of California.
- Individual & Pass Through Entity Audit Bureau (PTE) -audits individual taxpayers and pass through entities including partnerships, S-corporations, limited liability companies, estates, and trusts. Conducts specialized programs including federal/state and automated audit programs.
- Audit Services, Administration, & Protest Bureau -provides protest, and audit services and administrative activities for audit programs.
- Technical Resource & Services Bureau -provides technical service and support to FTB programs and stakeholders.

The audit division has experienced an expansion of audits related to complex and sophisticated issues and filings. The relevant tax codes continue to be or have increased complexity and business entity organizational structures continue to introduce more complexity in tax filings and audits. The sophistication of tax professionals and the tax reducing strategies deployed continue to increase the complexity of the audit requiring increased skill sets by FTB staff.

California's tax system is based on the willingness of taxpayers to self-comply with the tax laws. Over 80 percent of taxpayers comply with the law. The remainder may need some sort of assistance to file correctly or pay on time. Audit staff play a key role in supporting the foundational basis of California's voluntary self-compliance system.

The resources requested are attributed to two root causes:

1. Complexity: Over the last five years, FTB has identified more workload at the Program Specialist I, II, and III levels which is inconsistent with FTB's funded position authority. Although to be limited in duration, FTB does not see this trend reversing. In recent years, FTB has performed various studies on the complexity of work. FTB found that available inventory for assignment was at the more complex end of the skill set spectrum, yet FTB did not have sufficient staff working at that classification level. In 2013, FTB concluded a study on inventory and staffing levels associated with the NBA workloads, and FTB found the following observations:

NBA	Tax Auditor & Associate Tax Auditor	Program Specialist I	Program Specialist II	Program Specialist III
Percentage of Workload Based on Analysis	23%	21%	46%	10%
Current Staffing Levels	40%	29%	26%	6%
Staffing Workforce GAP	17%	8%	-20%	-4%

In recent months, a comparable analysis of the PTE workloads showed a gap in the appropriate level of classifications as well.

PTE	Tax Auditor & Associate Tax Auditor	Program Specialist I	Program Specialist II	Program Specialist III
Percentage of Workload Based on Analysis	18%	25%	48%	8%
Current Staffing Levels	30%	37%	27%	4%
Staffing Workforce GAP	12%	12%	-21%	-4%

2. Salary Levels for Senior classifications: FTB has a substantial amount of Program Specialist II and Program Specialist III staff in the maximum salary range. Generally, the majority of these positions are funded at the first salary step causing a significant gap in budgeted salaries versus salaries actually paid. FTB does not see this trend changing.

   During the studies mentioned above, FTB also looked at the basic funding structure for the audit staff. While FTB is not immune to staff seeking new opportunities at their own choice or when they are heavily recruited by California tax firms, for those that choose to pursue careers with FTB, they tend to reach the last step of their salary range. All audit positions received prior to 2001-02 (73 percent of existing positions) are funded at the first step of the salary range. The remainder 27 percent of existing audit positions are funded at the mid-level step of the salary range and consist primarily of Tax Auditor, Associate Tax Auditor, and Program Specialist I positions. FTB conducted a study and found that, from 2013-14 forward, a substantial amount of senior staff are funded at the maximum salary step.

Audit Division

Percentage at Max Range	Tax Auditor	Associate Tax Auditor	Program Specialist I	Program Specialist II	Program Specialist III
2016-17	10%	29%	43%	67%	92%
2015-16	11%	37%	64%	90%	97%
2014-15	12%	26%	48%	75%	97%
2013-14	8%	31%	54%	93%	85%

Legislative Analyst's Office comments. The Legislative Analyst's Office has not raised any concerns with this proposal.

Staff Comments. Staff notes that a significant driver of this request is the internal reclassification of positions within FTB, which are typically done on an individual basis and funded within existing resources. However, another significant driver is the fact that many of FTB's audit positions are funded at the bottom salary step, instead of the mid-step which is how the state now budgets for new positions. Because of this and the revenue generating nature of FTB's audit positions, this request appears reasonable. However, FTB should take precautions going forward to ensure that internal reclassifications do not drive budget deficits.

Staff Recommendation. Approve as budgeted.

Issue 4: Enterprise Data to Revenue Project

Governor's Proposal. The Governor's budget proposes $2.5 million General Fund and the conversion of 20 limited-term positions to permanent status in 2018-19 and ongoing.

Background. The Enterprise Data Revenue (EDR) project was a 66-month IT project that began a multi-phased effort to modernize FTB's processes and systems. The project started in 2011-12 and was completed in 2016-17. As of April 30, 2017, the EDR project has generated $3.7 billion in revenue for the State since the inception of the project. FTB is well on the way to achieving the $4.7 billion revenue target.

In 2015-16, FTB was granted 20 three-year limited-term positions to support ongoing work, continue to build the EDR solution and start the knowledge management and transition of the EDR solution to FTB. The solution adopted by the EDR project implemented improvements to FTB's enforcements activities and self-service tools. The EDR project enabled FTB to implement self-help tools for taxpayers and tax practitioners that eased burdens that existed related to filing a return or paying taxes due and supports California's voluntary compliance based taxation system.

To better position FTB to take ownership of EDR, the four stages outlined below were utilized. FTB has successfully completed Stages 0 and 1 of the transition to FTB and Stage 2 and 3 are well underway to be fully completed by June 2018. These 20 IT resources are critical to FTB's ability to successfully support EDR processes and applications ongoing. The four stages are:

- Stage 0 – Solution provider leads and performs maintenance and operational tasks.
- Stage 1 – Solution provider leads and performs tasks which FTB learns by over-serving and participating as possible in maintenance and operational tasks.
- Stage 2 – FTB leads and performs tasks while the solution provider observes for accuracy and contributes as necessary for continued transfer of knowledge.
- Stage 3 – FTB is fully responsible for ongoing maintenance and operations without vendor support.

Legislative Analyst's Office comments. The Legislative Analyst's Office has not raised any concerns with this proposal.

Staff Comments. The FTB has reported that the vendor is scheduled to exit the project on June 30, 2018. This request will allow FTB to assume maintenance and operations responsibilities going forward.

Staff Recommendation. Approve as budgeted.

Issue 5: Information Technology Security Enhancements

Governor's Proposal. The Governor's budget proposes $5.0 million ($4.9 million General Fund and $135,000 Special Funds) in 2018-19, and $4.1 million ($4.0 million General Fund and $111,000 Special Funds) in 2019-20 and 23 positions, to accommodate workload growth within the critical functions of Information Security, Worksite Security, Privacy and Disclosure, and FTB's Infrastructure.

Background. The Privacy, Security, and Disclosure Bureau (PSDB) develops and enforces security policies and procedures for the safety of FTB's employees and California citizens, to ensure the confidentiality, integrity, and availability of FTB's information systems and the security of the information they contain. These departmental policies and procedures guide staff in the analysis and assessment of security measures for the protection of FTB's facilities, and to prevent, detect, and identify unauthorized access to information technology systems, networks, and data.

The Chief Security officer (CSO) also promotes awareness of Privacy and Security issues among management and staff, ensuring sound security principles are reflected throughout the organization's vision and goals. Subject matter experts within the Privacy, Security, and Disclosure Bureau provide technical security expertise to the department. FTB's CSO is responsible for the oversight and management of all aspects of information security, physical security, privacy and disclosure.

FTB is one of four pilot partners actively engaged in the California Cyber Security Integration Center (Cal-CSIC) project. CaI-CSIC shares threat intelligence to help maintain the security and integrity of the state's Information Technology infrastructure by preventing or minimizing incident-based losses, theft of information or disruption of services that could result in serious loss of information assets, revenue, public confidence, reputation, or market share. This partnership works with FTB technical staff and increases the amount of intelligence available to mitigate threats and risk.

The requested resources will accomplish the following:

- Establish a continuously operational Security Operations Center wherein staff will be responsible for early detection of cyber-attacks resulting in quicker deployment of mitigation activities.
- Establish a Security Intelligence Program that is able to provide expert capability to analyze and address new and evolving threats to FTB critical systems and information.
- Analyze and detect inappropriate use of FTB's external applications.
- Provide oversight of security audit logging architecture, security logging requirements for all electronic systems, testing and validation of all security logging components.
- Help FTB evaluate central office compliance with security policy, and evaluate potential external threats.
- Ensure privacy controls are in place throughout FTB's systems and business processes.
- Perform the required safeguard reviews in order to ensure FTB is in compliance with state and federal laws, policies and regulations.

Legislative Analyst's Office comments. The Legislative Analyst's Office has not raised any concerns with this proposal.

Staff Comments. In addition to the important cybersecurity role that FTB must play for the state in protecting confidential and sensitive data, they also are subject to Internal Revenue Service risk control requirements. As cybersecurity attacks and risks continue to increase, FTB must take steps to protect the sensitive data and information it possesses.

Staff Recommendation. Approve as budgeted.

Issue 6: Information Technology Classification Consolidation

Governor's Proposal. A spring finance letter proposes $1.8 million General Fund in 2018-19 and $2.3 million General Fund in 2019-20 and ongoing to cover the costs of transitioning from the outdated Information Technology (IT) classification series to the new IT Classification series. The State Personnel Board (SPB) and Department of Human Resources collaborated to create a plan that modernizes IT classifications to attract and retain competitive and knowledgeable staff.

Background. On January 11, 2018, the SPB unanimously approved California's IT Classification Plan. Effective, January 31, 2018, California began using dozens of revised and consolidated information technology job descriptions. The project abolished and transitioned 36 current IT classifications into five rank and file IT classes and four IT supervisory/managerial classifications and added a Footnote 24 to seven classifications stating that those classes will be abolished after the incumbents vacate the classes.

The deep classes within the new classifications have alternate ranges that provide for employee retention by increasing levels of work experience and compensation without requiring repetitive examinations. These deep classifications consolidated multiple IT classifications under the former structure. While this creates a clear career path and promotes retention, it creates a salary gap. As a result of the classification consolidation the top salaries increased for eight of the former IT classifications that were included in the consolidation effort. FTB has over 1,000 staff in IT classifications and estimates increased costs for many of these staff, including:

Information Technology Specialist I

- Increases are significantly attributed to the following factors:
  - Three of the six prior classifications consolidated into the new IT Specialist I classification have a new maximum salary cap under the new classification (increased by $720), of which staff are eligible for based on education and years of experience.
  - FTB has on average 600 staff within these six prior classifications.
  - Over the last five years, on average 60 percent+ of these staff members are already at their maximum pay under the prior classifications.

IT Technology Associate

- FTB has on average about 150 staff within this new classification and approximately 30-40 percent of these staff are already at maximum pay under the prior classification pay ranges.

Legislative Analyst's Office comments. The Legislative Analyst's Office has not raised any concerns with this proposal.

Staff Recommendation. Approve as budgeted.

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 12, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

OUTCOMES

Consultants: Joe Stephenshaw

Items Proposed for Discussion

Item	Department	
	0860 Board of Equalization **0870 Office of Tax Appeals** **7600 Department of Tax and Fee Administration**	
Issue 1	State Tax Agencies Reorganization **Held Open**	2
	7600 Department of Tax and Fee Administration	
Issue 1	Centralized Revenue Opportunity System Project **Held Open**	6
	7730 Franchise Tax Board	
Issue 1	Earned Income Tax Credit **Informational Item**	8
Issue 2	New Employment Credit **Held Open**	12
Issue 3	Audit Staffing Increase **Approved 3-0**	14
Issue 4	Enterprise Data to Revenue Project **Approved 3-0**	17
Issue 5	Information Technology Security Enhancements **Approved 3-0**	18
Issue 6	Information Technology Classification Consolidation **Approved 3-0**	19

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.

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, April 19, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

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

0855 GAMBLING CONTROL COMMISSION

Issue 1: Special Distribution Fund Pro Rata Share Reduction Trailer Bill Language (TBL)

Budget. The budget provides TBL that would require the California Gambling Control Commission, upon approval by the Department of Finance, to apply any funds in excess of estimated expenditures, transfers, reasonable reserves, or other adjustments from the Indian Gaming Special Distribution Fund to reduce or eliminate the pro rata share payments required to be made to the fund by limited gaming tribes. Limited gaming tribes are generally defined as compact tribes that operate fewer than a total of 350 gaming devices in any location.

Background. The 1988 federal Indian Gaming Regulatory Act (IGRA) authorizes Indian gaming through compacts between the state and federally recognized Indian tribes. Beginning in 1999, the state entered into 61 tribal compacts with provisions requiring tribes to pay into the Indian Gaming Special Distribution Fund (distribution fund). Since then, the state has entered into new compacts and amended others, each requiring varying levels of deposits by the tribes into the distribution fund. State law authorizes the Legislature to appropriate money from the distribution fund to address four needs. Those four needs are:

- Funding of shortfalls in the Indian Gaming Revenue Sharing Trust Fund[1] to ensure that it can distribute $1.1 million annually to each tribe that does not have a compact or that has a compact and operates fewer than 350 gaming devices.

- Funding problem-gambling prevention programs managed by the California Department of Public Health.

- Funding the Indian gaming regulatory functions of the California Gambling Control Commission and the California Department of Justice.

- Funding the support of local governments affected by tribal gaming.

The proposed TBL (on the following page) would use excess moneys in the distribution fund to pay down the pro rata payments of limited gaming tribes. These pro rata payments are based on an equitable formula that considers the number of gaming devices operated by a tribe and the state costs for regulating the activities under the compacts. While the pro rata payments are an equitable way to cover regulatory costs associated with the compacts, these payments could result in a regulatory burden on the smaller limited gaming tribes that may not be able to afford these payments, which could jeopardize the ability of a tribe to become self-sufficient.

Staff Recommendation. Approve as requested.

[1] The Indian Gaming Revenue Sharing Trust Fund distributes money to tribes that do not have compacts or those that have compacts and operate fewer than 350 gaming devices.

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

SECTION 1. Section 12012.96 is added to the Government Code, to read:

12012.96. (a) On or before December 15, 2018, and on or before December 15 of each fiscal year thereafter, the Department of Finance, in consultation with the California Gambling Control Commission, shall determine if total revenues estimated for the Indian Gaming Special Distribution Fund in the current fiscal year are anticipated to exceed estimated expenditures, transfers, reasonable reserves, or other adjustments from the fund for the current fiscal year. As determined by, and within the discretion of, the Department of Finance, if the estimated revenues to the fund, along with any prior year excess revenues, exceed the estimated expenditures, transfers, reasonable reserves, or other adjustments from the funds, the California Gambling Control Commission, upon approval by the Department of Finance, shall apply the amount of funds directed by the Department of Finance to reduce, eliminate, satisfy, or partially satisfy, on a proportionate basis, the pro rata share payments required to be made to the fund by limited gaming tribes, as defined in class III gaming compacts.

(b) This section shall apply to each limited gaming tribe for the period in which the limited gaming tribe has a compact obligation to contribute to the fund, as specified in the limited gaming tribe's compact, regardless of any action taken pursuant to subdivision (a).

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Issue 1: Responsible Beverage Service Training Program Act (AB 1221)

Budget. The department requests four positions and $578,000 (Alcohol Beverage Control Fund) in 2018-19; four positions and $561,000 in 2019-20; and three positions and $381,000 annually thereafter to implement the provisions of AB 1221 (Gonzalez Fletcher), Chapter 847, Statues of 2017.

Background. AB 1221 requires licensees to ensure all alcohol services successfully complete a Responsible Beverage Services (RBS) training course offered or approved by ABC, as demonstrated by passage of an examination. Alcohol servers would be required to take this training every three years. The act also provides ABC the authority to charge fees to recover the costs of the program.

The ABC has been an RBS training provider since 1991. With the support of a grant from the California Office of Traffic Safety (OTS), the ABC developed its Licensee Education on Alcohol and Drugs Program (LEAD) - a free, voluntary prevention and education program for retail licensees, their employees and applicants. The mission of the LEAD program is to provide high quality, effective and educationally sound training on alcohol responsibility and the law to California retail licensees and their employees. Grant funding used to support the LEAD program consisted of federal dollars.

The LEAD program covers a broader scope than is required by AB 1221. Specifically, LEAD covers off-sale and on-sale retailers, while AB 1221 does not address off-sale retailers. The department plans to leverage the existing LEAD curriculum to establish some of the AB 1221 requirements, but the current program must be modified to meet the new standards. For example, AB 1221 requires the RBS training to include the effect of alcohol on the body and society in more depth than the current LEAD program provides. The department must also promulgate regulations to further establish standards for the statewide RBS Training Program which will govern other RBS training providers. Most of the workload driving this request is related to developing and implementing a program that will review and approve applications for entities to either become accreditation agencies or training providers, and to establish processes to provide ongoing oversight of training providers to ensure that an appropriate level of service and quality of training is being delivered through the program.

Staff Recommendation. Approve as requested.

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

Issue 1: Board of Behavioral Sciences – Probation Monitoring

Budget. The Board of Behavioral Sciences is requesting one and a half Associate Governmental Program Analyst (AGPA) positions; $175,000 (Behavioral Science Examiners Fund) in 2018-19; and $167,000 in 2019-20 for its probation program.

Background. The board is the state regulatory agency responsible for licensing, examination, and enforcement of licensed marriage and family therapists, licensed clinical social workers, licensed educational psychologists, and licensed professional clinical counselors. The board also regulates marriage and family therapist interns, professional clinical counselor interns, and associate clinical social workers. As of June 30, 2017, the board licenses 108,662 mental health professions.

When a licensee fails to uphold their professional or ethical responsibilities, the board must take appropriate measures. The board's enforcement program currently has one full-time AGPA position and a half-time AGPA to perform the probation analyst duties. The number of new probationers the department must oversee has increased 71 percent since 2013-14. A contributing factor to the increasing probation analyst workload is related to the implementation of the Uniform Standards for Substance Abusing Licensees (Uniform Standards), which became effective on October 1, 2015. Previously, the board may have had some discretion in determining probation terms, but the Uniform Standards have removed some of that discretion, leading to an increased workload for the probation program.

The rising number of probationers along with the increasing complexity of tasks to effectively monitor a probationer is creating an overwhelming workload for the existing probation analysts. Analysts receive and review approximately 7,200 results from biological fluid testing. Analysts are also responsible for identifying mental health professionals for probationers that must undergo psychiatric evaluations and initiate actions based on those evaluations. This proposal is requesting an additional one and a half positions to help address this workload.

Probation and Disciplinary Action Data

	2013-14	2014-15	2015-16	2016-17	% change
Final Disciplinary Orders	87	112	107	155	78%
New Probationer	38	40	59	65	71%
Petition to end/modify probation	14	18	20	25	79%
Psych Eval Ordered	18	20	32	44	144%
Biological Test	25	25	43	42	68%
Diagnostic Eval	N/A	N/A	2	3	50%
Subsequent Discipline	13	11	13	30	131%

Staff Recommendation. Approve as requested.

Issue 2: Contractors State License Board – Dig Safe Act of 2016 (SB 661)

Budget. The Contractors State License Board (CSLB) requests three year limited-term funding of $549,000 (Contractors License Fund) in 2018-19 and $533,000 in 2019-20 and 2020-21 to fund two positions and Attorney General costs to implement mandates associated with Senate Bill 661 (Hill), Chapter 809, Statutes of 2016.

Background. SB 661 establishes the California Underground Facilities Safe Excavation Board, within the Office of the State Fire Marshal to investigate alleged violations of specified laws relating to the protection of underground infrastructure and develop standards relevant to safety practices in excavating around subsurface installations. If a violation is found, the board will transmit the investigation results and any recommended penalty to the state or local agency with jurisdiction over the violator (i.e., contractor violations would be enforced by CSLB). Additionally, SB 661 mandates CSLB to promulgate regulations and increases the board's responsibilities.

The requested resources provide CSLB with the necessary staffing to investigate referrals and to take disciplinary action against contractor violations. $199,000 in 2018-19 and $183,000 in 2019-20 and 2020-21 is requested for two positions. CSLB's referral rate to the AG's office is approximately six percent, so it is estimated that around 140 cases will be referred to the AG, resulting in an average of $5,000 per case. $350,000 in 2018-19, 2019-20, and 2020-21 is requested for the Attorney General to support the anticipated increase in referral cases to the AG.

Staff Comment. In the event that AG costs are greater than requested or expected, CSLB has indicated that it will submit another proposal in the future for additional resources.

Staff Recommendation. Approve as requested.

Issue 3: Acupuncture Board – Acupuncture Management

Budget. The Acupuncture Board requests $131,000 (Acupuncture Fund) in 2018-19 and $123,000 annually thereafter to fund one Staff Services Manager I position to properly align manager-to-staffing ratios.

Background. The board licenses and regulates individuals practicing acupuncture pursuant to the Acupuncture Licensure Act. Currently, the board provides licensure to approximately 16,600 individuals in the state. The board also administers an examination to test ability, competency, and knowledge in the practice of acupuncture; issues licenses to qualified practitioners; and approves and monitors students in tutorial programs.

The board currently has eleven authorized positions consisting of one executive officer, 6.7 Associate Governmental Program Analysts (AGPA), 0.5 Special Investigator, 0.8 Staff Services Analysts, and two Office Technicians. The Executive Officer manages and supervises all authorized staff and 2.5 temporary help staff without any other management-level support. The department's human resources unit recommends one additional Staff Services Manger I position be added to be in compliance with staffing-allocation guidelines. The position requested would manage and supervise 4.5 professional-level staff positions and two office technicians. The position would also provide general management-level support to board activities.

Staff Recommendation. Approve as requested.

Issue 4: Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board

Budget. The Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board request two positions; $264,000 (Speech-Language Pathology and Audiology and Hearing Aid Dispensers Fund) in 2018-19; and $183,000 in 2019-20 to support the positions. The request also includes an additional $65,000 in 2018-19 to transition an adjacent 160 square foot space into sufficient work space for the two additional staff.

Background. The board's mission is to protect the public through licensing and regulation of speech-language pathologists, audiologists, and hearing aid dispensers who provide speech and hearing services to California consumers. The board sets entry-level licensing standards, which includes examination requirements that measure the licensees' professional knowledge and clinical abilities that are consistent with the demands of the current delivery systems. To ensure ongoing consumer protection, the board enforces standards of professional conduct by investigating applicant backgrounds, investigating complaints against licensed and unlicensed practitioners, and taking disciplinary action whenever appropriate.

In its 2013 sunset review, the board reported license application processing delays of over eight weeks. Performance expectations were that all applications would be processed within four weeks. In the sunset review hearing, the committees recommended that the board augment its staffing to reduce licensing timeframes. The board did not request additional positions, and instead utilized temporary staff to address the backlogs. However, the delays continued to increase, reaching a peak of 12-14 weeks in 2014-15. In 2015-16, the board requested and received one additional position to address the increased licensing workload. Prior to this augmentation, the board had not received additional positions in over five years. This is despite the fact that the board's licensee population had grown by over 32 percent since 2011-12, and the number of licenses issued had increased by over 58 percent. In its 2017 sunset review, policy committees raised the issue of staffing again, expressing concern that the board's staffing levels were not adequate to handle the workload associated with the licensing population. The board committed to requesting additional positions to address its workload needs and prevent future delays and backlogs in licensing and enforcement. This proposal requests those additional positions.

Staff Recommendation. Approve as requested.

Issue 5: California State Board of Pharmacy – Implementation of AB 401, SB 351, and SB 443

Budget. The California State Board of Pharmacy requests $423,000 (Pharmacy Board Contingent Fund) in 2018-19 and $391,000 (Pharmacy Board Contingent Fund) annually thereafter to fund three positions to implement Assembly Bill 401 (Aguiar-Curry), Chapter 548, Statutes of 2017; Senate Bill 351 (Roth), Chapter 623, Statutes of 2017; and SB 443 (Hernandez), Chapter 647, Statutes of 2017.

Background. AB 401 authorizes the board to create two new license types: Remote Dispensing Site Pharmacies (RDSP) and clinics that share a clinic office space. The board is requesting one Associate Governmental Program Analyst (AGPA) position and one Pharmacy Inspector position in 2018-19 and ongoing to implement the provisions of AB 401. The board requires one AGPA position to perform the program implementation changes necessary to integrate the new licensing programs into the board's computer system, develop application and renewal forms as well as education materials. The position will also be responsible for processing applications, issuing licenses, assessing co-location agreements, and maintaining business licenses as required by law. The board also requires one inspector position to perform compliance inspections and investigations.

SB 351 expands the conditions under which the board can issue a hospital pharmacy license as well as creates the authority for the board to issue hospital satellite pharmacy licenses. The board is requesting a one half AGPA position in 2018-19 and ongoing to implement the provisions of SB 351. The position would be responsible for program start up including working with information technology staff to set up the new license types in the board’s system, developing policies and procedures, and creating informational materials. The position will also perform review and processing of applications.

SB 443 authorizes the board to create two new license types: Emergency Medical Systems Automated Drug Delivery Systems Automated Drug Delivery Systems and Designated Paramedics. The board is requesting one half AGPA position in 2018-19 and ongoing to implement the provisions of SB 443. As with the implementation of SB 351, the position would be responsible for program start up including working with information technology staff to set up the new license types in the board’s system, developing policies and procedures, and creating informational materials. The position will also perform review and processing of applications.

Staff Recommendation. Approve as requested.

Issue 6: California State Board of Pharmacy – Permanent Position Authority

Budget. The board is requesting permanent position authority for a total of four positions. The board proposes to redirect $440,000 annually ongoing from its operating expenses and equipment budget to its personal services budget to fund the positions. The positions include:

- One Staff Services Manager (SSM) II position
- One SSM I position
- Two AGPA positions

Background. In the past several years the board has experienced increased workload in its operations both through the expansion of new licensing programs as well as increases in enforcement, licensing, and administrative functions. All of the requested positions are currently funded in the temporary help blanket and were intended to address workload in the licensing and complaint units. Originally, all positions were intended to be temporary until permanent resources could be secured.

The SSM II position is responsible for the management of the board's enforcement, criminal conviction, and complaint units. The SSM II indirectly manages 25 staff. The SSM I positions is responsible for promulgation of regulations, as well as management and oversight of six staff, among other duties. One of the AGPA positions is responsible for reviewing licensing applications, and developing and analyzing weekly and monthly licensing statistics. The second AGPA reviews and analyzes notifications for missing or controlled substances, which have increased from about 136 per month in 2013-14 to the current number of 664 per month. Permanent position authority would ensure the continuation of these services.

Staff Recommendation. Approve as requested.

Issue 7: California State Board of Pharmacy – Enforcement Staff Augmentation

Budget. The board requests four positions, a budget augmentation of $685,000 (Pharmacy Board Contingent Fund) in 2018-19, and $653,000 annually thereafter. The four positions are:

- Two Pharmacy Inspector positions
- Two AGPA positions

Background. In 2014, the board significantly expanded its regulation and oversight of pharmacies that compound sterile products. At the time of enactment, the board received four inspector positions with the intention of redirecting two inspector positions from existing resources. However, the board underestimated both the number of businesses that would seek licensure as a compounding pharmacy as well as the number of hours each inspection would take. In 2014, the board estimated that it would perform approximately 430 inspections each year. In 2016-17, the board performed 1,063 inspections, 422 of which were completed by inspectors from other areas of operations, and around 100 of those were out of state. Currently, the board is unable to complete all inspections of licensed compounding facilities solely relying on resources and staffing within the sterile compounding inspection team. The board utilizes and redirects inspectors from other inspector teams, which has led to increases in investigation times in those other areas. The board is requesting two additional inspector positions to help address this workload.

Egregious violations of pharmacy law are referred to the Attorney General's (AG) office to pursue administrative discipline, where the board is seeking to remove or restrict a license. The department aims to reduce the average enforcement completion timeline from 36 months to between 12 and 18 months. Since 2014-15, the board has seen an eight percent growth in the number of cases referred to the AG's office, and a nineteen percent growth in the number of actions against licensees. Currently, the board's average enforcement completion timeline for formal discipline is about 827 days. One of the requested AGPA positions would work with the AG's office to address these cases.

The board's enforcement unit receives about 275 site license application referrals each month. Timely review of referrals is often not possible due to limited staffing. In addition, the board was recently given discretion in issuing temporary permits to site applicants. Because of that, the number of site applications seeking temporary license has increased. In 2013-14, the board received 227 temporary license applications; in 2016-17 that number rose to 966. The remaining requested AGPA positions will help to address this increasing workload.

Staff Recommendation. Approve as requested.

Issue 8: California State Board of Pharmacy – Moving Costs

Budget. The board is requesting $1.1 million (Pharmacy Board Contingent Fund) in 2018-19 to move to a larger space.

Background. In the past several years the board has experienced increased workload in its operations, resulting in a need for increased positions. The board's current staff total, including temporary help positions is 120.8. This number includes part-time and full-time staff. The board's current office does not have room to accommodate anticipated growth nor is there adequate space for record keeping of its new licensees. The requested augmentation will fund necessary tenant improvements and moving expenses, and purchase office equipment and furniture.

The board is currently negotiating a lease at their preferred new location. The new office space is approximately 21,000 square feet. Tenant improvements would include building offices, a conference room, quiet room and hearing room. The moving expenses would include purchasing new furniture, supplies, and telephones; and installing data. The total cost would be approximately $1.5 million. In 2015-16, the board set aside $350,000 to assist in the funding of their move to a new location. Therefore, the board would need a one-time augmentation of $1.1 million to fund the costs to move to the new location. Depending on the condition of their appropriation in 2017-18, the board may be able to set aside additional funding in 2017-18 through the ARF process. The board will be able to absorb the additional ongoing rent costs within its current appropriation.

Staff Recommendation. Approve as requested.

Issue 9: Veterinary Medical Board – Veterinary Assistant Controlled Substances Program

Budget. The board requests $417,000 (Veterinary Medical Board Contingent Fund) in ongoing funding to support four positions and AG and Office of Administrative Hearing (OAH) costs. The four positions are:

- One Staff Services Analyst position
- Three Program Technician positions

Background. SB 1243 (Lieu), Chapter 395, Statutes of 2014, established the Veterinary Assistant Controlled Substances Program (VACSP) permit category. The board's current licensee population is approximately 18,500 licensees. VACSP is anticipated to add more than 10,000 veterinary assistants to the board’s registrant totals within a few years. In 2014-15, the board received two-year limited-term funding and position authority for five positions to establish and administer VACSP. By the end of 2015-16 the board had not yet begun accepting and processing VACSP applications, so the board submitted a request for a two-year limited-term extension of funding and position authority in 2016-17. This allowed the board to continue developing VACSP and begin accepting applications on October 1, 2016.

Now that the board has actual participation data it is requesting permanent resources to support the VACSP workload. The board is nearly fully staffed and cannot redirect resources from other areas to support the workload. The board notes that because veterinary assistants are entry-level jobs, the board must conduct more extensive pre-registration investigative work of applicants versus veterinarians and registered veterinary technicians. The board anticipates enforcement-related workload for VACSP registrants will also occur at a greater rate than for veterinarians and registered veterinary technicians for these same reasons.

The board has estimated that approximately 281 complaints will be received per year, based on the projected populations of registrants. Of these, the board anticipates about eight percent will be referred to the AG or OAH, at a cost of $5,000 per case. The board also requests $112,000 to support these enforcement-related costs. Previous requests did not provide support for AG or OAH costs.

Staff Recommendation. Approve as requested.

Issue 10: Bureau of Security and Investigative Services – Licensing Position Funding

Budget. The bureau requests an ongoing augmentation of $89,000 (Private Security Services Fund) for the continued funding of one Staff Services Analyst (SSA) position in the licensing unit.

Background. The bureau regulates seven professions that are governed by six chapters in the Business and Professions Code. The bureau licenses, registers and certifies the businesses and their employees related to the six chapters. The bureau's transition to BreEZe resulted in specified cashiering activities to be transferred from the department’s cashiering office to the bureau. As the result, the bureau received a permanent SSA with limited-term funding through June 30, 2018, to assist with these new cashiering duties. The cashiering workload has been higher than expected, and there are other cashiering duties that were not evident to the bureau prior to the transition to BreEZe. In addition to hiring the SSA for which ongoing funding is requested, the bureau redirected a licensing SSA position and hired a temporary SSA position to deal with the increased cashiering workload.

The licensing workload at the bureau is also high, which creates an increased workload in cashiering. The licensing workload is likely due to deficient applications, among other reasons. Approximately 25 percent of employee applications received every month are deficient, and the deficiency rate for initial company applications is over 70 percent. A deficient firearm application required 240 percent more time to process than an accurately completed application. Misapplied payments most commonly occur with firearm permit renewal applications and are the result of the applicant submitting the renewal late, resulting in the BreEZE renewal transaction closing before the cashiering office keys the fee. The cashiering office then has to go in and correct the error, creating more work and increasing the amount of time to process the renewal.

Staff Recommendation. Approve as requested.

Issue 11: Bureau of Security and Investigative Services – SB 559

Budget. The bureau is requesting $43,000 (Private Investigator Fund) in 2018-19, and $35,000 annually thereafter to fund a one-half Program Technician II position.

Background. SB 559 (Morrell), Chapter 569, Statutes of 2017, requires a private investigator (PI) licensee organized as a limited liability company (LLC) to report a paid or pending claim against its general liability insurance to the bureau, to be posted on the department's website. 51 of the bureau's 9,000 PI licensees are currently held by a LLC. Since the bureau began issuing PI licenses to LLCs, there has been an increase of ten to twelve new PI LLCs annually. The PI desk is currently staffed with one permanent full-time Program Technician II position, whose duties included processing initial and renewal applications, reassignments, and address changes, among other duties.

The bureau estimates an LLC population of about 66 in 2018-19 and 78 in 2019-20, and three to five pending claims annually per insurance policy. Each time a claim is paid the bureau will need to review all pending claim data submitted and process paid claims. Each year the bureau will also need to carry out overall reconciliation activities of the pending claim data. The bureau estimates a total of 485 to 878 hours to initially process and review a pending and paid claim. The bureau contends that this workload cannot be absorbed with current resources and requests an additional position to address it.

Staff Recommendation. Approve as requested.

Issue 12: Bureau of Security and Investigative Services – Enforcement Position Funding

Budget. The bureau requests an ongoing augmentation of $111,000 (Private Security Services Fund) for the continued funding of one AGPA position.

Background. In 2016-17 the bureau received permanent position authority for the AGPA position, but only limited-term funding. The position was authorized to help address enforcement duties as timely and effectively as possible. Funding for the position will expire on June 30, 2018. In 2015, the bureau estimated about 54 private patrol operators (PPOs) would need to be investigated annually with the number decreasing as the compliance rate increased over time. However, the compliance rate has not increased as projected and there are currently 616 PPOs suspended for lack of insurance. In addition, the new requirement to implement a random and targeted inspection program of the over 330 current firearms training facilities has placed further strain on the bureau's resources. Establishing ongoing funding for the AGPA position will help the bureau carry out its enforcement activities adequately.

Staff Recommendation. Approve as requested.

Issue 13: Bureau of Electronic and Appliance Repair, Home Furnishings, and Thermal Insulation – Household Movers Act (SB 19)

Budget. The bureau requests an augmentation of $2.2 million (Household Movers Fund) in 2018-19, $1.9 million in 2019-20, $2.5 million in 2020-21, and $1.5 million annually thereafter to fund eleven positions and other activities mandated by SB 19 (Hill), Chapter 421, Statues of 2017.

Background. SB 19 established the Household Movers Fund and transferred the regulatory authority related to household movers from the California Public Utilities Commission (CPUC) to the bureau. The CPUC entered into an interagency agreement with the department for the early hiring of four full-time positions in 2017-18 to begin the transition of the household movers license to the bureau. The agreement will also allow the bureau to hire an Attorney III position, a Staff Services Manager I position, and two Staff Service Analyst positions. On July 1, 2018, the positions will be transferred to the bureau and funded by the Household Movers Fund. This request includes funding for those positions, and another seven positions detailed below.

Classification(s)	CY Jan 1, 2018 - June 30, 2018 (via IAA)	BY 2018-19
Attorney III (LT 2 Years)	1.0	1.0
Staff Services Manager I	1.0	1.0
Staff Services Analyst (Licensing)	2.0	2.0
Staff Services Analyst (Enforcement)	-	2.0
Associate Governmental Program Analyst	-	1.0
Special Investigator	-	4.0
Total Positions	**4.0**	**11.0**

The requested positions will support the transfer and oversight of the new program. The program will manage the administrative and licensing operations for approximately 1,100 licensees and perform approximately 350 in-house and field investigations annually. The bureau will also need to develop and adopt rules, regulations, general orders, and fees imposed on household movers. The rules, regulations, general orders, and fees imposed by the CPUC will remain in effect until a new fee structure can be developed and adopted by the bureau.

The bureau will need to update its licensing verification capabilities and website to accommodate the electronic filing of applications and payments. This update and development will be performed by the department with the help of an IT contractor. Updates and development will not begin until the bureau has completed the regulation process and the hiring of the contractor, which is estimated to take about a year. In the meantime, the bureau will enter into an agreement with the CPUC to use their existing database system until the IT work is completed. The department will need to expend funds on secure remote access to the CPUC system, support services, and system enhancements to facilitate new business processes.

Staff Recommendation. Approve as requested.

Issue 14: Medical Board of California – Licensed Midwifery Program

Budget. The Licensed Midwifery Program, within the Medical Board of California, requests an ongoing augmentation of $107,000 (Licensed Midwifery Fund) for the program to reimburse the board for its services.

Background. The program does not have any authorized positions and utilizes board staff to perform its licensing, cashiering, and enforcement responsibilities. In 1993-94 the board did receive position authority for two limited-term positions, but did not seek permanent positions when those expired in 1996. Since 1996 the board has been absorbing the workload within its existing staff resources.

Fees collected for the program are deposited into the Licensed Midwifery Fund. Beginning in 2014-15, an appropriation was established to fund the services the board provides. Since then, the board has only requested payment from the program for investigative services rendered since the appropriation that was established would not support additional billing. In 2016-17 the program's investigations increased, increasing the total number of hours board staff spent on the program's investigations by 61 percent. Consequently, thus the board will begin requesting payment from the program for the staff resources used to provide licensing and enforcement functions.

Currently, the program has a spending authority of $13,000. Based on prior year workload the board has determined that the program requires a budget augmentation of $107,000. The program receives approximately $44,000 in annual revenue from its licensees but has limited expenditures due to its lack of spending authority.

Staff Comment. If this proposal is approved there would be a deficiency in the fund to support the program after 2022-23. The board plans to conduct a fee audit in 2019-20, pending the outcome of this budget request. Note that the program has not enacted a fee increase in 25 years.

Staff Recommendation. Approve as requested.

Issue 15: Board of Registered Nursing – Enforcement Staff

Budget. The board is requesting ten permanent positions and an ongoing increase in expenditure authority of $1.25 million (Board of Registered Nursing Fund) to address deficiencies within the board's enforcement division. The ten requested positions are:

- One Staff Services Manager III position
- One Supervising Special Investigator II position
- One Supervising Special Investigator I position
- Two Special Investigator positions
- Four AGPA positions
- One Office Technician position

Background. The board is the regulatory agency for the approximately 433,000 Registered Nurses (RNs) throughout California. In 2010-11, as part of the department's consumer protection enforcement initiative, the board received 32 full-time positions and five limited-term positions. In 2014-15, the board requested additional positions to reduce the discipline process from 40 months to 12-18 months, and to address increased workload created by retroactive fingerprinting of licensees who were licensed prior to August 1990. It was believed that the amount of positions requested in 2010-11 and 2013-14 would be adequate; however, the workload has again increased in 2016-17.

In 2015-16, the board underwent an audit of its enforcement program. The board delayed requests for additional enforcement positions until the audit concluded. During that time the board redirected workflows, changed internal procedures and worked to increase efficiencies. However the board has not met its goals and its current level of work output has only been achieved through staff working overtime and on weekends. The board reduced its discipline case processing timeframe from 40 months to 22 months, but has yet to reach its goal of 12-18 months. In the past two years the investigation unit has experienced the highest period of productivity since its inception. Yet, increased staffing is required in order for the board to meet its ultimate goal.

In response to the audit's concerns about the backlog of unassigned cases, the board increased special investigator workloads from 20 to 25 cases; however, at the review of the board's responses to the audit, the state auditor expressed concerns regarding the increased workload of investigators and their ability to complete work within the timeframe goals. The board is requesting an additional two special investigator positions to address this workload. The requested SSM III position would be established as the Chief of Enforcement. As a result of adding these positions, the board is also requesting one Supervising Special Investigator I position and one Supervising Special Investigator II position to oversee all three special investigation units, allowing for geographically oriented investigation units. Additional positions are projected to decrease the investigative timeframe to 180 days.

Probation monitors currently average 135 active probationers. To adequately monitor probationers and ensure timely response to violations and work proactively, the probation monitor caseload should average 75. The volume of probation cases increases each year. From 2012-13 to 2016-17, the number of licensees placed on probation has increased by 100 percent to over 1,550 probationers. The board requests four additional AGPA positions to reduce the number of cases per monitor to a more reasonable level, and one office technician position to provide support for the probation program.

The board anticipates its existing fund condition can support this request as SB 1039 (Hill), Chapter 799, Statutes of 2016, included new minimum and maximum statutory fee levels that allowed an increase in revenue to support the request.

Staff Recommendation. Approve as requested.

PROPOSED FOR VOTE AND DISCUSSION

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)
2320 DEPARTMENT OF REAL ESTATE

Issue 1: Department of Real Estate (SB 173) – January BCP and Spring Finance Letter

Budget. The Department of Consumer Affairs (DCA) requests a reduction of 11 positions and $1.25 million (Real Estate Fund) in 2018-19 and ongoing to implement the provisions of SB 173 (Dodd), Chapter 828, Statutes of 2017. Additionally, the DCA requests $1 million in reimbursement authority in 2018-19 for costs associated with providing administrative transitional support for the Department of Real Estate in 2018-19. Provisional language included in the budget allows for up to $2 million in reimbursement authority for this purpose.

SB 173 removes the Bureau of Real Estate (BRE) from the DCA and establishes it as the Department of Real Estate (DRE) under the Business, Consumer Services and Housing Agency. The DRE requests position authority for 18 positions and $1.835 million (Real Estate Fund) in 2018-19 and ongoing for Human Resources, Fiscal/Budget, and Legislative/Publications functions. DRE and DCA are still in discussions to determine the amount of funding that will be needed for transitional support.

The request also includes an appropriation of $240,000 (Real Estate Fund) for the Business, Consumer Services and Housing Agency costs, which were previously provided through an interagency agreement with DCA.

As a supplement to the Governor's January budget proposal, the department requests a total reduction of fifteen positions and $2.3 million, phased in over three years. This proposal would consist of a reduction of $776,000 and five positions in 2018-19; a reduction of $500,000 and three and a half positions in 2019-20; and a reduction of $1 million and six and a half positions in 2020-21.

Background. On July 1, 2013, the DRE was eliminated per the Governor's Reorganization Plan No. 2 (GRP2). Prior to the GRP2 the DRE was budgeted for 342 authorized positions. The DRE previously had its own Human Resources, Fiscal and Budget, and Legislative/Publications functions. When the department became a bureau, some of those positions and mandated responsibilities were transferred to DCA. The reorganization resulted in the abolishment of eight positions, and eleven being transferred to DCA to provide centralized administrative functions for the BRE. Throughout its transition from a department to a bureau, the DRE continued to maintain five district offices and two off site examination centers.

Original DRE Administrative Positions prior to July 1, 2013	Positions abolished per GRP2	Positions transferred to DCA per GRP2	Positions requested in this proposal
19	8	11	18

This request would implement the provisions of SB 173 that would move the BRE from under the DCA and establish it as a department. The reorganization of the BRE as a department will require part of the functions, authority, and resources of the DCA to be transferred to the DRE. As of July 1, 2018, the BRE will be eliminated and the DRE will be created.

A main rationale for SB 173 was concern around the high and quickly growing charges that BRE was being assessed for services provided by DCA, known as pro rata. A committee analysis of the bill cited that BRE's pro rata charge had grown from $1.8 million in 2013-14 to $5.2 million in 2016-17, resulting in pressure on BRE to either raise fees or reduce other services. However, the department notes that the BRE was not fully included in the department's pro rata distribution calculation during the first two years of its transition (2013-14 and 2015-16).

The traditional definition of pro rata is a process that apportions the costs of centralized administrative services to entities that benefit from these services based on position count or expenditures. DCA has traditionally included direct-billed costs and distributed centralized costs based on position count in its pro rata definition. On average, 32 percent of the department's pro rata distribution formula is based on position count, and the remaining 68 percent is based on direct-billed costs. The department states that pro rata calculations are complex and have several compounding variables including annual incremental budget adjustments, employee compensation and retirement, staffing and programmatic changes, and new mandates or implementation of new state systems. The department also notes that any funds budgeted for central use that are not used are returned to boards and bureaus at the end of a given fiscal year.

DCA reports that it allocates the costs of many of its services—such as training, legal, fiscal, human resources, and publications—proportionally among its boards and bureaus based on the number of authorized positions at each entity. However, for other DCA services—such as the use of some investigative services, correspondence, and professional examination development services—DCA allocates costs based on measures of usage by the boards and bureaus. In the past, concerns have been raised through the Legislature's sunset review process that DCA's methods of allocating pro rata might not result in a fair allocation of costs among the boards and bureaus, including that some entities might be paying for services they are not receiving. In response to these concerns, the Legislature passed SB 1243 (Lieu), Chapter 395, Statues of 2014, which required DCA to report annually by July 1 on the pro rata calculation of administrative expenses.

SB 1243 also required DCA to conduct a study of its current system for prorating administrative expenses. In compliance with the bill, DCA contracted with a consulting firm to prepare the required report, which the department submitted to the Legislature in July 2015. The report recommended that the department explore several alternative approaches to calculating pro rata, including activity-based costing, which more directly ties charges to the use of services such as by charging hourly rates. However, the report also noted that moving to a system such as activity-based costing is hampered due to DCA's lack of past client usage and workload data and systems to capture such data.

Legislative Analyst's Office (LAO). The LAO's assessment of this proposal gathered that BRE was likely overpaying for DCA services. In 2017-18, BRE is scheduled to pay $5.7 million in pro rata charges for DCA services. Yet, the budget proposal only reflects a $1.25 million reduction in DCA's budget. According to DCA, the $4.4 million difference between what BRE was paying in pro rata and the reduction in the department's budgeted amount will likely be spread across the other boards and bureaus. At the time of the LAO assessment, the Administration had not been able to fully explain the reason for the large difference between the pro rata charges BRE was scheduled to pay and the reduction in the budgeted expenditure authority for DCA with the removal of BRE from the department.

As mentioned previously, many of DCA's expenses are spread across the boards and bureaus based on the number of positions at these entities. To the extent that position counts do not accurately reflect the services provided, it would lead to some cross-subsidization—that is, some boards and bureaus paying for more services than they receive and others paying for fewer services. However, data on actual use of many DCA services is generally not available. Thus, it is difficult to determine the level of cross-subsidization that is occurring across entities within DCA.

The LAO recommends the Legislature require DCA to report at budget hearings on the reasons for the disparity between the pro rata charges paid by BRE and the reduction to DCA's budgeted expenditure authority. This should provide the Legislature with more information on the reason for the difference and help it determine whether $1.3 million is a sufficient reduction to DCA's budget given the reduction in DCA's responsibilities. Accordingly, the LAO recommends that the Legislature withhold action on the Governor's proposal until such information is provided by DCA.

Secondly, the LAO recommends that the Legislature require DCA to begin capturing data on past client usage and workload for its main service segments such as human resources, budget, training, and legislative support. The LAO further recommends supplemental reporting language requiring DCA to begin reporting this data annually starting no later than January 10, 2020.

In regards to the SFL the LAO recommends approving DCA's requested reduction for 2018-19, but requiring DCA to return next year to request any further reductions. DCA indicates that it believes the proposed reductions can be made without affecting the services received by boards and bureaus. However, it is not clear if this will be the case because DCA has not identified the specific positions it will eliminate or how the workload associated with those positions will be absorbed or redistributed. By approving only the first year of the proposed reductions at this time, the Legislature will have an opportunity to evaluate whether further reductions are appropriate as part of the 2019-20 budget process. Specifically, DCA should be able to report on the operational impacts, if any, of the reductions taken in 2018-19, as well as provide more detailed information on any additional positions proposed for elimination and the likely operational impacts of those staffing reductions.

Staff Comment. At the time of the LAO analysis the department was not able to fully explain the reason for the large difference between the pro rata charges BRE was scheduled to pay and the reduction in the budgeted expenditure authority for DCA. Since that time the department has provided some justification and submitted a Spring Finance Letter (SFL) partially addressing this difference. The SFL cuts centralized service redistribution to remaining boards and bureaus in half. However, the information provided by the department does not fully explain this difference. The subcommittee may wish to request additional information explaining the difference.

The model DCA currently uses for its pro rata assessment assumes averages. The department notes that this model stabilizes costs, provides a predictable budget, and allows boards and bureaus to use as much of a service as they need without concerns about going over budget. However, staff echoes the concerns of LAO. There is concern in instances where position count does not correlate to services used. As mentioned previously, around 32 percent of DCA central costs are based on authorized position count. Tracking usage data may be beneficial in examining how much entities are being charged and what services entities are receiving. The subcommittee may wish to consider requiring the department to track usage data of the most heavily utilized centralized services.

As a supplement to the proposal in the Governor's budget, the department has requested (in a SFL) reductions in staff positions. It is unclear how this reduction will affect services received by the entities within DCA, especially since the department has not identified which positions will be eliminated. The subcommittee may wish to inquire about what specific positions will be eliminated and how these eliminations will affect services the department provides to its boards and bureaus.

Staff Recommendation. Hold open.

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 38 entities (25 boards, two committees, one commission, nine 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 $634.2 million total expenditures and 3,127.5 positions to support the department, its programs, and its services. The department is supported entirely by fees and other regulatory assessments. Specifically, the budget includes:

Code	Program	Actual 2016-17*	Estimated 2017-18*	Proposed 2018-19*
1100	California Board of Accountancy	$14,252	$13,935	$14,000
1105	California Architects Board	4,188	4,852	4,842
1110	State Athletic Commission	1,996	1,855	1,861
1115	Board of Behavioral Sciences	11,659	11,657	11,560
1120	Board of Chiropractic Examiners	3,896	4,261	4,257
1125	Board of Barbering and Cosmetology	21,431	22,618	21,980
1130	Contractors' State License Board	60,268	66,816	66,118
1132	CURES	1,071	1,612	1,612
1135	Dental Board of California	13,269	16,766	16,687
1140	State Dental Hygiene Committee	1,586	2,050	2,016
1145	State Board of Guide Dogs for the Blind	145	89	-
1150	Medical Board of California	62,575	63,112	63,837
1155	Acupuncture Board	3,239	3,360	3,354
1160	Physical Therapy Board of California	4,930	5,082	4,674
1165	Physician Assistant Board	1,720	1,724	1,795
1170	California Board of Podiatric Medicine	987	1,203	1,497
1175	Board of Psychology	4,773	5,158	5,206
1180	Respiratory Care Board of California	3,218	3,101	3,766
1185	Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board	1,901	2,038	2,294
1190	California Board of Occupational Therapy	1,839	2,321	2,292

1196	State Board of Optometry	1,799	2,674	2,428
1200	Osteopathic Medical Board of California	2,225	2,406	2,560
1205	Naturopathic Medicine Committee	313	422	414
1210	California State Board of Pharmacy	22,076	23,370	25,531
1215	Board for Professional Engineers and Land Surveyors and Geologists	9,990	12,095	11,860
1220	Board of Registered Nursing	43,217	41,874	45,307
1225	Court Reporters Board of California	1,193	1,187	1,177
1230	Structural Pest Control Board	4,659	5,415	5,382
1235	Veterinary Medical Board	5,120	4,742	4,913
1236	Veterinary Medical Board Pet Lover's License Plate Program	50	150	-
1240	Board of Vocational Nursing and Psychiatric Technicians of the State of California	12,617	16,332	16,305
1400	Arbitration Certification Program	1,176	1,271	1,282
1405	Bureau of Security and Investigative Services	14,403	16,530	16,885
1410	Bureau for Private Postsecondary Education	14,000	19,378	17,761
1415	Bureau of Electronic and Appliance Repair, Home Furnishings and Thermal Insulation	6,459	7,703	10,059
1420	Bureau of Automotive Repair	172,369	191,620	193,001
1425	Consumer Affairs Administration	111,638	128,441	132,984
1426	Distributed Consumer Affairs Administration	- 117,971	- 138,822	- 130,302
1430	Telephone Medical Advice Services Bureau	89	-	-
1435	Cemetery and Funeral Bureau	3,333	4,618	4,620
1441	California Bureau of Real Estate Appraisers	5,149	5,911	6,180
1446	California Bureau of Real Estate	50,319	54,520	-
1450	Professional Fiduciaries Bureau	480	539	545
1455	Bureau of Cannabis Control	8,930	31,400	33,131
Total Expenditures (All Programs)		**$599,106**	**$677,947**	**$634,159**

*Dollars in thousands

Issue 1: Consumer Affairs Administration – BreEZe System Maintenance

Budget. The department requests appropriation authority of $16.8 million in 2018-19 and $13 million in 2019-20 for the support of BreEZe maintenance and operations. The request also includes $3.3 million in funding for 2018-19 and 2019-20 to fund credit card processing fees.

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 for 18 of the department's boards and bureaus. The department's Office of Information Services (OIS) is responsible for maintaining and updating the primary licensing and enforcement information systems of the department: ATS, CAS, and now BreEZe.

BreEZe maintenance and operations involves the ongoing 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. Because BreEZe is a commercial-off-the-shelf system, there will always be a limited amount of custom system enhancements for which the state will be reliant on an outside vendor. The custom system enhancements also involve a higher level of development and testing effort, but they make up a smaller proportion of the overall volume of system change requests. The department also anticipates outside vendor involvement will be required for software upgrades. Detailed information on the transition to state staff resources is detailed in the table below.

	2015-16*	2016-17
State Staff Implemented System Changes	371	887
Vendor Staff Implemented System Changes	459	542
Total	830	1,429
Percent State Staff Implemented	45%	62%
*Resources in 2015-16 were still engaged in Project (i.e. non-M&O) activities for Release 2 Boards and Bureaus. 2016-17 was the first full fiscal year of support for all 18 Boards and Bureaus using the BreEZe system.		

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 Security Standards, via the third-party payment processor.

Staff Recommendation. Approve as requested.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Overview. The Department of Alcoholic Beverage Control (ABC) licenses and regulates approximately 90,000 licenses engaged in the manufacture, importation, distribution, and sale of alcoholic beverages in California. The department's mission is to administer the provisions of the Alcoholic Beverage Control Act in a manner that fosters and protects the health, safety, welfare, and economic well-being of the people of California.

Budget. The Governor's budget proposes 430.8 positions and $75 million for support of ABC in 2018-19. The department is supported mostly by the Alcoholic Beverage Control Fund, which is funded almost entirely by licensing fees.

Issue 1: Information Technology Staff Augmentation

Budget. The department requests two positions; $854,000 (Alcohol Beverage Control Fund) in 2018-19; $340,000 in 2019-20; and $265,000 annually thereafter to modernize the department's services. The requested positions are:

- One Senior Information Systems Analyst (Project Manager) position
- One Senior Programmer Analyst (Webmaster) position

Background. The department plans to modernize its internal and external services to better serve its stakeholders and fulfill its public safety mission. The following projects would be supported with the funds requested in this proposal:

- Online services for payment, application renewal, and application origination options (approximately $150,000)
- A redesign of ABC's websites utilizing up-to-date software technologies, enhancing security, leveraging open data platforms, and modernizing with the current state website templates (approximately $250,000)
- Creating a system to allow beer distributors to electronically submit data and making that data available online to comply with price posting regulations (approximately $250,000)

The department's IT branch is composed of 15 positions, supporting approximately 450 employees. The branch is smaller than other IT branches of other departments of a similar size. The department is also experiencing a significant backlog of work orders associated with its Alcoholic Beverage Information System (ABIS) that was launched in 2010. The application was heavily modified to meet the department's requirements, and upon launch, the department found that more work than originally anticipated was needed. As a result, non-core functionality, such as providing the option of electronic payments, was removed from the project scope. Since its launch most of the IT branch's resources have been dedicated to the system, allowing less time to focus on other issues or projects.

To successfully complete the major projects identified above, the IT branch will need to fill in gaps on missing skillsets and address resource capacity. The requested Senior Information Systems Analyst position will establish a project management function within the IT branch to allow ABC to take on these new projects and responsibly manage project risks. Hiring dedicated staff to perform website development and maintenance will also allow the department to address its neglected websites. Due to the backlog of work orders for ABIS, lack of website development experience, and no dedicated website support position the IT branch is not able to keep up with the needed modernization tasks for the websites.

Staff Recommendation. Approve as requested.

Issue 2: Physical and Information Security Policy Operation

Budget. The department requests $533,000 (Alcohol Beverage Control Fund) in 2018-19 and $146,000 annually thereafter to address physical and information security issues. A further breakdown of the costs associated with this proposal is shown in the table below.

Item	2018-19	2019-20
Physical Security Improvement	$335,000	$10,000
Network Access Control System	$42,000	$16,000
Vulnerability Scanning System	$11,000	$11,000
Information System Monitoring System	$58,000	$54,000
Database Encryption	$20,000*	$20,000
Enterprise Mobility Management	$30,000	$27,000
Data Classification System	$37,000	$8,000
Total	**$533,000**	**$146,000**

* Given this solution provides significant mitigation to the risk of a high cost notification process should a breach occur, it was implemented in 2017-18. This request is only for the ongoing cost of the encryption software.

Background. The Department of Alcoholic Beverage Control (ABC) Information Security office (ISO) has the responsibility of establishing an information security program that includes, planning, oversight, and coordination of activities to effectively manage risk; provide for the protection of information assets; and prevent illegal activity, fraud, waste, and abuse in the use of information assets. Audits of ABC in both 2015 and 2016 found deficiencies within the information security program. To address the deficiencies, temporary resources were obtained in 2016 to initiate the information security programs by writing policy and developing budget requests to staff an ISO. The 2017-18 budget included resources that provided ABC with a Data Processing Manager III position and a Staff Information Systems Analyst position to staff the ISO. The new staff conducted an organizational risk assessment and identified a need for the resources requested in this proposal.

ABC collects and stores various types of personally identifiable information in the course of its operations. A breach that compromises that information could be costly to the state and result in a loss of public trust. This proposal improves ABC's protection against such events by addressing the physical security of district offices; adding detection and monitoring tools to proactively scan for vulnerabilities and detect intrusions or unusual behavior on the network; expanding the encryption of key data; and properly mitigating the risks related to mobile devices. These measures will strengthen the various layers of ABC's information security defenses, are necessary to address audit findings, and bring ABC into compliance with Chapter 5300 of the State Administrative Manual (SAM) and Criminal Justice Information System (CJIS) policy requirements.

Staff Recommendation. Approve as requested.

Issue 3: Santa Ana State Building Move

Budget. The department requests $207,000 in 2018-19 and incremental adjustments of four percent annually thereafter for increased rent costs for the Santa Ana district office.

Background. ABC moved into the Santa Ana building located at 605 W. Santa Ana Boulevard, Santa Ana, CA in 1976. Forty years later, the layout and condition of the building no longer meets ABC program needs. Renovations or remodels are cost-prohibitive and time consuming due to the presence of hazardous materials. Often even minor projects, such as carpet replacement, are unable to be completed. Based on an independent study commissioned by the Department of General Services (DGS), this building is ranked among the worst buildings in the DGS portfolio. The building's aging infrastructure contributes to an inefficient functionality and design, poor energy efficiency, and security issues. DGS identified over $16 million in required repairs. DGS has pursued a long-term lease where the current tenants of the Santa Ana state building will consolidate functions.

ABC currently has an annual rent cost of $129,000 for its Santa Ana District Office. Based on reasonable assumptions regarding the market rate for the future location of office space, the ABC will be spending approximately $351,000 in 2018-19 and $365,000 in 2019-20. The ABC is asking for additional funding in the amount of $207,000 in 2018-19, and incremental increases over the next four years' to address the assumed annual increases of four percent in rent costs for the ABC and avoid the need to redirect funds from the licensing and enforcement programs this facility supports in Orange County.

Staff Recommendation. Approve as requested.

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, April 19, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

OUTCOMES

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, April 26, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultants: Joe Stephenshaw

Items Proposed for Vote Only

Items Proposed for Discussion

Public Comment

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

ISSUES PROPOSED FOR VOTE ONLY

8885 COMMISSION ON STATE MANDATES

The objective of the Commission on State Mandates (Commission) is to fairly and impartially hear matters filed by state and local governments and determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state consistent with Article XIII B, section 6 of the California Constitution.

The Commission is a quasi-judicial body consisting of the Director of Finance, the State Controller, the State Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance, and two additional members from the categories of city council member, county supervisor, or school district governing board member, appointed by the Governor and approved by the Senate.

The Governor's budget includes $39.3 million ($37.1 million General Fund) and 13 positions for the Commission in 2018-19. The following table from the Governor's budget shows expenditures and positions for 2016-17 through 2018-19.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
6900	Administration	11.7	13.0	13.0	$2,063	$2,306	$2,414
6905005	Administrative License Suspension Mandates	-	-	-	2,308	2,367	2,105
6905014	Pesticide Use Reports	-	-	-	37	50	65
6905040	Local Agency Mandate Claims	-	-	-	33,855	100,000	100,000
6905050	Funded Mandates	-	-	-	-	-65,490	-65,301
TOTALS, POSITIONS AND EXPENDITURES (All		**11.7**	**13.0**	**13.0**	**$38,263**	**$39,233**	**$39,283**

Source: 2018 Governor's Budget (dollars in thousands)

Issue 1: Funded and Suspended Mandates

Governor's Proposal. The proposed funding for non-education mandate payments to local governments is included in the Commission's budget. The Governor's mandate proposal is largely a continuation of the status quo in terms of mandates in effect (funded) and mandates not in effect (suspended). The budget proposes expenditures of $34.7 million related to funding non-education mandates. 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	$ -
Allocation of Property Tax Revenues	630
California Public Records Act	-
Crime Victims' Domestic Violence Incident Reports	164
Custody of Minors-Child Abduction and Recovery	12,964
Domestic Violence Arrest Policies	7,958
Domestic Violence Arrests and Victims Assistance	2,033
Domestic Violence Treatment Services	2,441
Health Benefits for Survivors of Peace Officers and Firefighters	2,416
Local Agency Ethics	1
Medi-Cal Beneficiary Death Notices	20
Medi-Cal Eligibility of Juvenile Offenders	3
Peace Officer Personnel Records: Unfounded Complaints and Discovery	743
Post-Election Manual Tally	-
Rape Victim Counseling	497
Sexually Violent Predators	3,561
Sheriff Court-Security Services	-
State Authorized Risk Assessment Tool	837
Threats Against Peace Officers	-
Tuberculosis Control	84
Unitary Countywide Tax Rates	347
Total	**$34,699**

Consistent with previous years, the budget includes the suspension of 56 mandates totaling $584.4 million.

Staff Recommendation. Approve as budgeted.

0509 Governor's Office of Business and Economic Development

Issue 1: Cloud Support and Business Analysis

Governor's Proposal. The Governor's budget proposes $277,000 General Fund and two positions in fiscal year 2018-19 and ongoing to add one Systems Software Specialist III (Technical) and one Staff Information Systems Analyst to meet additional requirements associated with information technology (IT) growth.

Background. Since September 2013, the GO-Biz IT application portfolio has grown from one IT staff member and four supported applications to six IT staff members and sixteen supported applications. High-profile GO-Biz applications such as the California Competes Tax Credit Application and California Film and Tax Credit application have facilitated the award of hundreds of millions in tax credits to businesses and film and television production companies. The application process for both programs is completely online. Each new GO-Biz application is regularly updated and fourteen of the applications have been updated significantly with new functionality and content. Fourteen out of sixteen GO-Biz applications are public facing and required to be secure and available. Eleven out of the sixteen applications are currently hosted in the GO-Biz Amazon Web Services Virtual Private Cloud.

Staff Recommendation. Approve as budgeted.

1701 DEPARTMENT OF BUSINESS OVERSIGHT

Issue 1: Information Technology Consulting Services Workload

Governor's Proposal. A spring finance letter proposes $132,000 in 2018-19 ($130,000 ongoing) in reimbursement authority and one permanent Information Technology Specialist I position to provide information technology support services to the Business, Consumer Services and Housing Agency (Agency), the Seismic Safety Commission (SSC), and the newly formed Cannabis Control Appeals Panel (CCAP).

Background. Agency has requested the Department of Business Oversight (DBO) begin providing dedicated IT services to itself, SSC, and CCAP. A dedicated network is required for each of the three entities to support approximately 40 employees. Agency, SSC, and CCAP have determined that it would be more efficient and cost effective to contract with the DBO for IT services than to hire their own IT staff or external contractors. If they do not contract with the DBO, each entity would need to hire, at minimum, one full-time position and contract with external consultants for any additional projects. The DBO has a complete array of expertise and would be more responsive to additional needs.

Staff Recommendation. Approve as budgeted.

ISSUES PROPOSED FOR DISCUSSION AND VOTE

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

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, 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.

The Governor's budget includes $27.5 million ($12.6 million General Fund) and 84.3 positions for GO-Biz in 2018-19. The following table from the Governor's budget shows the department's expenditures (and positions) for the prior, current and budget years.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
0220	Go-Biz	20.0	27.1	38.7	$4,801	$6,756	$7,298
0225	California Business Investment Services	10.3	7.1	7.2	1,818	1,833	1,835
0230	Office of the Small Business Advocate	2.8	2.6	2.7	1,797	3,321	321
0235	Infrastructure, Finance and Economic Development	38.3	38.5	35.7	15,993	18,345	18,025
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**71.4**	**75.3**	**84.3**	**$24,409**	**$30,255**	**$27,479**

Source: 2018 Governor's Budget (dollars in thousands)

Issue 1: California Competes Tax Credit Program

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

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

According to the Administration, there are multiple reasons why the California Competes program should be extended. First, the value of the jobs and investment created under the program will continue to far exceed its requested funding. Second, it helps attract and retain high value employers to the state. Third, the program is more cost effective, accountable, and transparent than the former Enterprise Zone program which it replaced. Finally, it is a unique, flexible economic development tool that allows California to compete with other states that are actively recruiting employers to relocate or expand outside of California.

In its fourth full fiscal year of operation, GO-Biz had awarded $624.9 million in tax credits, in exchange for commitments from business to create a projected 83,412 new full-time jobs in California and invest $16.6 billion in the state. Additionally, these numbers represent only the direct impact of the California Competes program; they do not take into account the additional indirect, and induced economic impacts created by the vast amount of investment and employment facilitated by the program.

Background. Assembly Bill 93 (Committee on Budget), Chapter 69, Statutes of 2013, and Senate Bill 90 (Galgiani), Chapter 70, Statutes of 2013, are now commonly referred to as the Governor's Economic Development Initiative. AB 93 and SB 90 phased out the Enterprise Zone Program and replaced it with three new tax incentive programs. The first program of the initiative is a statewide, California Department of Tax and Fee Administration administered, partial sales and use tax exemption applicable to equipment procured by businesses engaged in manufacturing or biotechnology research and development. The second program is a geographically targeted hiring tax credit administered by the Franchise Tax Board. The third program is the CCTC, which is administered by GO-Biz.

The CCTC is a targeted tax credit program administered by GO-Biz and the Franchise Tax Board (FTB). 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 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 (DOF), the State Treasurer, and one appointee each from the Senate and the Assembly.

Under current law, the state may only make new California Competes tax credit awards through 2017-18.

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 currently available credits must be provided to small businesses (companies with gross receipts of $2 million or less). Up to $780 million California Competes awards are available in total between 2013-14 and 2017-18. By fiscal year, the amount of credits that is allocated is up to $30 million in 2013-14, $150 million in 2014-15 and $200 million, per year, 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 DOF annually adjusts the amount available to reallocate (1) credits not awarded in a prior year and (2) "recaptured" credits. In 2016-17, for example, DOF allocated $243.4 million to California Competes because $39.9 million in tax credits were not awarded during the prior year and an additional $3.5 million had been recaptured.

Any business can apply for the CCTC. The credit is available statewide to all industries. However, while there are no geographic or sector-specific restrictions, the purpose of the CCTC is to attract and retain high-value employers in California in industries with high economic multipliers and that provide their employees good wages and benefits. According to the Administration, the program has succeeded in this mission, playing a significant role in the decision by many large companies to locate in California rather than out of state. California Competes awardees include companies such as, Tesla, Amazon, General Motors, Samsung, Proterra, BYD Motors, Hulu, and many others.

In administering this tax credit program, GO-Biz has several responsibilities that include: increasing awareness about the credit among the business community, accepting tax credit applications, evaluating applications, negotiating tax credit agreements, and monitoring agreement compliance for at least five years after the agreements are signed. The implementation of the program is defined based on the application process, evaluation process, negotiation process and committee process.

Application Process. During this stage of the program, CCTC staff engages 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.

Three Application Periods in 2017-18. The first step is to submit an application. Businesses can learn about the application process from the GO-Biz website, e-mail notifications, the workshops, and other media. GO-Biz accepts applications during specified periods—three such application periods were scheduled for the 2017-18 fiscal year: July 24, 2017 to August 21, 2017; January 2, 2018 to January 22, 2018; and March 5, 2018 to March 26, 2018.

According the Legislative Analyst's Office, GO-Biz received 3,045 applications between the start of the program and June 2017. About 300 businesses, on average, apply for tax credits during each application period.

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 competitive 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.

Evaluation Phase 1: Applications Ranked. In the first phase, GO-Biz scores each application using the information provided by each business about their hiring and investment plans. The purpose of this first phase is to weed out the businesses planning modest expansions relative to the amount of tax credit they are requesting. In this process, a business that requests a smaller tax credit—holding constant the proposed amount of hiring and investment—receives a higher score. Applicants with the highest scores move on to the second evaluation phase. The LAO noted that, the number of applications per period has remained stable while the amount of available tax credits has increased significantly. Over the most recent two years, more than 90 percent of the applications have moved on to the second evaluation phase, compared to fewer than 70 percent during the first two years of California Competes.

Evaluation Phase 2: Additional Factors Considered. State law gives GO-Biz broad authority to decide which businesses will receive tax credit awards. While the law requires GO-Biz to consider numerous factors, GO-Biz decides how much weight to give each factor in evaluating the applications. GO-Biz scores each application and then negotiates tax credit agreements with the highest scoring businesses on a case-by-case basis. The following table lists factors that GO-Biz considers when reviewing applications.

Factors GO-Biz Will Consider When Reviewing Applications
• The number of jobs the business will create or retain in this state.
• The compensation paid or proposed to be paid by the business to its employees, including wages, benefits, and fringe benefits.
• The amount of investment in this state by the business.
• The extent of unemployment or poverty where the business is located.
• The incentives available to the business in this state, including incentives from the state, local government, and other entities.
• The incentives available to the business in other states.
• The duration of the business' proposed project and the duration the business commits to remain in this state.
• The overall economic impact in this state of the applicant's project or business.

• The strategic importance of the business to the state, region, or locality.
• The opportunity for future growth and expansion in this state by the business.
• The extent to which the anticipated benefit to the state exceeds the projected benefit to the business from the tax credit.

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.

Monitoring. The inherent accountability in the California Competes program is due to the fact that the credit is prospective rather than retrospective, meaning that companies must apply for their tax credit in advance of creating the jobs and making investments, and must fulfill their promised hiring and investing before they may claim the benefit of the credit. In general, the credit agreements are for five years with an additional three years to maintain employment increases and salary levels. Since the credit agreement period may be up to eight years, multiple reviews may be conducted.

Some examples of acceptable records to show that a business is meeting milestones include: 1) employment and compensation levels - payroll reports and records to support hire dates, hours, or weeks worked; wages and salary levels for new employees and compensation paid, and 2) project investment - authorization for expenditures, invoices, deeds, contracts, lease/rental agreements etc.; project documents, timelines, capitalized costs, schedule of project costs etc.; summary analysis of changes in property, plant, and equipment; depreciation records; general ledger records.

Legislative Analyst's Office (LAO) Comments. In October of 2017, the LAO published a review of the CCTC focused on the experience to date in meeting the Legislature's goal for the program. The findings of the LAO report include:

- **Hiring and Investment Commitments Have Lessened.** The average contractual hiring and investment targets in these CCTC agreements have lessened over time. The LAO believes that the agreement terms have lessened because the number of applicants during each cycle has remained stable—at between 250 and 350 applicants—while the amount of available tax credits increased. Only $30 million was available in the first year of the program. DOF allocated $151 million to California Competes for 2014-15, $201 million for 2015-16, and $243 million for 2016-17. Since the credits are awarded on a competitive basis, it is not unreasonable that the hiring and investment targets could decline when there are fewer applicants competing for each tax credit dollar.

- **Tax Credits to Non-Tradable Businesses Are Windfall Benefits.** The CCTC is a windfall benefit for most businesses operating in the non-tradable sector of the economy. That is, the state provides a benefit to businesses without achieving the state's desired goal of increasing economic activity in the state.

- **Tax Credits to Non-Tradable Businesses Harm Economy.** The LAO notes that CCTC awarded to non-tradable businesses have negative economic impacts. First, nearly all economic growth that might be directly attributed to the tax credit was either already going to occur or came at the expense of other California businesses. That is, the credits did not achieve the goal set out for the program of increasing the overall level of economic activity in the state (jobs and/or investments). At the same time, the tax credits have "opportunity costs"—that is, they consume state resources that would have otherwise benefited the state's residents. For instance, the funds dedicated to the credits could have otherwise been used on other state spending priorities or on tax reductions to state residents or businesses. Finally, the credits create an uneven playing field, benefitting a handful of businesses while disadvantaging other businesses.

- **Many Non-Tradable Businesses Awarded Credits.** The LAO estimates that about 35 percent of the California Competes tax credit agreements were made with non-tradable businesses (the LAO attempted to distinguish between the primary industry of the business and the specific project when possible.) However, most of these tax credit awards were relatively small. As a result, the LAO estimates that only about 15 percent of the dollar value of the tax credits were awarded to such businesses.

- **Tradable Businesses Spur Economic Growth.** Many goods and services are tradable. Most manufactured goods, for example, can easily be shipped to another state or another country. Inexpensive and quick telecommunications and transportation also allow many services to also be tradable. A management consultant, for example, can live and work in California and have clients located anywhere in the world.

- **Credits to Tradable Businesses May Still Have Negative Impacts.** Providing credits to tradable businesses can still result in the same negative effects associated with credits awarded to non-tradable business. The simplest example is a business that had already planned to expand in California. Such a business has little to lose in applying for a CCTC. Moreover, there is no way to know with any certainty the actual plans of any business applying to the program. Accordingly, many credits to tradable businesses still produce windfalls and are, therefore, ineffective at attracting new investment and jobs. The state has also disadvantaged all other competing businesses that did not receive a credit.

The LAO has found that the Administration's proposal does not fully address problems inherent in California Competes. While the Administration's proposal attempts to address some of the problems the LAO raised about CCTC - for, example, including language that begins to address concerns about windfall benefits. However, the LAO suggests that the changes would not prevent windfall benefits or awards to businesses in the non-tradable sector of the economy. In addition, the changes would not prevent significant tax burden disparities among similarly situated taxpayers.

The LAO recommends that the Legislature reject the Administration's proposal to extend the CCTC. However, if the program is extended, the LAO suggests that the Legislature add language to law that clearly expresses the intent of the program as a tool to attract and retain employers in California. The LAO observes that some of the factors in law that GO-Biz considers in awarding tax credits create confusion about the intent of the program and allow GO-Biz to score non-tradable businesses highly in their evaluation process. In addition, the LAO recommends that to maximize the statewide economic benefits of the extended program, the program should be restricted to businesses that primarily serve markets outside the state.

Staff Comment. 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. The result is a 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.

As staff has indicated in the past, 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 selected as credit recipients. The legislature may also want to consider the following issues with respect to CCTC: 1) 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 and 2) the extent to which Go-Biz is capable of assessing whether jobs and investment would either not be retained or not be created absent the existence of the credit, or whether an independent study should be required.

Staff Recommendation. Hold open.

Issue 2: CA Small Business Development Technical Assistance Expansion Program

Governor's Proposal. The Governor's budget proposes $20 million General Fund for each year for the next five years. Of this, $17 million will go to establish and support the Small Business Development Technical Assistance Expansion Program and $3 million will go to the California Small Business Development Center program to assist in drawing down federal funds.

Background. According to the U.S. Small Business Administration's (SBA) "2017 California Small Business Profile," California has 3.8 million small businesses, which employ 6.8 million workers in the state—49.2 percent of the state's total workforce. Small businesses are also a key driver of California's exports. Over 75,000 small businesses engage in exporting, generating 43.4 percent of California's $158.3 billion in total state exports. SBA generally defines a small business as one that employs 500 or fewer employees for most manufacturing and mining industries or $7.5 million or less in average receipts for many non-manufacturing industries.

The federal government operates a number of programs that are designed to provide technical assistance to entrepreneurs and small businesses to enable and encourage their launch and growth. The technical assistance consists of one-on-one confidential consulting and low-cost training. The range of small businesses served varies according to the framework of each individual technical assistance program. These programs generally require a local cash match to be secured by the technical assistance centers in order to leverage the federal funding.

Small Business Development Center Network. The largest technical assistance program for small businesses in California is the Small Business Development Center (SBDC) Network, which is made up of five regional networks, each having an administrative hub and a network of SBDC sub-centers. SBDCs foster local and regional economic development by providing no-cost, extensive, one-on-one, long term professional business advising, low-cost training, and other specialized services to small business owners.

Since FY 2014-15, the Office of Small Business Advocate at GO-Biz has administered the state's Capital Infusion Program (CIP), which provides competitive grant funding to California's SBDC network. The CIP is aimed at helping SBDCs to expand their consulting services to small business owners and help them attain loans or investor capital, understand and resolve credit readiness issues, and develop funding strategies for business expansion or startup. The following chart summarizes metrics generated from operation of the CIP in recent years:

Fiscal Year	State Dollars Committed	Capital Infusion Generated	Clients Served
2014-15	$2,000,000	$202,645,465	10,053
2015-16	$2,000,000	$173,856,832	10,251
2016-17	$1,500,000	$263,314,473	11,728
2017-18	$3,000,000	TBD	TBD

GO-Biz requests $3 million for the California SBDC network to assist in drawing down federal funds, which will allow the SBDCs to focus on access to capital for small businesses. GO-Biz will distribute the $3 million in funding to the five SBDC hub regions based on each region's share of the state's total population.

Small Business Development Technical Assistance Expansion Program. This request also includes $17 million and proposed trailer bill language to establish the California Small Business Development Technical Assistance Expansion Program, which will be a competitive grant program to support an expansion in services provided by federal small business technical assistance programs to small businesses and pre-venture entrepreneurs. The purpose of the program is to expand federal small business technical assistance programs into new and/or underserved small business segments, with a focus on women, minority, and veteran-owned businesses and businesses in low-wealth, underserved, rural, and disaster-impacted communities. In addition to the SBDC program, the proposal identifies several other federal technical assistance programs:

Program	Administering Federal Agency	Federal Funding Available to California	Focus
Small Business Development Center	U.S Small Business Administration	$12,824,892	One-on-one, technical consulting for small business owners
Women's Business Centers	U.S. Small Business Administration	$1,950,000	Technical assistance for new or established women entrepreneurs
Veteran's Business Outreach Centers	U.S. Small Business Administration	$300,000	Counseling and training for veteran and service-disabled veteran small business owners
Minority Business Development Centers	U.S. Department of Commerce, Minority Business Development Agency	$1,253,000	Facilitating contracts and financing for minority owned small businesses
Export Centers	U.S. Department of Commerce, Minority Business Development Agency	$250,000	Technical assistance and business development services for minority owned small business
Manufacturing Extension Program	U.S. Department of Commerce, National Institute of Standards and Technology	$14,046,000	Consulting services for small manufacturing businesses
Procurement Technical Assistance Center	U.S Department of Defense, Defense Logistics Agency	$1,950,000	Training and assistance for small businesses related to contracting with the Department of Defense

This funding will focus on the expansion of no-cost, one-on-one consulting and low-cost training to small businesses in the areas of capital access, commercialization, business plans and strategy, export assistance, sales, operations, financial management, marketing, cybersecurity, manufacturing assistance, emergency preparedness, business continuity and disaster recovery, and increased productivity and innovation. These funds will not replace existing local cash match dollars.

The grant program will require applicants to have an existing contract with a federal funding partner and demonstrate the ability to draw down a substantial amount of the federal funds available to them. Awardees will be required to submit quarterly invoices and metric reports in addition to an annual report on program outcomes. Quarterly report outcomes will be compared to the milestones from the original grant application. Significant deviations from these milestones will need to be addressed by the awardee through an action plan. If the awardee does not sufficiently address any significant deviations from the milestones in its grant award agreement, GO-Biz may withhold the remaining grant funds. Should this occur, GO-Biz may either redirect those grant funds to a new awardee or to an existing awardee that has demonstrated success.

GO-Biz currently has three positions supporting small business assistance and does not plan to increase its staff to support these programs.

Legislative Analyst Office's Comments. The Legislative Analyst's Office (LAO) has noted that the Governor's proposal addresses some of the concerns they raised with the small business component of the California Competes Tax Credit program.

Staff Comments. Historically, state funding to the SBDC network has been erratic and inconsistent. After receiving no funding from the General Fund from 2004 to 2010, the SBDC network received one-time infusions of $6 million in 2011, $2 million in 2014 and 2015, $1.5 million in 2016, and $3 million 2017. This proposal will help stabilize support for the program, allowing the network to more reliably draw down a portion of federal funding.

Staff Recommendation. Approve as budgeted.

1701 Department of Business Oversight

The Department of Business Oversight (DBO) serves Californians by effectively overseeing financial service providers, enforcing laws and regulations, promoting fair and honest business practices, enhancing consumer awareness, and protecting consumers by preventing potential marketplace risks, fraud, and abuse.

The Governor's budget includes $97.8 million from special funds (State Corporations Fund, Financial Institutions Fund, Credit Union Fund, and Local Agency Deposit Fund) and 584 positions for DBO in 2018-19. The following table from the Governor's budget shows expenditures and positions for the prior, current and budget years.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
1510	Investment Program	126.1	167.4	177.3	$24,842	$29,973	$30,901
1515	Lender-Fiduciary Program	117.9	133.7	134.7	21,764	23,651	23,333
1520	Licensing and Supervision of Banks and Trust Companies	140.0	165.0	171.0	23,531	27,634	27,799
1525	Money Transmitters	26.0	31.1	31.3	3,912	4,302	4,336
1530	Supervision of California Business and Industrial Development Corporations	-	-	-	16	-	-
1540	Industrial Banks	-	-	-	377	-	-
1545	Administration of Local Agency Security	1.3	1.7	1.8	501	556	559
1550	Credit Unions	57.5	67.5	67.9	9,049	10,751	10,825
9900100	Administration	107.6	-	-	12,971	-	-
9900200	Administration - Distributed	-	-	-	-12,971	-	-
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**576.4**	**566.4**	**584.0**	**$83,992**	**$96,867**	**$97,753**

Source: 2018 Governor's Budget (dollars in thousands)

Issue 1: Information Technology Office – Workload Growth and Risk Mitigation Initiative

Governor's Proposal. The Governor's budget includes $613,000 in Special Funds in 2018-19 ($577,000 ongoing) and four positions to begin to eliminate backlogs and fill critical resource and skill gaps in the Information Technology Office (ITO) organization. These resources will enable DBO to increase the capacity and competency of the ITO to a level where it can more effectively and efficiently maintain and support DBO's technology systems critical to serving California consumers in its regulatory oversight of California financial service providers.

Background. In 2016-17, DBO submitted a Budget Change Proposal (BCP) to fund seven permanent positions for the ITO for two years as part of a plan to move away from an IT service contract that was in place to support the day-to-day maintenance of the DOCQNET (self-service portal) system through June 2018. The DOCQNET system allows DBO to conduct its necessary and growing regulatory functions, which include revenue collection, enforcement actions, and licensee examinations and licensing. The DOCQNET system is designed to allow users to process license applications, complaints, and forms electronically, thus reducing the state's paper footprint.

The 2016-17 BCP was approved on the basis that the cost of procuring an IT contractor beyond June 2018 could be avoided if state IT staff were able to provide full DOCQNET support instead. The DBO is now well positioned to avoid the cost of the contractor once the contract expires in July 2018. As planned, the contract cost savings will be redirected to cover the ongoing cost of the seven positions. The seven positions consist of two programmers, two customer support specialists (help desk), one database administrator, one network support specialist, and one project manager, all of which who provide support for the DOCQNET system.

However, there are new issues, gaps and backlogs that must be addressed to ensure adequate support for the DBO IT systems. IT contractors have been used at DBO since its creation in July 2013, and have provided over 80 percent of IT maintenance and support of DBO systems to date. The use of IT contractors has been driven by the lack of state skills, expertise and resource capacity needed to maintain and support all DBO systems effectively and efficiently on an ongoing basis. The DBO ITO resource ratio, compared to the overall size of DBO, is far less than similar IT organizations across the state. Typical IT organizations represent approximately 10-15 percent of the workforce while the DBO IT ratio is currently only 6.2 percent. Adding four additional positions would increase the DBO IT ratio to 6.8 percent of the DBO's overall workforce.

Legislative Analyst's Office Comments. The Legislative Analyst's Office has not expressed concern with this proposal.

Staff Comments. Staff has no concerns with this proposal.

Staff Recommendation. Approve as budgeted.

Issue 2: Student Loan Servicing Act Implementation

Governor's Proposal. The Governor's budget proposes $737,000 from the Financial Institutions Fund ($690,000 ongoing) and five permanent positions; two positions to perform examinations of Student Loan Servicing Office licensees and three positions to handle consumer complaints, as required by AB 2251 (Stone), Chapter 824, Statutes of 2016.

Background. Current law requires DBO 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 DBO also is required to examine the affairs of each licensee at least once every 36 months for compliance with the Student Loan Servicing Act.

In 2017-18, DBO was approved for three permanent positions to start up and administer the Student Loan Servicing Office. Additionally, DBO intends to begin receiving and approving licensee applications in January 2018 so that licensees can begin operations on July 1, 2018.

In 2018-19, the Financial Institutions Manager and the two Senior Financial Institutions Examiners will conduct initial exams on licensees to obtain an understanding of their operations, determine their compliance with California law and introduce the DBO's regulatory expectations. Because the majority of anticipated licensees are located outside California, exams will require extensive out-of-state travel. The DBO expects licensees to reimburse the DBO for examination time and travel costs incurred. In subsequent years, the examiners are expected to conduct initial exams on all new loan servicer licensees. As more companies enter the student loan refinance market, additional private loan servicer licensees are expected.

Beginning in 2018-19, to ensure all licensees are examined at least once every 36 months, the examiners will conduct 12 full scope exams annually. Because over 93 percent of the $1.34 trillion in student loan debt is held by the federal government, exams of the nine federal loan servicers require significantly more time and resources than the smaller private loan servicers.

When the Student Loan Servicing Office opens, California borrowers are expected to file their complaints with DBO, and DBO must be prepared to address these complaints.

Legislative Analyst's Office Comments. The Legislative Analyst's Office has not expressed concern with this proposal.

Staff Comments. The requested resources are consistent with the 2016 analysis of AB 2251, which sized the program at 11 positions.

Staff Recommendation. Approve as budgeted.

9210 LOCAL GOVERNMENT FINANCING

The state provides general-purpose revenue to counties, cities, and special districts when special circumstances occur. The Local Government Financing 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 Governor's budget includes $28.9 million General Fund for the Local Government Financing program in 2018-19. The following table from the Governor's budget shows expenditures for the prior, current and budget years.

3-YR EXPENDITURES AND POSITIONS							
		Positions			**Expenditures**		
		2016-17	**2017-18**	**2018-19**	**2016-17***	**2017-18***	**2018-19***
7540	Aid to Local Government	-	-	-	$27,299	$138	$23,917
7555	Property Tax Assessors' Partnership Agreement Program	-	-	-	4,409	-	-
7575	County Assessors' Grant Program	-	-	-	-	-	5,000
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**-**	**-**	**-**	**$31,708**	**$138**	**$28,917**

Source: 2018 Governor's Budget (dollars in thousands)

Issue 1: County Assessors' Grant Program

Governor's Proposal. The Governor's budget proposes $5 million and trailer bill language for a State Supplementation for the County Assessors Program (SSCAP).

Background. The Governor's budget proposes trailer bill language to create a new program that would provide county assessors with funding to hire new assessment staff and improve IT systems to allow assessors to more accurately value existing property and expeditiously enroll new property, and thereby increase countywide assessed values. Higher assessed values mean higher property tax revenue for K-14 schools, which offsets the state's Proposition 98 General Fund obligation.

Program details include:

- Three-year pilot program begins 7/1/18 and ends 6/30/21.
- Administered by Department of Finance (DOF).
- $5 million appropriation proposed in 2018-19 Governor's budget. Future funding subject to Budget Act appropriations.
- No single county can receive more than 15 percent of the annual appropriation ($750,000).
- Only one application period. Participants will continue in SSCAP until it terminates.
- County match is $1 for each $2 in SSCAP funds received.

Previously, the state provided assessors' offices with forgivable General Fund loans beginning in 1995, with forgiveness provided upon receipt of information that indicated the assessors generated additional property tax revenue for K-14 schools in an amount at least equal to their loan.

In 2002, that program became the Property Tax Administration Grant Program under which each assessor received a statutorily fixed share of the annual $60 million appropriation. The Grant Program was defunded in the 2005 Budget Act as a cost-saving measure.

Legislation enacted concurrent with the 2014 Budget Act established the State-County Assessors' Partnership Agreement Program (SCAPA) on a three-year basis, to be administered by DOF. SCAPA provided competitively selected county assessors' offices with grants to enhance assessment activities – the goal being to generate more property tax revenue for K-14 schools.

Initial SCAPA funding was $7.5 million per year over a three-year period. Because several participants requested less funding than they were eligible to receive, annual expenditures were as follows:

SCAPA Expenditures By Year		
2014-15	2015-16	2016-17
$4,389,000	$4,342,750	$4,407,750

The table below shows the additional value that assessors reported was added to the property tax rolls during SCAPA:

Roll Value Increase 2014-15 through 2016-17

New Construction	$20,315,601,561
Change in Ownership	$8,980,482,247
Supplemental Assessments	$15,685,465,728
Property Modifications	$3,775,197,014
Escaped Assessments	$10,257,988,112
Proposition 8 Adjustments	$6,181,778,543
Assessment Appeals	$3,883,029,614
Audits	$35,225,864
Previously Unassessed	$528,329,880
Total	**$69,643,098,563**

The calculated cumulative return-on-investment for school and county office of education revenue was $31.74 for each SCAPA dollar spent in 2014-15, $24.80 in 2015-16, and $26.74 in 2016-17.

DOF notes SCAPA's estimated returns-on-investment may have been made clearer by a reporting structure that allowed reviewers to measure roll value increases on a FTE basis, as measured against a pre-SCAPA base year. The SSCAP proposed in the 2018-19 Governor's budget builds upon the previous SCAPA program and modifies the reporting structure to better evaluate returns-on-investment.

Legislative Analyst's Office Comments. The Legislative Analyst's Office (LAO) found that while it is reasonable to consider funding for county assessors, measuring the effect of funding on property tax collections is difficult because it is not possible to know how much revenue would have been collected in the absence of additional funding. Additionally, the LAO points out a that counties may charge each city and special district an amount proportionate to its share of countywide property tax revenues to cover administrative costs, however, counties are not allowed to recoup administration costs from schools.

The LAO recommends that the Legislature consider alternatives, such as making the $15 million in funding proposed by the Administration ($5 million per year over the next three years) available for grants to county assessors to help cover one-time costs of technology upgrades. The LAO suggests that the Legislature could create a more level playing field for counties by setting the grants equal to the schools' share of the cost of the upgrades. Doing so would mean that each county would pay a share of costs for the upgrade that is proportionate to their share of any new revenue generated from the upgrade. Compared to paying for both staff and technology, focusing on technology would allow the funding to be spread across more counties. In addition, technology upgrades are more likely to have a lasting impact on assessor productivity compared to limited-term staff whose effect on output generally ends when they leave the office.

Staff Comments. Staff notes that the California Assessors' Association is in support of this proposal, however, has also submitted technical recommendations for consideration as well as recommendation to increase the total grant amount and the maximum that a county can apply for.

Staff Recommendation. Approve as budgeted.

Issue 2: Property Tax Backfill

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

Background. This funding estimate will be adjusted as part of the May Revision as more information becomes available from county assessors. This adjustment also will include backfills for the property tax revenue losses incurred by cities, counties, and special districts in 2017-18 and 2018-19 due to the Southern California wildfires that started in December 2017 and the January 2018 mudslides.

Staff Recommendation. Hold open.

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 26, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultants: Joe Stephenshaw
OUTCOMES

Items Proposed for Vote Only **Vote Only Calendar Approved 3-0**

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	0509 Governor's Office of Economic and Business Development	
Issue 1	Cloud Support and Business Analysis	3
	1701 Department of Business Oversight	
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Items Proposed for Discussion

Item	**Department**	
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Issue 1	CA Competes Tax Credit Program **Held Open**	7
Issue 2	CA Small Business Development Technical Assistance Expansion Program **Approved 3-0**	12
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Issue 1	IT Office–Workload Growth and Risk Mitigation Initiative **Approved 3-0**	16
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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, May 3, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Part A

Consultants: Joe Stephenshaw

Items Proposed for Vote Only

Items Proposed for Discussion

Public Comment

ISSUES PROPOSED FOR VOTE ONLY

0840 STATE CONTROLLER'S OFFICE

Issue 1: Local Apportionments Workload Increase

Governor's Proposal. The Governor's budget proposes $246,000 ($138,000 General Fund, $104,000 Central Service Cost Recovery Fund, and $4,000 Reimbursement) and two positions to address increased workload related to apportionment payments to local governments and schools.

Background. The Local Apportionments Section (Section) within the State Controller Office's Local Government Programs and Services Division is statutorily required to process payments to local governments. The Section is responsible for processing over 500 payments for 67 programs totaling over $70 billion annually to local governments and schools. Payments are issued monthly, quarterly, semi-annually, and annually and involve verifying legislation, performing calculations and reconciliations, and ensuring cash and authority exist.

From 2011-12 to 2016-17, there was a 52 percent increase in the number of programs, a 35 percent increase in the number of payments, and a 92 percent increase in the total amount paid out annually to local governments and schools. By 2014-15, the continual increase in workload created an unsustainable level of work that could no longer be absorbed. To address the issue, resources were redirected to the Section from other areas.

Staff Recommendation. Approve as budgeted.

Issue 2: Road Maintenance and Rehabilitation Program

Governor's Proposal. The Governor's budget proposes $909,000 from the Road Maintenance and Rehabilitation Account (RMRA) to support seven positions to ensure local agencies are spending funds on street, road, and highway purposes related to RMRA.

Background. Senate Bill 1 (Beall), Chapter 5, Statutes of 2017, created the Road Maintenance and Rehabilitation Program to address deferred maintenance on the state highway system and the local street and road system, and the RMRA for the deposit of various funds for the program.

To receive an allocation and remain eligible for an allocation from the RMRA, cities and counties must maintain their existing commitment of local funds for street, road, and highway purposes, otherwise known as a maintenance-of-effort (MOE). Cities and counties must annually expend from its general fund for street, road, and highway purposes an amount not less than the annual average of its general fund expenditures during 2009-10, 2010-11, and 2011-12, as reported to the Controller. By October 1 of each year, each county and city shall provide the Controller a complete report of the expenditures for street and road purposes during the preceding year. The Controller is required to annually tabulate and compile data submitted by cities and counties.

Staff Recommendation. Approve as budgeted.

Issue 3: FI$Cal Claim Audits Workload

Governor's Proposal. A spring Finance Letter proposes $265,000 ($151,000 General Fund [GF]; $114,000 Central Service Cost Recovery Fund [CSCRF]) in 2018-19 and $236,000 ($135,000 GF; $101,000 CSCRF) in 2019-20 and 2020-21 (for a three-year limited-term basis) to support 3.0 positions to address increased workload required to audit Financial Information System for California (FI$Cal) vouchers and to fulfill SCO's constitutional and statutory responsibilities to audit vouchers prior to payment and to protect taxpayer's dollars.

Background. SCO Division of Audits (Audits) provides the state and taxpayers with assurances that claim payments are legal and valid. The Operations Bureau (Claim Audits) is responsible for auditing manual (paper) claims and FI$Cal vouchers.

Historically, Claim Audits manually audits 250,000 paper claim schedules annually. Each claim is a standalone document and must include all back-up documentation to support the payments. Each claim should be readily auditable to determine its legality, propriety, and accuracy. Each claim can support up to 99 individual payees. With all the backup documentation attached behind the invoice. In the claim schedule, documents are easily accessible to ensure that all proper documentation required by law is attached, and to determine legality, propriety, and accuracy of each claim.

Whereas historically, departments have submitted for audit on average 13 invoices per claim, within FI$Cal the system is designed to require a maximum of one invoice per voucher (claim). Therefore as new departments onboard into the FI$Cal system, the SCO receives an increased number of vouchers that must be audited. Because vouchers/invoices must be matched to back-up documents in the FI$Cal system, it takes Claim Audits longer to audit each voucher/invoice, as all documents are not readily attached and visible but located on various tabs within the system. The requested resources are critical to ensure that claim payments are legal and proper and paid within the 15-day time period to avoid late-payment penalties.

Staff Recommendation. Approve as budgeted.

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

Issue 1: CalSavers Program Implementation (BCP)

Governor's Proposal. The Governor's budget requests a General Fund loan of $2.5 million for fiscal year 2018-19 to provide resources for the Secure Choice Retirement Savings Investment

Board (Board) and the CalSavers program, including funding for new and existing staff, external consultants, and administrative and overhead costs.

Background. The Board and the CalSavers (formerly California Secure Choice Retirement Savings Program) were established pursuant to SB 1234 (de León), Chapter 734, Statutes of 2012, for the purpose of creating a statewide savings plan for private-sector workers who lack access to an employer-sponsored retirement savings plan. The legislation required that the Board conduct a market analysis, financial feasibility study and legal analysis to determine whether the necessary conditions for implementation of the program could be met.

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 completed in spring 2016 indicated 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).

As the Board begins the process of program implementation, startup funding is required. The Board stated that the program is currently on target to launch a pilot program in late 2018 and a full statewide launch in 2019.

Staff Recommendation. Approve as budgeted.

ISSUES PROPOSED FOR DISCUSSION AND VOTE

8880 Financial Information System for California (FI$Cal)

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

The FI$Cal project is a partnership of four control agencies: the Department of Finance, the State Controller's Office, the State Treasurer's Office, and the Department of General Services. FI$Cal will provide the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. FI$Cal, through the adoption of best business practices, will: reengineer business processes; improve efficiency; enhance decision making and resource management; and provide reliable, accessible, and timely statewide financial information allowing the state to be more transparent.

The Governor's budget includes $88.8 million ($52.2 million General Fund) and 257.9 positions for the Department of FI$Cal in 2018-19. The following table from the Governor's budget shows the department's expenditures (and positions) for the prior, current and budget years.

3-YR EXPENDITURES AND POSITIONS

	Positions			Expenditures		
	2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
6890 Statewide Systems Development	207.2	211.9	257.9	$112,711	$163,824	$88,812
TOTALS, POSITIONS AND EXPENDITURES (All Programs)	**207.2**	**211.9**	**257.9**	**$112,711**	**$163,824**	**$88,812**

Source: 2018 Governor's Budget (dollars in thousands)

Issue 1: Informational - FI$Cal Project Update

Background. One of the most vital projects for the state is FI$Cal, the statewide project being undertaken to integrate and reengineer the statewide business processes related to budgeting, accounting, procurement and cash management. The goal of the project is to provide a unified and consistent financial system that will be used by virtually all state entities. System integration for the project is being provided by Accenture LLP; independent project oversight (IPO) by the California Department of Technology (CDT); and, independent verification and validation (IV&V) by the Public Consulting Group. In 2016-17, the Legislature approved a permanent administrative structure for FI$Cal, establishing it as a stand-alone department.

FI$Cal is an ambitious and complex project that has undergone numerous changes in scope, schedule and cost. These various changes have been incorporated and documented in special project reports (SPRs) with the project currently working under the rubric of SPR 7. SPR 7 is primarily driven by the need to re-plan for the implementation of the State Treasurer's Office (STO) and State Controller's Office (SCO) accounting and cash management functions that were not ready for deployment on schedule. Some key features of SPR 7 include:

- Establishes July 2019 as the project's end point.
- Changes the scope of the FI$Cal Project by, 1) ending the project before SCO fully transitions onto FI$Cal, and 2) changing the onboarding approach so that not all departments that were previously anticipated to transition to FI$Cal will actually transition.
- Establishes a new approach for deploying the accounting and cash management functions related to STO and SCO. Under SPR 7, STO will deploy all of its functions in FI$Cal in the first quarter of 2018-19, one year later than anticipated by SPR 6. However, SPR 7 significantly changes the release of SCO functions. Rather than transitioning fully to FI$Cal, as prior SPRs planned, SPR 7 introduces an interim solution, the Integrated Solution.
- Onboards most remaining departments in July 2018 (64 departments). It will be the largest number of departments onboarding at one time, and includes some of the state's largest departments with the most complex financial needs. According to SPR 7, any department transitioning to FI$Cal following the completion of the project in July 2018 would be considered outside the scope of the project (these include California Department of Justice and the Department of Rehabilitation).
- Only reflects very minor changes in overall project costs ($493 million General Fund, $918 million all funds).

Under the Integrated Solution, SCO will run the FI$Cal system and its existing legacy accounting systems in tandem. The Integrated Solution develops interfaces between both FI$Cal and SCO's legacy systems so that data is entered only once (in either system) but then both systems share the data. This way each system can perform the accounting and cash management functions for the state. During this interim phase, SCO's legacy systems will continue to serve as the state's official accounting record. SCO indicates that it plans to use the FI$Cal system to produce the state's (Comprehensive Annual Financial Report) CAFR for the 2019-20 fiscal year. If the CAFR is produced successfully, SCO anticipates it would decommission its legacy systems beginning in 2022-23.

Legislative Analyst's Office Comments. The Legislative Analyst's Office (LAO) commented, as follows, in regard to SPR 7 and previous concerns they have raised that continue to exist:

- The SCO and STO integrated solution presents some risk.
- A single integrated financial system is no longer achieved within the modified scope of SPR 7.
- An accountability mechanism is needed to ensure SCO transitions to FI$Cal.
- FI$Cal project cost should include SCO budget proposal.
- Onboarding of departments beyond July 2018, will make it difficult to track total project costs.

- The quantity and complexity of departments that have yet to implement FI$Cal and the compressed timeframe proposed for implementing them remains a concern.
- Continued challenges with closing month- and year-end financial statements.
- The project failed to meet various conditions previously set by CDT.
- Staff vacancy rates continue to present challenges (18 percent as of December 2017).
- An additional SPR may be necessary.

The LAO recommends that the Legislature adopt budget bill language that clarifies that the Legislature does not consider the project to be complete until all previously planned functionalities have been implemented and all departments have been on-boarded to FI$Cal.

Staff Comments. Staff notes that the State Auditor has continued to highlight concerns similar to the LAO, including changes in the project schedule and responses to oversight entity recommendations.

With respect to SPR 7, the July 2018 onboarding of 64 departments will be key to the project's success as well as the Legislature's ability to evaluate the project going forward, particularly if a significant number of departments slip beyond this onboarding date. With additional changes related to the SCO's timeline and the July 2019 project end-date, the Legislature should consider its understanding, agreements, and expectations of the project and how they align with the current project state.

Staff Recommendation. Informational item.

0840 State Controller's Office

The State Controller is the Chief Fiscal Officer of California, the sixth largest economy in the world. Principally responsible for transparency and accountability of the state's financial resources, the Controller ensures the appropriate disbursement and tracking of taxpayer dollars. The Controller serves on dozens of state boards, commissions, and committees with duties ranging from administrative oversight of the nation's two largest public pension funds, to protection of state lands and coastlines, to modernization and financing of major infrastructure. The Controller also offers fiscal guidance to local governments and has independent auditing authority over government agencies related to the spending of state funds. The Controller's primary objectives are to:

- Account for and control disbursement of all state funds, issuing warrants in payment of the state's bills, including lottery prizes.
- Determine legality and accuracy of financial claims against the state.
- Audit state and local government programs.
- Safeguard many types of assets until claimed by the rightful owners, in accordance with the Unclaimed Property Law.
- Inform the public of the state's financial condition.
- Inform the public of financial transactions of city, county, and other local governments.
- Administer the Uniform State Payroll System.
- Audit and process all personnel and payroll transactions for state civil service, state exempt employees, state university employees, and college system employees.

The Governor's budget includes $220.2 million ($64.2 million General Fund) and 1,444.9 positions for the State Controller's Office (SCO) in 2018-19. The following table from the Governor's budget shows expenditures and positions for the prior, current and budget years.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
0500100	Accounting and Reporting	287.9	257.8	275.8	$43,364	$47,826	$51,867
0500200	Audits	282.1	280.7	283.7	46,075	52,643	53,473
0500300	Personnel/Payroll Services	224.4	205.0	240.0	39,012	46,502	44,725
0500400	Unclaimed Property	249.0	256.0	256.0	37,017	38,390	39,397
0500500	Disbursements	82.6	95.8	96.8	29,549	29,564	30,460
9900100	Administration	295.0	287.6	292.6	52,849	56,752	59,702
9900200	Administration - Distributed	-	-	-	-52,849	-56,473	-59,423
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**1,421.0**	**1,382.9**	**1,444.9**	**$195,017**	**$215,204**	**$220,201**

Source: 2018 Governor's Budget (dollars in thousands)

Issue 1: SCO FI$Cal Implementation

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

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

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

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

Background. As noted in the previous issue, a two- phase deployment was introduced for the BOR, where the SCO will implement an interim Integrated Solution. Once the SCO determines that FI$Cal can be relied on for all its critical functions, the SCO will transition to an End State Solution. At that time the BOR will be transitioned to the FI$Cal system.

The principal objective of the Integrated Solution is to have one point of entry, either in the FI$Cal system or Legacy system, for all of the state's accounting events. Once recorded in one system (either FI$Cal or Legacy), accounting events will be interfaced to the other system. This allows the two systems to be compared and validated while the Legacy system continues to be the BOR for the SCO's critical cash basis functions and responsibilities. This also allows for the most complex processes of the SCO to be fully vetted before implementation at End State. At End State, most of the interfaces will be retired and FI$Cal will become the State's BOR.

During each phase of deployment, the SCO control functionality is critical. This transition must occur without disruption to the state's financial and reporting obligations. The workload identified in this proposal is intended to provide support for the various divisions within the SCO. Previously the workload and support needed for each wave or release was provided by the FI$Cal project or the FI$Cal Service Center (FSC). However in this release the FSC cannot perform SCO specific statewide control functions.

The delay of the BOR conversion and the implementation of the Integrated Solution requires the workload associated originally with the 2015 release to be continued into 2017-18 through 2024-25 and ongoing. The resources requested in this proposal will support:

- **SCO FI$Cal** to support both the Integrated and End-State solutions, and ultimately, will be redirected to support ongoing maintenance and operation.

- **The Vendor Management Group** to provide continued support to the FI$Cal Vendor Management File.
- **State Accounting and Reporting Division (including the Bureau of FI$Cal Implementation and Transition)** to prepare for the Go Live and bring the SCO's control agency responsibilities for the accounting BOR over to FI$Cal as part of the Integrated Solution and End State release.
- **The Information Systems Division** to directly support the FI$Cal project and implementation of the FI$Cal Integrated Solution.

Legislative Analyst's Office Comments. The Legislative Analyst's Office (LAO) recommends that the Legislature approve SCO's 2018-19 budget proposal as it helps to addresses SCO's concerns regarding the performance and accuracy of the FI$Cal system while supporting the eventual transition of SCO onto FI$Cal. Additionally, the LAO recommends that the Legislature reject SCO's proposal for 2019-20 and beyond. Doing so provides the Legislature with an opportunity to exercise oversight over the project's progress when the Administration makes budget requests in future fiscal years.

Staff Comments. Transitioning SCO's systems to FI$Cal must be done in a manner that does not disrupt the state's financial and accounting and reporting obligations. As such, the requested resources are prudent. As the Integrated Solution is implemented and the SCO's transition to FI$Cal progresses, the Legislature should closely monitor to ensure the state's financial controls and processes are appropriately maintained.

Staff Recommendation. Hold open.

Issue 2: CA IDMS Licensing

Governor's Proposal. The Governor's budget proposes the following funding to support the increased costs associated with maintaining the Computer Associates (CA) Integrated Database Management System (IDMS) and to support positions to develop a migration pilot to remove five core systems off of the CA-IDMS.

- 2018-19: $5.7 million ($2.4 million GF; $2.2 million Special Fund (SF); $1.1 million Reimbursement) and 4.0 permanent positions and 1.0 LT positions.
- 2019-20: $5.7 million ($2.4 million GF; $2.2 million SF; $1.1 million Reimbursement) and 4.0 permanent positions and 1.0 LT positions.
- 2020-21: through 2022-23: $5.5 million ($2.3 million GF; $2.1 million SF; $1.1 million Reimbursement) and 4.0 permanent positions.
- 2023-24: and ongoing: $522,000 ($232,000 GF; $276,000 SF; $14,000 Reimbursement) and 4.0 perm positions.

Additionally, the Governor's budget proposes budget bill language to all the Department of Finance to adjust authorized mounts based on executed contract costs.

Background. The CA-IDMS technology is a suite of software products running on the SCO's mainframe hosted at the California Department of Technology (CDT). The SCO uses this technology as a primary mainframe database for its systems, and is 100 percent dependent on these systems to conduct business, including personnel, payroll, audits, and fiscal functions. The SCO has 14 core systems, along with related sub-systems, reliant on CA-IDMS software.

Currently, the CDT has a fixed, five-year contract with CA to use the IDMS technology. This contract is in effect from April 1, 2013, through March 31, 2018. The cost will remain constant until such time as a new contract is negotiated, commencing in April 2018. The CDT anticipates at the time of contract renewal the cost for CA-IDMS to increase and the California Highway Patrol (CHP) plans to be off of CA-IDMS prior to contract renewal. Taking this into account, it is estimated that the software licensing and CDT support costs will increase as the cost of the licenses are no longer split amongst other departments.

The 2014 Budget Act funded these in the amount of $3,482,000 from 2014-15 through 2017-18 for increased data center costs to support CA-IDMS and other miscellaneous CA software products. The approval was conditioned upon the SCO, in consultation with the CDT, conducting a cost-benefit comparative analysis to assess the SCO's long-term IT Plan for the continued use of the CA-IDMS technology, or the use of an alternative technology.

The SCO developed a cost-benefit comparative analysis study to assess the feasibility and determine the long-term plan for the CA-IDMS technology. The comparative analysis study determined the feasibility (i.e., cost and effort) to move from the CA-IDMS technology and secondly, the effort it would take to make system modifications to remove CA-IDMS logic and/or decommission systems to gauge how long the SCC would be reliant on this technology. As a result of the analysis the SCO recommended the continued use of the CA-IDMS technology for the foreseeable future, while immediately working to shift to other technologies. Therefore, the SCC is requesting funding in 2018-19 through 2022-23 to cover the increase in contract costs.

In December of 2016, the SCC submitted its IT plan for the CA-IDMS Systems, which identified the SCO's long-term strategy for the decommissioning of the department's core IDMS systems. The estimates show the cost and effort for system modifications to only remove the CA-IDMS logic and replace it with Common Business-Oriented Language (COBOL) equivalent logic (i.e., current technology in use by SCC for these systems) and/or to decommission the system based on its dependency for replacement by an SCC Initiative.

As a part of that strategy, the CA-IDMS Legacy Systems Study identified 14 core systems. The California State Payroll System and the FI$Cal project are earmarked to replace nine of the 14 systems. Of the remaining five IDMS systems, the SCO is requesting to conduct a migration pilot to remove IDMS from one of these five systems.

Legislative Analyst's Office Comments. The Legislative Analyst's Office has not expressed concern with this proposal.

Staff Comments. The resources will allow SCO maintain their database and plan for the future.

Staff Recommendation. Approve as budgeted.

Issue 3: Payroll Audits

Governor's Proposal. The Governor's budget proposes $682,000 ($389,000 GF; $293,000 CSCRF) in 2018-19, and $668,000 ($381,000 GF; $287,000 CSCRF) in 2019-20 to support five two-year limited-term positions to perform audits of payroll controls and payroll records to ensure compliance with the SCO's decentralized legacy payroll system, processes, and practices.

Background. In 2013-14 and 2014-15 the SCO received 5.0 two-year limited-term positions to perform audits of payroll controls and payroll records. This request was in response to an internal audit at the California Department of Parks and Recreation (Parks), as well an investigation by the California Attorney General's Office that disclosed a vacation buyout program that was instituted at Parks without authorization from Parks management or the California Department of Human Resources (CalHR), as required by state law.

The 5.0 two-year limited-term positions received in 2013-14 and 2014-15 expired June 30, 2015. Subsequently, the SCO received 5.0 permanent positions in 2015-16 and ongoing to continue to perform the audits of payroll controls and payroll records. The performance of the first four years of payroll auditing disclosed the following:

- $29.5 million in questioned costs were identified due to poor payroll controls and processes at the departments/agencies. These questioned costs were due to systemic issues related to poor internal controls and the departments/agencies are rectifying the problems. Once departments/agencies have rectified these issues there will be an additional $58,952,128 in estimated future cost savings.
- Strong internal controls are lacking at the department/agency level and leave the state susceptible to fraud.
- Operating in a decentralized payroll system increases the likelihood of fraud, waste and abuse due to the number of state departments and agencies performing transactions independent of one another.
- The performance of payroll audits mitigates risk to the state.

Legislative Analyst's Office Comments. The Legislative Analyst's Office has not expressed concern with this proposal.

Staff Comments. Staff has no concern with this proposal.

Staff Recommendation. Approve as budgeted.

Issue 4: Personnel and Payroll Services Workload

Governor's Proposal. The Governor's budget proposes the following resources to address understaffing, workload automation and workload related to the Affordable Care Act (ACA) and Public Employee's Pension Reform Act (PEPRA) within Personnel and Payroll Services Division:

- 2018-19: $6.1 million [$3.5 million General Fund (GF); $2.6 million Central Service Cost Recovery Fund (CSCRF)].
- 2019-20: $6 million ($3.4 million GF; $2.6 million CSCRF).
- 2020-21: and 2021-22: $4.2 million ($2.4 million GF; $1.8 million CSCRF).
- 2022-23: and ongoing: $3.8 million ($2.2 million GF; $1.6 million CSCRF).
- 37.0 permanent positions and 19.0 limited-term (LT) positions (15.0 two-year LT; 4.0 four-year LT).

Background. The SCO is responsible for issuing pay to state civil service (CS), California State University (CSU), and Judicial Council employees. There are currently over 150 departments, 23 CSU campuses, and the CSU Chancellor's Office in the State of California. The State workforce is comprised of approximately 286,000 employees, represented by 21 CS bargaining units and 13 CSU bargaining units.

As part of the SCC Strategic Plan and the Controller's Functions, the Personnel and Payroll Services Division (PPSD) administers the Uniform State Payroll System (USPS) and processes all personnel and payroll transactions for employees of the CS, CSUs, and Judicial Council. The PPSD is responsible for providing information required to manage the personnel resources of the State and to properly account for salary and wage expenditures.

ACA and PEPRA Legislation Workload. The SCO is requesting 9.0 permanent positions and 4.0 four-year limited-term (LT) positions to support the ongoing work related to the ACA and the PEPRA legislation. Both the ACA and the PEPRA are extremely complex pieces of legislation, with significant continuing impacts on how the SCO conducts business. Due to the complexity, changes and clarification by the IRS and CalPERS is ongoing. Directives continue to be issued on a flow basis. In many cases, different aspects of the legislation are phased in over time, leading to multi- year impacts to the SCO's workload.

PEPRA. The PEPRA creates a need for two categories of retirement members: New and Classic. The USPS was never designed to distinguish two different types of retirement members (Classic vs. New) with distinctly different characteristics, as required by the PEPRA legislation. It is expected that the PEPRA will remain as an exclusive workload under its own umbrella within the PPSD. Four years after enactment, PEPRA has become a large component of all retirement related workloads. With the introduction of the PEPRA, the infrastructure of the USPS specific to retirement has undergone significant changes, which has doubled the number of processes and procedures. Any changes or enhancements to the payroll and employment history systems require a PEPRA consideration. Additionally, any program already in place that supports the PEPRA also must be analyzed for impact to determine if subsequent changes are required.

OPEB Workload Automation. The SCO is requesting funding to support 15.0 two-year LT resources in completing the Other Post-Employment Benefits (OPEB) automation effort. Bargaining Units (BUs) first adopted OPEB deductions in 2009-10 as a way to prefund post-employment benefits. Currently, 12 BUs and the Judicial Council have adopted the OPEB prefunding. At the beginning of the program, in 2010, the PPSD processed OPEB deductions as a monthly point-in-time deduction outside of the payroll system using base pay. Currently, this process applies to one BU as of July 1, 2017, and the PPSD knows that creating deduction transactions from base pay is not a viable option. The remaining BUs are all moving, or have moved, to calculating OPEB based on all pensionable payments.

PPOB Workload. The SCO requests 24 permanent positions to address the current production workload and prevent the backlog of documents from increasing further. The PPOB receives documents for employee programs that departments and campuses cannot key in the system, such as benefit enrollments and changes or the processing of retroactive payments, due to system limitations. Additionally, due to the USPS design, the PPOB must process all pay adjustments that are older than 13 months. These payments, considered retroactive, represent a large portion of the PPOB workload.

PMAB Workload. The proposal provides the minimum number of resources to achieve some critical project milestones supporting the SCO and CalHR and provides ongoing support of these projects once completed. It will also help to support the SCO's efforts to provide greater levels of support and guidance to state departments in personnel and payroll related data. Deliverables and milestone dates associated with these workloads will be monitored closely by the SCO. Reports will be developed to document the overall progress made, while making current the modernization needed to support previous and future policy and legislative changes affecting the CS, CSU, and Judicial Council workforce. The reports will specifically track the department's work in progressing forward.

Legislative Analyst's Office Comments. The Legislative Analyst's Office has not expressed concern with this proposal.

Staff Comments. Staff has no concern with this proposal.

Staff Recommendation. Approve as budgeted.

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 3, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Part A

OUTCOMES

Consultants: Joe Stephenshaw

Items Proposed for Vote Only

Item	**Department**	
	0840 State Controller's Office	
Issue 1	Local Apportionments Workload Increase **Approved 3-0**	2
Issue 2	Road Maintenance and Rehabilitation Program **Approved 3-0**	2
Issue 3	FI$Cal Claim Audits Workload **Approved 3-0**	3
	0984 Secure Choice Retirement Savings Investment Board	
Issue 1	CalSavers Program Implementation **Approved 2-1 (Wilk No)**	3

Items Proposed for Discussion

Item	**Department**	
	8880 Financial Information System for CA (FI$Cal)	
Issue 1	Informational - FI$Cal Project Update	5
	0840 State Controller's Office	
Issue 1	SCO FI$Cal Implementation **Held Open**	9
Issue 2	CA IDMS Licensing **Approved 3-0**	10
Issue 3	Payroll Audits **Approved 3-0**	12
Issue 4	Personnel and Payroll Services Workload **Approved 3-0**	12

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 3, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

PART B

PROPOSED FOR VOTE-ONLY

PROPOSED FOR VOTE AND DISCUSSION

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

ISSUES PROPOSED FOR VOTE-ONLY

0690 GOVERNOR'S OFFICE OF EMERGENCY SERVICES (OES)

Issue 1: Technical Adjustment to Dam Safety Funding - SFL

Budget. OES requests $931,000 (General Fund) and four positions to allow OES to continue supporting dam safety workload required by SB 92 (Committee on Budget and Fiscal Review), Chapter 26, Statutes of 2017.

Background. This request is a technical adjustment to continue to provide funding to OES to support dam safety workload. SB 92 set forth new requirements focused on dam safety. Funding was included in the 2017 Budget Act for OES workload but was inadvertently captured as a one-time cost, instead of ongoing.

Staff Recommendation. Approve as budgeted.

Issue 2: Child Victims of Human Trafficking Fund - SFL

Budget. The OES requests $172,000 (Child Victims of Human Trafficking Fund) in 2018-19 to continue the allocation of contributions collected pursuant to AB 764 (Swanson), Chapter 465, Statutes of 2011, and exhaust the balance in 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. From 2015-16 to 2017-18 OES allocated these funds to projects providing mandated services to minor victims of human trafficking.

Staff Recommendation. Approve as budgeted.

Issue 3: Capital Outlay, Relocation of Red Mountain Communications Site – SFL

Budget. OES requests a re-appropriation of $1.26 million (General Fund) for the working drawings phase of the Relocation of Red Mountain Communications Site project. In addition, OES requests $15.4 million (General Fund) for the construction phase of the project.

Background. The Red Mountain communications site hosts five communications vaults and towers needed to support critical radio communications for twelve government public safety agencies and private industry serving the western side of Del Norte and Humboldt counties. These facilities provide public safety communication services supporting a population of approximately 250,000 people 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. The Public Safety Communications Office of OES had identified three alternative sites at Alder Camp, Big Lagoon, and Rattlesnake Mountain. However, in August 2017, the National Park Service notified OES of its intent to deny a permit for the use of one of the original identified sites. Therefore, an alternate site was identified and a scope change for this project was approved by the Public Works Board. This proposal would provide resources to begin relocation at the alternate site.

Staff Recommendation. Approve as budgeted.

8940 CALIFORNIA MILITARY DEPARTMENT

Issue 1: Capital Outlay Projects - Bakersfield Armory Renovation SFL

Budget. The department requests $1.49 million ($745,000 General Fund and $745,000 federal matching funds) for the working drawings and construction phases of the Sustainable Armory Renovation Program: Bakersfield project. The project was originally approved in 2015-16 for $1.8 million. Project costs have been updated to reflect current conditions in the construction services market.

Background. The Bakersfield armory was built in 1953 and is located on 2.96 acres in Kern County. The facility is 15,409 square feet and was chosen for renovation because it is located in an area where a large number of California National Guard members live and work. As part of the project the layout of the armory will be reconfigured to use floor space more efficiently. The working drawings phase of the project was completed in June 2017, but the project has been on hold following an unsuccessful contract bidding process. The lowest responsive bids received exceeded the amount available for construction. Thus, the department determined that the authorized project funds were inadequate and requests an increase. Total updated project costs are approximately $3.3 million. However, the scope of the project remains unchanged.

Staff Recommendation. Approve as budgeted.

Issue 2: FI$CAL Accounting Staff Increase - SFL

Budget. The California Military Department (CMD) requests $430,000 (General Fund) in 2018-19 and $426,000 ongoing to establish three positions. The implementation of the Financial Information System for California (FI$CAL) and the phasing out of the California State Accounting and Reporting System requires an increase to the permanent staffing of the CMD. The requested positions are:

- One Accounting Administrator II position
- One Accounting Administrator I position
- One Senior Accounting Officer position

Background. FI$CAL is a system that consolidates budgeting, procurement, cash management, and more comprehensive accounting functionality. The CMD is currently converting to the system. Transition experts have identified a lack of skill and expertise within the accounting branch of the department to perform the necessary drills, input, and analysis. The addition of these positions would rectify those issues. Having the additional positions will bring required skill sets to the office and ensure the department is reimbursed in a timely manner.

Staff Recommendation. Approve as budgeted.

Issue 3: California Cadet Corps Program Expansion Technical Adjustment – SFL

This issue was discussed at the Subcommittee's March 8, 2018, hearing.

Budget. The CMD proposes an increase of $756,000 (General Fund) to reflect an adjustment to the funding proposed for the California Cadet Corps program expansion in the Governor's January budget.

Background. This is a technical adjustment to increase the requested funding to the levels discussed in the March 8, 2018 hearing.

Staff Recommendation. Approve as budgeted.

Issue 4: State Active Duty Compensation – SFL

This issue was discussed at the Subcommittee's March 8, 2018, hearing.

Budget. The CMD proposes a net reduction of $242,000 (General Fund, Federal Trust Fund, reimbursements, and Mental Health Services Fund) to align the pay of the department's 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.

Staff Recommendation. Approve as budgeted.

8955 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS (CALVET)

Issue 1: California State Approving Agency for Veterans Education – SFL

Budget. The department requests $260,000 (Federal Trust Fund) and four positions in 2018-19 and ongoing for the California State Approving Agency for Veterans Education (CSAAVE). The positions include:

- Two Private Postsecondary Education Specialists
- Two Office Technicians

Background. The CSAAVE has oversight responsibility for the approval of schools and colleges desiring to enroll veterans, using their earned Government Issue Bill benefits, in education and vocational training programs. On August 1, 2017, the federal Harry W. Colmery Veterans Educational Assistance Act was signed into law, and brought significant changes to veterans' education benefits. The bill authorized the U.S. Department of Veterans Affairs (USDVA) to provide an additional $3 million to state approving agencies.

Currently, California has the highest number of veterans and approved institutions collecting funds. With a staff of nine, CSAAVE oversees approximately $3 billion annual in funds that are dispersed by the USDVA to nearly 1,100 institutions and training establishments and 60,000 veterans. The 2018-19 budget proposes $1.9 million in federal fund authority for the CSAAVE. Beginning in October 2018, the USDVA contract amount will increase to $2.2 million. This request would increase the 2018-19 proposed budget authority to align with the projected USDVA contract and allow the program to fund four additional positions.

Staff Recommendations. Approve as budgeted.

Issue 2: Funding for the California Central Coast Veterans (CCCVC) Cemetery – SFL

Budget. The department requests an augmentation of $220,000 (General Fund) in 2018-19 and ongoing to enable the CCCVC to continue operations. The department also requests reductions of $143,000 (Federal Trust Fund) and $77,000 (CCCVC Operations Fund). Lastly, the department requests $77,000 transfer authority from the CCCVC Endowment Fund to the CCCVC Operations Fund.

Background. Unlike the state veteran cemeteries at Igo and Yountville, the ongoing operations of the CCCVC are not supported by the General Fund. The operating budget was established based on projections for burial reimbursements. However, there was difficulty in calculating projections prior to the cemetery opening because assumptions had to be made regarding the number of burials and operations costs. In this case, projections made in 2012 were much higher than the actual number of burials once the cemetery opened. Funding from burial fees and federal burial allowances are insufficient to fully fund cemetery operations. In 2016-17, the CCCVC performed 392 veteran burials and 78 spouse and dependent burials. While 2017-18 began at the same rate, the number of burials decreased significantly beginning in September 2017. The cemetery is expected to experience a shortfall of $220,000 annually and will not have enough funds to continue operations.

Staff Recommendation. Approve as budgeted.

Issue 3: VHC Yountville Private Domiciliary Rooms

This issue was discussed at the Subcommittee's March 8, 2018, hearing.

Budget. The department is requesting a reduction of $732,000 General Fund and two and a half positions to convert double occupancy rooms to single rooms in the domiciliary level of care at the Veterans Home of California (VHC) Yountville.

Staff Comment. Note that cost savings associated with this proposal (with the exception of the position reductions) are already being realized in the budget of the home since the domiciliary level of care is not at its full budgeted capacity.

Staff Recommendation. Approve as budgeted.

ISSUES PROPOSED FOR DISCUSSION AND VOTE

VARIOUS DEPARTMENTS

Issue 1: Legislative Proposals

The subcommittee has received the following legislative proposals for inclusion in the 2018-19 budget.

0690 – Governor's Office of Emergency Services

Issue 1A. Nonprofit Security Grant Program. The subcommittee has received a proposal requesting a $5 million appropriation to the Office of Emergency Services for the Nonprofit Security Grant Program, administered by OES. The grants are available to any organization targeted by hate-motivated violence. The funds are to be used for a variety of security measures, including physical security enhancements and security training to help prevent, mitigate, and respond to acts of terrorism and hate-motivated violence.

Miscellaneous

Issue 1B. California Humanities. The subcommittee has received a proposal requesting a $750,000 appropriation for the nonprofit organization, California Humanities. 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 1C. Payment in Lieu of Taxes. The subcommittee has received a proposal requesting to undo an action included in the 2015 budget act to make Payment in Lieu of Taxes (PILT) optional instead of mandatory. PILT offsets loss of county property tax revenue when the state acquires private property for state controlled wildlife management areas. The cost of this proposal is estimated at $644,000 annually.

0890 – Secretary of State

Issue 1D. Open-Source Voting Systems. The subcommittee has received a proposal requesting $8 million in matching funds for counties to develop and certify publicly owned, open-source paper ballot voting systems. Open-source voting systems can significantly reduce costs associated with replacement and maintenance, and will provide counties with a more transparent, secure, and fair election process. This additional funding would allow the Secretary of State's office to administer a matching program, where interested counties would receive resources needed to develop, certify, and implement open-source platforms.

Issue 1E. Office of Elections Cybersecurity. The subcommittee has received a proposal requesting a $2 million ongoing augmentation to the Secretary of State's budget to support elections cybersecurity efforts. In a recent joint informational hearing on cybersecurity and elections a theme that emerged was that securing voting systems is a good first step to combat cybersecurity threats. This proposal would provide the necessary tools to support efforts to coordinate activities and information sharing between federal, state, and local officials, including county registrars of voters.

<u>1111 – Department of Consumer Affairs, Contractors State License Board</u>

Issue 1F. Combatting Contractor Fraud. The subcommittee has received a proposal requesting a one-time allocation of $1 million to the Contractors State License Board (CSLB) to conduct a targeted public outreach campaign to give homeowners instructions on how they can look up a contractor's license number; how to identify a possible scam; and where to report suspected fraud. The request also asks the CSLB be given authority to expedite the hiring of an advertising agency to help develop the most effective way to communicate about the dangers of unlicensed contracting.

<u>7730 – Franchise Tax Board</u>

Issue 1G. Tribal Taxes. The subcommittee has received a proposal requesting to exempt the earned income derived from tribal land of an individual who is a member of a federally recognized tribe, who resides within any tribal land in California. Members must currently reside on their tribe's land to be exempt from state income tax on income they receive from that specific Native American tribe. However, they are not exempt from state income tax on income they earn within any other tribal lands in California. The Governor vetoed SB 289 (McGuire) last year noting that it should be considered during budget deliberations. Costs are estimated at $1.1 million annually.

Staff Recommendation. Hold open all legislative proposals.

0515 BUSINESS, CONSUMER SERVICES, AND HOUSING AGENCY

Overview. The Business, Consumer Services and Housing Agency is responsible for overseeing departments, boards, commissions and agencies that provide the following services to the people of California: protection of the public through the licensing and regulation of more than 100 businesses and 200 professional categories; regulation of financial services and state-licensed financial institutions; enforcement of the sale of alcoholic beverages; regulation of the cannabis industry; regulation of the horse racing industry; the investigation and prosecution of civil rights; safe and affordable housing opportunities; and earthquake safety. The Agency is comprised of the following entities: Department of Consumer Affairs; Department of Business Oversight; Department of Fair Employment and Housing; Department of Housing and Community Development; Department of Real Estate; California Housing and Finance Agency; Department of Alcoholic Beverage Control; Alcoholic Beverage Control Appeals Board; California Horse Racing Board; and Alfred E. Alquist Seismic Safety Commission and the Cannabis Control Appeals Panel.

Budget. The Governor's budget includes $1.9 billion of expenditures within this agency area. However, that amount does not include federal funds, certain non-governmental cost funds, or reimbursements. The agency's budget includes $3.2 million ($2.2 million reimbursements; $265,000 Alcohol Beverage Control Fund; $240,000 Real Estate Fund; $219,000 State Corporations Fund; $132,000 General Fund; $108,000 Financial Institutions Fund; $39,000 Horse Racing Fund; $29,000 Credit Union Fund; and $1,000 Local Agency Deposit Security Fund) and 14.3 positions to support the agency.

Issue 1: Increased Legal and Programmatic Workload - SFL

Budget. The agency requests four positions and $524,000 (General Fund, reimbursements, and various special funds) in 2018-19 and ongoing to accommodate an increase in agency workload relating to the addition of two departments, housing initiatives, and involvement with special projects. The requested positions are:

- An Assistant General Counsel position
- A Special Assistant of Planning and Policy position
- A Legislative Assistant position
- A Fiscal Assistant position

Background. The Business, Consumer Services and Housing Agency was created in 2013 as part of the Governor's Reorganization Plan No. 2. The agency is responsible for overseeing departments, boards, commissions, and agencies that license and regulate more than 100 businesses and 200 professional categories. The agency also regulates financial services and state-licensed financial institutions, licenses and enforces the sale of alcoholic beverages, regulates the horse racing industry, protects civil rights, provides safe and affordable housing opportunities, and promotes earthquake safety.

Currently, the agency has fifteen permanent positions and oversees nine departments. In recent years, the agency has added oversight for the Bureau of Cannabis Control (BCC), the Cannabis Control Appeals Panel, and the Home Movers Program. Although the BCC is also under the oversight of the Department of Consumer Affairs (DCA), the agency has been more involved in its work than usual due to the sensitive subject matter. In addition, major housing initiatives are underway which have required additional oversight and administration, including the No Place Like Home Program. The agency is also involved with statewide emergency issues, such as the recent wildfires in the state.

Beginning July 1, 2018, the agency will also have increased oversight responsibility for the newly formed Department of Real Estate (DRE). The agency previously provided oversight for the Bureau of Real Estate when it was under the DCA but the formation of the DRE increases workload for the agency. Work that was previously done by DCA will now be the responsibility of the agency. For instance, the department will now need to move to doing its own accounting and budgeting work, so the agency will need to work with the department on personnel and budget requests. This proposal would add four additional permanent positions to address the increased workload relating to these new programs.

Staff Recommendation. Approve as budgeted.

0890 SECRETARY OF STATE

Issue 1: California Business Connect (CBC) Project - SFL

Budget. The Secretary of State (SOS) requests $18.51 million ($15 million Business Fees Fund and $3.51 million Business Programs Modernization Fund) for 2018-19 to continue implementation of the California Business Connect 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 CBC 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. In February 2018 the SOS submitted a CBC Special Project Report #3 (SPR) to the California Department of Technology. The report details total 2018-19 project costs at $20.3 million. $3.6 million will be funded through existing resources, resulting in a project funding need of $16.7 million. An additional $1.81 million is also needed for temporary staff to backfill staff positions redirected to the project. The requested spending authority will allow the SOS to enter into contracts for systems integration vendors, project management services, independent project oversight, independent verification and validation, temporary help to backfill for redirected staff, and other operating expenses related to the project.

Project Implementation. SPR#3 will continue the plan to focus on the largest annual volume of paper filings with development and implementation in modules, while also replacing outdated legacy systems. This approach reduces the project risks, allows for more off ramps and smaller wins for customers sooner, while still meeting the objectives of the project. Functionality will focus on the largest volume of paper filings/documents to obtain the maximum possible benefit to the public and cost avoidances to the state.

A module approach will enable the deployment of functionality based on legislative mandate, dynamic security considerations and business value. Business entities, including Limited Liability Companies, Limited Partnerships, and Corporations filing online forms are addressed in the first module, the second module will be Trademarks. Uniform Commercial Code will be the third module and the remaining Business Entities business services and infrastructure will be the fourth module. Each module will have a Maintenance and Operation (M&O) component. Legacy system retirements are also aligned with the modular implementation. A modular approach reduces the project risk by allowing the project team to focus on the development, testing, training, and rollout to support a reduced scope of specific business needs.

Staff Recommendation. Approve as budgeted.

8940 California Military Department

Issue 1: Capital Outlay - Los Alamitos Readiness Center

Budget. The California Military Department (CMD) requests $24.7 million (General Fund) for the construction phase of the continuing Los Alamitos: National Guard Readiness Center project. The construction phase of this project was originally approved in 2017-18 at a cost of $24.7 million (lease revenue bonds). This request will result in the following: (1) a reversion of the unencumbered balance of the 2017-18 lease revenue bond appropriation, and (2) a shift in the fund source of the construction phase of the project from lease revenue bond financing to General Fund.

Background. This project was originally approved in the Budget Act of 2015 to replace the current Southern Region Emergency Operation Center (REOC), located on federally-owned real property used by the CMD. The existing facility is undersized and cannot accommodate required staff. It was originally designed to be temporary, until a permanent building was constructed. 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 Southern California region.

Construction funding for the Los Alamitos Readiness Center project was approved in 2017-18 in the amount of $24.7 million lease revenue bond financing. However, it has been determined that this project is not a good candidate for lease revenue bond funding, and General Fund is a more appropriate fund source for the following reasons:

- The project site is a portion of a larger property, owned by the U.S. Department of the Army. The CMD's current use of the project site is from a license which is terminable at the will of the U.S. Department of the Army, and only provides a personal property right and not a real estate right (which is a requirement of lease revenue bond financing).

- Additionally, the proposed project is to include joint use with the U.S. Department of the Army, such joint use with the federal government is considered private use under the limitations of tax-exempt bonds and highly problematic for lease revenue bond financing.

- Lastly, the current license agreement (and possible other land-use grants) restrict the usage of the project site by the CMD, which is also problematic for lease revenue bond financing.

Staff Recommendation. Approve as budgeted.

8955 California Department of Veterans Affairs (CalVet)

Issue 1: Capital Outlay - Yountville Veterans Home Skilled Nursing Facility SFL

Budget. This request decreases the original January proposal for preliminary plans (discussed at the March 8, 2018 hearing) by $8.6 million, instead requesting $7.1 million (General Fund) for the performance criteria phase of the skilled nursing facility project. The department also requests a shift in project delivery method from design-bid-build to design-build.

Background. Funding for the preliminary phase of this project was included in the Governor's budget in the amount of $15.7 million. Since then, Department of General Services has completed additional work on the site resulting in updated project costs. In addition, it has been determined that using the design-build project delivery method will provide additional cost and schedule efficiencies. This request will update project costs as follows: approximately $7.1 million (General Fund) for performance criteria and $286.4 million ($96 million Lease Revenue bonds and $190.4 million federal funds) for design-build, for a total project cost of approximately $293.5 million. Original project costs were estimated at $317.1 million.

Legislative Analyst's Office (LAO). The LAO states that the proposal, in concept, has merit but is premature given the absence of the master plan. The forthcoming master plan is intended to help the Legislature identify necessary changes to the entire veterans home system in order to meet current and future demand. In addition, the master plan is intended to provide the Legislature with guidance on how to prioritize and think about the trade-offs associated with prioritizing certain proposed changes to the system over others. In the absence of the master plan, it is unclear how the need, scope, costs, and trade-offs of the proposals compare to other potentially necessary changes to the veterans home system that will be discussed in the master plan.

Staff Comment. While staff understands that there is a critical need to replace the aging and inefficient Holderman building, concerns expressed in the March 8, 2018, hearing agenda remain. The timing of this proposal seems premature, as the department is not set to release its master plan for the future of the California Veterans Homes system until 2019. The subcommittee may wish to consider adopting language clarifying the intent of the master plan, requiring periodic updates to the plan, and requiring the department to form a workgroup of stakeholders to contribute to those updates. One example of an issue the workgroup could provide input on is an implementation plan for all system-wide facility changes needed to align the veterans homes to meet current and future demand, as recommended by the LAO. Note that the Legislature may need to consider providing additional resources to the department if it decides to require periodic updates to the master plan.

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 3, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

PART B OUTCOMES

PROPOSED FOR VOTE-ONLY

All vote-only items approved as budgeted, 3-0

PROPOSED FOR VOTE AND DISCUSSION

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 10, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultants: James Hacker, Renita Polk, and Joe Stephenshaw

Public Comment

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VARIOUS DEPARTMENTS – LEGISLATIVE PROPOSALS

The subcommittee has received the following legislative proposals for inclusion in the 2018-19 budget.

Issue 1: Renters' Credit

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

Issue 2: State Homelessness Council

The subcommittee has received a proposal requesting $750,000 to support the establishment of three full-time staff – one director and two support positions – for the California Homeless Coordinating and Financing Council. The Council was created by SB 1380 (Mitchell), Chapter 847, Statutes of 2016, to oversee the implementation of the state's "Housing First" guidelines and regulations and to identify resources, benefits, and services to prevent, and end, homelessness in California. The Council consists of 15 gubernatorial appointments and one appointment each from the Senate and the Assembly. However, the Council has no permanent staff associated with its work. A recent State Auditor report noted that funding the Council would help the state better compete for federal dollars, and could help coordinate the state's response to the ongoing homelessness crisis.

Issue 3: Vertical Prosecution Program

The subcommittee has received a proposal requesting $2.65 million for the Office of Emergency Services (OES) Vertical Prosecution program. The Vertical Prosecution Program is designed to improve the criminal justice system's response to violent crimes against women through a coordinated, multi-disciplinary response. The units consist of prosecutors and experienced victim advocates, and occasionally investigators. The unit focuses particular effort on cases, seeing them from start to finish while also providing needed services to victims. Program staff is required to have a reduced caseload in order to better concentrate on prosecution of cases.

Issue 4: Continuing Funding for Services for Human Trafficking Victims

The subcommittee has received a proposal requesting $15 million be provided to the Office of Emergency Services to provide competitive grants to programs providing specialized services to victims of human trafficking. Within the 2016-2018 grant period grants provided by OES have helped serve 2, 521 victims and provided counseling, shelter services, and legal assistance. The requested funding would also be used to increase technical assistance and training, and to conduct a prevalence study to better understand these crimes. Currently, no state or nationwide studies of this nature exist. California has an opportunity to establish this timely study.

Issue 5: Increased Resources for the Mutual Aid System

The subcommittee has received a proposal requesting $100 million to shore up OES' mutual aid system. $87 million ongoing funding would be used to reimburse local governments for costs to pre-position resources in high-risk areas prior to the onset of extreme weather conditions. The remaining $13 million in requested ongoing funding would be for modernizing and improving communication and dispatch technologies and to hire additional personnel to allow for more efficient and effective resource deployment.

As a component of the Standardized Emergency Management System (SEMS), the mutual aid system is based on four organizational levels: cities, counties, regions and the state. The basic concept provides that within the operational area, adjacent or neighboring agencies will assist each other. Should the event require assistance from outside the county, the region will provide requested assistance to the impacted county. If the combined resources of the region are insufficient, the regional coordinator contacts the state mutual aid coordinator at OES.

Issue 6: Compensation for Exonerated Persons

The subcommittee has received a proposal requesting provisions regarding compensation for exonerated persons be included in trailer bill language. The requested changes would provide for compensation without hearing in any case where a state or federal court grants a writ of habeas corpus or a state court grants a motion to vacate pursuant to Penal Code Sections 1473.6 or 1473.7(a) (2), and the charges are dismissed or the person is acquitted of the charges on retrial. These changes would reduce costs and save the state months of employee time by no longer requiring employees to perform unnecessary work of litigating and deciding petitions for compensation in these cases.

Issue 7: North Bay Fire Recovery

The subcommittee has received a proposal requesting $344.6 million for recovery costs related to the North Bay firestorm of October 2017. Specifically, this request includes:

- Extension of the current California Environmental Quality Act (CEQA) exemption to dire impacted counties until set deadline or until specific recovery goals are met.
- $77.3 million for a Grant of Low / No-Interest Loan Program for Under—or Uninsured property owners impacted by the fire.
- $164.8 million for the development of 432 new housing units and 120 new mobilehome units
- The creation of a single regional prime contract to meet all government contracting requirements for fire recovery in the region.
- $5 million for labor and vocational training for additional tradesmen and construction workers.
- $7.9 million for housing sustainability and the use of fire-resistant construction materials.
- $38.3 million to facilitate the reconstruction of private bridges destroyed by the fires.
- $18.2 million for healthy forests and fire prevention programs in the region.
- $33.1 million for the removal of dead and dying trees.

Issue 8: Teacher Tax Deduction – Professional Development Expenses

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

Issue 9: Child and Dependent Care Expenses Credit

The subcommittee has received a request to extend the California Child and Dependent Care Expenses Credit to allow tax filers with no state tax liability to benefit from the credit. Making this credit refundable will allow low and moderate-income families to defray the high cost of child care and also remain gainfully employed. From 2000-2010, the state credit was refundable. This proposal is estimated to result in revenue loss of $44 million in 2018-19, growing to $80 million in the out-years.

Staff Recommendation. Hold open all legislative proposals.

VOTE-ONLY CALENDAR

0650– Governor's Office of Planning and Research (OPR)

1. **OPR Housing Package Response.** The budget requests $333,000 in reimbursement authority and two positions in 2018-19 and 2019-20 to provide technical assistance as required by SB 2 (Atkins), Chapter 364, Statutes of 2017, and to create a technical advisory on recent statutory changes that affect the California Environmental Quality Act (CEQA).
2. **Affordable Housing and Sustainable Communities: Extension of Liquidation Deadline.** The Administration has requested a two-year extension to the liquidation period for the first round of Affordable Housing and Sustainable Communities (AHSC) funding. This would extend the liquidation deadline from June 30, 2020 to June 30, 2022. The Administration has indicated that this extension would allow the Department of Housing and Community Development (HCD), who is responsible for implementing the AHSC, adequate time to complete three outstanding projects by demonstrating state funding commitments to project lenders.

0845 – Department of Insurance

1. **Workers Compensation Fraud Program.** The budget includes an ongoing $2.9 million (Insurance Fund) increase in expenditure authority to fund local District Attorney workers' compensation fraud investigation and prosecution workload increases. The increase is consistent with the assessment approved by the Governor-appointed Fraud Assessment Commission (FAC).
2. **Enhanced Fraud Investigation and Prevention.** The department has submitted two proposals related to enhanced fraud investigation and prevention. Both proposals are discussed in this item. The department requests a total increase in expenditure authority of $8.2 million (General Fund) in 2018-19, $8 million in 2019-20, and $7.6 million in 2020-21 to support enhanced fraud investigation and prevention efforts. At the April 5, 2018, hearing this issue was held open. Members of the subcommittee requested additional information on goals and objectives of the department's fraud investigation programs and how success of the programs is measured.

0860 – Board of Equalization

1. **Authority to Cooperate – Trailer Bill Language.** The Governor's budget proposes trailer bill language that would authorize the California Department of Tax and Fee Administration and the Board of Equalization to delegate, share, and provide assistance for, or transfer between themselves administrative responsibilities for tax and fee programs within the Department's and Board's respective duties, powers, and responsibilities pursuant to an agreement. The bill prohibits the agreement between the Department and the Board from transferring jurisdiction over any tax and fee program that is the subject of the agreement. This trailer bill language provides authority for the Department and the Board to have an agreement for administrative responsibilities. Last year, the Board of Equalization had its duties narrowed to its constitutional duties and two new entities, the Department of Tax and Fee Administration, and the Office of Taxpayer Appeals, were created to carry out the remaining responsibility of the Board.

0950 – State Treasurer's Office

1. **Debt Management System II Project.** A spring finance letter proposes $6.1 million in reimbursement authority for 2018-19 ($1.2 million ongoing). This request is consistent with Special Project Report (SPR) 3.

STO authored a legacy replacement Feasibility Study Report (FSR) in May 2013. This marked the beginning of the DMS II Modernization project. The FSR forecast a project completion of October 2018, at a total project cost of $17.6 million (special funds). Subsequently, the STO completed SPR 1 in the spring of 2015, which reflected a completion date of March 2020 and total costs of $19.8 million, and SPR 2 in January of 2016, which reflected a completion date of December 2018 and total costs of $20.8 million.

In March 2017, the DMS II technical optimization objectives were successfully deployed into production. In September and November 2017, two aggregated bundles of business objectives were successfully deployed. However, with both fall releases, it had become clear that due to the unforeseen lengthy discussions related to the analysis of proposed business objectives, the full scope of the project could not delivered in the desired timeframe. SPR 3 was submitted in January 2018 to reflect re-planning efforts.

It has been the project's goal for STO staff to take over the operations and maintenance of the DMS II system following the conclusion of the project. The project built-in knowledge transfer activities from the beginning of the project. As a result, state staff will be prepared to complete any remaining optimization objectives after the project ends, in addition to new and emerging business or legislative requirements that were previously not yet identified. Thus, the formal end of the project on March 3, 2019, will not be the end of the maintenance component of the project. Total project costs are now $20.4 million, which is a slight decrease from the total project cost identified in SPR 2 of $20.8 million.

2240– Department of Housing and Community Development (HCD)

1. **Long-Term Monitoring and Default Reserve.** The budget requests $322,000 from the Housing Rehabilitation Loan Fund (0929), two positions to award funds previously held as default reserves, and two positions for long-term monitoring for the Veterans Housing and Homelessness Prevention Program (VHHP) and AHSC portfolio. This request includes trailer bill language intended to streamline the administration of long-term monitoring, provide consistency across all rental programs, and decrease the risk of default of affordable housing projects.

8860 – Department of Finance

1. **Internal Cash Borrowing – Trailer Bill Language.** The Governor has proposed trailer bill language to authorize a designee of the Governor to direct transfer of moneys to the General Fund. Current law allows the Governor to direct the Controller to transfer funds from special funds to the General Fund in the event that the General Fund is or will be exhausted. The Governor’s budget proposes trailer bill language that would allow a designee of the Governor to direct this transfer on the Governor’s behalf.
2. **State Administrative Costs – Trailer Bill Language.** The Governor has proposed trailer bill language related to the administrative costs. Existing law requires the Department of Finance (DOF) to certify to the Controller the amount determined to be the fair share of administrative costs due and payable from each state agency and to transfer that amount from specified funds to the Central Service Cost Recovery Fund. Existing law defines “administrative costs” as the amounts expended by various specified state entities for supervision or administration of the

state government or for services to the various state agencies. The Governor's proposed trailer bill language adds the Department of General Services to this list of state entities.

3. **Department of Finance Audit Authority – Trailer Bill Language.** The Governor's budget proposes language to give DOF's Office of State Audits and Evaluations (OSEA) the same authority to request information as the State Auditor and also clarifies the need for departments to comply with corrective action to audit findings. In 2017, the Department of Finance conducted an extensive and consequential audit of the Board of Equalization (Board), as directed by the 2016 Budget Act. The proposed language clarifies the role of the OSEA in response to some questions that were raised about DOF's authority during the audit of the Board.

Staff Recommendation
Approve as Budgeted.

Issues Proposed for Discussion

0845 CALIFORNIA DEPARTMENT OF INSURANCE

Issue 1: Reauthorization of the California Organized Investment Network (COIN) Program

The subcommittee has received the following legislative proposal for inclusion in the 2018-19 budget.

Proposal. The request is for the reauthorization of the COIN Community Development Financial Institution (CDFI) tax credit program. Reauthorization of the program will allow the department to issue up to $10 million in tax credits.

Background. The COIN program was created in 1996 as a public-private partnership with the goal of helping address the unmet capital needs for economic development and affordable housing in low-income urban and rural communities throughout California. For every $5 of private investment in CDFIs, up to $1 of state tax credits is eligible. The program may award up to $10 million in tax credits per year, leveraging up to $50 million in capital for community development through CDFIs. Over the past two decades, the COIN program has generated more than $335 million in community development investments that have supported small businesses, created jobs, improved access to quality health care, built affordable housing, and funded green projects – all in low-income communities throughout California.

Staff Recommendation
Hold open.

Issues Proposed for Discussion

2240 California Department of Housing and Community Development

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

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

Governor's Budget: The budget provides $1.2 billion and supports 856 positions at HCD in 2018-19, including roughly $39 million and 255 positions at the California Housing Finance Agency. This is an increase of roughly $470 million from 2017-18, mostly due to the implementation of the statewide housing package passed in 2017.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	**2017-18**	**2018-19**	**2016-17***	**2017-18***	**2018-19***
1660	Codes and Standards Program	191.4	166.2	170.2	$30,502	$34,445	$34,803
1665	Financial Assistance Program	188.2	201.6	274.1	486,602	653,034	994,883
1670	Housing Policy Development Program	14.8	17.1	39.1	36,798	4,532	130,405
1675	California Housing Finance Agency	235.3	254.9	254.9	35,605	38,822	38,689
1680	Loan Repayments Program	-	-	-	-2,969	-1,944	-1,944
1685	HPD Distributed Administration	-	-	-	-141	-150	-150
9900100	Administration	147.4	107.0	117.5	14,753	16,893	20,216
9900200	Administration - Distributed	-	-	-	-14,753	-16,893	-20,216
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**777.1**	**746.8**	**855.8**	**$586,397**	**$728,739**	**$1,196,686**

Issue 1: Statewide Housing Package (SB 2 and SB 3) and Trailer Bill Proposal

Governor's Proposal: The Department of Housing and Community Development (HCD) requests $16 million and 81.0 positions 2018-19, $21 million and 128.0 positions in 2019-20, and $23 million and 146.0 positions ongoing for State Operations to implement the 2017 Statewide Housing Package. HCD also requests Local Assistance authority of $522 million in 2018-19 and $773 million in out years. The Administration has also proposed trailer bill language to allocate the first year of funding from SB 2 (Atkins), Chapter 364, Statutes of 2017, in a manner that provides for geographic equity. This request includes technical budget bill language to clarify HCD's ability to encumber and liquidate funds.

These items were first heard in subcommittee on March 15, 2018.

Background: In 2017 the Legislature passed a package of 15 bills aimed at increasing the affordability of housing in California. The package included proposals to place a general obligation bond on the November 2018 ballot, create a permanent funding source for affordable housing by levying a transaction fee on new real estate transactions, and a variety of regulatory reforms to speed up development and construction of new housing.

SB 2 imposed a fee on recording of real estate documents, excluding sales, for the purposes of funding affordable housing. This fee is to be collected by county recorders and remitted to the state on a quarterly basis. Collections began on January 1, 2018. The first remittances will occur in March of 2018. The Administration has estimated that this fee will raise roughly $129 million in 2017-18 and $258 million in 2018-19.

Funding allocations are specified in statute for the first year of proceeds and on an ongoing basis. These allocations are based on the calendar year in which the fees are collected, and not the state fiscal year in which the funds are expended. Under SB 2, one half of the revenue from the fees collected during 2018 is designated for planning and zoning grants and technical assistance programs, and one half for homelessness programs. In year two and onward, 70 percent of the funds will be distributed directly to locals and 30 percent to the state for farmworker housing, state incentive programs, and mixed income multifamily residential housing affordable to lower and moderate income housing. Should the SB 3 bond be approved by voters in November 2018, proceeds from bond sales shall be split among a variety of currently existing housing and homelessness programs.

SB 3 places a $4 billion bond on the November 2018 general election ballot. Of this amount, $1 billion will support veterans housing in the California Department of Veterans Affairs Farm and Home Loan Program, repaid by participants' loan repayments. HCD will administer the remaining $3 billion General Obligation bond through existing housing programs.

Staff Comments: Staff finds the request for staff and associated funding reasonable given the implementation timelines for the housing package and the large increase in workload for the department. However, staff notes that the final program design for the implementation of the year one homelessness and planning funds has yet to be finalized. The Administration initially proposed trailer bill language meant to provide a certain degree of geographic equity for the program. However, the initial language raised serious concerns. Additionally, the department has indicated that they now plan to allocate the year one homelessness funds through the existing Emergency Solutions Grant (ESG).

This approach would not require the propose trailer bill language to implement. Discussions on the final shape of these programs are ongoing. It is premature to approve either the year one program funding or any accompanying trailer bill language until these have completed.

Staff Recommendation

Approve the requested positions and associated funding. Approve the requested technical budget bill language. Adopt placeholder trailer bill language. Adopt supplemental reporting language requiring HCD to report on their progress in meeting the staffing requirements for the implementation of the statewide housing package.

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 10, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultants: James Hacker, Renita Polk, and Joe Stephenshaw

Items Proposed for Discussion

Item	**Department**	
0845	**Department of Insurance**	
Issue 1	Reauthorization of the COIN Program **Hold Open**	**9**
2240	**Department of Housing and Community Development**	
Issue 1	Statewide Housing Package (SB 2 and SB 3) and Trailer Bill Proposal **Staff Recommendation, 3-0**	**11**

Public Comment

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Senate Budget and Fiscal Review—Holly Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Tuesday, May 15, 2018
9:00 a.m.
State Capitol - Room 2040

Consultant: Renita Polk

PROPOSED FOR VOTE ONLY

PROPOSED FOR DISCUSSION

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PROPOSED FOR VOTE ONLY

0690 OFFICE OF EMERGENCY SERVICES

Issue 1: Nonprofit Security Grant Program – May Revision BCP

Proposal. The May Revision proposes a one-time augmentation of $500,000 Anti-Terrorism Fund to enhance the California Nonprofit Security Grant Program.

Background. The Nonprofit Security Grant Program is administered by the Federal Emergency Management Agency (FEMA) to provide support for target hardening and other physical security enhancements to nonprofit organizations that are at high risk of terrorist attack. The program also serves to promote coordination and collaboration in emergency preparedness activities. Grant funding is awarded on a competitive basis. Scoring critera was established and based on threat, vulnerability, and consequences faced by a specific facility or location.
FEMA's guidelines limit the grant funding to specific urban areas. Providing state funding to enhance the federally funded program opened up the program to recipients who were not located in these specific areas and were not eligible for federal grants, but met other eligiblity requirements. In 2017-18 OES received 106 applications for funding but was only able to fund 28 recipients.

Staff Recommendation. Approve as budgeted.

Issue 2: Disaster Service Worker Volunteer Program – May Revision BCP

Proposal. The May Revision proposes $675,000 General Fund in 2018-19 and annually thereafter for the Disaster Service Worker Volunteer Program (DSWVP) to provide workers' compensation benefits to injured volunteers and survivors and issue medical provider payments.

Background. The DSWVP was established in 1946 and has been an annually budgeted program since its inception. The program provides workers' compensation benefits for volunteers who are injured while performing disaster related activities. OES establishes rules and regulations governing the DSWVP. Since 2014-15, OES has requested and received additional funding for the program through provisional language to address the continual increase of costs in disability benefits and medical provider expenses of which the DSWVP has not been adjusted to match. An increase in the DSWVP is needed to pay claimant disability benefits, awards, and medical provider expenses without delay, and to avoid paying 25 percent in penalty and interest fees. Local jurisdictions and the state benefit from utilizing volunteers in lieu of paid staff, which are cost-effective and more practical given the shortage of personnel in many local areas.

Staff Recommendation. Approve as bugeted.

Issue 3: Situational Awareness and Collaboration Tool – May Revision BCP

Proposal. The May Revision includes $353,000 General Fund, $325,000 reimbursement authority, and two positions in 2018-19 and annually thereafter for the management, administration, and maintenance of the Situational Awareness and Collaboration Tool.

Background. In May 2015, OES and the California Department of Forestry and Fire Protection (CAL FIRE), along with the Department of Homeland Security, began the deployment of a state-managed system, branded SCOUT, which provides an information sharing environment to facilitate operational and tactical collaboration among emergency responders and interagency situational awareness. This is a web and mobile application that allows emergency responders to upload and access pertinent emergency information.

Currently, workload related to SCOUT at OES has been related to training local agencies on the use of SCOUT. The workload has been increasing as more local agencies have expressed interest in joining. Due to the increased workload, OES has a backlog of local agencies waiting to get access to SCOUT.

This proposal includes funding for two positions: a Program Manager II position to administer and oversee the SCOUT platform, and an Emergency Management Coordinator Instructor II position to provide statewide training. On February 26, 2018, the SCOUT Executive Committee approved a fee model in which SCOUT participating agencies will contribute their share of fixed costs and agency usage fees. The increase of $325,000 in reimbursement authority will provide flexibility for OES to receive reimbursements from local participating agencies.

Staff Recommendation. Approve as budgeted.

Issue 4: Recovery Program Workload Increase – May Revision BCP

Proposal. The May Revision proposes 81 positions, $8.4 million Federal Trust Fund, and $2.8 million General Fund for three years, beginning in 2018-19, to manage increased workload related to disaster recovery activities.

Background. Critical to the emergency management process is the recovery from state and federally declared disasters. OES' Response and Recovery program staff work with affected jurisdictions impacted by disasters by adminstering the California Disaster Assistance Act (CDAA) and federal disaster programs. OES' Public Assistance program oversees every aspect of the recovery process.

In 2016-17 and 2017-18, California was impacted by an unprecedented 56 federal and state disasters. Current staffing within the recovery programs are beyond their workload capacities. This request proposes increased staffing related to the workload from these disasters.

FEDERAL DISASTERS
FISCAL YEAR 2017 - 2018

Disaster Name
December 2017 California Wildfires & Debris Flows
December 2017 California Wildfires
Lilac 5 Fire
Skirball Fire
Rye Fire
Creek Fire
Thomas Fire
October 2017 California Wildfires
Canyon 2 Fire
Patrick Fire
Sulphur Fire
Nuns Fire
Redwood/Potter Fires
La Porte Fire
Lobo Fire
Cascade Fire
Tubbs Fire
Atlas Fire
Canyon Fire
Pier Fire
Mission Fire
Railroad Fire
La Tuna Fire
Helena Fire
Detwiler Fire
Wall Fire

STATE DISASTERS
STATE FISCAL YEAR 2017 - 2018

Disaster Name
December 2017 California Wildfires & Debris Flows
Inyo/Mono Snowmelt
Ponderosa Fire
October 2017 Wildfires
Alamo and Whittier Fires
Helena Fire
Modoc County Wildfires
Wall Fire
Detwiler Fire

FEDERAL DISASTERS FISCAL YEAR 2016 - 2017
Disaster Name
February 2017 Storms
Late January 2017 Storms
Potential Failure of Oroville Dam Emergency Spillway
January 2017 Storms
Cedar Fire
Blue Cut Fire
Chimney Fire
Clayton Fire
Pilot Fire
Goose Fire
Soberanes Fire
Sand Fire
Sage Fire

STATE DISASTERS STATE FISCAL YEAR 2016 - 2017
Disaster Name
February 2017 Storms
Late January 2017 Storms
January 2017 Storms
December 2016 Storms
Clayton Fire
Erskine Fire
March 2016 Storms
Pacifica Storms

A summary of the positions being requested and their associated duties are detailed in the table below.

Program	Positions	Duties
Public Assistance	37	Coordination of recovery efforts, validation of initial damage estimates, and additional administrative activities.
Fire Management Assistance Grant and Disaster Closeout	11	Performing preliminary damage assessments for fire disaster-affected public facilities, writing initial project worksheets and damage survey reports, conducting applicant briefings, and submitting quarterly progress reports to FEMA.
Grants Processing/Correspondence and Documentation Quality Control	12	Oversight of processing grant obligations, manage financial document processing, provide financial technical assistance, maintain file-tracking database, prepare responses to and maintain records and correspondence.
Administration and Information Technology	21	Payment processing, expenditure tracking, IT support, and grant tracking infrastructure.

Staff Recommendation. Approve as budgeted.

0890 SECRETARY OF STATE

Issue 1: CAL-ACCESS Replacement Project – May Revision BCP

Proposal. The May Revision includes a one-time augmentation of $14.8 million (General Fund), $1 million (Political Disclosure, Accountability, Transparency, and Access Fund), continued funding for two positions received in 2017-18, five additional positions, and contracted services.

Background. SB 1349 (Hertzberg), Chapter 845, Statutes of 2016, established new functional requirements for the California Automated Lobbying and Campaign Contribution and Expenditure Search System (CAL-ACCESS). The current system cannot meet these new requirements. The current system is a conglomeration of applications that were developed at different times using multiple, now-obsolete coding languages and technologies. The current campaign finance and lobbying activity process is an inefficient process that does not meet the needs of many stakeholders. SB 1349 requires the development of a new, automated campaign and lobbying reporting and disclosure system.

The requested resources will allow the SOS to hire staff and procure consulting services necessary to design and implement a CAL-ACCESS replacement system. The request will continue funding for a System Software Specialist III position and a Senior Programmer Analyst position received in 2017-18. These positions will manage project data and serve as core programmer, respectively. In addition a Research Analyst II position, two Associate Governmental Program Analyst positions, and one Attorney I position are requested. The additional positions will be involved in research and analysis, customer support, outreach and training, and legal support.

The SOS anticipates making future funding requests in 2019-20 and 2020-21 to complete the project and to transition to maintenance and operations thereafter.

Staff Recommendation. Approve as budgeted.

Issue 2: Cyber Security Program Enhancement – May Revision BCP

Proposal. The May Revision includes an augmentation of $1.01 million ($759,000 Business Fees Fund and $251,000 General Fund) in 2018-19 and one position to address information security and cyber security vulnerabilities and threats within the SOS. $805,000 ($605,000 Business Fees Fund and $200,000 General Fund) of that augmentation is ongoing.

The $1.01 million 2018-19 request includes:

- $160,000 for new staff IT resources
- $125,000 for position re-classification
- $50,000 for training
- $200,000 for contracted services for one-time security risk solution implementation
- $475,000 for procurement of security solution subscriptions and licenses

The $805,000 ongoing request includes:

- $155,000 for continuing staff IT resources
- $125,000 for position re-classification
- $50,000 for training
- $475,000 for maintenance of security solution subscriptions and licenses

Background. Cyber security threats continue to increase in frequency and sophistication. Proper cyber security defenses are needed to effectively detect and protect against these threats. Continuous improvement of the SOS cyber-security programs requires considerable, sustained, and dedicated effort. The additional resources requested are essential to achieve this objective and secure and protect critical information. Current resources are insufficient to adequately perform some of the functions essential to sustain the SOS cyber-security program. The requested resources will enable SOS to enhance its security tools and solutions required to protect information against emerging threats.

Staff will be provided with training to keep current with new threats, new technology, and new security solutions. Funding will also be provided for ongoing licenses and subscriptions for security solutions and contract consultants for one-time implementation of security solutions.

Staff Recommendation. Approve as budgeted.

7502 California Department of Technology (CDT)

Issue 1: Procurement Authority – May Revision TBL

Proposal. The May Revision includes trailer bill language that modifies statute dealing with procurement authority of information technology (IT) goods and services.

Background. The CDT proposes several clarifying amendments to the Public Contract Code (PCC) to delineate between those information technology (IT) procurements that CDT has authority over versus IT procurements that the Department of General Services (DGS) has authority over. CDT indicates that, as currently written, the PCC does not accurately describe what an IT project is, which causes confusion at the department level regarding which procurements CDT and DGS have authority over.

The proposed amendments primarily include adding the phrase "goods and services related to information technology projects" where references to IT projects are found. The problem, as described by CDT, is that IT projects are not procured as a single item and are more accurately described from a procurement perspective as a collection of IT good and service procurements. Amendments also specify that only those IT procurements not related to an IT project are to be conducted under the authority of DGS, unless otherwise delegated.

The proposed amendments are clarifying only and therefore do not impact CDT's or DGS' budget. CDT stated it may redirect positions internally if these amendments increase its procurement related workload.

Staff Recommendation. Adopt proposed trailer bill language.

PROPOSED FOR DISCUSSION

8260 California Arts Council

Issue 1: Local Programming Augmentation – May Revision BCP

Proposal. The May Revision includes a one-time augmentation of $5 million with provisional language to make this funding available for expenditure and encumbrance for three years, and authority to transfer up to $250,000 for administrative costs. These funds will allow the California Arts Council (CAC) to meet the increased demand in all grant programs.

Background. The CAC is California's state arts agency and is mandated to invest in nonprofit organizations and local government, via competitive grant programs, to ensure that arts and culture are accessed throughout California. With current funding, the CAC is able to provide grants to approximately six percent of the total applicants. In 2017-18 the CAC will award $16.3 million in about 1,000 direct grants through fifteen unique, competitive grant programs.

With this augmentation CAC seeks to impact the entire CAC grant portfolio and establish a contract to evaluate the design and implementation of the current grant portfolio. The requested augmentation will ensure that a larger portion of projects in communities across all counties will receive CAC support. Further, the proposed funding would provide resources to assess the effectiveness of the CAC's grant making structure, outreach strategies, and conduct a gap analysis so that the CAC can effectively respond to the need. The text of the proposed provisional language is below.

Add the following provision to Item 8260-101-0001:

2. Of the amount appropriated in this item, $5,000,000 shall be used for arts programming grants and shall be made available for encumbrance or expenditure until June 30, 2021, after which any unexpended funds shall revert to the General Fund. Of the $5,000,000 appropriated, upon order of the Director of Finance, up to 5 percent may be transferred to Schedule (1) of Item 8260-001-0001 for the administration of arts programming grants and shall be available for encumbrance or expenditure until June 30, 2021, after which any unexpended funds shall revert to the General Fund.

LAO. The LAO suggests that the Legislature ask CAC to provide additional information on what portion of funding they anticipate using for evaluation, and how they anticipate conducting any evaluation activities to ensure that the results are credible and independent.

Staff Comment. The subcommittee may wish to inquire about the amount of funding that will go towards evaluating the design and implementation of the current grant portfolio.

Staff Recommendation. Approve as budgeted.

8620 FAIR POLITICAL PRACTICES COMMISSION (FPPC)

The subcommittee heard the following issues during its April 5, 2018, hearing.

Issue 1: Mass Mailing Prohibition (SB 45)

Budget. The FPPC requests increased expenditure authority of $147,000 (General Fund) in 2018-19 and $140,000 (General Fund) annually thereafter to fund an existing but unfunded position to implement the provisions of SB 45 (Mendoza), Chapter 827, Statutes of 2017.

Issue 2: Advertisement Disclosure and Earmarking of Funds (AB 249)

Budget. The FPPC requests increased expenditure authority of $420,000 (General Fund) in 2018-19 and $400,000 (General Fund) in 2019-20 and 2020-21 to fund three existing but unfunded positions to implement the provisions of AB 249 (Mullin), Chapter 546, Statutes of 2017.

Legislative Analyst's Office (LAO). At the April 5, 2018, hearing the subcommittee directed the LAO to review the FPPC's budget and workload to determine if the commission receives sufficient resources. The LAO published an online analysis of the FPPC on May 7, 2018. The LAO determined that the annual reports published by the commission do not provide sufficient information for oversight. There are no data presented in the report that indicate that FPPC accomplishes its work in a timely manner or that it meets public demand for advice and information. With the current information available, the LAO found it difficult to determine whether FPPC's current staffing and appropriation levels are sufficient. The LAO recommends the Legislature adopt the following language be added to Item 8260-001-0001 of the budget act.

Provisions:

1. Not later than January 10 of each year, the Fair Political Practices Commission shall report workload metrics to the fiscal committees of the Legislature, the Legislative Analyst's Office, and the Department of Finance. When possible, the report shall provide data for the past five fiscal years and distinguish workload by division. The report shall include, but not be limited to, the following:

(a) Data collected regarding enforcement of the Political Reform Act of 1974. These data shall include, but not be limited to, the number of complaints received, the number of referrals received, the number of cases opened, the number of cases with resolutions approved by the Commission (distinguished by streamline, mainline, and default cases approved by the Commission), total fines imposed by the commission, the number of warning letters issued, the number of administrative terminations, the number of cases closed with violations found, the number of advisory letters issued, the number of no action closure letters issued, and the average case pendency by category of violations under the act.

(b) Data collected from the advice phone system. These data shall include, but not be limited to, the average amount of time people wait on the phone before their call is answered and the average length of accepted calls.

(c) Data regarding informal advice issued by email. These data shall include, but not be limited to, the number of emails received, the number of advice emails responded to within 24 hours from receipt, and the number of advice emails responded to after more than 24 hours from receipt.

(d) Data regarding responsiveness to public demand for information. These data shall include, but not be limited to, the number of workshops or presentations requested by the public or a public agency and the number of workshops or presentations performed.

(e) Data regarding advice letters issued pursuant to Section 83114 of the Government Code. These data shall include, but not be limited to, the number of advice letters issued and the number of instances where it took the Commission longer than 21 days to issue an advice letter.

(f) Data regarding advice letters issued pursuant to Section 1090 of the Government Code. These data shall include, but not be limited to, the number of advice letters issued, the number of instances where it took the Commission longer than 30 days to issue an advice letter, and the number of instances where it took the Commission longer than 90 days to issue an advice letter.

0690 OFFICE OF EMERGENCY SERVICES

Issue 1: Hazard Mitigation Program Workload Increase – May Revision BCP

Proposal. The May Revision includes 23 positions and $3.22 million Federal Trust Fund for three years, beginning in 2018-19, to manage the increased workload in hazard mitigation activities.

Background. Mitigation is the effort to reduce the loss of life and property by lessening the impact of disasters. The federal government provides mitigation funding to states. California is eligible for twenty percent of total costs in hazard mitigation funding, not to exceed $35.33 billion. California has maintained an enhanced status by demonstrating it has developed a comprehensive mitigation program, allowing for increased funding from the federal government. The Federal Emergency Management Agency (FEMA) provides funding to states through the Hazard Mitigation Grant Program (HMGP). In California, the HMGP unit within OES administers these funds. In 2017-18, based on federal declarations, the below federal funds are available to California for mitigation projects (as of May 7, 2018).

Disaster Number	Disaster Title	Funding Amount
DR4301	January 2017 Storms	22,097,355
DR4305*	Late January 2017 Storms	10,136,842
DR4308	February 2017 Storms*	78,411,411
DR4344	October 2017 California Wildfires*	333,165,681
DR4353	December 2017 California Wildfires and Debris Flows*	56,661,168
Total		$ 500,472,457

A breakdown of the requested positions and their duties are listed in the table below.

Unit	Number of positions	Duties
HMGP	12	Provide subject matter expertise to local governments, administer the HMGP, establish mitigation priorities, and implement mitigation measures.
Monitoring	1	Provide technical assistance and gudiance, guage compliance with federal and state regulations, ensure submitted expenditures are appropriate.
Grants Processing	2	Oversight of processing grant obligations, manage financial document processing, provide financial technical assistance.
Correspondence/ Documentation Quality Control	3	Maintain file-tracking database, prepare responses to and maintain records and correspondence.
Account, Fiscal/Budgets, IT, and Audits	5	Payment processing, expenditure tracking, IT support, grant tracking infrastructure, and audit coordination.

LAO. No specific concerns with the requested staff and funding amounts have been raised. However, the LAO notes that the Hazard Mitigation funds represent a large one-time source of funding, the significant majority of which has not been allocated. Notably, the state (through OES) administers the Hazard Mitigation funds, which can be used by state agencies, tribes, non-profits, and local governments. These funds are intended to reduce the risk and impact of future disasters and can support various activities, such as mitigating flood and drought conditions and wildfire risks. The budget includes substantial funding—from the General Fund and various special funds—for activities that could potentially be funded using these Hazard Mitigation funds instead, thus freeing up these funds for other high priorities. Accordingly, the Legislature may wish to ask the administration (1) what the current process is for determining which projects will be funded; (2) which May Revision proposals—particularly for levee maintenance and wildfire prevention—could be funded by Hazard Mitigation funds, and (3) why this source of funding was not proposed for those activities.

Staff Comment. The subcommittee may wish to inquire about the process for determing which projects will be funded and which other projects could be funded by Hazard Mitigation funds.

Staff Recommendation. Approve as budgeted.

Issue 2: Emergency Response Operations – May Revision BCP

Proposal. OES requests $1.6 million (General Fund) and 8 positions in 2018-19, and $1.5 million General Fund in 2019-20 and annually thereafter to support local agencies and coordinate emergency response activities.

Background. OES is charged with assuring the state's readiness to respond to and recover from all hazards. OES coordinates the overall state response to major disasters in support of local government by managing multi-jurisdictional efforts. Significant increases in the frequency, magnitude, and scope of disasters have increased the demand for state emergency response personnel. The table below details the frequency of disasters in California over the last several years.

	2012	2013	2014	2015	2016
CA Population	38,041,000	38,373,000	38,739,000	39,060,000	39,354,000
State-Only Disasters	0	2	9	4	5
Federally-Declared Disasters	3	8	17	6	13

OES is requesting two law enforcement Assistant Chief positions within its Law Enforcement and Homeland Security Branch. The branch oversees the primary fusion center, which operates as an intelligence information sharing environment. Fusion centers function as the focal points for the receipt, analysis, gathering, and sharing of threat-related information. The requested positions will collaborate with all levels of government and provide increased information sharing. Specific duties of these positions include reviewing mutual aid agreements, coordinating with regional administrators, and assisting with and evaluating trainings related to law enforcement and terrorism events.

OES is also requesting six Emergency Service Coordinators (ESCs) within its Regional Response and Readiness Branch. The positions will support regional operations and response to disasters. ESCs will facilitate multi-jurisdictional and multi-hazard planning and exercises. The additional positions will also allow for resources to be provided to disaster victims in a timelier manner. Specific duties of these positions include conducting disaster council meetings and regional incident reviews, reviewing local government disaster plans, and emergency communication training.

LAO. This proposal would fund additional Law Enforcement and Homeland Security Branch and Regional Response and Readiness staff. In the past, the LAO has raised concerns about the justification of the level of proposed additional staff in these areas. This proposal provides some additional information beyond what the LAO has previously received, but the LAO continues to find it difficult to assess—based on the information provided—whether this is the appropriate level of ongoing staffing, particularly given the compressed time frame of the May Revision. Accordingly, to the extent that the Legislature desires to fund these staff increases, the LAO recommends doing so on a two-year limited term basis in order to provide the Legislature with an opportunity to re-evaluate the staffing level with the benefit of additional time and information from the department.

Staff Recommendation. Hold open.

Issue 3: Regional Hazardous Material Response Program – May Revision BCP

Proposal. The May Revision proposes five positions and $3.4 million General Fund in 2018-19 and $3.1 million General Fund in 2019-20 and 2020-21 to continue implementation of the Regional Hazardous Materials Response Program.

Background. California is the third largest refining state, and as such, sees a significant amount of hazardous materials transported into and throughout the state. Transporting highly flammable hazardous materials has resulted in a threat to the state. SB 84 (Committee on Budget and Fiscal Review), Chapter 25, Statutes of 2015, required OES to provide regional and onsite response capabilities in the event of a release of hazardous materials from a railcar or railroad accident. In 2014 and 2015-16, $20 million was provided to assist OES in meeting this responsibility.

The $20 million in previous funding allowed OES to purchase twelve type II hazardous materials response vehicles. The vehicles will be strategically located in rural and metropolitan fire departments. Across the state, local response agencies lack the resources necessary to respond to these kinds of incidents. These vehicles will provide those resources. The funds requested in the May Revision will provide for continued refresher and attrition training for the personnel staffing the vehicles, maintenance and fuel costs for the vehicles, and OES staff to oversee the program. The request is for three years so that OES can evaluate the program implementation and submit a more refined long-term plan with actual cost data in the future.

LAO. This proposal would provide General Fund resources for a three-year period to support 12 hazardous materials response vehicles that the state procured for use by local jurisdictions to respond to hazardous material releases from railcars. The state procured these vehicles using loans from other funds with the expectation that they—along with future associated ongoing costs such as for training and equipment for local teams that staff these vehicles and statewide emergency coordination activities—would ultimately be funded by a fee on hazardous materials moving by rail. Due to a pending lawsuit arguing that the charge is a tax rather than a fee, this proposal requests General Fund to support ongoing costs on a three-year basis.

The LAO has not raised specific concerns about the concept of providing some resources to support these vehicles. However, there is little time to evaluate this proposal and determine if it proposes the appropriate funding level or source. Accordingly, the LAO recommends that the Legislature fund these costs on a one-year basis. This would ensure that these vehicles could be transferred to jurisdictions and used in 2018-19, but would allow the Legislature time to reevaluate the proposed level of resources and source of funds with the benefit of more time. The LAO further recommends that the Legislature direct OES to include in any future proposal a discussion of its plan for funding ongoing costs (and the loan repayments)—whether from the General Fund or another source, such as a charge on hazardous materials by rail passed as a tax or a broader fee on hazardous materials transported by other means (not just rail).

Staff Comment. Staff recommends the subcommittee direct OES to include a discussion of its plan for funding ongoing costs in any future proposal.

Staff Recommendation. Hold open.

Issue 4: California Public Safety Microwave Network (CAPSNET) – May Revision BCP

Proposal. The May Revision proposes $15 million State Emergency Telephone Number Account (SETNA) and ten positions in 2018-19. This would begin a five year plan to upgrade the CAPSNET at a total project cost of $78.3 million SETNA and seventeen positions. A table detailing the funding request by year is below.

Funding Request by Year
(Dollars in thousands)

	2018-19	2019-20	2020-21	2021-22	2022-23
Positions	10	12	17	17	17
Staffing	$1,587	$1,844	$2,553	$2,553	$2,553
Build-out Contract	$12,440	$12,440	$12,440	$12,440	$12,440
Maintenance/Licensing	$1,000	$1,000	$1,000	$1,000	$1,000
Total	**$15,027**	**$15,284**	**$15,993**	**$15,993**	**$15,993**

Background. California's current analog microwave network has been in service for more than 50 years. The statewide microwave network enables a greater communication coverage area for first responders. While the current network has been adequate up until now, it is in need of a major upgrade. In addition, the current network is unable to support a backup wireless network for the state's 9-1-1 public services answering points.

The effort to upgrade from the current network to an advanced digital network will require a significant amount of resources. The existing number of engineers does not have the capacity to upgrade the network and support current customer needs. An advanced digital network will allow OES to migrate from using fourteen different types of analog systems to one platform. Much of the CAPSNET equipment is beyond its useful life and it is often difficult to find replacement equipment. Although more efficient and resilient, the digital equipment is more complex than current equipment and will require regular lifecycle replacement about every five years. The digital equipment also requires maintenance and license agreements. At full build out, annual license and maintenance agreements are expected to cost $1 million.

LAO. This proposal would support a five year plan to upgrade the state's Public Safety Microwave Network. This is a significant and technically complex proposal that is difficult to evaluate in the short period provided in the May Revision. Accordingly, the LAO recommends that the Legislature ask the department why it was not proposed in January or could not wait until the 2019-20 budget. While the LAO recognizes the value of having an updated system, a January proposal would give the Legislature more time to assess the specifics of this proposal and ensure that they are reasonable. The LAO continues to discuss this issue with the department and will provide the committees additional information as it becomes available.

Staff Comment. This proposal is contingent upon approval of trailer bill language regarding the SETNA fee structure that was discussed in this committee on April 5, 2018. The proposal was held open pending final agreement between OES and stakeholders.

Staff Recommendation. Hold open.

Issue 5: Disaster Response-Emergency Operations Account – May Revision TBL

Proposal. The May Revision proposes trailer bill language that clarifies that allocations to the Disaster Response-Emergency Operations Account (DREOA) may be used for activities that commence within 120 days after a proclamation of emergency by the Governor.

Background. The DREOA within the Reserve for Economic Uncertainties was created for reimbursement of extraordinary emergency or disaster response operation costs incurred by state agencies and by state-requested local agencies as a result of a state of emergency proclamation by the Governor. The proposed language clarifies that activities funded by the DREOA must begin within 120 days after a proclamation of emergency. Current language states that activities must occur within those 120 days. The language also repeals the sunset date of January 1, 2019. Text of the proposed language is on the following pages.

LAO. In some cases there can be a need for urgent disaster response activities to continue to take place beyond 120 days. However, the LAO is concerned that allowing the use of these funds for activities that commence within 120 days could allow for activities to be funded for an extended period of time without Legislative notification or approval. In some cases, these activities may be more appropriately funded on a long-term basis through the traditional budget process. Accordingly, the LAO recommends maintaining the requirement that costs occur within 120 days, but allowing for an extension to this timeframe—for example for up to another 120 days—with an additional notification to the Joint Legislative Budget Committee (JLBC). This additional notification should include key information necessary for the JLBC to be able to assess the reasonableness of the request for additional time, including (1) the estimated additional amount of time required, (2) the reason(s) for the additional time required, (3) and the reasons why the traditional budget process could not be used to request funding for the response costs that occur beyond the initial 120 day period.

Staff Comment. There is a concern that this language will change what can be interpreted as a narrow window (120 days) to an unlimited length of time. If any disaster response activities begin within 120 days of an emergency they can continue indefinitely and be funded through a continuous appropriation. It is important to note that there is a clear distinction between "response" and "recovery" activities. Response activities are immediate and tend to deal with an emerging or ongoing crisis. Recovery activities generally begin after the immediate threat to the public has passed. The subcommittee may wish to add additional language clearly defining response and recovery activities to address this concern. In addition, the subcommittee may wish to modify language requiring notification to JLBC when an extension is requested. The notification should include the key information suggested by the LAO above.

Staff Recommendation. Hold open.

Section 1. Section 8690.6 of the Government Code is amended to read:

"8690.6. (a) The Disaster Response-Emergency Operations Account is hereby established in the Special Fund for Economic Uncertainties. Notwithstanding Section 13340, moneys in the account are continuously appropriated, subject to the limitations specified in subdivisions (c) and (d), without regard to fiscal years, for allocation by the Director of Finance to state agencies for disaster response operation costs incurred by state agencies as a result of a proclamation by the Governor of a state of emergency, as defined in subdivision (b) of Section 8558. These allocations may be for activities that ~~occur~~ commence within 120 days after a proclamation of emergency by the Governor.

(b) It is the intent of the Legislature that the Disaster Response-Emergency Operations Account have an unencumbered balance of one million dollars ($1,000,000) at the beginning of each fiscal year. If this account requires additional moneys to meet claims against the account, the Director of Finance may transfer moneys from the Special Fund for Economic Uncertainties to the account in an amount sufficient to pay the amount of the claims that exceed the unencumbered balance in the account.

(c) Funds shall be allocated from the account subject to the conditions of this section and upon notification by the Director of Finance to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the fiscal committees in each house.

(d) Notwithstanding any other law, authorizations for acquisitions, relocations, and environmental mitigations related to activities, as described in subdivision (a), shall be authorized pursuant to this section. However, these funds shall be authorized only for needs that are a direct consequence of the proclaimed emergency if failure to undertake the project may interrupt essential state services or jeopardize public health or safety. In addition, any acquisition accomplished under this subdivision shall comply with any otherwise applicable law, except as provided in the first sentence of this subdivision.

(e) Funds allocated under this section shall not be used to supplant federal funds otherwise available in the absence of state financial relief.

(f) The amount of financial assistance provided to an individual, business, or governmental entity under this section, or pursuant to any other program of state-funded disaster assistance, shall be deducted from sums received in payment of damage claims asserted against the state, its agents, or employees, for causing or contributing to the effects of the proclaimed disaster.

(g) Any public entity administering disaster assistance to individuals shall not receive funds under this section unless it administers that assistance pursuant to the following criteria:

(1) All applications, forms, and other written materials presented to persons seeking assistance shall be available in English and in the same language as that used by the major non-English-speaking group within the disaster area.

(2) Bilingual staff who reflect the demographics of the disaster area shall be available to applicants.

(h) Notwithstanding any other law, funds in the Disaster Response-Emergency Operations Account shall not be expended for conditions in the state's prisons, medical facilities, or youth correctional facilities resulting solely from the action or inaction of the Department of Corrections and Rehabilitation in administering those facilities.

~~(i) This section shall remain in effect only until January 1, 2019, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2019, deletes or extends that date.~~"

Issue 6: Consolidation of Victims Programs

Proposal. The May Revision includes provisional language to require OES and the California Victims Compensation Board to consider the consolidation of victims programs under one organization.

Background. California funds services to victims of crimes a variety of programs, administered by different entities, including: the Victim Compensation Board (VCB), the Governor's Office of Emergency Services (OES), the Department of Justice (DOJ), and the California Department of Corrections and Rehabilitation (CDCR). The proposed language requires the VCB and OES to work together to develop options and a recommendation for combining the state's victims programs under one organization. The language requires a report to be provided to the Department of Finance and the Governor's Office by October 15, 2018. Text of the provisional language is below.

Add the following provision to Item 0690-001-0001:

2. The Governor's Office of Emergency Services and the California Victims Compensation Board shall work together to develop options and a recommendation for combining the state's victims programs under one organization. Given the significant impact that the state's programs have on victims and their survivors, the state shall consider combining the state's victims programs into a single lead agency to best serve crime victims. A report shall be provided to the Department of Finance and the Governor's Office by October 15, 2018, for consideration in the 2019-20 Governor's Budget.

Staff Comment. Staff notes that this language aligns with recommendations made by the LAO in a March 2015 report, and with staff recommendations made in an April 21, 2016, joint informational hearing for Subcommittee No. 4 and 5. However, the subcommittee may wish to include language requiring the report to be submitted to the relevant policy and budget committees of the Legislature.

Staff Recommendation. Hold open.

Issue 7: California Disaster Assistance Act Adjustment

Proposal. The May Revision includes an increase of $49.5 million General Fund to reflect updated CDAA projections.

Background. The January budget proposed $33.1 million General Fund in 2018-19 and $23.5 million General Fund ongoing to support CDAA. If the proposed augmentations are approved by the Legislature the General Fund would provide $121.7 million for CDAA in 2018-19. Most of the proposed increase for 2018-19 is attributable to costs associated with helping local communities recover from the January and February 2017 storms. In addition, the budget included one-time General Fund in 2018-19 for OES activities primarily related to the October and December fires. The table below details projected CDAA expenditures in 2018-19.

DISASTER		FISCAL YEAR 2018/19		
		2018-19 Proposed Governor's Budget	Total Projected Expenditures	Projected Surplus / (Deficiency)
DR1505 (2003-05)	San Simeon EQ	$ 200,000	$ -	$ 200,000
DR1628 (2006-01)	2005/06 Winter Storms	$ 200,000	$ 550,000	$ (350,000)
DR1810 (2008-11)	November 2008 CA Wildfires		$ 1,500,000	$ (1,500,000)
DR1884 (2010-02)	2010 Severe Winter Storms	$ 200,000	$ 2,400,000	$ (2,200,000)
DR1911 (2010-03)	Baja Earthquake		$ 500,000	$ (500,000)
DR1952 (2010-17)	December 2010 Statewide Storms	$ 1,100,000	$ 2,000,000	$ (900,000)
DR4158 (2013-02)	Rim Fire	$ 900,000	$ 900,000	$ -
DR4193 (2014-02)	South Napa EQ	$ 1,500,000	$ 1,500,000	$ -
DR4240 (2015-03)	Valley & Butte Fires	$ 3,000,000	$ 3,000,000	$ -
DR4301 (2017-01)	January 3-12, 2017 Storms	$ 8,120,000	$ 8,120,000	$ -
DR4305 (2017-02)	January 18-23, 2017 Storms	$ 5,648,000	$ 5,648,000	$ -
DR4308 (2017-03)	February Storms	$ 28,425,000	$ 28,425,000	$ -
DR4344 (2017-09)	October 2017 Wildfires *	$ -	$ 13,862,000	$ (13,862,000)
DR4353	December 2017 Wildfires	$ -	$ 20,054,000	$ (20,054,000)
CDAA Only Disasters (see attached)		$ 22,926,000	$ 33,278,000	$ (10,352,000)
TOTALS		**$ 72,219,000**	**$ 121,737,000**	**$ (49,518,000)**

* Previously included in 9901 amount for Public Assistance.

LAO. As has been the case in recent CDAA augmentations, the administration's proposal did not include a BCP with an explanation and justification of the estimated costs. However, based on subsequent information provided by OES, the LAO finds the requested amount to be reasonable. The LAO recommends that the Legislature direct OES to submit any future requests for funding adjustments to CDAA through the submission of budget proposals rather than other workload budget adjustments.

Staff Recommendation. Approve as budgeted.

Issue 8: 9-1-1 Sustainment – January BCP and TBL

This issue was previously discussed at the subcommittee's April 5, 2018, hearing.

Proposal. The budget proposes six positions, $11.5 million (State Emergency Telephone Number Account (SETNA)) in 2018-19, and various amounts in outgoing years to build out and support Next Generation 9-1-1 activities and to maintain the legacy 9-1-1 system. The total five-year request for the project is $131.8 million, with an ongoing increased annual cost of $39.7 million.

The budget also includes trailer bill language to change the current calculation of the SETNA surcharge rate to a fixed rate in order to collect sufficient SETNA revenues. The budget proposal is dependent on the Legislature passing trailer bill language.

Staff Comment. At the April 5, 2018, hearing staff recommended holding this item open pending final agreement between OES and stakeholders on trailer bill language. Since that time an agreement has been reached. Staff has reviewed the language and has no concerns. However, staff notes that the language is still in draft form.

Staff Recommendation. Approve as budgeted. Adopt placeholder language to revise the SETNA fee.

SUBCOMMITTEE NO. 4 Agenda

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

Tuesday, May 15, 2018
9:00 a.m.
State Capitol - Room 2040

Consultant: Renita Polk

OUTCOMES

PROPOSED FOR VOTE ONLY

Item Department **Page**

All vote only proposals approved as budgeted, 3-0.

PROPOSED FOR DISCUSSION

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

Wednesday, May 16, 2018
10:30

State Capitol - Room
2040

Consultant: James Hacker

Vote Only Calendar

Items Proposed for Discussion

Public Comment

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

VOTE-ONLY CALENDAR

2240– Department of Housing and Community Development (HCD)

1. **Affordable Housing and Sustainable Communities Program.** The budget requests $2,782,000 in 2018-19 and $2,622,000 ongoing from the Greenhouse Gas Reduction Fund (GGRF) for 16.0 positions to implement the later phases of the Affordable Housing and Sustainable Communities (AHSC) program. It is reasonable to believe that HCD's workload will increase as the number of projects reaching to later stages of the project cycle increase. While construction loan closings are anticipated to decrease in 2018-19 and 2019-20, the Administration has indicated that this is largely due to a decline in GGRF revenues in prior years. The Administration has indicated that the recent reauthorization of the cap and trade program is anticipated to increase GGRF funding available to the program in out years. This item was first heard in subcommittee on March 15, 2018.

Staff Recommendation
Approve as Budgeted.

Issues Proposed for Discussion

2240 California Department of Housing and Community Development

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

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

Governor's Budget: The budget provides $1.2 billion and supports 856 positions at HCD in 2018-19, including roughly $39 million and 255 positions at the California Housing Finance Agency. This is an increase of roughly $470 million from 2017-18, mostly due to the implementation of the statewide housing package passed in 2017.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
1660	Codes and Standards Program	191.4	166.2	170.2	$30,502	$34,445	$34,803
1665	Financial Assistance Program	188.2	201.6	274.1	486,602	653,034	994,883
1670	Housing Policy Development Program	14.8	17.1	39.1	36,798	4,532	130,405
1675	California Housing Finance Agency	235.3	254.9	254.9	35,605	38,822	38,689
1680	Loan Repayments Program	-	-	-	-2,969	-1,944	-1,944
1685	HPD Distributed Administration	-	-	-	-141	-150	-150
9900100	Administration	147.4	107.0	117.5	14,753	16,893	20,216
9900200	Administration - Distributed	-	-	-	-14,753	-16,893	-20,216
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**777.1**	**746.8**	**855.8**	**$586,397**	**$728,739**	**$1,196,686**

Issue 1: Homelessness and Affordable Housing Proposals

Governor's Proposals: The Governor's January budget requested $16 million and 81.0 positions 2018-19, $21 million and 128.0 positions in 2019-20, and $23 million and 146.0 positions ongoing for State Operations to implement the 2017 Statewide Housing Package. HCD also requests Local Assistance authority of $522 million in 2018-19 and $773 million in out years.

The May Revision requests an additional $359 million in homelessness funding in 2018-19, including:

- $500,000 ongoing for three positions to staff the Homeless Coordinating and Financing Council.
- $250 million, one-time, for Emergency Homeless Aid Block Grants.
- $50 million, one-time, for DHCS mental health outreach.
- $47.3 million for several programs at the Department of Social Services focusing on youth, domestic violence, and homeless seniors.
- $11 million for several programs at CalOES focusing on homeless youth and domestic violence.

The May Revision includes trailer bill language transferring the Homeless Coordinating and Financing Council into the Business, Consumer Services, and Housing Agency (BCSH).

Staff Comments: In 2017 the Legislature passed a package of 15 bills aimed at increasing the affordability of housing in California. The package included proposals to place a general obligation bond on the November 2018 ballot, create a permanent funding source for affordable housing by levying a transaction fee on new real estate transactions, and a variety of regulatory reforms to speed up development and construction of new housing. SB 2 (Atkins), Chapter 364, Statutes of 2017, imposes a fee on recording of real estate documents, excluding sales, for the purposes of funding affordable housing. This fee is to be collected by county recorders and remitted to the state on a quarterly basis. Collections began on January 1, 2018. The first remittances occurred in April of 2018. The Administration has estimated that this fee will raise roughly $129 million in 2017-18 and $258 million in 2018-19.

The Homeless Coordinating and Financing Council was created by SB 1380 (Mitchell), Chapter 847, Statutes of 2016. The Council is tasked with a number of statutory goals, including (but not limited to) identifying and seeking funding opportunities, serving as a statewide facilitator, coordinator, and policy development resource, and creating a statewide data system to match data on homelessness to programs impacting recipients of state programs. While statute directed HCD to provide staff for the Council, statute does not create dedicated positions to carry out these goals.

Senate Proposal: The Senate is proposing a comprehensive homeless and affordable housing package that allocates $5 billion to a variety of programs over four years. Specifically, the program allocates $1 billion in SB 2 revenue, $2.5 billion in General Fund revenue, and $1.5 billion in Proposition 2 infrastructure funds. These funds are split between three overall policy goals: increasing the construction of affordable housing, providing long-term solutions to the state homelessness crisis, and providing emergency funding to local governments to address the most immediate homelessness issues.

Specifically, the package provides the following funding.

2018-19 Senate Affordable Housing and Homelessness Proposal	
Affordable Housing Construction	**$2.1 billion over four years**
Multifamily Housing Program	$1.9 billion
State Low Income Housing Tax Credit	$200 million
Long-Term Homelessness	**$1 billion over four years**
Housing for a Healthy California	$1 billion (includes $62.5 million of year one SB 2 dollars)
Homeless Coordinating and Financing Council	$4 million
Short Term Homelessness	**$1 billion over four years**
Homeless Emergency Aid Block Grant	$450 million
California Emergency Solutions Grant (ESG)	$62.5 million in year one SB 2 dollars (one-time)
Homeless Youth and Exploitation Program	$1 million (one-time)
Domestic Violence Shelters and Services Program	$200 million
CalWorks Housing Support Program	$169 million
CalWorks Homeless Assistance Program	$54 million
HomeSafe Program for Homeless Seniors	$15 million (one-time)
Homeless Mental Illness Outreach	$50 million (one-time)
Other SB 2 Programs	**$875 million over four years per existing statute**
TOTAL	**$5 billion over four years***

*Numbers do not tie due to rounding.

This proposal builds on the Governor's budget, which made notable investments with an eye towards mitigating the state's homelessness crisis. The Senate proposal is intended to strike a balance between:

1) Immediate and impactful aid for acute homelessness initiatives that cast a broad net;
2) Providing funding that is deeply-targeted towards moving chronically homeless individuals most likely to utilize high-cost services like emergency care into permanent supportive housing; and
3) Investing in the construction of affordable housing to ease the state's affordable housing crisis, particularly for California's low-income families living on the edge of homelessness.

It is also designed to give local jurisdictions maximum flexibility to address homelessness and affordable housing issues on their own terms, while providing for a statewide focus on long-term solutions.

This proposal strikes the appropriate balance between recognizing the urgent and immediate need that jurisdictions face as they attempt to address homelessness at a local level, while also making the proper investments to ensure that time-limited interventions will eventually lead to a sustainable solution such as housing with wraparound supportive services (where appropriate) or housing affordable to low-income families and individuals.

This proposal invests in the construction of affordable housing via the Multifamily Housing Program and Low Income Housing Tax Credit, which will allow the state to assist in financing additional housing units while leveraging federal investments. For every 70 cents California invests in MHP, it is able to realize $2.85 in additional federal funds. Additionally, these investments will help off-set recent and substantial reductions in federal housing funds.

This proposal also provides for long-term solutions to the state homelessness crisis by both expanding the Housing for a Healthy California program and fully resourcing the Homeless Coordinating and Financing Council. This will allow the Council to perform its statutory role of strategic planning and policy coordination. It will also allow the council to add additional staff to focuses on identifying housing solutions and funding for homeless youth. In addition, the Senate proposal includes a 12 percent set-aside within the Emergency Aid Block Grant program for homeless youth issues, as well as $5 million for homeless services in the Central Valley.

Finally, this proposal will complement the implementation of the No Place Like Home program, discussed in the next item, 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 has proposed putting the program on the 2018 statewide ballot for voter approval, which would allow the program to begin distributing funds in early 2019.

Staff Recommendation:
Approve the Senate Affordable Housing and Homelessness Package. Adopt placeholder trailer bill for necessary policy changes.

Issue 2: No Place Like Home Program

Governor's Proposal: The May Revision proposes trailer bill language to place the No Place Like Home program on the ballot for the November 2018 statewide general election. Additionally, the May Revision requests a loan of $1.2 million from the General Fund to fund 14 existing positions at HCD for the development of the first notice of funding availability (NOFA) for the program.

Background: AB 1618 (Committee on Budget), Chapter 43, Statutes of 2016, and AB 1628 (Committee on Budget) established the 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.

Voters approved Proposition 63 in 2004, imposing a 1% tax on that portion of a taxpayer's income above $1,000,000 to fund county mental health programs. NPLH is funded by Proposition 63 because housing is a key stabilizing factor in ensuring individuals suffering from mental illness who are also homeless receive the support services they need for recovery.

The Administration has been working to legally validate bonds secured by Proposition 63 revenue. To mitigate risks in court validation, HCD worked to develop the program before beginning the validation process. In order to perform this work, the enacting legislation authorized a General Fund loan of up to $2 million for program development.

Staff Comments: This proposal is very similar to SB 1206 (de Leon), which is currently working through the policy process. Putting the NPLH program to voters would allow the state to legally implement the program faster than if the state worked through the court validation process. Should the voters approve the program, no further court action would be required.

The administration has indicated that the bulk of the $2 million General Fund loan authorized in 2016 has already been spent in developing program guidelines and other stand-up activities. The additional $1.2 million requested in this proposal would allow HCD to develop the initial NOFA, preparing HCD to release program funds in a timely manner should the proposal succeed in the November statewide general election.

Staff Recommendation:
Approve the $1.2 million General Fund loan as budgeted. Adopt placeholder trailer bill language.

Issue 3: Southern California Disaster Planning Assistance

Governor's Proposal: The May Revision requests $480,000 in one-time General Fund resources to address planning and community development workload related to the 2017 Southern California wildfires.

Background: The December 2017 wildfires were the largest in the state's history, impacting communities in Los Angeles, San Bernadino, San Diego, Santa Barbara, Riverside, and Ventura counties. Pursuant to the State of California Emergency Plan, HCD is responsible for leading housing and community development disaster recovery work, whether by leading a task force or engaging directly in program delivery.

For the October Northern California fires, HCD secured a contract to provide technical assistance to impacted jurisdictions, develop a needs assessment, and build recovery and response capacity in local jurisdictions. Resources to address these disasters were proposed in the 2018-19 budget, and an Executive Order allocated $652,000 via the Disaster Response Emergency Operations Account.

Staff Comments: The department has indicated that this request would allow HCD to extend an existing contract to provide technical assistance and other services in response to the Northern California wildfires to jurisdictions in Southern California. Specifically, it would include $271,000 for recovery and a housing needs assessment in the impacted communities, $159,000 for implementation workload, and $50,000 for an additional contract to develop templates for local disaster planning that could be integrated into local General Plans.

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

PART A

Consultant: Renita Polk

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.

0650 Governor's Office of Planning and Research

Issue 1: California Institute to Advance Precision Health and Medicine

Governor's Proposal: The budget includes trailer bill language to establish the California Institute to Advance Precision Health and Medicine as a non-profit entity, and to appropriate $30 million in one-time General Fund resources for the Institute. To date, the state has appropriated $23 million in General Fund to OPR for precision medicine. Provisional language was included in each appropriation to ensure that funding was available for projects in both northern and southern California. The Administration's proposal is generally reasonable. However, staff recommends additional language to state that the intent is to fund projects in both northern and southern California, require that the Institute include the Legislature in its annual reporting process, and include a sunset date on the authorization for the non-profit to give the Legislature the chance to assess whether the Institute is meeting the Legislature's policy goals.

Staff Recommendation: Approve $30 million in one-time General Fund resources. Adopt trailer bill language that includes: 1.) language stating the intent is to provide funding to projects in both northern and southern California; 2.) language that requires the Institute to include the Legislature in its annual reporting process; and 3.) a sunset date of June 30, 2022 for the Institute.

0690 OFFICE OF EMERGENCY SERVICES

Issue 1: California Earthquake Early Warning System (CEEW)

The subcommittee heard the following issue during its April 5, 2018 hearing.

Budget. OES requests $15.75 million (General Fund) to complete the build out of and provide continued staffing and operating costs for the California Earthquake Early Warning System and program. Of the total requested amount, $15 million is a one-time augmentation to complete the build out of the system. The remaining $750,000 requested is for the ongoing, continued funding of four positions.

Staff Comment. At the April 5, 2018 hearing staff recommended holding this issue open pending release and review of the CEEW business plan. OES released this business plan on May 2, 2018. Staff has reviewed the business plan and has no major concerns.

Staff Recommendation. Approve as budgeted.

Issue 2: Emergency Response Operations – May Revision BCP

The subcommittee heard the following issue during its May 15, 2018, hearing.

Proposal. OES requests $1.6 million (General Fund) and 8 positions in 2018-19, and $1.5 million General Fund in 2019-20 and annually thereafter to support local agencies and coordinate emergency response activities.

Staff Recommendation. Approve as budgeted.

Issue 3: Regional Hazardous Material Response Program – May Revision BCP

The subcommittee heard the following issue during both its May 15, 2018, hearing.

Proposal. The May Revision proposes five positions and $3.4 million General Fund in 2018-19 and $3.1 million General Fund in 2019-20 and 2020-21 to continue implementation of the Regional Hazardous Materials Response Program.

Staff Recommendation. Approve as budgeted.

Issue 4: California Public Safety Microwave Network (CAPSNET) – May Revision BCP

The subcommittee heard the following issue during its May 15, 2018, hearing.

Proposal. The May Revision proposes $15 million State Emergency Telephone Number Account (SETNA) and ten positions in 2018-19. This would begin a five year plan to upgrade the CAPSNET at a total project cost of $78.3 million SETNA and seventeen positions.

Staff Recommendation. Approve as budgeted.

Issue 5: Disaster Response-Emergency Operations Account – May Revision TBL

The subcommittee heard the following issue during its May 15, 2018, hearing.

Proposal. The May Revision proposes trailer bill language that clarifies that allocations to the Disaster Response-Emergency Operations Account (DREOA) may be used for activities that commence within 120 days after a proclamation of emergency by the Governor.

Staff Recommendation. Adopt language that does the following:

- Clearly defines "response" activities as those that are immediate and deal with an ongoing or emerging crisis

- Requires notification to JLBC when an extension past 120 days is requested. The additional notification should include estimated additional amount of time required and reasons for the additional time required.

Issue 6: Consolidation of Victims Programs – May Revison

The subcommittee heard the following issue during its May 15, 2018, hearing.

Proposal. The May Revision includes provisional language to require OES and the California Victims Compensation Board to consider the consolidation of victims programs under one organization.

Staff Recommendation. Approve provisional language, but add requirement that report also be submitted to the relevant policy and budget subcommittees.

Issue 7: Increased Resources for Mutual Aid – Legislative Proposal

The subcommittee heard the following issue during its May 10, 2018, hearing.

Proposal. The subcommittee received a proposal requesting $100 million to shore up OES' mutual aid system. $87 million ongoing funding would be used to reimburse local governments for costs to pre-position resources in high-risk areas prior to the onset of extreme weather conditions. The remaining $13 million in requested ongoing funding would be for modernizing and improving communication and dispatch technologies and to hire additional personnel to allow for more efficient and effective resource deployment.

Staff Recommendation. Provide a one-time $25 million General Fund augmentation to be used for reimbursement of local governments for costs to pre-position resources in high-risk areas.

0845 California Department of Insurance (CDI)

Issue 1: Insurance Commissioner Office Space TBL

Proposal. The Administration proposes trailer bill language to reflect a move of CDI's San Francisco office to Oakland.

Background. CDI has a lease in San Francisco which expires on October 31, 2018. CDI was negotiating the lease extension when the lessor abruptly declined to continue lease negotiations. CDI has been working to find space in San Francisco but given their space needs and prices in excess of the CDI budget CDI found a space in Oakland. The office plans to move in December 2018. There is a statutory requirement for the commissioner to have an office in San Francisco. This change would prevent CDI from being out of compliance with statute until a bill to make the change can be authored.

Staff Recommendation. Adopt placeholder TBL stating that the commissioner must maintain an office in the San Francisco Bay area, instead of San Francisco.

Issue 2: Reauthorization of COIN – Legislative Proposal

The subcommittee heard the following issue during its May 10, 2018 hearing.

Proposal. The subcommittee received a proposal requesting the reauthorization of the COIN Community Development Financial Institution (CDFI) tax credit program.

Staff Recommendation. Approve reauthorization of the COIN CDFI tax credit program.

0890 SECRETARY OF STATE

The subcommittee heard the following issues during its April 5, 2018, hearing.

Issue 1: Voting Systems Replacement for Counties

Budget. The SOS requests $134.3 million (General Fund) spending authority to cover the costs for the replacement of voting systems. This includes one-time purchase of all necessary hardware, software, peripherals, and one year’s worth of software licenses. This funding assumes a 50/50 split between the state and counties.

Staff Comment. The actual costs of voting systems replacement for all counties are unclear. It is difficult to estimate, as costs will vary depending on the voting model used, and it is unknown what voting models many counties will decide to use in the future.

Staff Recommendation. Approve as budgeted.

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)
2320 DEPARTMENT OF REAL ESTATE

The subcommittee heard the following issues during its April 19, 2018 hearing.

Issue 1: Department of Real Estate (SB 173)

Budget. The Department of Consumer Affairs (DCA) requests a reduction of 11 positions and $1.25 million (Real Estate Fund) in 2018-19 and ongoing to implement the provisions of SB 173 (Dodd), Chapter 828, Statutes of 2017. Additionally, the DCA requests up to $2 million in reimbursement authority in 2018-19 for costs associated with providing administrative transitional support for the Department of Real Estate in 2018-19.

The DRE requests position authority for 18 positions and $1.835 million (Real Estate Fund) in 2018-19 and ongoing for Human Resources, Fiscal/Budget, and Legislative/Publications functions.

The request also includes an appropriation of $240,000 (Real Estate Fund) for the Business, Consumer Services and Housing Agency costs, which were previously provided through an interagency agreement with DCA.

As a supplement to the Governor's January budget proposal, the department requests a total reduction of fifteen positions and $2.3 million, phased in over three years. This proposal would consist of a reduction of $776,000 and five positions in 2018-19; a reduction of $500,000 and three and a half positions in 2019-20; and a reduction of $1 million and six and a half positions in 2020-21.

Legislative Analyst's Office (LAO). The LAO recommends that the Legislature require DCA to begin capturing data on past client usage and workload for its main service segments such as human resources, budget, training, and legislative support. The LAO further recommends supplemental reporting language requiring DCA to begin reporting this data annually starting no later than January 10, 2020.

In regards to the spring finance letter, the LAO recommends approving DCA's requested reduction for 2018-19, but requiring DCA to return next year to request any further reductions.

Staff Recommendation. Approve January budget proposal and the reductions for 2018-19 requested in the spring finance letter. Adopt placeholder language requiring DCA to report on efficiency measures the department has taken, as well as their outcomes, during the sunset review process.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 1: Southern California Disaster Planning Assistance

Governor's Proposal: The May Revision requests $480,000 in one-time General Fund resources to address planning and community development workload related to the 2017 Southern California wildfires.

Staff Recommendation: Approve as Budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

The subcommittee heard the following issues during its March 8, 2018, hearing.

Issue 1: Capital Outlay Proposals

Budget. The following capital outlay proposals were included in the Governor's Budget.

- Gregory Bateson Building Renovation - The department requests $5.2 million General Fund for the performance criteria phase of a project to renovate the Gregory Bateson Building.

- Jesse Unruh Building Renovation - The department requests $6.3 million General Fund for the performance criteria phase of a project to renovate the historic Jesse Unruh Building.

- Richards Boulevard Complex - The department requests $18 million General Fund for the performance criteria phase of a new Richards Boulevard Complex project.

Staff Recommendation. Approve all three proposals as budgeted.

Issue 2: Electric Vehicle Service Equipment Infrastructure Assessment and Facility Development

Budget. The department requests one permanent positon and a one-time augmentation of $15.6 million ($7.8 million General Fund and $7.8 million Service Revolving Fund) to continue the installation of Electric Vehicle Service Equipment (EVSE) in state facilities.

Staff Recommendation. Approve as requested.

8940 CALIFORNIA MILITARY DEPARTMENT

The subcommittee heard the following issues during its March 8, 2018, hearing.

Issue 1: STARBASE Los Alamitos

Proposal. The proposal provides $1.7 million (General Fund) for additional classroom space to support the STARBASE program site in Los Alamitos.

Background. STARBASE is a Department of Defense program that inspires fifth grade students to pursue careers in science, technology, engineering and math. While attending the week-long program, students receive 25 hours of hands-on instruction and activities. STARBASE teaches students to complete simulated missions using skills and principles from physics, computer science, chemistry and statistics. Students program a robot to complete a Mars Rover mission, design prototypes on Computer Aided Design, test experiments to learn the unique characteristics of elements and conduct their own experiments.

Staff Recommendation. Approve $1.7 million for additional classroom space for the STARBASE program at Los Alamitos.

8955 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS (CALVET)

The subcommittee heard the following issues during both its March 8, 2018, and May 3, 2018, hearings.

Issue 1: Capital Outlay - VHC Yountville Skilled Nursing Facility

Budget. In the 2018-19 budget proposed in January the department requested $15.7 million General Fund for the preliminary plans phase for a new skilled nursing facility at the Veterans Home of California in Yountville.

In a Spring Finance Letter, the department decreased the original January proposal to $7.1 million for the performance criteria phase of the project. The department also requested a shift in project delivery method from design-bid-build to design-build.

Staff Comment and Recommendation. Approve SFL that updates original January proposal. In the agendas for the above mentioned hearings staff expressed concern over the timing of this proposal and how it aligns with the Master Plan. To address those concerns staff recommends adopting placeholder language that requires CalVet to do the following:

- Develop a workgroup that will be required to develop and submit recommendations to CalVet by March 31, 2018 for consideration and incorporation into the Master Plan. The workgroup will include long-term care industry professionals, veterans advocates, legislators from both the Senate and Assembly (or their designees).

- Include an implementation plan for all system-wide facility changes needed to align the homes to meet current and future demand in the Master Plan.

- Prepare the Master Plan by December 31, 2019.

- Update the Master Plan every five years.

PROPOSED FOR DISCUSSION AND VOTE

2240 Department of Housing and Community Development

Issue 1: Office of Migrant Services Farmworker Housing

Governor's Proposal: The May Revision includes trailer bill language making changes to the Office of Migrant Services. The proposed language makes the following changes:

- Allows HCD to contract with for-profit entities for the construction and provision of migrant farmworker housing should no suitable non-profit provider be found.

- Statutorily defining a migrant farmworker as an individual who has lived at least 50 miles away from a migrant center for at least three of the last six months.

- Allows non-migrant immediate family members of migrant workers to utilize OMS housing.

- Allows up to 75 percent of units in a migrant housing facility to be exempt from the migrant worker requirement and to be set aside for non-migratory agricultural workers with school age children.

- Reserves a minimum of 25 percent of units in a migrant housing facility for migratory agricultural workers who require round trip travel in excess of 100 miles per day, such that the worker in unable to return to their chosen place of residence on a given work day.

Staff Comments: The Office of Migrant Services provides safe, decent, and affordable seasonal rental housing and support services for migrant farmworker families during the peak harvest season. This proposal raises several concerns. First, allowing for-profit developers to provide migrant worker housing creates the possibility of employer-owned housing developments. Additionally, expanding facilities to non-migratory family members of migrant workers, this bill would decrease the number of units actually available to migrant workers. These are policy issues, and should be addressed through the policy process.

Staff Recommendation: Reject the proposal.

8260 CALIFORNIA ARTS COUNCIL

The subcommittee heard the following issue during both its May 15, 2018, hearing.

Issue 1: Local Programming Augmentation – May Revision

Proposal. The May Revision includes a one-time augmentation of $5 million with provisional language to make this funding available for expenditure and encumbrance for three years, and authority to transfer up to $250,000 for administrative costs. These funds will allow the California Arts Council (CAC) to meet the increased demand in all grant programs.

Staff Recommendation. Approve as budgeted.

0000 VARIOUS DEPARTMENTS

Issue 1: Cannabis Regulation, Implementation, and Enforcement

Proposal. The May Revision includes a total of $133.3 million for cannabis-related activities across several departments. In addition, the May Revision includes a General Fund loan of up to $59 million to the Cannabis Control Fund. Note that the May Revision provides funding for all activities on a two-year limited-term basis. The tables below show all proposed expenditures and funding sources for cannabis-related activities.

Proposed Expenditures

	2018-19		
	Governor's Budget	May Revision	Change
Cannabis Control Fund	$87,704,000	$145,625,000	$57,921,000
Cannabis Tax Fund	$0	$66,764,000	$66,764,000
General Fund	$2,324,000	$0	-$2,324,000
Environmental License Plate Fund	$2,569,000	$0	-$2,569,000
Motor Vehicle Fuel Account	$5,000	$0	-$5,000
Business Fees Fund	0	$440,000	$440,000
Service Revolving Fund*	0	$13,034,000	$13,034,000
Total	$92,602,000	$225,863,000	$133,261,000
*Source funding is from the Cannabis Control Fund.			

	2018-19		
	Governor's Budget	May Revision	Change
Bureau of Cannabis Control and Dept of Consumer Affairs	$33,131,000	$77,007,000	$43,876,000
Department of Food and Agriculture	$21,117,000	$49,378,000	$28,261,000
Department of Public Health	$16,022,000	$26,590,000	$10,568,000
Department of Justice	$0	$13,966,000	$13,966,000
Department of General Services*	$0	$13,034,000	$13,034,000
Governor's Office of Business and Economic Development	$0	$10,000,000	$10,000,000
Department of Fish and Wildlife	$8,842,000	$8,842,000	$0
State Water Resources Control Board	$7,577,000	$7,577,000	$0
Department of Tax and Fee Administration	$2,425,000	$4,766,000	$2,341,000
Employment Development Department	$0	$3,707,000	$3,707,000
California Highway Patrol	$0	$3,000,000	$3,000,000
Cannabis Control Appeals Panel	$1,215,000	$2,650,000	$1,435,000
Department of Pesticide Regulation	$2,273,000	$2,273,000	$0
University of California	$0	$2,000,000	$2,000,000
Secretary of State	$0	$440,000	$440,000
Department of Finance	$0	$440,000	$440,000
Franchise Tax Board	$0	$193,000	$193,000
	$92,602,000	$225,863,000	$133,261,000
*Source funding is from the Cannabis Control Fund.			

Details of the specific proposals are described below.

General Fund Loan: The May Revision proposes a General Fund loan of $59.3 million to the Cannabis Control Fund.

Department of Consumer Affairs – Bureau of Cannabis Control: The May Revision proposes an increase of $33.9 million (Cannabis Control Fund); $900,000 reimbursements; and a total of 74 positions. The funds will be used to continue implementation of cannabis licensing and enforcement programs. The positions will be phased in beginning in 2018-19, reaching the total 74 positions in 2019-20. Funding includes resources to establish a local liaison unit, regional licensing and enforcement offices, a public awareness campaign, and safety assurance and financial compliance activities. In addition, funding is provided for interagency agreements for cash collection, the track and trace system and proprietary plant and package tag costs, and the administration of microbusiness licensure.

Additionally, it is requested that provisional language be added for the department to have the flexibility to increase resources, subject to Department of Finance approval and not sooner than 30 days after written notification to the Legislature. This will allow the department to respond to increased licensing, compliance, and enforcement workload.

Department of Food and Agriculture: The May Revision proposes $28.3 million Cannabis Control Fund and $18.2 million reimbursements in 2018-19; $21.7 million Cannabis Control Fund and $18.1 million reimbursements in 2019-20; and 79 positions. The request also includes provisional language to continue the implementation of cannabis cultivation licensing and enforcement. Funding for these activities has been phased-in based on timing of statutory requirements, and these resources will primarily support the ramp-up of annual licensing, compliance, and enforcement activities, as well as costs for proprietary plant and package tags for use with the track-and-trace system.

Additionally, it is requested that provisional language be added for the department to have flexibility to increase resources, subject to Department of Finance approval and not sooner than 30 days after written notification to the Legislature. This will allow the department to respond to increased licensing, compliance, and enforcement workload.

Department of Public Health: The May Revision proposes a total of $11.1 million ($10.6 million Cannabis Control Fund and $533,000 in reimbursements) in 2018-19; $12.5 million ($11.9 million Cannabis Control Fund and $527,000 in reimbursements) in 2019-20; and 38 positions to support cannabis manufacturing, licensing, and information technology activities. The positions will be phased in beginning in 2018-19 (for a total of 38 positions in 2019-20) to implement SB 94 (Budget and Fiscal Review Committee), Chapter 27, Statutes of 2017, including establishing new offices for licensing and cash collection, information technology enhancements, and licensing and enforcement resources in anticipation of increasing licensing workload.

In addition, it is requested that provisional language be added to give the department the flexibility to increase resources as needed, provided the workload needs are clearly demonstrated, subject to Department of Finance approval and not sooner than 30 days after written notification to the Legislature. This will allow the department to respond to increased licensing, compliance and enforcement workload. Language is also requested to make the information technology resources contingent upon the department working with the California Department of Technology to complete a special project report.

Department of Justice: The May Revision proposes trailer bill language to establish expenditure authorization from the California Cannabis Tax Fund in Revenue and Taxation Code 34019 (a) to support the enforcement of illegal cannabis activities by the Department of Justice. The language provides expenditure authority of $14 million and 47 positions to establish one interdiction and four investigation teams to combat the illegal cannabis market.

Department of General Services: The May Revision proposes $11.5 million Service Revolving Fund and 26 positions in 2018-19 and 2019-20; and a one-time augmentation of $1.6 million for facility expansion projects to accommodate the new positions in 2018-19. The Office of Administrative Hearings within the department conducts mediations and hearings for state and local agencies.

Governor's Office of Business and Economic Development (GO-Biz): Consistent with the provisions of Proposition 64, the May Revision proposes $10 million (Cannabis Tax Fund) in 2018-19, $20 million (Cannabis Tax Fund) in 2019-20, and $30 million (Cannabis Tax Fund) in 2020-21 for GO-Biz to oversee the Community Reinvestment Grants Program. Four percent of funding per year may be spent on administrative costs to implement the program. In addition, GO-Biz requests ten permanent positions phased in as follows: three positions in 2018-19, four positions in 2019-20, and three positions in 2020-21. These resources will allow GO-Biz to fund grants to local health departments and qualified community-based nonprofit organizations that support various substance abuse treatment, job placement, legal services, and other cannabis use-related programs.

California Department of Tax and Fee Administration: The May Revision proposes several changes to reallocate funding and provide support to the department for the collection of cannabis tax payments. The department is requesting to redirect resources that were approved in the budget act of 2017 and seeking additional resources in 2018-19 and 2019-20. The specific changes include:

- A reduction of 7.4 positions in 2017-18 and a redirection of $689,000 Cannabis Control Fund from personal services to operating expenses and equipment.
- A reduction of 1.1 positions and an increase of $2.5 million Cannabis Control Fund in 2018-19.
- An increase of 1.1 positions and $2.6 million in 2019-20.

Employment Development Department: The May Revision proposes $3.7 million (California Cannabis Tax Fund) and 16.5 positions be provided pursuant to Revenue and Taxation Code section 34019 (a) to collect and process cash payments of employer taxes from cannabis business and to provide employment services. This includes information technology system enhancements, security upgrades to ten field offices where cash transactions are conducted, and California Highway Patrol security and armored car service contracts.

Cannabis Control Appeals Panel: The May Revision proposes $1.4 million (Cannabis Control Fund) and five positions in 2018-19 and 2019-20 to support additional workload resulting from the projected increase in appeals related to cannabis licensing. The requested resources will support two new panel members, an additional attorney, administrative support, and facilities and travel costs.

Secretary of State: The May Revision proposes $440,000 (Business Fees Fund) in 2018-19; $425,000 (Business Fees Fund) in 2019-20; and three positions to implement SB 94 (Budget and Fiscal Review Committee), Chapter 27, Statutes of 2017. SB 94 established the authority of the Secretary of State to register trademarks and service marks related to lawful cannabis activities. While many applicants for cannabis-related licenses may seek a license from only one of the three state licensing agencies, it is likely that SOS will receive business filings for each of these applicants, leading so a significant increase in workload at the SOS.

Franchise Tax Board: The May Revision proposes trailer bill language to establish expenditure authority from the California Cannabis Tax Fund. This will provide the board $193,000 to provide support for the election of cannabis tax cash payments in 2018-19. In addition, $247,000 is proposed for the same purpose in 2019-20. The board will collaborate with CDTFA to leverage the infrastructure CDTFA has in place to collect cannabis cash payments from taxpayers.

Legislative Analyst's Office (LAO). The LAO finds that most proposals appear reasonable. There is considerable uncertainty regarding the amount of resources that will be needed for cannabis-related activities in 2018-19 and ongoing. Accordingly, the administration's approach of providing resources on a two-year limited-term basis makes sense. The LAO notes that the Legislature will want to consider what types of specific information on these programs, if any, it would like the administration to collect to facilitate its evaluation of the requests it will likely receive in 2020-21 to extend cannabis-related funding.

Staff Recommendation. Approve May Revision proposals as offered but fund the DOJ enforcement request from the General Fund and adopt placeholder trailer bill language. In addition, provide an additional four positions to the Bureau of Cannabis Control to provide technical assistance to local equity applicants and programs, and an additional $10 million to GO-Biz for no or low interest loans or grants to support small businesses within local equity programs.

CONTROL SECTION 6.10

Issue 1: Statewide Deferred Maintenance

Proposal. The May Revision requests that Control Section 6.10 be added in the amount of $1.067 billion ($1.06 billion General Fund and $7 million Motor Vehicle Account) for statewide deferred maintenance funding.

Background. This request will allow departments to address critical deferred maintenance projects statewide including levee improvements; roof replacements; elevator repairs, fire alarm upgrades; heating, ventilation, and air conditioning upgrades; steam, chilled water, and boiler repairs; electrical repairs; window replacements; new paint; and carpet replacement. In addition, funding provided may be used to assess existing infrastructure to inform future infrastructure spending. Proposed text of Control Section 6.10 is below.

(a) Notwithstanding any other provision of law, the Director of Finance may allocate $1,060,000,000 General Fund to the departments in the amounts identified below for deferred maintenance projects:

Department of Corrections and Rehabilitation	174,000,000
Judicial Branch	100,000,000
Department of State Hospitals	100,000,000
California State University	100,000,000
University of California	100,000,000
Department of Parks and Recreation	100,000,000
Department of Water Resources	100,000,000
Department of General Services	75,000,000
Department of Developmental Services—Porterville Facility	60,000,000
California Military Department	50,000,000
Department of Veterans Affairs	50,000,000
State Special Schools	16,000,000
Network of California Fairs	10,000,000
Office of Emergency Services	8,000,000
Department of Food and Agriculture	4,000,000
Employment Development Department	4,000,000
Department of Forestry and Fire Protection	4,000,000
California Conservation Corps	2,000,000
California Science Center[/1]	2,000,000
Hastings College of the Law	1,000,000

(b) Notwithstanding any other provision of law, the Director of Finance may allocate $7,000,000 Motor Vehicle Account, State Transportation Fund to the departments in the amounts identified below for deferred maintenance projects:

California Highway Patrol	5,000,000
Department of Motor Vehicles	2,000,000

(c) Prior to the allocation of funds, the Department of Finance shall provide a list of deferred maintenance projects for each entity identified in (a) and (b) to the Chairperson of the Joint Legislative Budget Committee 30 days prior to allocating any funds. The Department of Finance shall provide a schedule to the Controller providing for the allocation.

(d) Upon approval from the Department of Finance, departments may utilize up to 10 percent of these funds, but no greater than $5 million, for the purposes of conducting assessments of departmental infrastructure. Any such assessments shall either be conducted by the Department of General Services or shall adhere to guidelines published by the Department of General Services.

(e) Prior to making a change to the list, a department shall obtain the approval of the Director of Finance. The Director of Finance shall notify the Chairperson of the Joint Legislative Budget Committee no less than 30 days prior to adding any project with estimated costs greater than $1 million and quarterly of any and all changes to the list of deferred maintenance projects. The 30-day and quarterly notification to the Joint Legislative Budget Committee shall identify the projects removed or added, the cost of those projects, and the reasons for the changes.

(f) The amounts allocated pursuant to subdivisions (a) and (b) shall be available for encumbrance or expenditure until June 30, 2021.

[1/] Funds for the California Science Center will be allocated to the highest priority projects for each program at the direction of the Manager of Exposition Park.

LAO. The LAO has raised concerns with the proposal, consistent with ones raised in prior years. The LAO notes that the administration has not provided lists of specific projects that would be funded under the proposal and provides no clear basis for proposed funding levels. Rather than funding specific projects, the administration's proposed budget approach is to rely on a JLBC notification process. The LAO is concerned that this process would identify projects proposed for funding after the Legislature has made decisions on the budget. As a result, the funding amounts might not correspond with those that would be prioritized by the Legislature. Additionally, the proposed JLBC process provides the Legislature with much less time to review proposed projects than the traditional budget process and is less transparent to the public. Lastly, the proposed process to allow the administration to move forward with changes to funded projects without legislative approval would diminish the Legislature's control over how funds are spent and could result in the funding of projects that are not consistent with legislative priorities. The administration does not include an assessment of, or a plan to address, the underlying causes of the accumulation of deferred maintenance. Without such a strategy, there is no certainty that departments will have the necessary tools or other resources to address the underlying causes of their deferred maintenance backlogs.

The LAO has recommended the Legislature (1) adopt budget trailer legislation to create a separate account to fund one-time deferred maintenance projects and (2) deposit into this account the amount of General Fund revenues it decides is consistent with its overall General Fund priorities—an amount that could be higher or lower than the $1.06 billion proposed by the Governor. Under this alternative approach, this funding would then be available for appropriation by the Legislature in future years for departments and specific projects that it deems well justified and high priority. In the LAO's view, this approach would better balance a reasonable interest in dedicating more resources to maintaining state facilities with greater legislative oversight of these large General Fund allocations.

Staff Recommendation. Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

Issue 1: State Project Infrastructure Fund

Proposal. The May Revision proposes the transfer of $630 million General Fund to the State Project Infrastructure Fund (SPIF) to support future phases of office building renovation projects in the Sacramento area.

Background. As part of the 2014‑15 budget, the administration proposed and the Legislature approved funding for a study of state office buildings in the Sacramento area, which was to include assessments of the condition of state facilities (Facility Condition Assessments), a plan for sequencing the renovation or replacement of state office buildings in Sacramento (State Office Building Strategy), and a plan for funding these activities.

The Department of General Services completed the State Office Building Strategy in March 2016 and made some minor revisions to it in January 2018. The State Office Building Strategy includes building three new state office buildings. It also includes renovating seven existing state office buildings. In addition to these projects, the State Office Building Strategy also proposes replacing or renovating the State Capitol Annex in consultation with the Legislature's Joint Committee on Rules.

The 2016-17 budget established the SPIF. 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.

The transfer proposed in the May Revision is anticipated to fully fund the following projects: State Printing Plant Demolition (design-build phase, $155.8 million), Jesse Unruh Building renovation (design-build phase, $83.6 million), and the Resources Building renovation (performance criteria phase, $8.9 million, and design-build phase, $367 million). All expenditures for these projects will be made in accordance with the provisions set forth in Government Code Sections 14694 through 14697.

LAO. The LAO believes the projects that the administration anticipates supporting with the proposed funding are reasonable to undertake. However, the LAO does have concerns with the SPIF and finds that it limits legislative oversight. Accordingly, the LAO recommends modifying the SPIF so that it is no longer continuously appropriated.

Staff Recommendation. Reduce funding to $200 million per year for four years. Year one funding should come from General Fund, and funds from Proposition 2 should be used to fund years two, three, and four.

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

PART A

OUTCOMES

Consultant: Renita Polk

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 17, 2018
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Part B

Consultants: Joe Stephenshaw

Items Proposed for Vote Only

Items Proposed for Discussion

Public Comment

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

ISSUES PROPOSED FOR VOTE ONLY

CONTROL SECTION 12.00 (STATE APPROPRIATIONS LIMIT)

Issue 1: 2018-19 State Appropriations Limit

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

Staff Recommendation. Approve as budgeted.

CONTROL SECTION 35.5
9658 BUDGET STABILIZATION ACCOUNT

Issue 1: Budget Stabilization Account Adjustment

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

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

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

Staff Recommendation. Approve maximum deposit into the BSA.

0860 BOARD OF EQUALIZATION

Issue 1: Board Member Staffing

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

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

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

The Subcommittee heard this item on April 12.

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

0110/0120 STATE LEGISLATURE

Issue 1: Constitutional Adjustment (May Revision)

Governor's Proposal. The Legislature's budget for 2018-19 was proposed in January to be $134.2 million for the Senate and $176.8 million for the Assembly. Under the terms of Proposition 140, the growth in the Legislature's budget is constitutionally limited to the growth in the state's appropriation limit (SAL). The year-to-year SAL increase is calculated to be 4.03 percent in the Governor's May Revision. Applying this to the legislative budget would result in funding of $139.6 million for the Senate and $184 million for the Assembly.

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

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

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

0509 GOVERNOR'S OFFICE OF ECONOMIC AND BUSINESS DEVELOPMENT

Issue 1: CA Competes Tax Credit Program

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

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

The subcommittee heard this proposal on April 26.

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

9210 LOCAL GOVERNMENT FINANCING

Issue 1: Property Tax Backfill

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

The May Revision proposes $9.2 million to provide additional reimbursement for counties, cities, and special districts for property tax losses resulting from the 2017 wildfires and mudslides in Southern California. This request also includes provisional language to authorize the additional payment of property tax losses resulting from the 2017 wildfires and mudslides, if the amount appropriated in this item is insufficient to backfill the actual losses. The provisional language will also require the return by local agencies of any remittances that are eventually determined to exceed actual losses.

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

Staff Recommendation. Approve as budgeted.

7600 Department of Tax and Fee Administration

Issue 1: Proposition 56 Adjustment

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

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

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

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

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

Staff Recommendation. Reject this proposal.

Issue 2: Reporting Requirement – Trailer Bill Language

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

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

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

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

Staff Recommendation. Approve as budgeted.

Issue 3: Centralized Revenue Opportunity System Project

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

The subcommittee heard this proposal on April 12.

Staff Recommendation. Approve as budgeted.

7730 FRANCHISE TAX BOARD

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

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

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

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

Staff Recommendation. Approve as budgeted.

Issue 2: Earned Income Tax Credit

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

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

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

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

0840 STATE CONTROLLER'S OFFICE

Issue 1: Legislative Accounting Workload

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

Staff Recommendation. Approve as budgeted.

Issue 2: FI$Cal

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

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

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

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

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

The Subcommittee heard this item on May 3.

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

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS BOARD

Issue 1: Trailer Bill Language

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

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

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

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

0981 CALIFORNIA ABLE ACT BOARD

Issue 1: California ABLE Contract Funding

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

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

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

Staff Recommendations. Approve as budgeted.

0870 OFFICE OF TAX APPEALS

Issue 1: Administrative, Staff Attorney, and Support Positions

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

Staff Recommendations. Approve as budgeted.

0950 STATE TREASURER'S OFFICE

Issue 1: Infrastructure Support and Sustainability

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

The Subcommittee heard this proposal on March 15.

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

0989 CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

Issue 1: College Access Tax Credit

Governor's Proposal. The May Revision proposes $66,000 to support the continued administration of the College Access Tax Credit Program (CATC) pursuant to AB 490 (Quirk-Silva), Chapter 527, Statutes of 2017. SB 798 (De Leon), Chapter 367, Statutes of 2014 created the CATC to encourage taxpayers to make charitable donations to the state's Cal Grant program which provides financial aid to low-income California students pursuing higher education. AB 490 extended the sunset date for the credit by five years, until 2023.

Staff Recommendations. Approve as budgeted.

LEGISLATIVE PROPOSALS

Issue 1: Previously Heard Legislative Proposals

The following Legislative proposals were previously heard by the subcommittee:

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

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

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

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

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

ITEMS PROPOSED FOR DISCUSSION

LEGISLATIVE PROPOSALS FOR DISCUSSION

Issue 1: Special Olympics

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

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

Staff Recommendation: Approve as requested.

ITEMS PROPOSED FOR DISCUSSION

0840 State Controller's Office

Issue 1: California State Payroll System Project

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

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

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

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

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

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

- **CSPS PAL Development.** SCO requests funding to support 19 continuing positions to continue work on the project activities that will drive the review of business process and payroll policy reengineering, assessing options, and designing a new statewide payroll approach. As part of this request, SCO is requesting that 11 of the existing limited-term positions be continued permanently with eight of the remaining positions being requested as one-year limited-term and one being requested as one-year limited-term in 2019-20. The 11 positions support the core project staff and administrative support and the need for these positions will continue for the duration of the project. In addition to these positions, SCO will retain the services of retired annuitant staff with decades of experience and extensive knowledge in all personnel and payroll disciplines in 2019-20. These staff will provide critical support to the documentation process. The continued presence of these staff serve as a mitigation against the institutional knowledge lost due to the ongoing retirement of other long-term key staff.

- **Statewide ESS Portal.** SCO is requesting resources for five positions for 2018-19 and 2019-20 to complete the development and implementation of a statewide ESS web portal. While the CSPS project is pursuing a long-term alternative solution to the payroll system, many years will lapse before a new system is implemented. In the interim, SCC is developing an ESS web portal application designed to interface with the legacy mainframe system that provides employees access to read specific payroll data such as leave balances, W-2s, employment history, and paystubs.

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

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

Issue 2: CalATERS System

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

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

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

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

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

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

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

Staff Recommendation. Approve as budgeted.

8885 Commission on State Mandates

Issue 1: Repealed Mandate Payment

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

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

Staff Recommendations. Approve as budgeted.