Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Wednesday, May 11, 2022
9 a.m.
1020 O Street, Room 1200

Consultants: Anita Lee and Elisa Wynne

Part A

Vote Only Items

Discussion Items

Public Comment

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ITEMS PROPOSED FOR VOTE ONLY

0511 GOVERNMENT OPERATIONS AGENCY

Issue 1: Excluded Employees Trailer Bill Language

Summary. The Administration proposes trailer bill language to expand the definition of excluded employees to include employees of the Secretary of Government Operations within Government Operations Agency.

Background. The Administration notes that when Government Operations Agency was formed under the Governor's Reorganization Plan II it was agreed by the Governor's Office, Department of Finance and California Department of Human Resources that employees of the Office of the Secretary would be excluded from collective bargaining due to the access to policies being developed within GovOps and/or their control agency departments that impact all state employees. The Administration notes that for nearly a decade, CalHR had routinely designated all GovOps staff as such. However, recently due to staff turnover at CalHR some GovOps hires have not been classified in this historical manner. New CalHR staff point to statute where GovOps is not delineated along with the other state department employees who are deemed to be excluded from bargaining.

An excluded employee is excluded from the collective bargaining process. The most common type of excluded employees are managers and supervisors. However, non-managerial employees also can be excluded from collective bargaining. These types of employees often are designated as excluded because they are involved in management's process to establish its position at the bargaining table or to establish the budget.

Currently, the Office of the Secretary has 33 authorized positions. The Administration notes that this trailer bill would impact three employees at this time, who were recent hires that were classified as rank-and-file.

Staff Recommendation. Approve as proposed.

Issue 2: Government Excellence and Transformation Center Staffing

Summary. The Governor's budget includes four positions (Career Executive Assignment A, Staff Services Manager I, Research Data Specialist I, and Associated Governmental Program Analyst) and $665,000 General Fund in 2022-23 and ongoing to staff the Government Excellence and Transformation (GET) Center.

The GET Center seeks to accelerate the modernization of state operations by state departments to conduct pilots that could be scaled across state government for broad adoption. Additionally, the GET Center will establish a repository of best practices and case studies of successful operational innovations that measurably improve the state's operational effectiveness.

The Administration expects that once fully staffed, the GET Center will implement five scalable projects annually, issue three case studies highlighting lessons learned, and establish a website by 2023.

This item was heard in the subcommittee's March 2nd hearing.

Staff Recommendation. Approve as budgeted.

Issue 3: Workload Adjustments

Summary. The Governor's budget includes two positions and $435,000 ($170,000 General Fund and $265,000 reimbursements) in 2022-23 and ongoing to fund and manage existing workload associated with oversight and management of state government operations. The two positions are Statewide Privacy Officer and Assistant Secretary.

GovOps notes that there is a need for an individual that is dedicated within GovOps to coordinate emergency response activities amongst their control agency departments, track response efforts, report on fiscal impacts, and assisting with other department plans such as the Cradle-to-Career Data System and Office of Digital innovation.

GovOps also requests the establishment of a Statewide Privacy Officer to coordinate and oversee GovOps compliance with state and federal privacy laws, work with GovOps control agency departments to promote privacy of data, perform assessment and inventory of operations, and participate in special projects on an as-needed basis.

This item was heard in the subcommittee's March 2nd hearing.

Staff Recommendation. Approve as budgeted.

0840 CALIFORNIA STATE CONTROLLER'S OFFICE

Issue 4: Unclaimed Property Management System Replacement

Budget Request. The State Controller's Office (SCO) requests $323,000 in 2022-23, $1,183,000 in 2023-24, $1,647,000 in 2024-25, $1,685,000 in 2025-26, and $1,724,000 in 2026-27 and ongoing from the Unclaimed Property Fund (UPF) to support the replacement of the current Unclaimed Property System (UPS2000) with a new unclaimed property management system (UPMS) and significantly decrease the risk of system failure. This item was previously heard in Subcommittee #4 on May 4, 2022.

Staff Recommendation: Approve Spring Finance Letter.

Issue 5: California State Employees Telework and Healthcare Stipends

Budget Request. The State Controller's Office (SCO) requests $495,000 [$297,000 General Fund (GF); $198,000 Central Service Cost Recovery Fund (CSCRF)] in 2022-23 and $194,000 [$116,000 GF; $78,000 CSCRF] in 2023- 24 and ongoing to support the disbursement of the California State Employees Telework and Improving Affordability and Access to Healthcare stipends. This item was previously heard in Subcommittee #4 on May 4, 2022.

Staff Recommendation: Approve Spring Finance Letter.

0950 STATE TREASURER

Issue 6: Pooled Money Investment Account (PMIA) Operations

Budget Request: Through a spring finance letter, the STO requests one Associate Treasury Program Officer to support the workload associated with the increase in the amount of securities held in the PMIA. Funding would be $136,500 (Surplus Money Investment Fund) and $19,500 (General Fund). This item was previously heard in Subcommittee #4 on May 4, 2022.

Staff Recommendation: Approve Spring Finance Letter.

0890 SECRETARY OF STATE

Issue 7: Augmentation of Rent Funding for the Secretary of State

Summary. The Secretary of State (SOS) requests an augmentation of $3.6 million ($1.9 million Business Fees Fund and $1.7 million General Fund) in 2022-23 and $4 million ($2.1 million Business Fees Fund and $1.9 million General Fund) annually thereafter to cover rental rate increases.

Background. Since 2014-15, the SOS has paid an average annual increase of four percent in expenditures for rent of the March Fong Eu Building while not receiving a budget augmentation.

Pursuant to the DGS Price Book and the projected 2022-23 rental rates for the March Fong Eu Building/SOS Headquarters, the deficit within the SOS rent authority will continue to increase at the annual rate of four percent and will create a $3.6 million deficit in the SOS' budget. To date, the SOS has absorbed these additional rental costs through a combination of deferred equipment purchases and savings generated by leaving positions vacant for one or more additional months.

However, the SOS is no longer able to absorb these costs as there are other facility operations costs which the SOS is absorbing above and beyond the increased rent of the Headquarters building. These costs include increased rent of the Southern California Regional Office location, unarmed Security for the Headquarters location, COVID-19 health screening services, as well as DGS and other statewide surcharges. The SOS has also experienced a large increase in the number and costs of Elections-related litigation

The amounts requested are only projected to cover costs through 2023-24. Based on the projected increases, however, the gap between allotments and invoice will once again begin from 2024-25 onward.

Staff Recommendation. Approve as budgeted.

Issue 8: Business Programs Division Processing Times

Summary. The SOS requests a continuation of spending authority for the resources needed to reach and maintain an average five business day or better turnaround/processing time for Business Filings and Statements of Information until California Business Connect is fully implemented.

Due to recent and ongoing automation and online improvements, the SOS has reduced the requested ongoing support from 56 positions to 47 positions, a 16 percent reduction. Therefore, the SOS is requesting one-time spending authority in 2022-23 in the amount of $5.3 million Business Fees Fund to support 47 positions, temporary help, and overtime. The Business Fees Fund is comprised of the filing and service fees that businesses pay to the Secretary of State for this service.

Background. The SOS maintains business records and provides information related to business filings of record to the public and/or other governmental agencies. The SOS processes over 150 different types of business filings, using more than 20 different software applications. In addition, the data for several types of these business filings continues to be recorded on 3” x 5” index cards. The SOS has business related responsibilities including, but not limited to (1) overseeing the creation of a new business, including filing of documents for formation, amendment, dissolution, mergers and conversions, (2) providing copies of business records to members of the public and other government agencies for taxing, licensing and other regulator purposes, (3) providing “Good Standing Certificates” on businesses, which allows business to open bank accounts, (4) registering trademarks, business bonds, domestic partners, among other responsibilities.

The California Business Connect is an information technology project that seeks to automate paper-based process, allowing business to file and request copies of records online, provide access to SOS business records allowing government agencies to perform functions in an efficient manner, and allow fee payments to be processed within one business day. While many processes already have been automated under the project, the project is not fully implemented, with filings related to business entities is the last module to be rolled out. The project is now expected to be fully implemented in 2022. The majority of all incoming business filing documents are submitted on paper accompanied by payments and are processed manually. The Administration notes that there may be backlogs with additional funds and personnel.

Prior to 2013-14, business filing documents took as much as 95 business days to process. In 2013-14, the SOS submitted a Finance Letter that was approved for 56 limited- term positions in 2013-14, 54 limited-term positions in the second and third years (2014-15 and 2015- 16) and additional temporary help and overtime. Additionally, the SOS also received $5.5 million to support the additional positions, temporary help and staff overtime in both 2016-17 and 2017-18 to maintain the 5-business day turnaround times.

Automation efforts outside of the project and increasing improvements to online services as parts of the project are implemented, has enabled SOS to reduce this request. Reductions for ongoing support decreased by 16 percent from the initial request, from 56 positions down to 47 positions. However, the COVID-19 Pandemic has negatively impacted SOS's ability to maintain acceptable processing times. SOS is once again struggling to process business entity paper documents in a timely manner. In 2020-21 and 2021-22, business entity documents took as long as 35 days to process. While statement of information documents took as long as 10 days to process. Additionally, in the last 3 years, the active businesses of record with the SOS has grown from 1,948,031 to 2,371,290, an increase of 22 percent. Although the pandemic has impacted the paper processing times, once the SOS is able to have more staff return back into the office, it is expected that the 47 positions are sufficient until CBC is fully implemented and stable.

Budget Request. SOS requests an extension of the spending authority ($5.3 million) for positions, temporary help and overtime for 2022-23 to allow the SOS to reach and maintain the average processing time of 5- business days or better for business filings and statements of information in the current manual paper process environment. Additionally, previously established positions in Information Technology, and Management Services, are needed to support the additional temporary staffing.

The projected outcome is to continue processing business filings at an average processing time of five-business days or better for business filings and statements of information, timely processing of requests for certificates and certified copies of business records and handling the increased public phone calls.

Staff Recommendation. Approve as budgeted.

Issue 9: California Business Connect

Summary. The SOS requests $8.1 million ($1.5 million Business Programs Modernization Fund and $6.6 million Business Fees Fund) in 2022-23 to complete the California Business Connect project including nine months of maintenance and support costs and three months of program costs. The total project cost for 2022-23 is $9.7 million of which $8.1 million is new spending authority and $1.6 million represents costs to be absorbed within existing resources.

Background. The SOS has the responsibility for processing and filing 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 is a comprehensive technology solution that has increased online services for business filings and requests for information. CBC allows the SOS to process business documents virtually, instantly, in some cases, also within a few hours or days and avoids processing fluctuations that vacillate depending on the time of year.

Business Entities, including Limited Liability Companies, Limited Partnerships, and Corporations Filing online forms are addressed in the first module, the second module addressed Trademarks. Uniform Commercial Code (UCC) was addressed in the third module and the remaining Business Entities business services and infrastructure will be the fourth and final module. With successful completion of Modules 1 to 3, Module 4: Business Entities Features remains. The current Business Entities processes make it increasingly difficult to comply with current mandates and implement new legislative mandates. In addition, current processes are prone to human error. Without the CBC solution, Business Entities backlogs. Special Project Report #4 for the California Business Connect Project was approved in May 2020. SPR#4 allows the project team to focus on the largest annual volume of paper flings with development and implementation in modules, while also replacing outdated legacy systems.

The release of this new flagship Business Entity system is planned for March 29, 2022. Once deployed, Tecuity's SOS Enterprise Software will be the new system of record for Business Entities replacing the legacy mainframe databases. The estimated total project cost is $68.4 million.

Starting in the last quarter of 2021-22, the project will move into the maintenance and operation (M&O) phase. Immediately after deployment to production, the project team will stabilize the final Module 4 within a three-month warranty period. The M&O phase will continue for a full year after Module 4 has been deployed to production. During the M&O phase, the CBC Project Management Office will complete a Post Implementation Evaluation Report (PIER), which is scheduled for submission to the California Department of Technology in September of 2022.

Therefore, with the end of the M&O phase, March 29, 2023 will mark the closing of the CBC project and thus an end to CBC project funding. Between March 30, 2023 and June 30, 2023, this BCP will fund the bizfile program for the SOS until the PIER proposal is complete.

CBC Modules	Estimated Completion Date
Module 1: Online Business Filings (completed)	04/27/2020
Module 2: Trademark/Service Marks (completed)	10/312019
Module 3: UCC	07/15/2020
Module 4: Business Entities (LLC/LP & Corp)	3/29/2022
PIER	12/31/2022
Maintenance and Operations	3/29/2023

Budget Request. The Administration requests $8.1 million ($1.5 million Business Programs Modernization Fund and $6.6 million Business Fees Fund) in 2022-23 to proceed with the CBC

M&O activities. This request will support a contract for systems integration vendors, project management services, Independent Project Oversight, Independent Verification and Validation, Organizational Change Management, temporary help to backfill behind redirected staff, and other operating expenses related to the project. The consultants will also work with SOS staff on organizational change management planning.

It should also be noted that no additional positions will be requested; however, staff will be redirected and reclassified to higher levels to work on the project and to provide customer services and maintenance of the new system(s) once the project is implemented.

Staff Recommendation. Approve as budgeted.

Issue 10: Expanding Space and Resources to California's Historic Artifacts and Records

Summary. The Secretary of State requests $1,005,000 General Fund in 2022-23 and $645,000 annually thereafter to support two positions and to convert existing storage space and expand protective measures for historic records housed in the California State Archives.

Background. Since 1850, the State Archives, a division of the SOS, has collected, preserved, and provided access to California's historical public records and artifacts. . The State Archives' collections are stored at the SOS March Fong Eu Building in Sacramento. To preserve the collection, physical records in a variety of formats are stored in acid-free archival boxes on six floors of climate and humidity-controlled stacks. The State Archives have received an influx of physical and electronic artifact and records transfers and anticipates a high quantity of paper and electronic records being transferred within the next six months from the California Legislature and state agencies due to building transitions and closures. Current estimates include several thousand boxes of new records and artifacts being transferred to the State Archives prior to June 30, 2022.

The State Achieves has does not have the storage capacity, facilities or equipment to keep up with demand. For example, the current physical storage facility for records is approximately 85 percent full, with a combination of fixed shelving (unable to be moved) and mobile shelving (compact shelving that can be moved to accommodate more records). Additionally, the storage space and specialty storage for historic artwork and artifacts is approximately 85 percent full, with artifact storage at 69 percent capacity. At the collection's current growth rate, SOS anticipates the State Archive will run out of space within seven to 12 years. In 2021-22, SOS received one-time funding for bulk digitization, however, there is no dedicated ongoing funding for scanning paper records and physical items for public access. Digitization projects not only provide broader online access but may free up physical storage space with digital preservation copies of records. Additionally, The State Archives does not currently have a large freezer storage to prevent wet records that arrive to the State Archives damaged, from developing mold. SOS notes that they also have limited staffing to respond to public request levels, process increased quantities of records, scan records for remote access, and limited management staff. Limited funding is available to reclassify existing positions to address expanding higher-level workloads.

The Administration requests the following:

Item	Estimated Cost One-Time	Estimated Cost Ongoing
Shelving Conversion – convert fixed to mobile shelving, add new shelving and storage racks,	$150,000	N/A
Disaster Recovery Resources – freezer, mobile quarantine hub, preservation tools	$300,000	$150,000
Scanning Equipment	$50,000	N/A
Ongoing Digitization	$250,000	$250,000
Additional Positions – One Staff Services Manager II, one Associate Governmental Program Analyst, one Archivist II, and two Digital Composition Specialist Is	$255,000	$245,000
TOTAL	$1,005,000	$645,000

The two permanent positions will be responsible for the following:

- Staff Services Manager II: Oversee a first level manager that oversees the unit reviewing records retention schedules, as well as a new artifacts collection program unit, which includes the requested positions (Associate Governmental Program Analyst, Archivist II, and Digital Composition Specialist Is). This unit will oversee projects on collections care in ingesting artifacts. This position provides an additional manager to oversee first line managers and assist with strategic, workforce, and succession planning.

- Digital Composition Specialist I: Scan and digitize artifacts and records, format artifacts photo digitization and image stitching for online presentation, assist with virtual access, and provide imaging support for increased public requests and online access.

Staff Recommendation. Approve as budgeted.

Issue 11: Help America Vote Act Spending Plan

Summary. The SOS requests $3.7 million Federal Trust Fund in 2022-23 to continue implementation of the statewide mandates of the Help America Vote Act (HAVA) of 2002.

Background. The federal HAVA 2002 (P.L. 107-252) was enacted October 29, 2002. The Help America Vote Act (HAVA) of 2002 was passed by the United States Congress to make sweeping reforms to the nation's voting process. HAVA addresses improvements to voting systems and voter access that were identified following the 2000 election. Most recently, in 2021-22, the SOS was authorized to expend $22.735 million for voter education and training programs for election officials and poll workers, development and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, county assistance for improving voting systems, implementing risk limit auditing, ensuring election assistance for individuals with disabilities, and improving the secure administration of elections.

To date, California has received $459.8 million in federal funds to implement these mandates. Currently, including interest earned, total funds received equal $521.1 million. Since 2002, the SOS has used these funds for a variety of purposes, including replacement of county punch-card systems, voter outreach and education activities, poll monitoring, parallel monitoring, reimbursement to counties, grants to counties for voting assistance to individuals with disabilities, and other HAVA related activities.

Most recently, in 2021-22, the SOS was authorized to expend $22.735 million for voter education and training programs for election officials and poll workers, development and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, county assistance for improving voting systems, implementing risk limit auditing, ensuring election assistance for individuals with disabilities, and improving the secure administration of elections.

Budget Request. The Administration proposes to expend $3.73 million in federal funds for voter education and training programs for election officials and poll workers, development and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, county assistance for improving voting systems, ensuring election assistance for individuals with disabilities, election auditing, and improving the secure administration of elections.

This proposal is not intended to address existing state workload or improve state business workflow. Rather, it is a spending plan created by the SOS to utilize and/or distribute federal grant funds to underwrite the implementation of HAVA.

Staff Recommendation. Approve as budgeted.

Issue 12: Help America Vote Act Spending Plan - VoteCal

Summary. The Secretary of State requests $10.2 million Federal Trust Fund authority in 2022-23 to cover the procurement costs of a new maintenance and operations (M&O) vendor and data analysis, security assessment, Election Management Systems support and verification, data lines, security enhancements, and off-premises cloud costs for the statewide voter registration system, VoteCal.

Background. Help America Vote Act (HAVA) of 2002 (Public Law 107-22, 107th Congress) mandates that each state implement, maintain and administer at the state level, a uniform, centralized, interactive, computerized voter registration database. VoteCal serves as the state's single system for storing and managing the official list of registered voters.

To fulfill the purposes of the voter registration program, the state distributes voter registration cards through many channels, including local advocacy groups, other state and local agencies, and provides online access to registration materials. The SOS also provides online voter registration. County election officials are responsible for processing voter registration applications, verifying eligibility, notifying voters of their registration status, and updating registration records. The information collected and maintained through the voter registration process is used by county election officials to conduct a variety of election management activities, such as determining precinct boundaries, establishing polling places, and mailing election information.

Additionally, HAVA mandates that the voter registration system utilize data that is contained in systems at the Department of Motor Vehicles (DMV), the California Department of Public Health (CDPH), and the California Department of Corrections and Rehabilitation (CDCR) for voter identification or verification and list maintenance purposes. The VoteCal system also interfaces with the Employment Development Department (EDD) to validate and correct address information against the U.S. Postal Service's National Change of Address (NCOA) system as required by state and federal law.

Budget Request. The Administration requests $10.2 million for: the procurement of a new M&O vendor, data analysis, security assessment, EMS support and verification, data lines, security enhancements, and off-premises cloud costs.

Budget Request Summary	
Maintenance and Operation	$3,690,000
Funding for External Consulting	$6,511,000
Total	$10,201,000

The current M&O contract for the VoteCal system ends on September 29, 2022. The M&O vendor provides critical services for all 58 counties in California for current voter registration data when performing any voter or election related activity.

Staff Recommendation. Approve as budgeted.

Issue 13: Improving the Project Management Office Structure, Processes and Standards in Project Management and Portfolio Reporting

Summary. The SOS requests six positions and $1,347,000 ($398,000 General Fund and $949,000 Business Fees Fund) in 2022-23, and $1,317,000 ($390,000 General Fund and $927,000 Business Fees Fund) annually thereafter, for IT project management.

Background. In 2016, the Project Management Office (PMO) within SOS was centralized under executive leadership for the purpose of prioritizing technology investments and spending in the Project Approval Lifecycle (PAL) framework, providing transparency on the progress of technology projects, establishing governance to address issues with project implementation, and to implement organization changes to respond to public needs. The PMO has managed contracted workers and government employees to deliver IT projects, review and approve IT project deliverables, manage project risks and activities, oversee system enhancements to VoteCal, and oversee projects related to California Business Connect.

The PMO consists of 13 positions funded by the General Fund and Federal Trust Fund. Some resources have backgrounds in IT application support, IT-related areas, and non-IT related program areas. However, there remains a significant gap in skills and resources with regards to project planning, especially in fulfilling the PAL process requirements before a project is executed. The common practice has been to pair PMO state staff with consultants (contracted workers) to run projects. During project execution or implementation, state staff are primarily responsible for managing contracted workers who carryout projects and reviewing and approving project deliverables.

Budget Request. SOS requests staffing and budget augmentation to the PMO function to correct gaps and deficiencies in project planning activities in the organization. Additional staffing resources with PMO knowledge and skills are needed for timely completion of project plans and to bring visibility to IT projects undertaken at SOS. This proposal requests six positions and $1,254,000 in permanent funding to bring new skills, experience, and talent into government to establish a PAL planning team and a Project Portfolio Management Team.

The PAL planning team will consist of four additional staff and $108,000 in CDT Services. This team will be guided by CDT project management professionals to produce higher quality project plans for more thorough planning and project management practices.

The Project Portfolio Management Team will consist of two positions and $108,000 in CDT Services. This team will conduct monthly and quarterly project portfolio reporting to executive leadership on the performance of approved projects (including costs/resources, budget, and schedule) and proposed projects for prioritization.

SOS has project proposals on hold at various stages of PAL, awaiting resources for planning and internal prioritization. The PMO may have reached maximum capacity with all existing staff assigned to projects in the execution phase since 2019. There are three current projects that remain in the execution phase longer than planned, due to scope, schedule, and cost issues, delaying completion and transition to maintenance and operations. This proposal requests resources to complete unfinished planning activities for projects currently in the PAL process as well accepting new proposals for technology improvements in support of our business programs.

Staff Recommendation. Approve as budgeted.

Issue 14: Elections Voter Hotline (Spring Finance Letter)

Summary. The Secretary of State is requesting $540,000 General Fund in 2022-23 and ongoing for the use of temporary staff to assist with statewide election voter support on the Secretary of State's Voter Hotline.

Background. Existing law requires SOS to operate a confidential toll-free Voter Hotline to report the denial of voting rights as outlined in the Voter Bill of Rights, report election fraud or misconduct, and to report the misuse of voter registration information. Additionally, existing law also requires the SOS to operate the Voter Hotline as a way for voters to access information regarding cross-over voting in a presidential primary election. The state voter information guide is also required to include the toll-free number, providing a way for voters to request published copies of the full text of proposed ballot measures ahead of an election, a request that must be fulfilled within one business day.

SOS also provides the Voter Hotline in English and nine additional language. SOS does not have staff that speak all nine languages, and instead uses a third-party translator to transcribe messages in these languages for response. If an additional contact with the voter is needed, SOS staff uses a third-party interpreter service to contact the voter in their native language to obtain any additional information needed to ensure the voter's inquiry is fulfilled. This may include sending the voter materials in one of the languages our office provides materials in or assisting the voter in locating their polling location, tracking their ballot, or explaining their rights as a voter.

The SOS's Elections Division has a staff of 38 full-time staff, with 4 staff dedicated to the operation of the Division's Front Office operations. These operations include answering calls on the Voter Hotline, processing Voter Hotline messages left after hours, processing incoming and outgoing mail, and general support of the Division. The Elections Division has historically used Student Assistants to support the Front Office staff with these tasks. SOS notes that it is difficult to cover the Voter Hotline full time when we must work around the students' school schedule and the full-time work prohibition, leaving gaps in coverage.

Ahead of the November 3, 2020 election, the Governor issued two executive orders which ordered that all active registered voters in the state receive a vote-by-mail ballot, as well as modified in-person voting opportunities and online tools. During this time, SOS contracted with a temporary staff agency to provide 25 full-time staff and two retired annuitants. During the 60-day period ahead of the regularly scheduled 2020 November general election, our office answered 105,085 live calls and responded to 16,853 voice messages. During this time, the Voter Hotline experienced spikes in volumes that exceeded 600 callers in queue with up to an hour and fifteen-minute wait. Ultimately, the Voter Hotline averaged a wait time of seven minutes and forty-one seconds, a significant increase from the four minute and forty second wait time in the 2018 general election, even with added resources.

During the 60-day period ahead of the September 2021 special recall election which was called 75 days before the date of the election, our office answered 29,614 calls and responded to 2,910 voice messages, in addition to over 3,700 emails. During this period, the average wait time was 16 seconds, a significant increase in response time and service to our voters. For the September 2021 recall election, SOS used 75 staff (Elections staff, student assistants, and other SOS agency staff), and up to 25 temporary workers to maintain reasonable response and hold times.

To adequately train and prepare temporary staff to be successful representatives of the SOS, we would anticipate the need to onboard temporary staffing at 90 days prior to a statewide election to allow for training (earlier for temporary managers). The SOS requests $85,757 to support three retired annuitant managers during the months prior to a statewide election, and $455,684 for a temporary staffing agency contract during the 90 days prior to a statewide election.

Staff Recommendation. Approve Spring Finance Letter.

Issue 15: SOS Building Security Improvements (Spring Finance Letter)

Summary. The Secretary of State requests a one-time augmentation of $2,678,000 ($808,000 General Fund and $1,870,000 Business Fees Fund) for the completion of a multi-phased security improvement project being implemented at the March Fong Eu Secretary of State Building Complex. These improvements are based on an updated security assessment performed by the California Highway Patrol (CHP) in fall of 2021 and prior assessment by DGS and CHP in 2015.

Background. The March Fong Eu Building Complex, which serves as the SOS's headquarters, houses the business operations of the SOS, the California State Archives, and the California Museum. The Building Complex is currently undergoing security infrastructure upgrades and improvements. The Building Complex enjoys a unique mix of public access consisting of visitors to the Archives and Museum, groups using the large auditorium for meetings and training, and people conducting business at a variety of public counters within the SOS. These public counters are located throughout the building on various floors and are open to the back offices (employee work areas). The physical design of the building poses an increased security risk to occupants and visitors as the building uses a very open concept that allows the public to move about throughout all common spaces of the building unescorted and without benefit of interior security cameras in several areas.

In response to an incident in 2015 in which an employee brought a firearm to work, DGS and CHP completed assessments in June 2015 to evaluate the facility's security. As a result, the recommended various security infrastructure improvements, such as additional security, card readers, installation of physical barriers, among others. The 2015 report noted that these upgrades would be divided into four phases for a cost of approximately $2.4 million. However since then, DGS and other control agencies have consolidated the projects into three phases. Phase two was set to complete in April 2022.

The SOS requests $2,678,000 ($808,000 General Fund and $1,870,000 Business Fees Fund) for the third and final phases of upgrades. Specifically, the project will consolidate the 10 public counters throughout the building to a maximum of four, install ballistic glass at public counters, install security doors and hallways. Phase three is currently in the working drawings and design stage, and will be completed in late September 2022. It is anticipated that construction will begin in late spring 2023 or early summer 2023.

Staff Recommendation. Approve Spring Finance Letter.

Issue 16: FI$Cal Staffing Needs (Spring Finance Letter)

Summary. The Secretary of State requests a permanent augmentation of seven positions and $951,000 ($664,000 Business Fees Fund and $287,000 General Fund) in 2022-23 and $916,000 ($639,000 Business Fees Fund and $277,000 General Fund) annually thereafter to position the Secretary of State with the resources necessary to perform the agency's budget functions effectively and successfully.

Background. The state began its transition to the new budgeting platform, Hyperion, with the SOS receiving training on the system in mid-September of 2016. The SOS transitioned to the new state accounting system of record, the Financial Information System of California (FI$Cal), in July 2018. The latter was an extremely difficult transition exacerbated by running dual systems during the first transition year, insufficient staffing to complete increased workload, a needed restructuring of positions, and constant turnover/vacancies. The SOS was successful in securing permanently funded positions to support the increased permanent workload within both the Procurement section and the Accounting Office as a result of the transition to FI$Cal. However, a request associated with the increase in workload in the Budgets Office was deferred so that attention could be given to the timely completion of the Month-End-Close (MEC) and Year-End-Close (YEC) processes in FI$Cal to meet the State Controller's Office's year-end financial statement deadlines.

With the difficult transition to FI$Cal in 2018, the SOS found itself delayed in the completion and submission of that transitional year's financial statements by an entire year; with the final reports for 2018-19 being submitted in late September 2020. In mid-May of 2021. The SOS hired a retired annuitant to assist with the FI$Cal MEC/YEC process and the timely submission of year-end financial statements to the SCO. The delayed completion of 2018-19 year-end delayed the completion of 2019-20 year-end, with the final reports being submitted in late May 2021. With the recently appropriated additional staffing in the Accounting Office, increased staff experience within the FI$Cal system, and assistance from the retired annuitant, the SOS was able to gain some ground and submit the 2020-21 year-end reports by early October 2021.

In addition to assisting with submitting the SOS Year-End statements to SCO and securing and maintaining current MEC/YEC FI$Cal status, the retired annuitant was also assigned to assess the current staffing and architecture of the Budget Office. The SOS notes that while the recent changes made to the Accounting Office staffing has addressed the resources necessary for the successful completion of the duties related to that function, the SOS, through the retired annuitant and internal evaluation, determined that there are insufficient resources related to budget functions, and is significantly understaffed. In just this last round of budget building, there have been multiple drill submissions that have either been tardy, missing required information, or required amendments once submitted.

The SOS currently has three Associate Budget Analyst positions and one Staff Services Manager II, which in turn reports to a Staff Services Manager III; working to build, track, and report on the agency's budget. To address the lack of necessary resources, the SOS is requesting 7 positions: 2 Staff Services Managers I and 5 Associate Budget Analysts. The Budget Office is proposed to be comprised of two distinct units; a technical unit which will complete the budget building duties and a program unit which will complete the duties related to divisional expenditure and revenue tracking and projecting. Each function will consist of four Associate Budget Analysts, each overseen by a Staff Services Manager I.

Staff Recommendation. Approve Spring Finance Letter.

Issue 17: Voters Choice Act Resources (Spring Finance Letter)

Summary. The Secretary of State requests $452,000 General Fund in 2022-23 and $437,000 annually thereafter to support three positions for the continued administration of the Voter's Choice Act (VCA) of 2016 mandates.

Background. The VCA was signed into law in 2016 with the purpose of modernizing elections in California by allowing counties to conduct elections under a new model which provides greater flexibility and convenience for voters. This new election model allows voters to choose how, when, and where to cast their ballot. The VCA permits counties to choose to conduct elections so that all voters are mailed a ballot, and for vote centers and ballot drop-off locations to be available prior to and on Election Day. The VCA ensures that voters can vote-by-mail, by ballot drop box, or in-person, anywhere in the VCA county. The VCA requires county election officials to have a voter education and outreach plan (EAP) that is approved by the SOS. The EAP must include a description of use of media for outreach and education about the upcoming election and availability of ballot, description of information on the website, method to identify language minority voters, description of how they will spend resources of education and outreach, among others.

The initial EAP review takes anywhere from 6 months to a year for many counties. The EAP renewal is then required at 2-year, and then 4-year intervals for as long as a county remains a VCA county, which means this work is ongoing into perpetuity. Since counties all become VCA counties at different times, the work to onboard, renew, and review the EAPs is ongoing year-round, every year, and the work is compounded during an election year.

In 2018, just five counties adopted the VCA voting model: Madera, Napa, Nevada, Sacramento, and San Mateo. By 2020, the number of VCA counties increased to 15 counties. This number nearly doubled in 2022 to 28 counties operating under the California VCA. While funding was obtained to cover county outreach and education costs and state-level outreach and education and reporting costs, no additional funding was received for the staffing costs associated with the increase in workload.

The SOS requests three staff to cover new workload associated with statewide compliance for new and existing VCA counties, ongoing legislative reporting and research, and coordinating statewide voter outreach and education across all 28 counties operating under the VCA model. SOS requests additional staff for ongoing compliance work of EAP, as well as to administer outreach and education contracts to counties to assist and reimburse the outreach and education expenses associated with the requirements of the VCA.

Staff Recommendation. Approve Spring Finance Letter.

0984 CalSavers Retirement Savers Board

Issue 18: Full Scale Implementation of the CalSavers Retirement Savings Program.

Budget Request. The Governor's budget includes a General Fund loan of $6 million from 2022-23 through approximately 2024-25 to provide resources for the Board and the CalSavers Retirement Savings Program to continue to operate, including funding for existing staff, employer compliance enforcement services through the Franchise Tax Board (FTB), external consultants, and marketing, administrative, and overhead costs. This item was previously heard in Subcommittee #4 on May 4, 2022.

Staff Recommendation: Approve as Budgeted.

1111 Department of Consumer Affairs

Issue 19: Legislative Workload – Implementation of Chapter Legislation

Summary. DCA requests $3.89 million and 20 positions in 2022- 23, $3.48 million and 21 positions in 2023-24, $2.22 million and 17.5 positions in 2024-25 and ongoing to address licensing and enforcement-related workload associated with provisions passed during the 2020-21 legislative session across numerous Boards and Bureaus.

This proposal includes a General Fund loan in the amount of $157,000 in 2022-23 and $149,000 in 2023-24 to the Veterinary Medical Board Contingent Fund for initial implementation costs related to AB 1282 (Bloom), Chapter 752, Statutes of 2021. This loan shall be repaid once sufficient revenue is available from the new community blood bank registration fee and annual renewal fee.

Additionally, DCA is requesting General Fund appropriation of $3.29 million in 2022-23 and $1.646 million in 2023-24 to support costs associated with AB 107 (Salas), Chapter 693, Statues of 2021, to update DCA's licensing system and software applications to provide temporary licenses, as prescribed.

Background. The Governor's budget proposes resources to implement 14 bills that were chaptered in 2021.

1. **SB 509 (Wilk), Chapter 219, Statutes of 2021 –** State Board of Optometry: Establishes a temporary license to practice optometry to any person who applies for, and is eligible for licensure, but who is unable to immediately take the National Board of Examiners in Optometry Part III, as specified, due to the state of emergency, proclaimed by the Governor on March 4, 2020 in response to the COVID-19 Pandemic. The California State Board of Optometry is requesting two-year limited-term resources, including a 0.5 position and $84,000 in 2022-23 and $76,000 in 2023-24 to implement SB 509.

2. **SB 362 (Newman), Chapter 334, Statutes of 2021 –** California Board of Pharmacy: Prohibits a chain community pharmacy from establishing a quota to measure or evaluate a pharmacist or pharmacy technician's performance of duties, prohibits a chain community pharmacy from communicating the existence of quotas to employees or those it contracts with, and provides authority to take enforcement action against a community pharmacy that establishes a quota related to a pharmacist or pharmacy technician duties, unless by clear and convincing evidence the community pharmacy can demonstrate the violation was contrary to its policy. The California State Board of Pharmacy is requesting $108,000 in 2022-23 and $100,000 ongoing, and a 0.5 Inspector position to conduct inspections and investigations necessary to implement SB 362.

3. **AB 1194 (Low), Chapter 417, Statutes of 2021 –** Professional Fiduciaries Bureau: Amends the Guardianship-Conservatorship Law to provide additional protections and rights for conservatee's and require better coordination between the courts and the Bureau. The Professional Fiduciaries Bureau requests an increase in expenditure authority of $387,000 Professional Fiduciary Fund in 2022-23 and $371,000 in 2023-24 and ongoing to support 1.5 positions as well as enforcement costs related to Attorney General (AG) and Subject Matter Experts (SMEs) to implement AB 1194.

4. **AB 1221 (Flora), Chapter 452, Statutes of 2021 –** Bureau of Household Goods and Services: Clarifies that service contracts can cover a single product or a class of products, and provides explicit authorization for a service contractor to enter into automatically renewing month-to-month service contracts with consumers, subject to certain requirements. The Bureau of Household Goods and Services requests an increase in expenditure authority of $130,000 Electronics and Appliance Repair Fund in 2022-23 and $122,000 in 2023-24 and ongoing to fund one Staff Services Analyst position to implement AB 1221. AB 1221 expands the definition and oversight of service contracts leading to an anticipated increase in complaints and enforcement actions to regulate.

5. **SB 534 (Jones), Chapter 491, Statutes of 2021 –** Dental Hygiene Board of California: Amends the operations of Registered Dental Hygienists, Registered Dental Hygienists in Alternative Practice, and the Dental Hygiene Board of California. The Dental Hygiene Board of California requests one Associate Governmental Program Analyst position and $157,000 in fiscal year 2022-23 and $149,000 ongoing to address the inspection requirements mandated by SB 534. This position will have oversight and inspection authority over Registered Dental Hygienists in Alternative Practice (RDHAP) working environments. This includes monitoring and assessment of their operations and worksite locations including mobile dental hygiene clinics, institutions, dental and medical facilities, schools, and the portable dental hygiene equipment used at the treatment site to ensure compliance with the law.

6. **AB 293 (Kalra), Chapter 514, Statutes of 2021 –** Cemetery and Funeral Bureau: Establishes a process for unclaimed preneed funeral arrangements, as specified, to escheat to the state under the Unclaimed Property Law (UPL) beginning January 1, 2023. The Cemetery and Funeral Bureau requests an increase in expenditure authority of $342,000 Cemetery and Funeral Fund in 2022-23 and $326,000 in 2023-24 and ongoing to fund two

positions to address the additional workload as a result of the mandates associated with AB 293. AB 293 expands the scope of the annual review and audits of preneed contracts.

7. **SB 310 (Rubio), Chapter 541, Statutes of 2021 –** California Board of Pharmacy: Establishes the Cancer Medication Recycling Act (Cancer Medication Program) until January 1, 2027 to allow for the donation and redistribution of cancer drugs between patients of a participating physician. The California State Board of Pharmacy is requesting $108,000 in 2022-23 and $100,000 in 2023-24 and ongoing and a 0.5 Inspector position to conduct inspections and investigations necessary as result of SB 310.

8. **AB 1533 (Committee on Business and Professions), Chapter 629, Statutes of 2021 –** California Board of Pharmacy: Extends the sunset date for the California State Board of Pharmacy until January 1, 2026 and makes additional technical changes, statutory improvements, and policy reforms in response to issues raised during the Board's sunset review oversight process. The California State Board of Pharmacy requests three positions, including one Inspector position and two Associate Government Program Analyst positions, and two-year limited-term funding of $537,000 in fiscal year 2022-23 and $513,000 in 2023-24 to fulfill obligations under a Memorandum of Understanding for Addressing Certain Distributions of Compounded Medications with the federal Food and Drug Administration, and to convene a workgroup to evaluate a standard of care enforcement model and make recommendations to the Legislature.
9. **AB 1534 (Committee on Business and Professions) Chapter 630, Statutes of 2021 –** State Board of Optometry: Revises and restructures the practice of Opticianry in California, requires registration of Non-Resident Spectacle Lens Sellers, and increases penalties for violations of the Optometric and Optician practice acts. The California State Board of Optometry is requesting $443,000 in 2022-23 and $419,000 in 2023-24 and ongoing and three positions to address increased workload related to AB 1534.

   AB 1534 revises and restructures the practice of Opticianry in California, requires registration of Non-Resident Spectacle Lens Sellers, and increases penalties for violations of the Optometric and Optician Practice Acts. The Board is requesting three analyst positions to address the increased workload as a result of these new provisions

10. **AB 1536 (Committee on Business and Professions), Chapter 632, Statutes of 2021 –** Board of Vocational Nursing and Psychiatric Technicians: Requires the Board to adhere to a strict timeline for approving schools by establishing an approval process for proposed schools. AB 1282 will also establish a fee schedule of $5,000 for the initial application, $15,000 for the final approval, and $5,000 for continuing approval every four years. The Board of Vocational Nursing and Psychiatric Technicians is requesting $549,000 in fiscal year 2022-23 and $525,000 in 2023-24 and two Nursing Education Consultant (NEC) positions, as well as one Associate Governmental Program Analyst position, on a two- year limited-term basis to address the proposed program backlog in the Education Division and strengthen the Board’s oversight of existing programs to ensure their sustainability, readiness, and service to an increasingly diverse population.

11. **SB 806 (Roth), Chapter 649, Statutes of 2021 –** Medical Board of California and Osteopathic Medical Board: Requires the Boards to grant a full physician and surgeon license to residents who have received 12 months of board-approved postgraduate training at a medical school in the United States and Canada. The resident, at the time of initial renewal, is required to show evidence satisfactory to the Board that the applicant has received credit for at least 36 months of training. SB 806 also authorizes the Board to renew the license if the applicant has demonstrated substantial compliance with the 36-month requirement. The Medical Board of California is requesting $603,000 in fiscal year 2022-23 and $377,000 in 2023-24 and ongoing to support 2.0 positions in 2022-23 and 3.0 positions ongoing to address the workload as it relates to the provisions of Chapter 649, Statutes of 2021 (SB 806). This request also includes a one-time augmentation of $316,000 in 2022-23 to fund the costs of a contracted enforcement monitor.

12. **AB 107 (Salas), Chapter 693, Statues of 2021 –** Various: Expands to all Department of Consumer Affairs licensing boards the requirement that specified boards issue temporary licenses to the spouses of active-duty members of the United States Armed Forces, as specified, requires the Department of Consumer Affairs and the Department of Real Estate to compile information on military, veteran, and spouse licensure into an annual report for the Legislature, and for the Department of Consumer Affairs to post its information on its website. The California State Board of Pharmacy (Board) is requesting $84,000 in 2022-23 and $76,000 ongoing and a 0.5 Associate Governmental Program Analyst (AGPA) position to perform regulatory and analytical functions related to the issuance of temporary licenses to veterans and military spouses as a result of AB 107.

13. **AB 229 (Holden), Chapter 697, Statutes of 2021 –** Bureau of Security and Investigative Services: Requires, beginning January 1, 2023, that various licensees regulated by the Bureau complete a course of training in the exercise of the appropriate use of force in order to be issued a license or a firearms permit. AB 229 also specifies that in addition to existing reporting requirements, private patrol operators must report within seven business days any incidents involving physical altercation with a member of the public requiring any type of first aid or other medical attention, and any physical use of force or violence on any person while on duty. The Bureau of Security and Investigative Services requests an increase in expenditure authority of $130,000 Private Security Services Fund in 2022-23 and $122,000 in 2023-24 and ongoing to support one position to address the additional workload associated with AB 229.

14. **AB 1282 (Bloom), Chapter 752, Statutes of 2021 –** Veterinary Medical Board: Provide implementation requirements for the Board and the California Department of Food and Agriculture. Specific impacts as they relate to the Board are: expand the definition of the practice of veterinary medicine; permit an Registered Veterinary Technician or Veterinary Assistant to collect blood from an animal for the purpose of transferring or selling blood and blood component products to a licensed veterinarian at a registered premises; establish new procedures governing community blood banks for animals; impose new requirements on veterinarians engaged in the production of animal blood and blood component products; add several new definitions to the Practice Act; among others. The Veterinary Medical Board is requesting $157,000 in fiscal year 2022-23 and $149,000 in 2023-24, Veterinary

Medical Board Contingent Fund, to fund staffing and required development and training costs necessary to address additional workload and regulations related to the implementation of this bill. This proposal also requests corresponding loans from the General Fund ($157,000 in 2022-23 and $149,000 in 2023-24) to cover implementation costs.

Staff Recommendation. Approve as budgeted.

7730 FRANCHISE TAX BOARD

Issue 20: Legal Workload Growth

Budget. The Franchise Tax Board (FTB) requests $4.64 million (General Fund) for 16 permanent positions, 10 position upgrades, and unfunded needs for staff salaries in 2022-23; $4.49 million in 2023-24 and ongoing to address increased volume and complexity in tax appeal, protest, and litigation workloads. This item was previously heard in Subcommittee #4 on May 4, 2022.

Staff Recommendation: Approve Spring Finance Letter.

7502 CALIFORNIA DEPARTMENT OF TECHNOLOGY

Issue 21: Oversight, Compliance and Advisory Services Program Expansion of Service (Spring Finance Letter)

Summary. The California Department of Technology (CDT), Office of Information Security (OIS) requests 11 positions and $2,761,000 in General Fund in 2022-23 through 2023-24 and $2,089,000 in 2024-25 ongoing.

This request will provide the necessary resources to perform interim assessments and training on all state entities under the Executive Branch to calculate security metrics on each of these entities to understand the state's security posture. This effort also allows OIS to correct findings in the California State Auditor (CSA) Report, 2021-602, published January 2022 as well as findings CSA noted in previous reports dating to 2013.

Background. The CDT's OIS is responsible for providing direction, oversight, and support for the State's information security and privacy programs. Existing law requires state entities within the executive branch that are under the Governor's direct authority to comply with the information security and privacy policies and procedures that CDT prescribes. It also mandates that such entities regularly report to CDT on their compliance.

Existing law requires CDT to issue and maintain policies, standards, and procedures governing information security and privacy for reporting entities. CDT developed Chapter 5300 of the State Administrative Manual (SAM 5300), that provides the security and privacy policy and standards which reporting entities must comply. SAM 5300 references and aligns to the Federal Information Processing Standards (FIPS) and National Institute of Standards and Technology (NIST) as its minimum information security and privacy control requirements.

Although reporting entities are ultimately responsible for their own information security, CDT plays a critical role in advising them on security issues and helping to ensure their program maturity and compliance with state policy. In fiscal year 2018-19, CDT implemented a multi-year oversight life cycle to independently verify the status of the State's information security and privacy programs. Using a risk-based methodology, CDT prioritized 52 high-risk entities to participate in the first multi- year cycle. CDT requires the remaining, lower-risk reporting entities to participate in a biennial oversight life cycle.

Whereas CDT designed the compliance audits to determine an entity's adherence to the State's administrative information security and privacy policies and processes, the Independent Security Audits (ISAs) evaluate the implementation, configuration, and practices of the entity's information security program. Existing law requires CDT to either conduct or require another entity to conduct at least 35 ISAs, performing security penetration and other security tests to validate the level of security of entity's' systems each year. CDT contracts with the California Military Department Cyber Network Defense team to perform the independent security assessments, although reporting entities may request permission from CDT to use a third-party vendor.

The CSA Report, 2021-602, published January 2022, highlighted several issues with the CDT, OIS's oversight of security assessment and compliance within the state. Specifically, CSA reported that OIS must:

- Use entity self-assessments toward measuring their security status and contribute that toward an aggregate state security posture.
- Improve reporting security status to Legislature and Executive leadership.
- Ensure compliance with mandated entity security self-assessments.
- More rapidly align state security and privacy policy with federal standards.
- Provide stricter oversight of entity security and privacy gaps.
- Increase the use of metrics to target services, training, and resources toward addressing common security gaps and high-risk areas.
- Increase entity support toward closure of deficiencies.

The OIS current staffing levels do not allow for them to meet nor comply with existing law and the CSA audit findings. The staff augmentations and vendor support efforts included in this request will provide state entities with the education and assistance to achieve the recommendations from audit discrepancies and increase their security metric score.

Budget Request. The CDT requests 11 positions and $2,761,000 in General Fund in 2022-23 through 2023-24 and $2,089,000 in 2024-25 ongoing to address the state auditor's findings.

- $600,000 for contracting vendor services to support audit assessments for a two-year period. CDT plans to create a program to independent review reporting entity's self-assessments and federal Nationwide Cybersecurity Review (NCSR) scoring. The OIS will establish a two year program of security assessment teams via a third-party contract to conduct a review of the 53 reporting entities that are not selected for the ISPA program. CDT requests $600,000 to fund contracting services for program development and administration, hire a vendor, train staff, conduct verifications and reporting of results.

- 0.5 IT specialist I to improve reporting of security status to the Legislature and Executive Leadership, and to develop a methodology to score Self-assessment Verification and Oversight Reporting [SAVOR] program.
- Two IT specialist I positions to ensure compliance with mandated entity security self-assessments. These positions will implement a self-assessment assurance task that will include notifications, criteria and timeframes for compliance.
- Two IT specialist II to align with state security and privacy policy with federal standards. Federal government is steadily adopting increased security and privacy standards that state government must keep up with if it is to sustain its interoperability, data exchanges and federal funding required for essential public service programs. The federal government original had a five year implementation period, but has recently proposed more aggressive timelines, in one case less than two years.
- Two IT Specialist II to provide stricter oversight of entity security and privacy gaps. Enforcement and accountability of reporting entities remediation of security gaps has been constrained due to limited resources and a lack of automation. The Security Risk Governance (SRG) unit within the OIS currently has seven full-time staff, equating to one PY for each of the following key statewide information security program function.
- 0.5 IT Specialist I position to increase use of metrics to target services, training and resources.
- Four IT Specialist II to increase entity support toward closure of deficiencies. These positions will help increase the o the standard post-audit workshops, there is a need for more sustained interaction to address finding remediation. This type of finding remediation requires highly tailored interactions with both business and support functions within each entity, in addition to IT units. The OIS requests four staff to provide sustained and embedded support. This includes post-Audit remediation planning, on-going support, and consistent and sustained interaction with entities. Additional workshops would include working as experts to develop and implement policy and entity-specific procedures to address security and privacy gaps.

Staff Recommendation. Approve Spring Finance Letter.

Issue 22: Security Operations Center (SOC) Infrastructure Cost Expansion (Spring Finance Letter)

Summary. CDT's Security Operations Center (SOC) requests $1,680,000 in ongoing General Fund authority in FY 2022-23 for infrastructure costs related to cloud hosting of SOC software and tools critical to the SOC's ability to continue with 24x7 continuous security monitoring of California government entities.

Background. The SOC was created in 2017 to increase and enhance the state's ability to effectively analyze, identify, and respond to the growing complexity and volume of cybersecurity threats, and to monitor assets within CDT, the Statewide Data Center, and the California Government Enterprise Network (CGEN). The vast majority of the SOC architecture is built within Amazon Web Services (AWS) and has been leveraged through CDT's statewide AWS contract.

Prior to 2021-22, the SOC was funded through the Technology Services Revolving Fund and its costs were recovered through CDT's rate structure. The costs for the SOC AWS infrastructure were included in those rates. In 2021, the Legislature approved a BCP that allowed SOC to be funded through General Fund authority instead of the rate structure. CDT's approved FY 2021-22. However, the AWS costs were inadvertently not included in the FY 2021- 22 budget and therefore CDT no longer has a mechanism to cost recover. This request is for General Fund authority to cover the AWS infrastructure costs.

Staff Recommendation. Approve Spring Finance Letter.

Issue 23: Office of Statewide Project Delivery (OSPD) Workload Increase (Spring Finance Letter)

Summary. CDT requests five positions and $3,490,000 in on-going Technology Services Revolving Fund (TSRF) authority in Fiscal Year (FY) 2022-23 to meet increased demand for project approval, independent project oversight, Budget Change Proposal analysis, and procurement services to state entities as required under existing law. The CDT notes that the consultant resources are needed to address increasing and sustained demand, consistently high workload, and projected increases which require increasing resource capacity to meet service demand.

The five positions are requested to meet the increased procurement workload to provide, develop, and manage innovative approaches, implement innovative Information Technology (IT) procurements and methodologies related to complex and high-risk IT projects. Additionally, these positions will address the increased IT and telecommunication procurement workload, enhance procurement development and engagement methodologies, oversee large projects, including procurement management, large acquisitions engagements, and statewide efforts. IT Projects continue to increase in complexity, duration, and importance.

Background. CDT establishes, maintains, and oversees the State's IT Strategic Plan, policies, standards, procedures, and enterprise architecture. Additionally, the Department approves and oversees State IT projects through their lifecycle and ensures the security of state information assets. Further, as the home of the State Data Center, CDT provides IT infrastructure services to its customers for their public facing and mission critical systems and offers both cloud and on-premises services.

The COVID-19 pandemic exposed deficiencies in current mission critical IT systems; therefore, several departments are significantly enhancing or replacing their IT infrastructure and applications. This is contributing to the increase in IT projects which require the Project Approvals and Oversight (PAO) unit's engagement during project planning (Project Approval Lifecycle (PAL)) and project implementation (Oversight).

CDT's Office of Statewide Project Delivery requests $2.4 million TSRF for consulting services for Project Approval Oversight (PAO) to provide the capacity required to support the increasing workload demand driven by increases in enterprise modernization efforts and significant increase in IT Projects and BCPs. PAO has been dependent on consulting services to respond to increases in independent project oversight services demand without permanent staff augmentation. CDT notes that 15 projects are anticipated to begin development in FY 2022-2023 alone, which equates to an approximate 50 percent increase to current project oversight workload. Additionally, at least nine proposed IT efforts are identified in the FY 2022-23 budget. Multiple departments including CDPH, CDSS, CDA and DHCS are incorporating an enterprise-wide strategy to modernize their IT systems.

The Statewide Technology Procurement (STP) is a part of OSPD, and is responsible for overseeing IT procurements related to non-delegated IT projects and completing telecommunications acquisitions for all state entities, and manages and negotiates procurement contracts. Statewide Technology Procurement requests five IT Manager I positions and $1.1 million TSRF to meet the demands of an increased workload that is driven by three factors: 1) implementation of innovative Challenge-Based Procurements, 2) increased use of statewide contracts, rather than individual departments conducting similar bids, requiring senior level staff, and 3) actions to modernize and digitalize procurement tools and methodologies requiring a technical manager.

Staff Recommendation. Approve Spring Finance Letter.

7760 DEPARTMENT OF GENERAL SERVICES

Issue 24: Enterprise Technology Solutions Workload Adjustment

Summary. The Department of General Services (DGS), Enterprise Technology Solutions (ETS) requests $4.9 million in authority from the Service Revolving Fund in 2022-23 and 2023-24, and then $4.7 million in ongoing authority from the Service Revolving Fund beginning in 2024-25.

DGS also requests position authority for seven permanent positions and limited-term funding for two positions beginning in 2022-23 to support DGS' information technology (IT) security, privacy, and enterprise services.

Background. ETS provides the services necessary for DGS' transition to telework in response to the COVID-19 pandemic, such as equipment and technology needed to work remotely. Prior to the pandemic, ETS costs were already increasing due to increases in vendor prices and transition to cloud-based or subscription-based models, but the telework transition has impacted their authority substantially. Additionally, various security audits and new policies, procedures, laws, and regulations have required ETS to invest in new technologies in an effort to maintain compliance, which have also impacted ETS' budget.

The shift to telework has also created significant security risks, such as a flood of pandemic-induced cyber-attacks (including phishing, ransomware, and denial of service attacks). These cyber-attacks are explicitly targeting hundreds of DGS information assets that are used by internal and external business programs as well as the public. The increased workload for ETS security staff has grown significantly beyond what was expected in 2019.

ETS has implemented many efficiencies to make its limited resources more productive and also comply with growing customer demand and industry changes. For example, to optimize use of resources, ETS employs a formal Project Management approach and department-wide IT Governance Council. These ensure ETS is focused on the requests that have the highest return on investment to DGS, and that those requests are implemented in a standardized way to improve efficiency. ETS also consolidated job functions and reorganized to maximize efficiencies and reduce siloes in workloads. Finally, ETS staff have received training on Lean/Six Sigma and implementing those efficiencies to significantly reduce the time to approve requests to procure IT goods and services.

Over the past three years, ETS has successfully completed 35 projects. While ETS is able to complete 10-12 projects a year, the number of project requests received has steadily grown by approximately 20 requests every year. As a result, while ETS currently has 20 projects in progress, there are four that have been approved but cannot be started due to a lack of available staff. In addition, ETS has a backlog of 35 requests that are seeking approval to become a project. While project requests have continued increasing at a steady rate, the number of projects impacting ServiceNow has grown to over 90 percent and use of collaboration tools such as Microsoft Teams has increased by 2,181 percent since the pandemic, and SharePoint by nearly 500 percent.

Budget Requests. The Administration requests position authority for seven permanent positions and two temporary positions. Specifically, the Administration requests: (1) three Information Security positions to help strengthen cybersecurity of DGS programs by performing new security functions are directed by agency, CDT and new state policies and standards, (2) three positions to support and manage the privacy programs, to address privacy gaps resulting from a distributed workforce, and (3) one permanent position and two two-year limited term positions for network and enterprise services.

The proposal requests $1.18 million to purchase enterprise software for all DGS programs. Several necessary enterprise software contracts have had cost increases over time due to vendor price increases. An analysis of invoices from 2017-18 compared to 2021-22 found that most critical impacts to increased pricing include our core services such as Adobe, eSignature software, its IT Service Management and workflow automation tools. If ETS does not have sufficient authority to cover the increased expenses for enterprise software applications, DGS will not be able to perform critical business functionality.

The proposal also requests $971,292 for Microsoft Licensing. ETS is required to purchase Microsoft licensing from CDT. The 2016-17 and 2021-22 contracts were obtained from CDT to complete an analysis of increased costs, which identified increased costs due to additional security features and licensing.

The proposal requests $608,758 for the purchase of laptop work stations, which are more costly than desktop workstations. This accounts for an increase of over $800 per device, as well as a five-year refresh on each device.

The request also includes $586,122 for security tools for protection and advanced threat monitoring capabilities. This includes anti-virus and malware protection, network security devises and email protection.

Lastly, the request includes $129,807 for infrastructure support and licensing. Specifically, ETS will purchase network devices to connect offices to the DGS network. This cost increase is due to increases in vendor pricing.

Staff Recommendation. Approve as budgeted.

Issue 25: Office of Public Affairs Workload Adjustment

Summary. The Department of General Services (DGS), Office of Public Affairs (OPA) requests $412,000 in ongoing authority from the Service Revolving Fund (SRF) and three positions beginning in 2022-23 due to the increased need for public affairs services to DGS programs and external customers.

Background. The Office of Public Affairs (OPA) is responsible for news media relations, managing DGS social media, developing and executing marketing for other offices and divisions, guidance on writing according to DGS standards, providing photography resources, overseeing public records act request processes, creating and disseminating departmental newsletter and website management oversight. OPA currently has five authorized positions.

At this time, staff is fully utilized with daily duties and is only able to be reactive. Staff often experience burnout from the long hours they put in to complete their tasks and still struggle with a backlogged workload. Recent Executive Orders (EOs) have increased the workload of other divisions and offices within the department, which, in turn, results in increased workload for OPA. The EOs have caused increased media inquiries, increased PRA requests, an increase in the need for external communication, and increased reports and documents requiring review.

DGS requests two information officer positions to act as subject matter experts for divisions and offices, develop images for use in publications, create publications, develop and execute a social media communication plan, respond to public records act requests, among other duties. At least one Information Officer will be requested to be certified as bilingual in Spanish since Spanish is the second-most used language next to English for public contacts. OPA has lacked a graphic designer in the office, requiring OPA to turn to other offices for assistance. The additional Information Officer I positions would allow for recruitment of staff with graphic design abilities, eliminating the need to contract externally and wait for availability.

DGS requests one Audio-Visual Specialist. The need for more video content due to staff and stakeholders teleworking has increased the need for more staff to record, produce, and edit videos.

Currently, OPA relies on student assistants to create videos. Hiring permanent staff to handle videos will better allow OPA to maintain consistency with video quality and assist in retention and succession planning. The Audio-Visual Specialist will work with programs to develop videos for stakeholder information dissemination as well as create video messaging for staff.

Staff Recommendation. Approve as budgeted.

Issue 26: Procurement Division Emergency Services Workload Adjustment

Summary. The Department of General Services' Procurement Division requests $728,000 ($305,000 ongoing) two-year limited-term authority from the Service Revolving Fund and five positions in 2022-23 to support emergency procurement services workload in accordance with the State Emergency Plan.

Background. In 2009, Cal OES developed the State of California Emergency Plan establishing the California Emergency Service Functions (CA-ESF), which consist of 17 primary activities deemed essential to address the emergency management needs of communities in all phases of emergency management. The State Emergency Plan assigns a single state agency to lead each CA-ESF based on its authorities, resources, and capabilities. The Government Operations Agency is the single lead agency for ESF-7, Resources, with primary mission responsibility assigned to DGS. During an emergency response, ESF-7 supports and coordinates state-level activities to protect life and property within California. ESF-7 provides emergency procurement assistance and support to other ESFs and to the response community.

In a declared emergency, Cal OES is statutorily mandated to coordinate multiple jurisdiction or multiple agency emergency and disaster operations. DGS has been designated as a department with designated response roles within the state emergency plan to provide continuous emergency support. The Resource Management and Logistics Support (RSLM) Unit was established within Procurement Division's Acquisition Branch to respond to the designated emergency response roles in the State Emergency Plan.

When Cal OES activates buyers from PD-RSLM staff are required to deploy to the State Operations Center (SOC) to provide emergency procurement support to OES. This includes facilitating the coordination of purchases and deployment of commodities and services, collaborating with suppliers to deploy services, assisting with supplier invoicing and payments, and amending contracts.

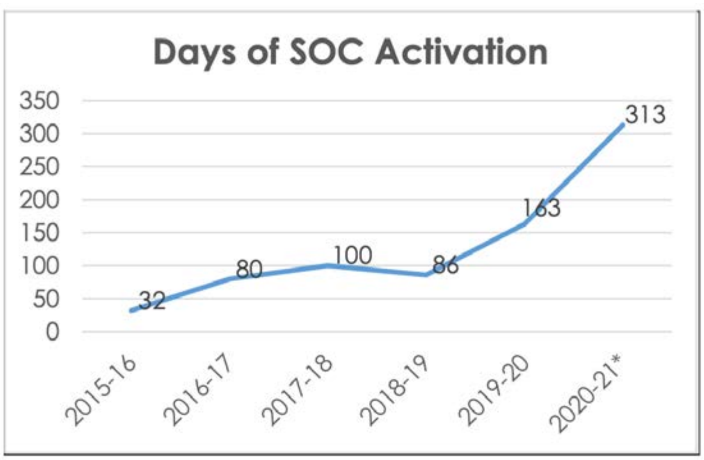
Instances where RSLM has provided emergency support in the past include CalFire Incidents, Civil Unrest, COVID-19, Ridgecrest Earthquake and Public Safety Power Shutoff. To support emergency procurement between activations, RSLM staff develop leveraged procurement agreements (LPAs) as contracting vehicles for goods and services commonly needed for emergency response to establish vendors when controlled pricing is available.

RSLM is currently comprised of two permanent, full-time positions consisting of one Staff Services Manager I (SSM I) and one Associate Governmental Program Analyst (AGPA). Because of the small number of staff, other personnel from within PD have been assigned to support the SOC in times of emergency. A Retired Annuitant has been assigned to assist RSLM with COVID-19 support from March 2020 until March 2022.

In 2018-19 RSLM was tasked to develop and manage several Leveraged Procurement Agreements (LPAs) for repetitively purchased services and goods to lessen the number of emergency contracts. To date, none of these contracts have been completed and all have been reassigned to other staff within PD. The requested positions would allow for emergency related LPAs to be established and continually administered within the RSLM.

Budget Request. PD is not able to redirect any further personnel to support emergency response workload, and the existing redirections are not sustainable. The need for five additional positions correlates to an increase in workload limiting PD's ability to fulfill its role in the State Emergency Plan. Specifically DGS requests four Associate Governmental Program Analysts, and one Management Services Technician to provide RSLM a dedicated purchasing team to support key functions provided by RSLM. The request seeks to alleviate the continued reliance on redirected staff to respond to emergencies and carry out planning and resiliency efforts year-round. The existing staff (1.0 SSM I and 1.0 AGPA) have been consumed with responding to declared emergencies and therefore core mission critical work has become backlogged.

DGS has been in emergency response or recovery mode almost continuously over the past few years. Due to the ongoing nature of the current environment, several staff have been redirected to emergency response for over a year, which delays core business functions and activities. This backlog adversely impacts not only the organization, but its ability to support the emergency response and recovery effort.



If this request is approved, disaster response readiness would be prioritized and resourced through a permanent team of skilled staff adequately equipped to meet the unique challenges of emergencies in California today and support needs of diverse communities across the state into the future. When not immediately responding to an emergency, this team would develop and manage contracts allowing for immediate access to responsible contractors at negotiated costs for scopes informed by recent emergency and lessons learned, continuously updating, and improving response plans as well as contributing to an after-action plan with DGS from each event.

Staff Recommendation. Approve as budgeted.

Issue 27: Sacramento Region: Joe Serna Jr. California Environmental Protection Agency Building Acquisition

Summary. DGS requests $36,000 from the General Fund in 2022-23 to exercise the lease purchase option to acquire the Joe Serna Jr. California Environmental Protection Agency (CalEPA) Building located at 1001 "I" Street in Sacramento. The building is occupied by various CalEPA departments, which will continue to be housed there after the acquisition. The 25-year lease agreement will expire in May 2023, and DGS has the option to purchase the building for one dollar at the end of the term. The request also includes funding for related acquisition and real estate due diligence activities necessary to complete the transaction, including a parking analysis and termination of bonds. A facility condition assessment is currently underway using existing departmental funding, which will help inform future maintenance and operation of the building by DGS.

Background. CalEPA was created in 1991 as part of a reorganization which placed several new departments, previously part of separate departments, under the new organization. The City of Sacramento proposed a joint venture with the state to develop an office building on a city-owned site. DGS was ultimately involved with design and management of the project and reimbursed for those services through agreement with the City as part of the bond financing.

In 1992, state law provided authority for the CalEPA Building, and allowed DGS to enter into a lease with an option to purchase the building. The City of Sacramento Financing Authority financed design and construction and lease revenue bonds were issued via the State Treasurer's Office in 1998 ($196.6 million). The purchase includes the land but not the adjacent parking structure, which remains under City control. Debt service and operating expenses are currently paid directly by building tenants. Property management is handled through a contract between the City and Thomas Properties Group. Since the state does not currently operate or maintain the building, DGS must evaluate staffing and operational needs as part of a separate state operations budget proposal to be submitted as part of the Spring process. Construction was completed in 2000 and occupancy occurred in 2001.

The building is currently occupied by various CalEPA departments including the Air Resources Board, Water Resources Control Board, Department of Resources, Recycling and Recovery, Department of Pesticide Regulation, and Department of Toxic Substances Control. These programs will continue to occupy the building after the acquisition. The building has a capacity of 3,500 occupants. DGS notes that due to the pandemic, the building has been occupied at approximately 25 percent capacity. Future occupancy will likely take teleworking scenarios into consideration in conformance with state telework policies. DGS will assume responsibility for operation and maintenance of the building upon exercise of the purchase option.

Approval of this request will allow DGS to acquire the building for one dollar (rounded to $1,000) pursuant to the terms of the existing 25- year lease, and $35,000 for DGS's Real Property Services

Section to complete necessary Due Diligence review, including parking analysis and termination of bonds.

Staff Recommendation. Approve as budgeted.

Issue 28: Statewide Travel Program

Summary. DGS's Office of Fleet and Asset Management requests $738,000 ongoing Service Revolving Fund authority and 4.0 permanent positions beginning in 2022-23 to address increasing workload from emergency response functions, support the training and compliance auditing of the statewide travel policy, and increase usage of its services among optional users.

Background. OFAM's Statewide Travel Program (STP) provides full travel management services for all Executive Branch agencies and offers its consolidated services and leveraged discounts to optional user agencies, which includes local governments, colleges/universities, K-12 public school districts and special districts within California. The program procures and manages airline reservations, commercial car rentals, travel payment systems, travel management services, lodging, disaster response, and transportation network services. All Executive Branch state agencies have been required to make travel arrangements through the STP since 2014. By consolidating the state's managed travel services to a single contracted travel agency and leveraging the state's purchasing power to secure advantageously negotiated contracts, STP now saves the state on average over $5 million dollars annually in travel service expenditures, and this number continues to grow.

While transient travel decreased significantly during calendar year 2020, emergency and disaster travel increased significantly. STP expects travel transactions to continue fluctuating between travel categories.

In recent years, the STP has been increasingly tasked with providing emergency travel management services. In 2018, the STP was mission tasked by the California Governor's Office of Emergency Services with establishing and managing the lodging operations at the Chico Base Camp, supporting the Camp Fire response efforts. In 2020, the STP was mission tasked with setting up and administering five different unique non-congregate shelter programs (Hotels for Healthcare Workers, Housing for the Harvest, Project Hope, and Border Response) for at-risk populations, as well as managing the state's Mass Care and Shelter program for fire evacuees. Increased use of the STP for emergency travel management services supports the state's provision of a rapid, flexible, and cost-effective emergency travel management solutions on an increasing statewide scale.

At the direction of the Governor's Office, the STP has issued statewide policy mandating that state agencies and employees adhere to specific costs saving practices when making airfare reservations. When not engaged in emergency response activities these positions will implement and manage a focused compliance program within the STP that will ensure state Executive Branch entities are adhering to the new statewide policy, as well as existing policies intended to ensure that state employees are using the most cost-effective modes of travel when conducting official government business.

DGS requests one Staff Services Manager III, one Staff Services Manager I and two Associate Governmental Program Analyst to provide travel management services to meet customer demands, manage increasing workload, increase transparency and efficiency, and consolidating and streamlining travel services to reduce rates and fares for government travelers.

While normal official state and local government travel has decreased over the past year due to the pandemic, STP's workload has not decreased. In fact, the scope of STP's role in supporting state and local government services and ensuring cost efficient travel has expanded, necessitating additional staffing resources.

Prior to 2020, STP experienced significant growth of its program, from 201,504 travel bookings in 2014-15 to 507,146 bookings in 2018-19, equating to a 152 percent growth in the program.

As a result of the pandemic, bookings dropped to 428,958 in 2019-20 and as of April 2021 the number of booking totaled 199,681. However, due to the nature of the STP's role in managing state and local government travel, workload does not directly correlate to the volume of bookings being made through the program. The processing of reservations, which has a direct workload correlation to travel volume, is managed by the STP's contracted Travel Management Services provider. The STP's role is to establish and manage travel service contracts, issue, and enforce statewide policy, continuously expand the suite of managed travel services offered to state employees, support state emergency response efforts, and grow the customer base of the program to better leverage aggregated travel volume. Over the past three years the STP's scope of responsibility in each of these areas has significantly expanded and is expected to continue to expand.

Staff Recommendation: Approve as budgeted.

Issue 29: Telework Policy Oversight and Compliance Review (Spring Finance Letter)

Summary. DGS requests $1.9 million in two-year limited term expenditure authority from the General Fund, and 10.0 positions, beginning in 2022-23 to implement oversight and review compliance functions to ensure the successful implementation of a productive distributed work environment.

Background. During the COVID-19 pandemic, the Newsom Administration advised departments to maximize telework to the greatest extent possible and ensure that post-COVID-19, departments continue to embrace telework as part of the state culture to achieve long-term efficiencies. In 2020, the Governor's Office approved the State's updated telework policy, spearheaded by DGS, and it was sent to the California Department of Human Resources (CalHR) for negotiations with the labor organizations. In April 2021, the Governor's Office approved a memo to all department heads reinforcing that the Administration supports telework as a long-term strategy to decrease office space, allow more flexibility for employees, and build resiliency in the case of future emergencies that may require people to work outside the office. In addition, both CalHR and DGS have been focused on the transition from an emergency telework environment to the management of a robust, ongoing telework program.

DGS released a Statewide Telework Policy in October 2021. The policy required each state department to establish their own telework policy by October 5, 2022. The departments' plans must specify: (1) the criteria to participate in the program, (2) how employees will be noticed of their eligibility to participate, (3) financial responsibility of telework costs, (4) technology and security responsibilities, among others. The Statewide Telework Policy also provides guidance on how to determine what positions are functions that are appropriate for telework. The policy also requires departments to: (1) establish a telework coordinator, (2) document arrangements, (3) establish performance management methods, (4) process to use technology equipment, and (5) responsibilities of the department management and employees. State agencies are required to begin reporting telework-related data to DGS as of January 2022.

Draft telework policies were due to DGS on January 31, 2022. DGS will review each department's draft policy and provide guidance to ensure adherence to the statewide policy DGS notes that they will establish regular compliance review, including telework metrics. DGS requests 10 positions to create to Statewide Telework Unit to conduct ongoing support and oversight of telework policy. These positions include one Career Executive Assignment (CEA) Level B, one Staff Services Manager (SSM) I, two SSM I (Specialist), one SSM II (Supervisory), four Associate Governmental Program Analysts (AGPA), and one IT Specialist II.

The CEA Level B, SSM I and AGPA positions will provide consultation, direction and tools to departments. The IT specialist will lead the collection and reporting of data and tracking of departmental telework. The SSM I and SSM II positions will perform compliance reviews to examine organization operations and internal management controls, as well as reviewing policies and procedures.

Staff Recommendation. Approve as budgeted.

Issue 30: Secretary of State Roof Replacement and Repairs (Spring Finance Letter)

Summary. DGS Facilities Management Division (FMD) requests $1,763,000 million in one-time expenditure authority from the General Fund in fiscal year 2022-23 for full project funding to replace and repair the roof structure at the Secretary of State Archives Building (SOS) located at 1500 11th Street in Sacramento.

Background. The Secretary of State/Archives Building complex was completed in 1995 and houses the office of the Secretary of State, The California State Archives, and the California Museum. The building is located at 1500 11th Street in Sacramento and occupies a full city block. The offices, Archives, and museum are connected by shared spaces and common walls and surround an interior courtyard. The site includes a below-grade parking structure. The gross building area is 531,000 square feet.

As identified in the 2015 Facility Condition Assessment (FCA), the Secretary of State and Archives Building roof structure is flat with single ply membrane roofing. The original roof still exists on the Archives Building, with reports of leaks, some significant, over the Archives area. The Secretary's office area has yet to be penetrated by water, however the office has experienced puddling around the windows. The FCA identified the roof as being in Poor/Fair condition with recommendations to replace the roof and flashings as soon as possible. The roof of the Secretary of State Building portion of the Complex was reported to be in Fair condition with a recommendation to replace the roof in five years. The roof is towards the end of its' design life.

Removal and reinstallation of the roof-mounted air handling units will render the portions of the office building served by these units uninhabitable until the reinstallation is complete, and the airflow is rebalanced. The estimate does not include relocation costs or temporary HVAC facilities, so those offices must be shifted to telework during the removal and reinstallation process.

The Administration estimates that the department will complete the competitive bidding process for construction by April 2023.

Staff Recommendation. Approve as budgeted.

Issue 31: Procurement Division Resources Alignment (Spring Finance Letter)

Summary. DGS' Procurement Division requests $938,000 in ongoing expenditure authority from the Service Revolving Fund (SRF) beginning in Fiscal Year 2022-23 to align budget authority with necessary personal services and operating expenses.

Background. The Procurement Division (PD) provides centralized procurement services and contracting policy administration to state agencies. Existing law also authorizes PD to delegate purchasing authority to other departments and state agencies. PD is statutorily responsible for setting state procurement policies and providing purchasing services for the state. PD is comprised of five branches: (1) Acquisitions, (2) Engineering, (3) Office of Small Business and Disabled Veteran Business Enterprise Services (OSDS), (4) Policy Training and Customer Services (PTCS), and (5) Operations.

PD's positions are revenue-generating and the costs for these positions are fully recovered by service rates which are set by DGS each year. While PD is able to generate sufficient revenue to fund all positions and operating costs required to fulfill its mission, a budgetary adjustment is necessary to align the expenditure authority with the costs of PD's business operations. PD has identified a gap between its current resources and its expenditure authority. The proposed budget authority of $40.4 million is not sufficient to allow PD to operate at full capacity and continue with current modernization efforts.

The requested resources will allow the Acquisitions Branch to effectively administer the statewide CAL-Card Program, provide effective and efficient one-time acquisition services, provide state financial marketplace services, provide transportation management services, as well as a multitude of leveraged procurement agreements (LPA). LPAs leverage the State's buying power and volume to lower prices and reduces state department and local government procurement processing time, which in turn saves taxpayer dollars. LPAs leverage the State's buying power and volume to lower prices and reduces state department and local government procurement processing time, which in turn saves taxpayer dollars. The Administration notes this providing permanent expenditure authority will allow PD to fill all vacancies and operate at full capacity.

Staff Recommendation. Approve Spring Finance Letter.

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

Issue 32: Information Technology Security and Internal Control Resources (Spring Finance Letter)

Summary. The Department of Financial Information System for California requests $5.3 million in 2022-23, $4.2 million in 2023-24 and 2024-25, $3.4 million ongoing and 13 positions to address information technology security and internal control and compliance risks. The resources requested will support the implementation of solutions needed to improve the security and integrity of the state's financial information.

Background. The Administration started the design, development, and implementation of the FI$Cal IT project in 2005 to integrate state accounting, budgeting, cash management, and procurement processes into a single new IT system—FI$Cal. The FI$Cal project is managed by a partnership of four control agencies—the Department of Finance, the Department of General Services, the State Controller's Office, and the State Treasurer's Office. State law mandates that the agencies collaborate in the design, development, and implementation of FI$Cal, and a project governance plan also guides the relationships between the partners.

In 2016, state law established the Department of FI$Cal to maintain and operate the IT system and support users. The department will assume responsibility for the system once the project is complete. The Department of FI$Cal's current year operating budget is $107.4 million ($59.4 million General Fund) and 318 positions. With the exception of a small number of departments that are deferred or exempted from the project, the vast majority of state departments will manage their finances through FI$Cal. FI$Cal is one of the largest IT projects undertaken by the state – according to the department of FI$Cal, the state has spent $959 million on the project as of March 31, 2022.

FI$Cal has been the subject of several audits by the California State Auditor (CSA), California Department of Technology – Office of Information Security (CDT-OIS) and the California Military Department (CMD). In addition to these audits, the department is also subject to audits from the State Personnel Board (SPB), State Controller's Office (SCO), and Department of General Services (DGS).

Security Operations

Due to the nature of FI$Cal's primary functions, it is critical that the FI$Cal System has security plans and protocols to provide sufficient levels of protection and integrity for the state's critical information. Specifically, FI$Cal needs to align with Cal-Secure, the Governor's multi-year Cyber Information Security Map, remain aligned with the State Administrative Manual (SAM) Chapter 5300 and National Institute of Standard and Technology (NIST) 800-53, as well as remediate the findings from mandated security audits and security assessments performed by the Department of Technology Office of Information Security and the California Military Department. FI$Cal also requests resources to comply with computer crimes investigations conducted by the Internal Revenue Service, California Highway Patrol (CHP) and CDT.

FI$Cal request nine new IT positions, and associated funding, to design, implement and maintain end-point protection systems, develop and test the Technology Recovery Plan, monitor IT security subsystems and email security systems, asset management and protection, and install and maintain security software tools. FI$Cal also requests $2.35 million in 2022-23, and $1.27 million ongoing for security related tools to assist with the Enterprise Services Offices and address finding of the CMD, CSA, and CDT audits and assessments. The tools will identify and track IT and network assets and threats. FI$Cal also requests $808,000 for three years for Subject Matter Experts (SMEs), to assist in the immediate planning, development and implementation of effective Information Security Program components for detecting, documenting, assessing, containing remediating threats against the FI$Cal system. These SMEs will not only develop and implement these components, but also document the procedures and provide training to state staff as they are hired to fill the position.

Internal Controls and Compliance

In October 2020, the CSA issued a report, which identified findings in the overall information technology (IT) general controls environment of the System. These CSA audits are ongoing, with the most recent audit fieldwork completed for 2019- 20 (report published on February 2, 2022). FI$Cal is currently undergoing the CSA 2020-21 audit field work, and the 2021-22 audit field work has yet to begin. These audits are expected to continue into the foreseeable future.

Based on the recommendations from the CSA and the CDT-OIS audit findings, there is a need to establish an Internal Control and Compliance Unit (ICCU) at FI$Cal. The ICCU will: (1) develop periodic reviews of security policies, (2) serve as a liaison and coordinate activities with external entities such as CSA and CDT, (3) coordinate accounting, procurement and HR audits with externa entities, (4) establish validation and verification control, among other duties. FI$Cal requests four positions (one Staff Services Manager (SSM) I and two SSMII) to establish the ICCU.

In total, FI$Cal requests $2 million ongoing for personal services and 13 positions ongoing, and $3.3 million in 2022-23, and $2.2 million in 2023-24 and 2024-25, and $1.4 million ongoing for operating expenses and equipment.

LAO does not have any specific concerns regarding this proposal.

Staff Recommendation. Approve Spring Finance Letter.

8955 DEPARTMENT OF VETERANS AFFAIRS

Issue 33: Home Care Funding Adjustment (Spring Finance Letter)

Summary. The California Department of Veterans Affairs requests a reduction of three positions beginning in 2022-23 and an augmentation of $216,000 General Fund in 2022-23, and $206,000 General Fund annually thereafter, as part of the census milestone reductions at the Veterans Home of California-Barstow as outlined in the 2021-22 Strategic Realignment of the Barstow Home and to address the need for permanent, full-time dental personnel at the Veterans Home of California-Chula Vista and Veterans Home of California-Fresno. A summary of the request are as follows:

	Positions	2022-23	Ongoing
Barstow Home Realignment	-7	-$784,000	-$784,000
Fresno Dental Personnel	2	505,000	495,000
Chula Vista Dental Personnel	2	495,000	495,000
Total	-3	$216,000	$206,000

Background. Opened in 1996, the Barstow Home offers three levels of care: Domiciliary (Dom), Intermediate Care Facility (ICF), and Skilled Nursing Facility (SNF). Although the Barstow Home has a capacity for 400 residents, it has averaged fewer than 200 residents since the early 2000s. CalVet conducted a full-scale appraisal of every Home, including levels of care offered, regional demand for services, hiring capabilities, infrastructure, and other characteristics necessary for strategic planning. The result was the Veterans Homes of California 2020 Master Plan (Master Plan). Contained in the Master Plan were specific recommendations that were intended to place each Home in the best possible position for success now and in the future. The recommendations for the Barstow Home included aligning the levels of care offered to more accurately reflect demand in the area. The proposed changes in levels of care included, through attrition over many years, closing the Dom program, converting the dual-occupancy 60-bed ICF to a single room 31-bed residential care facility for elders (RCFE), and reactivating 20 suspended SNF beds. It must be noted that no residents will be discharged as a result of these level of care changes.

The planned closure of the Dom through attrition was anticipated to take many years. However, the COVID-19 Pandemic, combined with other operational challenges, has reduced the Dom census to milestone points outlined in the Strategic Realignment for the Barstow Home that was approved for implementation January 1, 2022. The milestones were for a census drop of 30 and 60 beds as well as full closure. Each milestone included a corresponding reduction of positions. This proposal requests the implementation of the planned reductions.

CalVet requests a reduction of seven positions and $784,000 General Fund ongoing as part of the census milestone reductions at the Barstow Home. The Barstow Home has reached the 60-bed milestone which triggers the reduction of four Residential Care Specialists, two Custodians, and one Food Service Technician. These positions are currently vacant and no layoffs are required.

Additionally, this proposal includes the reduction of the cost of food for the 60 beds. CalVet is submitting this proposal as part of its obligation as outlined in the 2021-22 spring finance letter proposal.

Chula Vista Home Dental Positions

Currently, the Chula Vista Home has one Dentist Permanent Intermittent Employee (PIE) and one Dental Assistant PIE to provide all of the residents' dental care needs. PIEs may work up to 1,500 hours per fiscal year. The Dentist and Dental Assistant work in tandem to provide dental care to the residents plus perform the administrative tasks of the dental clinic. This means a total of 1,500 hours is available to perform dental services and administrative tasks. When calculating the amount of time needed to provide dental services to the approximate 300 Chula Vista veteran residents, it exceeds the 1,500 hours allocated to the PIE positions. The result is wait times for appointments of two months or more, on average, and an inability to treat and manage the dental needs of the resident population at the Chula Vista Home in a timely manner. Delays in scheduling dental appointments can cause progression of dental pathology and may have substantial impact on socialization, chewing, maintaining adequate weight, and nutrition. CalVet requests an increase of two positions and $495,000 General Fund beginning in 2022-23, for one Dentist and one Dental Assistant at the Chula Vista Home.

Fresno Home Dental Positions

The Fresno Home has contracted out dental services since it opened in 2013. The current vendor provides services offsite for SNF and RCFE residents. The Fresno Home's limited transportation resources are redirected to support these appointments. This places a burden on the residents, as transporting may be difficult, particularly for residents with significant physical or cognitive impairments. This contradicts CalVet's ongoing efforts to minimize offsite appointments to reduce infection control risk. The contracted workload can be performed effectively by permanent employees, as evidenced in the Homes with on-staff dentists. Converting from a contract to permanent dental employees better aligns with civil service standards. CalVet requests an increase of two positions and $505,000 General Fund in 2022-23 and $495,000 General Fund annually thereafter, for one Dentist and one Dental Assistant at the Fresno Home.

Staff Recommendation. Approve Spring Finance Letter.

Issue 34: Veterans Home of CA: Yountville Emergency Power Connection (Spring Finance Letter)

Summary. CalVet requests $5,321,000 General Fund in 2022-23 to install transfer switches and upgrade electrical panels in seven residential buildings at the Veterans Home of California-Yountville. Total project costs include design, construction, project management, and associated project fees. This project will allow for temporary emergency generator power connections and protect the health and safety of residents and staff.

Background. VHC-Yountville was the first veterans home in California to provide nursing care to qualified veterans and their spouses. Today, the facility spans 615 acres and more than 100 buildings, serving up to 876 veterans and their spouses. The largest level of care at VHC-Yountville is the Domiciliary (Dom) program, which offers independent living for up to 492 residents across eight residential buildings. One of these residential buildings also houses 48 residents who are in the Residential Care Facility for the Elderly (RCFE) program, which is a level of care that offers assisted living.

Currently, a major problem for VHC-Yountville is the increased frequency of unplanned power failures. Due to the age and condition of the electrical infrastructure at VHC-Yountville, as well as the increasing threat of natural disasters, power outages continue to grow in number and severity at the Home. Although VHC-Yountville does have onsite emergency standby generators to handle essential electrical loads to power its buildings housing residents in the Skilled Nursing Facility (SNF), SNF memory care, and Intermediate Care Facility levels of care, seven of the Home's eight residential buildings have no backup power. Of the seven buildings with no backup power, six exclusively house Dom residents, while an additional building serves both Dom and RCFE residents.

The residents of the Home are aged and/or disabled. When these seven buildings lose power, there is no lighting, heating, or air conditioning. With a prolonged power outage, CalVet has to find alternative storage for resident medication that needs to be refrigerated. In particular, extended or overnight power outages are a concern given the number of residents who rely on medical equipment (such as oxygen concentrators and continuous positive airway pressure machines [CPAP]) to maintain health and quality of life. Additionally, overnight power outages prevent lighting in the buildings, making it difficult for residents to safely walk or use mobility devices in their rooms or in the hallways or communal restrooms at night.

CalVet requests $5,321,000 General Fund in 2022-23 to install transfer switches and upgrade electrical panels in seven residential buildings at VHC – Yountville. Total project costs are based on an estimate from the Department of General Services and includes design, construction, project management, and associated project fees. This project will allow for temporary emergency generator power connections and protect the health and safety of residents and staff.

Staff Recommendation. Approve Spring Finance Letter.

Issue 35: Reappropriation of federal American Rescue Plan Act Funding (Spring Finance Letter)

Summary. CalVet submitted a Spring Finance Letter request to reappropriate American Rescue Plan Act (ARPA) funding from the 2021 Budget Act to provide CalVet additional time to spend the remainder of the funding on planned projects.

Background. CalVet's requests the following budget bill language to reappropriate federal ARPA funds with an extended encumbrance period through September 30, 2023.

8955-492—Reappropriation, Department of Veterans Affairs. The amount specified in the following citations are reappropriated for the purposes provided for in those appropriations and shall be available for encumbrance or expenditure until September 30, 2023:

0890—Federal Trust Fund
(1) Up to $8,172,000 in Schedule (3) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)
(2) Up to $1,434,000 in Schedule (4) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)
(3) Up to $3,384,000 in Schedule (5) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)
(4) Up to $5,143,000 in Schedule (6) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)
(5) Up to $1,966,000 in Schedule (7) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)
(6) Up to $3,325,000 in Schedule (8) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)

The Administration notes that these one-time appropriations are being used for various projects and purchases, including but not limited to, replacing old equipment, flooring, furniture including new beds and mattresses for the residents, paid overtime, updating nurse call systems, and COVID supplies.

Staff Recommendation. Approve Spring Finance Letter.

1703 CALIFORNIA PRIVACY PROTECTION AGENCY

Issue 36: Consumer Privacy Implementation and Enforcement

Background. The California Privacy Protection Agency (CPPA) requests 34 positions in fiscal year 2022-23 and ongoing in six divisions (Executive Function, Legal Division, Enforcement Division, Policy/ Legislative Affairs Division, Public Affairs Division, and the Administrative Division). These positions will provide the initial staff resources to allow the Agency to start up and fulfill its immediate statutory responsibilities. The Administration notes that these positions, including salaries, wages and benefits, would cost $5.6 million. Additionally, the operating expenses and equipment for the Agency is $408,000. Agency notes that the remaining funds not spent on personal services will be used to establish contracts as necessary to start up administrative functions, including implementation of regulations by July 1, 2022 and enforcement regulations beginning July 1, 2023.

This item was heard in the subcommittee's March 2nd hearing.

Staff Recommendation. Approve as budgeted.

ITEMS PROPOSED FOR DISCUSSION

0855 GAMBLING CONTROL COMMISSION

The mission of the California Gambling Control Commission (Commission) is to protect the public by ensuring integrity and justice in California's controlled gambling industry through regulations and fair application of the law. The Commission has jurisdiction over gambling establishments (cardrooms), third-party providers of proposition player services, and certain aspects of Tribal casinos, pursuant to its authority under state law and Tribal-State Gaming Compacts (Compacts). The Commission also has jurisdiction over gaming policies, regulations, criteria, and standards.

There are 86 licensed cardrooms in California over which the Commission has broad regulatory and adjudicatory authority. This authority extends to the operation, concentration, and supervision of the cardrooms and all persons and things related to each licensed establishment.

The Commission has fiduciary, regulatory, and administrative responsibilities related to Tribal gaming that include: (1) distributing specified Tribal gaming revenues to Non-Compact, Non-Gaming and Limited-Gaming Tribes; (2) making suitability determinations for key employees, gaming resource suppliers, and financial sources; and (3) serving as the administrator of the Indian Gaming Revenue Sharing Trust Fund, Indian Gaming Special Distribution Fund, and the Tribal Nation Grant Fund.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
0560	California Gambling Control Commission	63.9	36.0	40.0	$85,907	$154,198	$154,706
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**63.9**	**36.0**	**40.0**	**$85,907**	**$154,198**	**$154,706**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0366	Indian Gaming Revenue Sharing Trust Fund	$77,375	$96,500	$96,500
0367	Indian Gaming Special Distribution Fund	2,706	3,372	3,596
0567	Gambling Control Fund	3,436	4,326	4,610
8089	Tribal Nation Grant Fund	2,390	50,000	50,000
TOTALS, EXPENDITURES, ALL FUNDS		**$85,907**	**$154,198**	**$154,706**

Issue 37: Licensing Fee Methodology Trailer Bill Language

Request. The Administration proposes trailer bill language to amend existing law regarding state gambling license fee. The proposed trailer bill specifies that application fees shall be determined by the commission, and shall not exceed $1,200 and be limited to reasonable regulatory expenditures of the commission and department.

Background. The Gambling Control Act (Gambling Act) and state regulations give the California Department of Justice's Bureau of Gambling Control (bureau) and the California Gambling Control Commission (commission) distinct responsibilities for a range of licensing and enforcement activities related to gaming businesses—primarily card rooms—in California. Generally, the bureau is responsible for performing background investigations of applicants seeking licenses that will enable them to own or work in these gaming businesses and for enforcing gaming laws and regulations. The commission, on the other hand, is an independent body that makes licensing decisions in consideration of the bureau's recommendations and, when applicable, takes or upholds disciplinary actions against licensees, such as license revocation. To meet their responsibilities, the bureau and the commission receive funding from the Gambling Control Fund (Gambling Fund). The Gambling Fund receives revenue from a variety of licensing and regulatory fees, such as application fees, background deposits, site relocation fees, game review fees that those who own, operate, and work in card rooms and related businesses pay.

Existing law requires license applicants to pay nonrefundable application fees for all license types. Cardroom fees are based on annual revenue if they make over $200,000, and by the number of tables they are licensed to operate if they make under $200,000 in revenue. For example, a cardroom with one to five tables may be charged $300 per table, whereas a cardroom with 26 to 70 tables may pay $400 per table. Statute also specifies that it is the intent that the fees paid are sufficient to enable the department and commission to carry out their duties and responsibilities.

In May 2019, the California State Auditor conducted an audit on the Bureau and Commission's licensing processes and performance. The State Auditor's report notes that the Bureau and Commission have charged fees that do not align with regulatory costs and have resulted in excessive surplus. The current fund balance for the beginning of 2022-23 is $38 million. Additionally, there is an outstanding $45 million loan from the Gambling Control Fund to the General Fund that is scheduled for repayment in 2024-25. The State Auditor found that the licensing revenue that the Gambling Fund receives covers less than half the cost of processing license applications. In contrast, other non-licensing regulatory fees far exceed the cost of related oversight.

To better align the revenue in the Gambling Fund with the costs of the activities that the fund supports, the State Auditor recommended the bureau and the commission conduct cost analyses of those activities by July 2020. The State Auditor notes that using this information, the bureau and commission should reset their regulatory fees to reflect their actual costs. The Commission completed a cost and fee analysis in early 2021 with an independent consultant, submitted it to the DOF and CSA. The DOF and CSA both signed-off on the cost and fee analysis in September 2021. The Commission has authority to modify majority of its fees via regulations and the formal rulemaking process. The Commission immediately promulgated Emergency Regulations for those specified fees, which took effect in October 2021, to lower the fees identified for reduction. In addition, the 45-day comment period ended in February 2022 for its regular rulemaking package to permanently set those fees that are reducing, as well as the fees that are increasing. However, the Cardroom's Annual Fee, is set in statute.

The proposed trailer bill language allows the Commission to establish the cardroom license fee as determined by the Commission and adopted by regulation. In addition, the proposed trailer bill language will remove the "non-refundable" language to provide the Commission flexibility in issuing refunds for fees paid. The trailer bill maintains the existing language of "shall not exceed" $1,200 to clarify that the Commission will not increase the application fee beyond a level it already has existing authority to charge up to.

The proposed trailer bill does not include a methodology on how the cardroom fees will be adjusted, and will instead be determined through the Commission's formal rulemaking process. Based on the information in the independent fee study analysis, methodology from the formal rule making package on TPPPs, industry surveys and meetings with industry associations, the Commission estimates a net $10,000 average fee increase for cardrooms across the state. There are currently 86 cardrooms. The Commission estimates that the annual fee for about 25 percent of cardrooms would decrease and about 75 percent would increase. Of the cardrooms that would experience an increase, about half of them would have fees that are double or higher. The Commission notes that for many of those that have significant increases, many are non-operatives, these are cardrooms elect to hold a license and non-resell their interest to engage in a gambling business but rather keep the license and do not engage in business. The Commission notes that these estimates are based on a draft methodology, and may change as it moves through the formal rule making process.

Staff Recommendation. Hold Open.

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 38: Student Borrower Loan Assistance Program

Request. The Governor's Budget, and subsequent April Letter, provides the Department of Financial Protection and Innovation one-time funding of $10 million General Fund in fiscal year 2022-23 and Budget Bill Language to implement the Student Loan Borrower Assistance Program, as follows:

Marketing: $5 million for a statewide, cross-channel, multilingual marketing campaign focused on student borrowers, including an assessment of impacts. The Department's Communications and Outreach Team will be coordinating marketing efforts, with the project manager to oversee project work, vendor contracts, and the creation of a student borrower-focused webpage.

Student Borrower Assistance Grant Program: $4.25 million to launch a grant program funding legal aid and community-based organizations that will assist student borrowers across the state. The grant administrator will work closely with the Education and Outreach Team, the Student Loan Servicing Program, and the Student Loan Ombudsperson to develop guidelines, outreach materials, and to ensure compliance. Organizations receiving grant funds may use the grant money for the following purposes:

- Designing, developing, or offering, free of charge to consumers, classroom or web-based financial education and financial empowerment content intended to help student borrowers manage their student loans, access federal repayment and forgiveness benefits, or lower their debt balance.
- Provide individualized, free financial coaching or direct legal services to student borrowers.

Consumer Services: $750,000 for administration of the marketing campaign and grant program, including managing the expected increase in consumer complaints about student loan servicers. The department currently serves Californians by fielding and responding to thousands of calls, emails, and complaints from consumers each year and is anticipating an increase related to student loan servicers.

Background:

According to the LAO's report on, *The 2022-23 Budget: Student Financial Aid*:

Many Californians Have Student Loan Debt. In California, 3.9 million individuals owe a combined $145 billion in federal student loan debt. (The federal government issues the vast majority of student loans, with the remainder coming from private lenders including financial institutions.) Although the federal government suspended repayment on student loans at the onset of the pandemic in March 2020, repayments are scheduled to resume in May 2022. There are several repayment options for federal student loans—including four income-driven repayment plans in which a borrower's monthly payment is capped at a certain percentage (between

10 percent and 20 percent) of their discretionary income, and any loan balance that remains after a set repayment period (between 20 and 25 years) is forgiven.

Borrowers Unable to Repay Loans Risk Going Into Default. If a borrower does not make payments for a certain time period (typically nine months for federal student loans), the loan goes into default. Borrowers who default on their loans can face various consequences, including collection fees, wage garnishing, reduced credit scores, and loss of access to additional student financial aid. The U.S. Department of Education reports that 7.3 percent of borrowers nationally who entered repayment on their federal student loans in 2017-18 defaulted within three years. (This rate may be artificially low, as the three-year window includes six months during which repayments were paused under the pandemic. The three-year default rate for the 2016-17 cohort was 9.7 percent.) The default rate in California is somewhat lower than the national average. Based on U.S. Department of Education data, we estimate that the three-year default rate was approximately 6 percent among borrowers in the 2017-18 cohort who attended California institutions.

Certain Groups of Borrowers Have Relatively High Default Rates. National studies have found that student loan default rates are higher for students who do not complete a college degree or certificate, compared to students who do complete. As Figure 6 shows, default rates also vary by segment of attendance, with borrowers attending community colleges and for-profit institutions more likely to default. Moreover, research has found notable demographic disparities. For example, a 2019 study from the Federal Reserve Bank of San Francisco and the San Francisco Treasurer's Office of Financial Empowerment found that the percentage of student loan borrowers in default was nearly three times as high in Bay Area neighborhoods in the lowest income quintile (15 percent) compared to those in the highest income quintile (5.6 percent). The study further found that default rates were considerably higher in Bay Area neighborhoods with higher percentages of Black and Hispanic residents.

Figure 6

Default Rate Varies by Segment

Estimated Three-Year Default Rate for 2017-18 Cohort[a]

Segment	Default Rate
California Community Colleges	13%
Private for-profit	9
California State University	3
Private nonprofit	3
University of California	2
State Total	**6%**

[a]Percent of borrowers entering repayment on federal loans during federal fiscal year 2017-18 who defaulted by September 30, 2020. Reflects LAO estimates based on the U.S. Department of Education's Official Cohort Default Rates for Schools.

DFPI Regulates Student Loan Servicers and Receives Borrower Complaints. Broadly, DFPI provides consumer protection and oversight of financial service providers. As part of this work, DFPI regulates student loan servicers—the companies the federal government assigns to manage billing and payments on student loans. Recently, Chapter 154 of 2020 (AB 376, Stone) also created a student loan ombudsman under DFPI. The ombudsman's duties include receiving and reviewing complaints from student loan borrowers, providing information to the public regarding borrowers' concerns, and monitoring the development of relevant federal and state policies, among other activities.

Students Also Receive Information on Borrowing From Various Other Sources. The U.S. Department of Education provides mandatory entry and exit counseling to all federal student loan borrowers. These online sessions provide information on student budgets, loan terms, repayment, and default. Many colleges and universities also offer financial literacy services that cover student loans, among other topics. In addition, the state provides funding to the Bureau of Private Postsecondary Education (through the Office of Student Assistance and Relief) to offer outreach on student loans and other topics to prospective, current, and former students of private colleges and universities.

LAO Comments and recommendation:

Assessment Governor's Student Loan Proposal Lacks Clear Problem Definition. The Governor's proposal does not clearly identify the problems facing student loan borrowers, including those at risk of delinquency or default. In particular, it is unclear whether borrowers have difficulty with repayment because they lack information on their repayment options or because of other barriers, such as an inability to pay. As a result, it is difficult to assess whether the Governor's proposal—which focuses on providing information—addresses the problem. Moreover, borrowers already receive information on loans and repayment from various other sources. For example, the U.S. Department of Education provides mandatory entrance and exit counseling to all federal student loan borrowers, and many colleges and universities also offer financial literacy services that cover student loans, among other topics. The Administration has not identified what information gaps, if any, exist.

Proposed Borrower Assistance Activities Could Duplicate Existing Efforts. Several activities included in the Governor's proposal appear to duplicate existing efforts to assist student loan borrowers. One area of duplication is that the proposal would create a borrower-facing website to provide information on student loans, even though the U.S. Department of Education already maintains such a website. The proposal also would provide grants to organizations to develop and offer financial education content, even though other organizations (including colleges and universities) already provide such content. In addition, the proposal would provide targeted outreach to borrowers eligible for the Public Service Loan Forgiveness program, even though the 2021-22 federal budget provides $2.3 million to the U.S. Department of Education for a similar purpose.

Some Proposed Activities Are Not Well-Suited for One-Time Funds. Providing accurate and timely information related to student loans is an ongoing activity, with a new cohort of borrowers entering repayment every year. The Governor's proposed marketing campaign and grant program, however, would primarily reach current borrowers in the near term. Notably, the Governor's proposal also does not specify that organizations receiving grants to provide individualized financial coaching or legal services have a plan for sustaining those activities after the proposed funding expires. Overall, using one-time funds for such purposes could result in a short-lived impact, while creating pressure for the state to provide additional funding for these activities in the future.

Federal Changes Affect Need for Additional Borrower Assistance in Near Term. At the start of the pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act suspended repayment on federal student loans for six months. Since then, the federal government has extended this suspension six times, most recently on April 6, 2022. It remains uncertain whether repayments will resume on the currently scheduled date (September 1, 2022), or if the date will be further postponed. If the suspension of repayments is further extended into 2022-23, additional assistance related to student loan repayment would become less relevant during that fiscal year

For the reasons noted above, the LAO recommends rejecting the proposal.

Suggested Questions:

- How would the information and website provided under this proposal differ from those already existing from the federal Department of Education? How would the state's website, which is acting as a middle-man in providing information, be better poised to respond to changes in federal rules?

- Can DFPI or the Administration detail the information missing from federal or other existing outreach that this proposal would provide?

- Is a broad media campaign the best way to reach these borrowers? Are there more targeted strategies that may be more effective?

- Given the potential for changes in the student loan repayment rules from the federal government, how would a media campaign be able to respond to changing conditions that may extend beyond the 2022-23 fiscal year?

- Has the DFPI seen an increase in complaints about loan servicers during the pandemic?

Staff Recommendation. Hold Open.

0840 STATE CONTROLLER
7501 DEPARTMENT OF HUMAN RESOURCES

Issue 39: California State Payroll System Project

Spring Finance Letters: The State Controller's Office (SCO) submitted two Spring Finance Letters related to the California State Payroll System Project (CSPS) and FI$CAL submitted a related request:

The first request is for $379,000 General Fund (GF) in 2022-23 and $372,000 GF in 2023-24 through 2025-26 to support 2.0 four-year limited-term legal and budgetary resources for critical administrative functions of the CSPS project.

The second request amends a proposal to support the CSPS project through the continuation of the California Department of Technology (CDT) Project Approval Lifecycle (PAL) Stage 4 and into the execution phase System Development Lifecycle of the approved project. The original request was heard in Subcommittee #4 on February 9, 2022.

Updated Budget Request. The Governor's budget includes resources for both the State Controller's Office and the Department of Human Resources to support the California State Payroll System (CSPS) project through the continuation of the California Department of Technology (CDT) Project Approval Lifecycle (PAL) Stage 4 and into the execution phase System Development Lifecycle of the approved project. The request is as follows:

State Controller's Office:
- 2022-23: 33.0 positions [1.0 continuing two-year limited-term (LT) and 32.0 permanent] and $97,844,000 General Fund
- 2023-24: 40.0 positions (1.0 continuing two-year LT and 39.0 permanent) and $6,653,000 General Fund
- 2024-25 and ongoing: 39.0 permanent positions and $6,653,000 General Fund

Note: The position request has not changed since January, but has been updated to reflect only General Fund, and eliminating a share of costs with the Central Service Recovery Fund as originally proposed.

Department of Human Resources:
- 2022-23: 15.0 permanent positions and $3,424,000 GF
- 2023-24 and 2024-25: $3,319,000 GF
- 2025-26 and ongoing: $2,573,000 GF

Note: The position request for the Department of Human Resources has not changed since January.

FI$Cal Request: *Note, this request will be heard in more detail in the following item.* FI$Cal is requesting resources to collaborate with the SCO and CalHR and determine accounting functionality requirements, identify System interface requirements, and deploy the functionality and interfaces necessary to integrate FI$Cal and CSPS. Specifically, FI$Cal is requesting a total of $18.4 million one-time funding for contractor resources to meet the CSPS integration requirements of the System. Of the $18.4 million, $9.2 million will be held as a transfer item to be released if needed when the CSPS specifications are more fully known. FI$Cal requests provisional language be included in the Budget Act to release the $9.2 million, when needed.

Background. Beginning in 2016, SCO began to assess current information technology (IT) and the latest industry standards, and initiated the re-engineering of a new human resource (HR) management and payroll system. This initiative is named the California State Payroll System (CSPS) Project. CSPS product scope includes functionality for Core HR (Position Control, Benefits Administration, Personnel Administration, Time Management, and Payroll). This functionality is typically found in Human Capital Management (HCM) Solutions. In May 2021, CSPS added Travel and Expense Management functionality to its product scope through the CDT approved Change Request (CR) #007.

The project is currently under the oversight of the California Department of Technology (CDT). The Project received CDT approval on PAL Stage 1 Business Analysis (S1BA) in October 2017 and PAL Stage 2 approval in April 2021. In October 2021, the project team submitted PAL Stage 3 Solution Development (S3SD) Part A, which encompasses key project planning milestones including the submission of the detailed solution requirements and completion of a draft of the Request for Proposal (RFP) and Statement of Work (SOW) procurement documents, which provide the requirements for the CSPS solicitation of a future solution. The project team continues to work on tasks related to Organizational Change Management, Independent Verification and Validation (IV and V), Data Analysis and Planning, and Project Management Office Services. The Governor's budget includes funding for vendor resources to compliment state resources related to System Integrator Services, Business Analysis and Information Technology, Data Migration and Validation Services, IV and V Services, Organization change Management Services, and Project Advisor Services.

SCO is working closely with CDT as it completes each of the stages in the PAL process. Below are the PAL approval and expected submission dates:

- Stage 1 (Business Analysis): approved October 2017
- Stage 2 (Alternatives Analysis): approved April 2021
- Stage 3 Part A (Solution Development): submitted October 2021
- Stage 3 Part B (Solution Development): anticipated submission January 2022
- Stage 4 (Project Readiness and Approval): anticipated submission January 2023

The Governor's budget includes proposed provisional language that would require $83.3 million of the additional funding for the California State Payroll System Project future solution costs to be allocated with the approval of Department of Finance. Stage 4 of the Project Approval Lifecycle Process must be approved by the California Department of Technology prior to these funds being made available. Allocation of these funds will be made after a 30 day notification in writing to the chairpersons of the budget committees in both houses of the Legislature and the Joint Legislative Budget Committee.

State Controller's Office Staffing
(Dollars in Thousands)

Program Budget	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Authorized Expenditures	$2,377	$5,833	$3,974	$6,878	$9,458	$17,756
Actual Expenditures	$1,452	$4,541	$3,860	$6,780	$8,522	$17,756
Revenues						
Authorized Positions	4.0	19.0	19.0	18.0	25.0	44.5
Filled Positions	4.3	15.8	16.0	16.6	25.0	39.5
Vacancies		3.2	3.0	1.4		5.5

SCO requests funding to support 33.0 positions [1.0 continuing two-year LT and 32.0 permanent] and to reclassify 6.0 existing positions in 2022-23; 7.0 CalATERS Replacement Project (CRP) positions to become permanent for a total of 39.0 new positions in 2023-24 and ongoing to continue to work on the project activities that will drive the activities of designing a new statewide personnel and payroll solution.

Department of Human Resources Staffing

In 2017, SCO contracted with the Department of Human Resources (CalHR) to provide two CalHR staff to act as members of the CSPS Project. These positions provide information for the existing procedures and policies under the authority of CalHR, including Labor Relations (LR), Benefits Administration, Third Parties, and Unions. They support project activities related to an alternative assessment analysis, including development of business and user requirements. In 2021, CalHR received a position and $230,000 in ongoing funding to act as the CalHR CSPS Project Director. This position is to oversee and ensure the new system not only appropriately applies requirements set by laws, regulations, and bargaining agreements but also effectively supports statewide HR and LR programs' business policies, practices, and processes.

As the CSPS Project ramps up for the next phase, there is an upcoming need for additional CalHR staff involvement from multiple divisions including, Personnel Management (PMD), Benefits, and Information Technology (ITD) in the CSPS Project and its ancillary activities over the next three to five years. CalHR is requesting 15.0 permanent positions for this workload.

FI$Cal Needs:

The CSPS project has identified and the need to engage with FI$Cal on integrations required between the two systems. FI$Cal currently interfaces with CalATERS and utilizes the Payroll Warrant File in the highly customized Labor Distribution module. Additionally, FI$Cal receives payroll accounts receivable data from the SCO payroll systems. CSPS will replace these legacy systems and will need to integrate with FI$Cal. FI$Cal is requesting resources to collaborate with the SCO and CalHR in:

- Determining what additional accounting functionality will need to be added or modified in the FI$Cal System.

- Identifying critical interfaces and processes the FI$Cal System will need in order to integrate with CSPS.
- Designing, building, testing, and deploying those enhancements, new functionality, and new interfaces between the systems.

LAO Updated Findings and Recommendations:

The administration's April 1 BCPs / SFLs heighten our concerns from February with the proposed CSPS IT project.

Increased General Fund Expenditures, Delayed Legislative Review. The three April 1 BCPs / SFLs proposed by the administration would increase General Fund expenditures on the proposed CSPS IT project by $45 million from the Governor's 2022-23 budget proposal. More General Fund expenditures on a project that does not currently meet a SAL requirement without any additional information available about the vendor contracts could increase risk to the state. The updated project timeline reflects at least a two-month delay from the project timeline in January, which means legislative oversight through the Joint Legislative Budget Committee (as proposed by the administration) likely would not begin until April 2023 at the earliest. Increased General Fund expenditures on the project, combined with a delayed legislative review of the project plan, heightens our concerns from February that the Legislature does not have the information about the project it needs to approve development and implementation funds, that the assumed project timeline is likely unrealistic, and that the timeline limits legislative oversight.

Limited Information About Integration of CSPS and FI$Cal. FI$Cal acknowledges that there are dependencies between the FI$Cal IT system and the proposed CSPS IT project (as our office mentioned in its February analysis). The extent of the integration between the two systems will depend, however, on the system integrator vendor selected for CSPS. Without this system integrator vendor, FI$Cal is requesting $18.4 million not knowing how integrated these two systems will become. Of the $18.4 million, some unspecified amount is for FI$Cal to plan what interfaces, system changes, and other modifications will be needed in FI$Cal to integrate with CSPS. While we think there is merit to FI$Cal starting this planning effort, it is pre-mature for the Legislature to approve any associated development and implementation funding. It is our understanding from the administration that $9.2 million ($5.5 million General Fund) of the funding requested would support one "sprint team"—a team of contractors with expertise in business operations and technical skills to support system development—for one fiscal year. We think FI$Cal using this team to begin its planning effort in 2022-23 is reasonable, but think all remaining funding for integration should be deferred until 2023-24.

Possible Delays to Estimated Project Timeline Still Exist. The delay in the submission and approval of the Stage 3 Solution Development documentation and the anticipated delays in the procurement and onboarding of project vendors reinforce our finding from February that delays from a number of project risks are possible. The proposed CSPS IT project, if approved, would be one of the costliest and most complex IT projects undertaken by the state, and prior efforts to replace the payroll system did not succeed. The Legislature should carefully consider approval of development and implementation funding for this project unless and until it is formally approved by the Administration and, even then, take additional time to ensure this effort is more successful.

Recommendations. We restate our recommendation from February that the Legislature defer consideration of the $83.3 million (now all General Fund) in development and implementation funds for this project until 2023-24. Consistent with this recommendation, we also recommend the Legislature defer consideration of $9.2 million ($5.5 million General Fund) of the proposed $18.4 million ($11.1 million General Fund) (and proposed provisional budget bill language) for FI$Cal to develop and implement integrations between CSPS and FI$Cal until 2023-24. We raise no specific concerns with the additional administrative positions requested by SCO.

Staff Recommendation. Hold Open.

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

The Department of FI$Cal operates the statewide financial system to enable California to perform budgeting, accounting, procurement and cash management functions transparently and efficiently. The Department of FI$Cal is responsible for supporting the Financial Information System for California (FI$Cal) Project, including supporting the system's customers and stakeholders.

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 provides the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. FI$Cal, through the adoption of best business practices, reengineers business processes; improves efficiency; enhances decision making and resource management; and provides reliable, accessible, and timely statewide financial information allowing the state to be more transparent. FI$Cal further enables transparency through its Open FI$Cal website, which was implemented in 2018 pursuant to Government Code section 11862. The website will continue to expand providing the public with access to a growing number of the state's non-confidential expenditures.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
6890	Statewide Systems Development	273.2	318.0	318.0	$105,631	$107,386	$82,956
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**273.2**	**318.0**	**318.0**	**$105,631**	**$107,386**	**$82,956**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$59,430	$59,371	$49,774
9737	FISCal Internal Services Fund	1,270	3,472	-
9740	Central Service Cost Recovery Fund	44,931	44,543	33,182
TOTALS, EXPENDITURES, ALL FUNDS		**$105,631**	**$107,386**	**$82,956**

Issue 40: Departmental Onboarding and California State Payroll System Adjustment, and Transitioning Consultant Workload to State Staff and Workload Backlog Adjustment (Spring Finance Letters)

Summary. The Department of FI$Cal (DOFI$Cal) requests $24.3 million ($14.6 million General Fund [GF] and $9.7million Central Service Cost Recovery Fund [CSCRF]) in 2022-23, $5.0 million ($3.0 million GF and $2.0 million CSCRF) in 2023-24, $3.1 million ($1.9 million GF and $1.2 million CSCRF) in 2024-25, $0.8 million ($0.5 million GF and $0.3 million CSCRF) ongoing, and five permanent positions.

The requested resources are needed to onboard the California Department of Technology (CDT) and the Department of Rehabilitation (DOR) to FI$Cal and begin onboarding planning for the California Department of Transportation (Caltrans). Following the successful onboarding of CDT and DOR, DOFI$Cal will retain the new staff to support end-users and the increased technical and data demands placed on the System. The expected date that CDT and DOR will begin transacting in the System is July 1, 2024. Additionally, DOFI$Cal is requesting resources to prepare the System for integration with the California State Payroll System (CSPS).

FI$Cal also requests $16.6 million in 2022-23, $11.0 million ongoing, and 46 positions to transition consultant workload to state staff, work on existing backlogs, and provide additional training and support to FI$Cal end-users and client departments.

Background. One hundred fifty one departments perform financial management and procurement activities in the FI$Cal. There are 10 departments in the state who have been identified as deferred because they utilize existing financial management systems. These departments must onboard to the FI$Cal when their existing financial systems reach end of life.

<u>Department Onboarding</u>

CDT, DOR and Caltrans have been identified as deferred departments, but are now the next departments to onboard. The deferred effort to onboard these departments will be significant as they have unique business processes and requirements that differ from departments using the CalStars legacy system. The deferred department analysis identified new system-to-system interfaces and corresponding changes to the System are necessary to meet the departments' requirements. CDT and DOR have additional complexities due to unique business requirements.

DOFI$Cal will work with Caltrans to develop an extended onboarding plan during 2022-23—which is necessary due to the size and complexity of the department. During past onboarding efforts the system integrator (SI) led the efforts and were supported by DOFI$Cal staff. The SI is the company, Accenture, that was hired to build, implement and deploy the FI$Cal. The SI rolled off in phases over the past four years and DOFI$Cal staff absorbed the workload after knowledge transfer occurred. With the departure of the remaining SI resources and the addition of CDT and DOR to the System, DOFI$Cal requests additional one-time and ongoing resources to onboard and support these new System users.

DOFI$Cal requests contracted resources to address the one-time workload to onboard CDT and DOR during 2022-23 ($3.7 million), 2023-24 ($3.7 million), and 2024-25 ($1.8 million) and two positions (one IT specialist and one Accounting Administrator) to augment the onboarding activities and to support the new System end-users. Additionally, FI$Cal is requesting contracted resources in 2022-23 ($0.9 million) to begin onboarding planning for Caltrans.

Additionally, DOFI$Cal's Information Technology Division also requests three IT specialist positions ongoing to support onboarding efforts by providing legacy system data analysis and conversions, interface data transformation and design, interface security design, build and validation, application changes, among others. ITD provides technical design and build of enhancements to the System, change and release management, and security information and event management support.

California State Payroll System (CSPS) Project

As discussed in the prior issue, the State Controller's Office (SCO), in partnership with the Department of Human Resources (CalHR), initiated the CSPS Project. DOFI$Cal is requesting resources to collaborate with the SCO and CalHR and determine accounting functionality requirements, identify System interface requirements, and deploy the functionality and interfaces necessary to integrate FI$Cal and CSPS. Currently, the CSPS project is in Stage 3 of the Project Approval Lifecycle at the CDT. As of March 31, 2022, the estimated project timeline expects CSPS to finish CDT's Project Approval Lifecycle (PAL) by April 19, 2023 and start development and implementation no sooner than May 8, 2023. There are currently several budget change proposals regarding the CSPS project that is pending in this subcommittee.

The FI$Cal currently interfaces with CalATERS and utilizes the Payroll Warrant File in the highly customized Labor Distribution module. Additionally, the FI$Cal receives payroll accounts receivable data from the SCO payroll systems. CSPS will replace these legacy systems and will need to integrate with the System. DOFI$Cal is requesting resources to collaborate with the SCO and CalHR in:

- Determining what additional accounting functionality will need to be added or modified in the FI$Cal System.
- Identifying critical interfaces and processes the System will need in order to integrate with CSPS.
- Designing, building, testing, and deploying those enhancements, new functionality, and new interfaces between the systems.

FI$Cal is requesting a total of $18.4 million one-time funding for contractor resources to meet the CSPS integration requirements of the FI$Cal System. Proposed provisional budget bill language would withhold half of the requested funding—$9.2 million ($5.5 million General Fund)—until Department of Finance (DOF) decides additional funds are needed to integrate CSPS and FI$Cal.

Transitioning Consultant Workload to State Staff and Workload Backlog Adjustment

Expiring Vendor Contract and Workload. Business Operation Solution Division (BOSD) supports current users with system and process training, communications, system enhancements, ticket resolution, configurations, and on-boarding of new departments and functionality. As the SI rolled off, FI$Cal relied on smaller contracts to assist in maintaining service levels and provide support on the more complex tickets and enhancements. Enhancements are updates or changes that departments request to increase usability of FI$Cal. In 2022-23 this work will transition onto BOSD as the vendor contracts are set to expire. Even with the assistance of contracted resources, the BOSD continues to carry backlogs in the enhancements, case tickets, and training workload.

FI$Cal requests 11 positions (one IT Specialist, four IT associates, and six accounting specialist) and permanent resources to address the ticket workload currently handled by these expiring contracted resources. FI$Cal also requests $1.3 million ongoing contract funding for technofunctional consultation on the most complex tickets and enhancements requiring back-end table research.

Training. BOSD also provides system and training to departments using web based and virtual instructor led training (VILTs), and provides learning support. The Workforce Development Center (WDC) at the BOSD has dedicated staff creating and updating content; scheduling, managing registration and waitlists; and managing and facilitating VILTs.

FI$Cal requests nine positions (two Associate Accounting Analysts, four Accounting Administrators, two Associate Governmental Program Analysts, and one Graphic Designer) to conduct approximately 10 VILTs per month and review, update, and maintain the existing and new training material including the FI$Cal Manual to be released later this year.

IT Solutions and Support. The Informational Technology Division (ITD) provides technical support for user access fulfillment, application support, technical design and build of enhancements. Additionally, ITD provides support for installing, configuring, maintaining, managing and monitoring all of the software and hardware infrastructure supporting end user applications, back-office solutions, and the on-premises and cloud network infrastructures. ITD maintains technical environments and conducts code promotion, and change and release management. In addition, the ITD supports departments and the system with application security, performance analysis and tuning, and batch and interface operations. These processes are critical to the maintenance and operations of the System.

FI$Cal requests five new permanent positions (two IT Specialist I, and three IT Specialist III) within ITD to maintain processing timeframes, support new solutions, provide technical expertise to conduct technical analysis and troubleshooting of application issues and implement technical IT solutions for PeopleSoft, Oracle Business Intelligence, and Ledger Reconciliation Tool.

Enhancement Workload. FI$Cal requests 21 positions (19 IT Specialists I, and two IT Specialist II) to replace one-time contracts used to support the development of user requested enhancements. The workload supported includes analysis, functional design, technical design, build, functional and technical testing, and deployment.

In addition to these resources, FI$Cal requests a one-time appropriation of $5.6 million to address a backlog of 145 enhancements, assessed as of January 2022, that have accrued. FI$Cal is unable to continue releasing new enhancements and reduce the backlog using existing resources.

Lastly, FI$Cal requests provisional language to allow DOF to augment FI$Cal's budget annually in the amount necessary to fund Oracle license fee increases. There are three components to the Oracle licenses – base licenses, expansion costs and maintenance costs on the expansion. These costs are approximately $5.5 million this year and anticipated to increase in subsequent years. The budget request addresses the expansion and maintenance costs.

Legislative Analyst's Office Comments.

FI$Cal IT Project Not on Track to Meet Current Schedule and Scope. Special Project Report 9—the most recent project approval documentation for the FI$Cal IT project—set a project finish date of June 30, 2022, and confirmed the remaining project scope as production of state government annual financial reports using both FI$Cal and SCO's legacy system, with the underlying data validated by SCO using newly developed reports and tools. The Administration notes that the FI$Cal IT project will not finish this remaining project scope by the approved finish date.

Future of FI$Cal IT Project to Be Discussed Over Next Several Months. The Administration notes that the FI$Cal IT project partners will discuss how to complete the remaining project scope and prioritize future project activities over the next several months, starting in earnest in late May. Some of the topics to be discussed include (but are not limited to) the validation work for the state government annual financial reports, the FI$Cal system becoming the state's Book of Record, onboarding the remaining deferred (and possibly some of the exempt) departments, and prioritizing the list of user-requested system enhancements.

Decisions on these topics could inform the prioritization of user-requested system enhancements, which would impact the work of resources requested in the department's Transitioning Consultant Workload to State Staff and Workload Backlog Adjustment BCP. It is also at least possible more external contracting resources (alongside the additional state staff) will be needed to complete future project activities.

Supplemental Report Language Could Inform Conversations Between Administration and Legislative on FI$Cal's Future. Decisions about the future of the FI$Cal project must be clearly communicated to the Legislature to facilitate discussions about future budget actions and policy direction. To help inform the Legislature about the work that remains to be done for the FI$Cal IT project (and the FI$Cal IT system, in general), what disagreements between the project partners need to be addressed, and what key decisions have been and/or must be made to finish the project (and implement the system consistent with state law), the Legislature could consider requiring a report from Department of FI$Cal (DOFI$Cal) and the FI$Cal IT project team on these topics (at a minimum).

Provisional budget bill language that withholds some amount of funding for the user-requested enhancement backlog (which might change or be prioritized differently over the next several months) could ensure a report is timely delivered to the Legislature to inform its conversations with the administration about the future of FI$Cal.

Limited Information About Integration of CSPS and FI$Cal. DOFI$Cal acknowledges that there are dependencies between the FI$Cal IT system and the proposed CSPS IT project. The extent of the integration between the two systems will depend, however, on the system integrator vendor selected for CSPS. Without this system integrator vendor, DOFI$Cal is requesting $18.4 million not knowing how integrated these two systems will become. Of the $18.4 million, some unspecified amount is for DOFI$Cal to plan what interfaces, system changes, and other modifications will be needed in FI$Cal to integrate with CSPS.

While the LAO thinks there is merit to DOFI$Cal starting this planning effort, it is pre-mature for the Legislature to approve any associated development and implementation funding. It is the LAOs understanding from the Administration that $9.2 million ($5.5 million General Fund) of the funding requested would support one "sprint team"—a team of contractors with expertise in business operations and technical skills to support system development—for one fiscal year. The LAO thinks DOFI$Cal using this team to begin its planning effort in 2022-23 is reasonable, but think all remaining funding for integration should be deferred until 2023-24.

LAO Recommendations. The LAO recommends the Legislature approve supplemental report language that requires FI$Cal IT project partners (at a minimum) to identify what work remains to be done on the FI$Cal IT system, what disagreements between the project partners need to be addressed, and what key decisions must be made to finish the project (and implement the system consistent with state law). To ensure FI$Cal IT project partners submit this report, the LAO also recommends the Legislature approve provisional budget bill language that withholds some amount of funding for user-requested enhancements. Additionally, the LAO thinks that the provisional budget bill language and $9.2 million should be deferred until 2023-24.

Staff Recommendation. Hold Open.