Senate Budget and Fiscal Review

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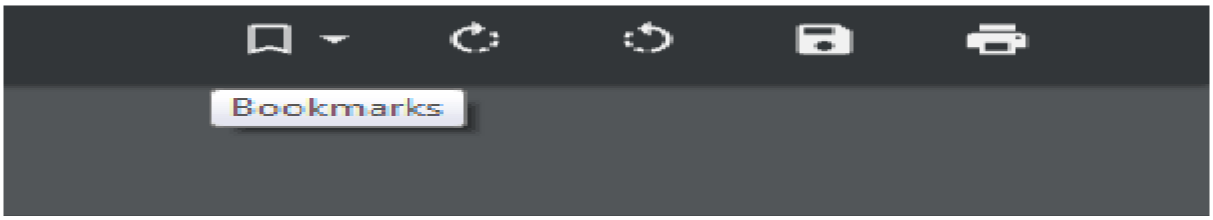

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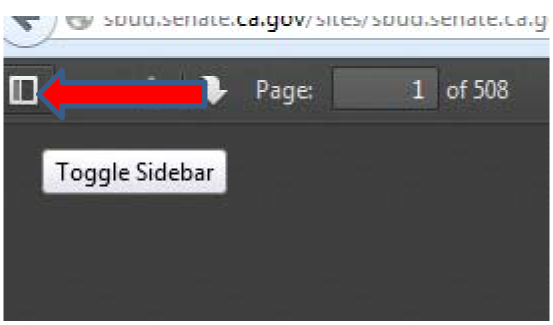

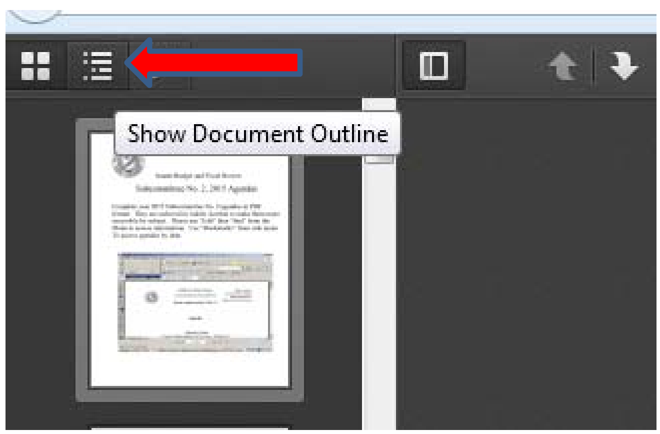

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Jim Nielsen
Vacancy

Tuesday, January 26, 2021
9:00 a.m.
State Capitol - Room 3191

Informational Hearing

Governor's Proposal for Direct Workers and Small Businesses

Consultant: Nora Brackbill and Joe Stephenshaw

AGENDA

I. Opening Remarks
   a. Senator Caballero
   b. Senator Nielsen

II. Small Business Relief Grants
- Somjita Mitra, Chief of Economic Research, Department of Finance
- Isabel Guzman, Director of the California Office of the Small Business Advocate
- Brian Weatherford, Senior Fiscal & Policy Analyst, Legislative Analyst's Office
- Mark Herbert, Vice President, California, Small Business Majority
- Lucy Salcido Carter, Public Policy Director, CA Association of Nonprofits (CalNonprofits)

III. Golden State Stimulus
- Jay Chamberlain, Chief of Financial Research, Department of Finance
- Chas Alamo, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Sara Kimberlin, Senior Policy Analyst, California Budget & Policy Center

IV. Public Comment

Small Business Relief Grants

Governor's Budget. The Governor's budget proposes $575 million one-time General Fund in 2020-21 to provide support to small businesses impacted by COVID-19 and the health and safety restrictions. The Office of Small Business Advocate will provide micro grants up to $25,000 to help support impacted small businesses-both for profit and nonprofit. $25 million is designated for cultural institutions. This supplements $500 million that was provided in December.

Background.
Small businesses have been disproportionately affected by the COVID-19 pandemic and the related health and safety restrictions, with hundreds of thousands of businesses permanently shuttered and many more on unstable financial footing[1]. Compared to this time last year, small business revenue in California is down more than 30 percent, with the hardest hit sector, leisure and hospitality, down over 70 percent[2]. More than 40 precent of Californian small businesses reported requiring financial assistance or additional capital in the next 6 months[3].

Existing Federal Aid.
The primary source of federal small business aid is the Paycheck Protection Program (PPP), which closed in August 2020 with over $100 billion in unused funding and reopened in January 2021 with an additional $284 billion. PPP is administered by the Small Business Administration (SBA) and provides forgivable, low-interest loans to businesses with fewer than 500 employees. As of the initial close in August, 623,360 Californian businesses had received a total of $69 billion in PPP loans (average loan size $110k)[4]. The program tied loan forgiveness to maintaining payroll and specified that businesses must use at least 75 percent of the funds on payroll expenses within eight weeks (extended to 24 weeks in June 2020). Many small businesses, especially in underserved communities, were shut out of the first round of PPP loans due to structural issues within the program, including the first-come, first-served model and lack of access to lending partners. In total, 87 percent of the loans were less than $150k, and constituted 28 percent of the funding available, while the largest 5 percent of loans received 50 percent of the funding[5]. As of December 2020, 91 percent of PPP borrows had exhausted their PPP loan[6].

In the new PPP that opened in January 2021, eligible companies can apply for a second loan, and some changes were made to address the issues faced by small businesses. These include early access for lenders that focus on smaller and underserved businesses and expanding the categories of expenses eligible for forgiveness (although at least 60 percent must still go towards payroll). For companies applying for a second PPP loan, the maximum number of employees was reduced to 300 and companies must demonstrate at least a 25 percent drop in gross receipts compared to 2019. At least $25 billion was set aside for second PPP loans to the smallest businesses (maximum 10 employees or for loans of $250,000 or less to eligible borrowers in low- or moderate-income

[1] https://www.brookings.edu/wp-content/uploads/2020/09/PP_Hamilton_Final.pdf
[2] https://tracktherecovery.org/
[3] https://portal.census.gov/pulse/data/#data
[4] https://home.treasury.gov/system/files/136/SBA-Paycheck-Protection-Program-Loan-Report-Round2.pdf
[5] https://www.washingtonpost.com/business/2020/12/01/ppp-sba-data/
[6] https://www.nfib.com/content/press-release/coronavirus/one-in-four-small-business-owners-will-close-doors-if-economic-conditions-dont-improve-soon/

neighborhoods). SBA also simplified the process for forgiving loans that are less than $150k. SBA and the Treasury have stated that they expect the recent additional funding to be enough, and they do not anticipate money running out[7].

Other sources of federal aid include Economic Injury Disaster Loans (EIDL), Shuttered Venue Operators (SVO) grants, and additional non-forgivable loan programs. The EIDL Advance program distributed $20 billion in the form of forgivable grants of up to $10k but ran out of funding in July 2020[8]. The December federal aid package includes another $20 billion for a Targeted EIDL Advance program, which focuses on applicants located in low-income communities who demonstrate at least a 30 percent drop in gross receipts. The December aid package also includes $15 billion for Shuttered Venue Operators grants to live venues, independent movie theaters, and other cultural institutions. Other non-forgivable loan programs are also available through SBA.

Proposed Federal Aid.
In addition to the December federal aid package, the Biden administration has proposed a large relief package. It includes $15 billion to support more than one million small businesses through a grant program. The proposal also includes investing in successful state, local, tribal, and non-profit small business financing programs, leveraging $35 billion in government funds into $175 billion in loans. There is funding to support states' short-time compensation programs, which allow businesses to keep employees on at reduced hours while making up the difference in pay. It does not appear to include additional funding for PPP or EIDL. However, the details of the proposal have not been released and it is not clear what will end up in the final package.

California Small Business Relief Grant Program.
The California Small Business Relief Grant program was created in November 2020 with an initial investment of $500 million to provide small grants (up to $25,000) to businesses affected by COVID-19 and related health and safety restrictions, targeting small and underserved businesses that did not receive enough federal aid. The fund is administered by the California Office of the Small Business Advocate (CalOSBA) within the Governor's Office of Business and Economic Development (GO-Biz). Businesses with gross annual revenue of at least $1,000 and at most $2.5 million are eligible for grants ranging from $5,000 to $25,000, depending on size. There are a number of other eligibility criteria, including that businesses must be open if permitted, and they must have been operating since at least June 1, 2019. The funds are not tied to payroll and can be used on a wider range of expenses, including overhead and costs associated with complying with safety guidelines.

The grants are being distributed in two rounds, and CalOSBA reported over 300,000 applications were received in the first round alone. If the average grant size were $10,000, this first round alone would equate to approximately $3 billion in demand. Applications are scored and ranked based on four equally weighted factors: the severity of COVID-19 restrictions in their geographic region (such as stay at home orders, closures, etc.), the impact of COVID-19 restrictions on their industry, their revenue loss (computed using tax returns), and whether they are part of an underserved

[7] https://www.washingtonpost.com/business/2021/01/08/sba-ppp-loans/
[8] https://www.sba.gov/article/2020/jul/11/sba-provided-20-billion-small-businesses-non-profits-through-economic-injury-disaster-loan-advance

business group (such as rural businesses or businesses owned by veterans, women, or minorities). Additional details of the scoring and ranking process have not been released.

The Governor's proposal more than doubles the amount of funding available for Small Business Relief Grants, from $500 million to $1.075 billion. $25 million of that is set aside for cultural institutions such as museums and art galleries. The existing program structure would remain the same.

Proposed Legislative Action. SB 74 (Borgeas and Caballero) was introduced as an urgency bill that would immediately designate $2.6 billion for a similar program within CalOSBA called the Keep California Working Grant Program. Grants would be awarded to small businesses and nonprofits with fewer than 100 employees who have experienced economic hardship resulting from the COVID-19 pandemic. As introduced, the key differences from CalOSBA's current Small Business Relief Program are that grants would be available on a first-come, first-served basis and the maximum business size is determined based on number of employees rather than revenue, but the details of the proposal may change. Grant amounts were not specified in the introduced bill, but a six-tiered system with a maximum grant size of $75k has been discussed[9].

LAO Comment.

Program established quickly and lacks transparency. The LAO notes that the program was established quickly and without much communication with stakeholders or with the Legislature, and many details of the program are still unknown. Partner organizations and applicants have raised a number of concerns about the existing program, including an application that was only available online and in English, and was not appropriate for nonprofit organizations, among other issues. Establishing a brand new program often involves unforeseen implementation challenges. Some of the problems with this program listed above might have happened under other circumstances. However, some stakeholders felt that better communication and outreach from the administration and the third-party vendor could have addressed some potential issues before the program began. The program was also intended to target underserved businesses in locations and industries most affected by the pandemic, but the LAO is unable to assess whether it actually is much better targeted than the federal PPP program because they do not have detailed information about how the program is making grant award decisions.

The LAO suggests deferring immediate action until more information about the program is provided and its effectiveness can be determined, especially given that a new round of PPP funds is available. Specifically, the LAO suggests collecting data on the first round of grants, including information on applicants and on the amount of revenue decline, location, and industry of the entities that receive grants. More information should also be provided about how the program was designed, including details about fraud prevention and CalOSBA's selection of and contract with the third-party vendor who administered the program. The LAO suggests that the Legislature should also consider other details of the program, including potentially prioritizing businesses that did not receive a PPP loan, working out the tax implications of the grants, and considering different definitions of small business.

[9] https://www.facebook.com/watch/live/?v=210443464116336&ref=watch_permalink

Staff Comment.

Limited detail and oversight. As noted by the LAO, the Small Business Relief Grants were established and administered by the executive branch, with limited oversight by the legislative branch. Notably, the program is not codified, and the Administration has not provided any accompanying language. Thus, the details of the program, from grant sizes to eligible businesses to ranking criteria, have all been set by GO-Biz and the Administration. There are also no details available about the new set-aside for cultural institutions, which have been severely impacted by pandemic-related closures and may have different needs than other small businesses. Thus, the Legislature may want to consider laying out more specific guidelines for the program.

Interaction with federal aid. The proposal was made prior to the December federal aid package, and it is not clear how much relief Californian businesses will get from the new funds or how quickly they will be able to access them. The Biden administration's proposal is still in the early stages, and it may be significantly different in its final form. The Small Business Relief Grant program stipulates that grant money cannot be used for expenses already covered through grants, forgivable loans or other relief through federal, state, county or city programs, but it does not take those other sources of aid into account when ranking applications. Ultimately, the need for immediate relief for small businesses must be weighed against the desire to wait for federal aid.

Estimated demand. Based on the first round of applications received by CalOSBA, it seems likely that the demand for small business grants will be overwhelming. The Legislature may want to consider increasing the amount of funding available.

Related tax issues. As noted by the LAO, the tax status of these grants needs to be clarified with the Administration. The December federal aid package legislation states that small business assistance—including PPP forgiven funds, emergency EIDL grants, Targeted EIDL Advances, certain loan repayment assistance, and grants for shuttered venues—will not be taxable as income and clarifies that deductions are allowed for otherwise deductible expenses paid with the proceeds of this small business assistance.

Golden State Stimulus

Governor's Budget. The Governor's budget proposes $2.4 billion one-time General Fund in 2020-21 to provide a one-time $600 refund to taxpayers who received the California Earned Income Tax Credit (CalEITC) for the 2019 tax year, as well as individual tax identification number (ITIN) filers who will receive the credit for the 2020 tax year.

Background.
The recession caused by the COVID-19 pandemic disproportionately impacted low-income jobs and exacerbated existing economic inequality in California[10]. As of October 2020, employment rates for high wage workers (>$60k) had returned to pre-pandemic levels, while employment rates

[10] https://www.ppic.org/wp-content/uploads/incoming-inequality-and-economic-opportunity-in-california-december-2020.pdf

for low wage workers (<$27k) were down almost 30 percent[11]. Many Californians have reported food and housing insecurities and difficulty in paying for usual household expenses[12].

Two direct stimulus payments have been provided by the federal government. The March CARES package included $1,200 per adult and $500 per child under 17 for individuals whose income was less than $75,000, and a reduced benefit up to incomes of $99,000. The December aid package included an additional $600 per adult and up to $600 for each qualifying child. The initial payment kept an estimated 8 million Americans out of poverty[13,14]. However, while some Americans have spent the entire amount and need additional assistance, at least some significant portion saved the entire amount, so the overall impact of the payments is unclear[15,16,17,18]. The Biden administration has proposed an additional stimulus payment of $1,400, but the timing and amount of that payment is not final.

The Golden State Stimulus targets low-income Californians using a pre-defined population: taxpayers who claim the CalEITC. CalEITC was established in 2015 to provide low-income Californians, especially those with children, with an additional tax refund. For the 2019 tax year, Californians with annual incomes up to $30,000 were eligible, and 3.8 million CalEITC tax returns were filed. CalEITC was expanded to filers that use an ITIN for the first time in the 2020 tax year, and an estimated 250,000 ITIN-filers will claim it.

Other aspects of existing and proposed federal aid may also help CalEITC filers. In addition to the direct stimulus payment, the December federal relief bill includes a special temporary rule allowing lower-income individuals to use their earned income from tax year 2019 to determine the federal EITC and the refundable portion of the Child Tax Credit (i.e., the Additional Child Tax Credit) in the 2020 tax year. The Biden administration's proposed plan also includes more than doubling the amount of the federal EITC, raising the maximum income from $16k to $21k, and eliminating the age cap so older workers can claim the credit. It also includes an expanded Child Tax Credit. Other federal aid programs, such as expanded unemployment benefits, may also help this population.

However, ITIN-filers are typically excluded from federal aid, even though many are essential workers or work in industries hit hard by COVID-19[19]. The IRS issues ITINs to individuals who owe taxes but are not eligible for social security numbers (SSNs). They are issued regardless of immigration status and are only used for tax reporting. Examples of taxpayers who use ITINs include unauthorized or undocumented workers and non-resident foreign nationals who own or invest in U.S. businesses, among others. The March CARES Act excluded families if any member filed using an ITIN, which also prevented millions of spouses and children who are U.S. citizens or permanent resident immigrants from receiving the initial stimulus payment. Some of those

[11] https://www.tracktherecovery.org/
[12] https://www.census.gov/data-tools/demo/hhp/#/?measures=EXR&mapAreaSelector=st&barChartAreaSelector=st
[13] https://www.urban.org/research/publication/using-cash-payments-reduce-poverty
[14] https://www.nber.org/papers/w27729
[15] https://www.nber.org/system/files/working_papers/w27693/w27693.pdf
[16] https://www.bls.gov/opub/btn/volume-9/receipt-and-use-of-stimulus-payments-in-the-time-of-the-covid-19-pandemic.htm
[17] https://insight.kellogg.northwestern.edu/article/stimulus-checks-spending-data-2020-coronavirus-covid
[18] https://www.bankrate.com/banking/savings/stimulus-check-survey-2021/
[19] https://calbudgetcenter.org/resources/about-2-in-3-immigrant-workers-excluded-from-the-caleitc-are-covid-19-essential-workers/

families became eligible in the December federal aid package and could receive the initial payment retroactively. However, families where both parents use ITINs are still ineligible for both payments, which has also prevented stimulus support from reaching more than two million U.S.-citizen and legal-immigrant children nationwide[20]. A family of four where both parents use ITINs missed out on $5,800 in federal stimulus payments. At the state level, some undocumented adults received a one-time payment of $500 through the Disaster Relief Assistance for Immigrants Program in May 2020. However, only 150,000 payments were available, while California is estimated to have over 2 million undocumented individuals.

The Governor's budget proposes distributing a $600 one-time refund to taxpayers who received CalEITC for the 2019 tax year, and to the newly eligible ITIN-filers who receive CalEITC for the 2020 tax year. The payments for the 2019 filers would be distributed in February and March, and the payments for the 2020 ITIN-filers would be distributed as their returns are filed. Taxpayers who file using SSNs who claim the credit in 2020 but did not claim the credit in 2019 would not be eligible. The payment would be tax free, and could not be redirected for owed child, family, or spousal support, or for income tax liability, although it may be intercepted for other types of debt and bank liens. It also excludes individuals who are deceased or incarcerated who also file as single and do not have qualified dependents.

LAO Comment.

Targeting Governor's Proposal to Fill in Gaps Left in Federal Relief. Prior to the pandemic, many of California's low-income workers struggled to cope with the state's high cost of living. The pandemic has exacerbated this problem, as job losses have fallen disproportionately on low-wage workers. In light of this, the Governor's proposal to target relief to low-income Californians makes sense. However, the LAO suggests focusing on filling gaps in federal relief. While many 2019 EITC recipients have faced income losses during the pandemic, most have received significant federal income support. Due to enhanced unemployment insurance (UI) benefits and stimulus checks, income in 2020 for most EITC workers was similar, if not higher, than their 2019 income. In contrast, ITIN taxpayers and other undocumented workers have faced significant income losses but have not received UI benefits or stimulus checks. In addition, using the EITC to target pandemic relief may leave out some low-income Californians, including the over 20 percent of low-income workers who are eligible for the EITC but do not claim it.

The LAO proposes that the Legislature consider using a different approach to target populations in need. The LAO suggests narrowing the Governor's proposal to only include ITIN filers whose incomes fell below a certain amount in 2019 or 2020, and to increase the payment to these taxpayers above $600. As an example, the state could provide a larger, $1,800 refund per adult (equal to the federal stimulus payments) to ITIN filers with incomes below $30,000. This approach likely would cost between $700 million and $1 billion. The Legislature could use the remaining funds to target the half or more of the state's undocumented workers who do not use an ITIN and would not be eligible for the refund, and the recipients of safety net programs, which include low-income Californians who likely have struggled with the rising costs of food and utilities and the potential inability to access government and community resources.

[20] https://www.migrationpolicy.org/news/cares-act-excluded-citizens-immigrants-now-covered

Staff Comment.

Support for ITIN taxpayers. As discussed above, ITIN taxpayers and their families have been excluded from federal aid during the pandemic, and the Legislature may want to consider increasing the amount of aid directed at this population. In 2019, 70 percent of ITIN-filers had dependents, and the average size of an ITIN tax unit was 2.3 (compared to 1.6 for SSN-filers who claimed CalEITC in 2019). The Legislature could consider disbursing per-person (rather than per-tax-unit) stimulus payments to ITIN taxpayers and their families. A family of four where both parents use ITINs would need to receive $1,200 per adult and child to recoup 83 percent of the missed federal aid.

Tax year 2019 versus 2020. The proposal does not include SSN-filers who will claim CalEITC in 2020 but did not in 2019. It is not clear how many taxpayers fall into this group, as CalEITC eligibility has expanded most years, making it difficult to estimate the year-to-year turnover. It is also not clear how the COVID-19 pandemic will affect CalEITC claims, as economic instability may lead to more low-income workers, but enhanced unemployment benefits may actually disqualify some workers. An additional verification step would also be necessary to avoid double payments for taxpayers who received the credit both years. The Legislature may want to consider including this population anyway, or solely relying on 2020 claims for both ITIN and SSN filers. This would also help eliminate some issues with using older tax return data, where the recipients may have moved out of state or otherwise become ineligible for the refund.

Excluded populations who need support. As noted by the LAO, using the CalEITC population as a proxy for Californians who need aid may leave out other vulnerable populations. In particular, Supplemental Security Income/State Supplementary Payment recipients often do not have enough earned income to qualify for the credit.

Uptake among qualified recipients. As noted by the LAO, there are many qualified recipients who do not claim the credit, and therefore would be excluded from the Golden State Stimulus. ITINs are time-consuming and difficult to obtain, and some undocumented workers may not trust the process. In addition, some Californians are simply not aware that they qualify for the credit. SB 1409 (Caballero), Chapter 114, Statutes of 2020 was passed in response to this issue and directs the Franchise Tax Board to develop a plan to increase the number of CalEITC claims. The Legislature may want to consider how this issue affects the Golden State Stimulus. There may be a more immediate need to increase participation in CalEITC among both SSN and ITIN filers, such as making the payment retroactive for late filers or expanding tax assistance programs. Alternatively, the payment could be distributed to different populations, as suggested by the LAO.

Potential for redirection of payments for debt. The current trailer bill language prevents the payment from being redirected for owed child, family, or spousal support, or to offset tax liability. However, the payment would be subject to a bank lien if there was one on the account where the payment was deposited. The Legislature may want to consider whether there are additional protections that should be put in place to ensure the stimulus payments are not intercepted.

Lack of time to verify ITINs. The Franchise Tax Board can immediately verify SSNs, but not ITINs. Some portion of CalEITC claims filed each year are fraudulent. A large, direct payment may drive additional fraudulent claims this year, especially for unverifiable ITINs.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Jim Nielsen
VACANCY

Wednesday, February 3, 2021
2:00 p.m.
State Capitol - Room 4203

Consultant: Yong Salas

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

ITEMS FOR VOTE-ONLY

0840 STATE CONTROLLER'S OFFICE (SCO)

Issue 1: SCO Information Security Workload and Continuity of Operations

Request. SCO requests 2 positions and $308,000 ($234,000 General Fund and $74,000 Unclaimed Property Fund) in 2021-22, with two positions and $287,000 ($218,000 General Fund and $69,000 Unclaimed Property Fund) ongoing to validate compliance with statewide information security policy, standards, and procedures; verify SCO's internal information security systems and policies are in place and functioning as intended; and to support business continuity operations.

Background. On March 19, 2020, Governor Newsom declared a state of emergency due to the COVID-19 pandemic. In compliance with the executive order that was issued, SCO and other state agencies and departments mobilized most of the existing workforce to work remotely from home. SCO states that this resulted in the need for a greatly expanded remote workforce, which introduced new information security risks along with an increased number of phishing attacks and cybercrimes being committed.

Prior to the COVID-19 pandemic the SCO states that it did not have a technology infrastructure in place to support a telework environment, such as mobile devices, virtual meeting platforms, and network infrastructure and bandwidth. The SCO states that with the current level of resources, the information security control deficiencies will expose the SCO information systems and business operations to vulnerabilities and risks.

Staff Recommendation. Hold open.

Issue 2: SCO Infrastructure and Operational Costs

Request. SCO requests $1.6 million ($1.1 million General Fund and $474,000 Unclaimed Property Fund) in 2021-22 and ongoing to support increased infrastructure and operational costs associated with personnel services, training, statewide fees, and contracted costs.

Background. In recent years, SCO has experienced increased operational costs without adjustments to its budget authority to accommodate these costs. SCO states that the increase of its infrastructure and operational costs impact its ability to continue performing these workloads while keeping pace with rising costs. Costs such as the Department of General Services (DGS) Statewide Surcharge, price of warrants and envelopes, staff benefits, and other miscellaneous items have increased without additional funding to cover them.

In addition to the general operational cost increases outlined above, SCO states that they are also experiencing additional administrative cost pressures due to mandated department-wide training, and compliance activities for deficiencies found in a State Personnel Board Compliance Review Report.

Staff Recommendation. Hold open.

0845 DEPARTMENT OF INSURANCE (CDI)

Issue 3: Mental Health or Substance Use Disorders (SB 855)

Request. CDI requests an increase of $81,000 in Insurance Fund in 2021-22 and $70,000 and ongoing to monitor insurer compliance as mandated by Chapter 151, Statutes of 2020 (SB 855).

Background. SB 855 put in place a broader requirement on health plans and disability insurers to cover medically necessary treatment of mental health and substance use disorders under the same terms and conditions applied to other medical conditions. It also established new requirements for medically necessary care determinations and utilization review and banned discretionary clauses in health plan contracts.

The bill broadened CDI's authority for oversight and enforcement over health insurers' coverage decisions. This request would fund 0.5 position that specializes in mental health and substance use disorder parity, and would complement an existing 0.5 vacant position.

Staff Recommendation. Approve as budgeted.

0890 SECRETARY OF STATE

Issue 4: Corporations – Board of Directors – Underrepresented Communities (AB 979)

Request. The SOS requests $343,000 in 2021-22 and $333,000 annually thereafter from the Business Fees Fund to establish 2 positions to implement Chapter 316, Statutes of 2020 (AB 979).

Background. AB 979 requires each publicly held corporation whose principal executive offices are located in California to have a minimum number of directors from underrepresented communities on its board of directors. The bill required the SOS to annually report corporations subject to the requirements of the bill and their compliance, as well as authorized the SOS to impose fines for violations of these requirements.

Staff Recommendation. Approve as budgeted.

Issue 5: Help America Vote Act – VoteCal

Request. SOS requests $9.8 million from the Federal Trust Fund in 2021-22 to cover the maintenance and operations, data analysis, security assessment, further increased Department of

Motor Vehicles and Department of Technology connectivity costs, and election management system support and verification for the VoteCal statewide voter registration system.

Background. Federal law, the Help America Vote Act (HAVA of 2002) mandates that each state implement, maintain and administer the state-level, uniform, centralized, interactive computerized voter registration database. VoteCal serves as the single system for storing and managing the official list of registered voters in the state, and is jointly supported by the Elections Division under the Secretary of State and county elections officials.

In April 2018, Congress approved and the President signed $380 million in HAVA funding, of which California received $34 million, and has a five-year expiration date. In January 2020, $425 million in HAVA dollars was approved in the Consolidated Appropriations Act of 2020, of which California received $38.944 million. These funds do not have an expiration date.

Of the federal fund authority requested, $3.7 million is budgeted for maintenance and operations, and $6.1 million is budgeted for external consulting.

Staff Recommendation. Approve as requested.

Issue 6: Help America Vote Act – Spending Plan

Request. The SOS requests $22.7 million from the Federal Trust Fund in 2021-22 to continue implementation of the statewide mandates of the Help America Vote Act of 2002.

Background. In April 2018, Congress approved and the President signed $380 million in HAVA funding, of which California received $34 million. The Secretary of State is proposing to use $9.8 million of these federal funds for the VoteCal system, as described in the previous item. This request proposes to expend $22.7 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 individuals with disabilities, and improving the secure administration of elections.

Staff Recommendation. Approve as requested.

Issue 7: Statement of Information Labor Judgment Language (AB 3075)

Request. The SOS requests $216,000 in 2021-22 and $79,000 in 2022-23 and ongoing from the Business Fees Fund to support one positions to implement Chapter 357, Statutes of 2020 (AB 3075).

Background. AB 3075 changed existing requirements for the annual filings of stock corporation, foreign corporations and limited liability companies by requiring corporations and limited liability companies to certify whether specified officers/directors or managers/members of the entity have an outstanding final judgment issued by the Division of Labor Standards or a court of law. The implementation of the business filing requirements would be subject to the certification by the

Secretary of State that the California Business Connect Project is implemented, or January 1, 2022, whichever is earlier.

Staff Recommendation. Approve as requested.

Issue 8: Human Resources Bureau of Critical Administrative Resources

Request. SOS requests $783,000 in 2021-22 ($555,000 Business Filing Fees Fund and $228,000 General Fund) and $753,000 ($534,000 Business Filings Fees Fund and $219,000 General Fund) in 2022-23 and ongoing to fund six permanent full-time positions to align the Human Resources Bureau staffing with Agency growth.

Background. The human resources bureau within SOS is a support organization and serves as the personnel office, and includes 17 permanent positions and 2 student assistants. A recent audit by the State Personnel Board identified the Secretary of State as having findings that hinder the ability to strengthen internal controls. In the past ten years, SOS states that the agency has increased from 485 to 629 employees; however, in the same time, the human resources bureau only received one limited-funded position in 2013-14 and one permanent position in 2018-19.

Staff Recommendation. Approve as requested.

1750 CALIFORNIA HORSE RACING BOARD

Issue 9: Technical Correction

Request. The Administration requests a technical correction to the budget bill language under the 1750-001-3153 budget item. See below for the correction.

1750-001-3153—For support of California Horse Racing Board, payable from the Horse Racing Fund 16,079,000

Schedule:

(1) 1610-California Horse Racing Board 16,079,000

Provisions:

1. Pursuant to Section 19616.51 of the Business and Professions Code, all racing associations and fairs including all breeds of racing shall remit a license fee to the California Horse Racing Board to be deposited in the Horse Racing Fund. For the **~~2020–21~~**<u>**2021-22**</u> fiscal year, each racing association and fair shall pay a proportionate share of $18,001,000, including any

current year adjustments, in the form of a license fee in accordance with a formula developed by the board.

Staff Recommendation. Approve as requested.

8620 FAIR POLITICAL PRACTICES COMMISSION (FPPC)

Issue 10: Continuation of California Disclose Act Workload

Request. The FPPC requests $430,000 General Fund in 2021-22 and ongoing to continue funding three existing limited-term funded positions on a permanent basis to continue interpretation, outreach and education, enforcement, and refinement for continuing workload associated with AB 249 (Chapter 546, Statutes of 2017), the California Disclose Act.

Background. The California Disclose Act provided comprehensive provisions for campaign advertising and for reporting the source of campaign contributions, among other provisions. The FPPC states that its Enforcement Division received 518 complaints related to the California Disclose Act from June 1, 2019 through October 31, 2020.

This request will continue funding for one senior commission counsel, one political reform consultant, and one special investigator.

Staff Recommendation. Approve as requested.

Issue 11: Local Campaign Filings (AB 2151)

Request. The FPPC requests $121,000 General Fund in 2021-22, and $114,000 in 2022-23 and ongoing) and one permanent position to implement AB 2151 (Chapter 214, Statutes of 2020), regarding online filing and disclosure systems.

Background. AB 2151 required a local governmental agency that receives campaign finance disclosure filings in paper format to post copies of the paper filings on its internet website within 72 hours of the filing deadline, and took effect on January 1, 2021.

The FPPC states that it expects an increased amount of advice inquiries from local government agencies regarding their obligations under the new state mandate, general provisions of the Act concerning campaign filing requirements and deadlines, and electronic filing systems. In order to help meet this workload, the FPPC is requesting an additional position to conduct educational and informational outreach on the posting requirements of AB 2151, process complaints, among other duties.

Staff Recommendation. Approve as requested.

8885 COMMISSION ON STATE MANDATES

Issue 12: Funded and Suspended Mandates

Budget. The proposed funding for non-education mandate payments to local governments is included in the Commission's budget. The Governor's mandate proposal is largely a continuation of the status quo in terms of mandates in effect (funded) and mandates not in effect (suspended). The budget proposes expenditures of $47.7 million related to funding non-education mandates. Most mandates funded in the budget concern public safety or property taxes. Funded mandates are listed in the following table.

2021-22 Funded Local Government Mandates	Proposed Funding Levels
General Fund	
Allocation of Property Tax Revenues	603,000
Crime Victims' Domestic Violence Incident Reports	178,000
Custody of Minors-Child Abduction and Recovery	13,259,000
Domestic Violence Arrest Policies	9,793,000
Domestic Violence Arrests and Victims Assistance	2,288,000
Domestic Violence Treatment Services	2,367,000
Health Benefits for Survivors of Peace Officers and Firefighters	2,695,000
Local Agency Ethics	17,000
Medi-Cal Beneficiary Death Notices	8,000
Medi-Cal Eligibility of Juvenile Offenders	2,000
Peace Officer Personnel Records: Unfounded Complaints and Discovery	809,000
Rape Victim Counseling	601,000
Sexually Violent Predators	3,800,000
State Authorized Risk Assessment Tool	724,000
Threats Against Peace Officers	0
Tuberculosis Control	239,000
Unitary Countywide Tax Rates	400,000
U Visa 918 Form	1,339,000
Impasse Procedures II	1,201,000
Peace Officer Training: Mental Health/Crisis Intervention	5,300,000
Total General Fund	**45,623,000**
Fund 0044	
Administrative License Suspension	**2,008,000**
Fund 0106	
Pesticide Use Reports	**47,000**
Totals	**47,678,000**

Consistent with previous years, the budget includes the suspension of 38 mandates totaling $552.5 million.

Staff Recommendation. Approve as requested.

8940 CALIFORNIA MILITARY DEPARTMENT (CMD)

Issue 13: State Information Technology Network – Phase 2

Request. CMD requests 11 permanent positions and $2.7 million one-time General Fund with $2.1 million ongoing General Fund to continue the development, implementation, and maintenance of its State Network.

Background. Prior to November 2019, all programs in the Department relied on federal computer systems operating on a federal Department of Defense (DoD) network for all daily functions. In November 2019, the DoD introduced and implemented a nationwide modernization and convergence of the Federal network in order to improve the resiliency and security of all DoD networks. Consequently, state programs and access to state systems are no longer supported. This has resulted in a significant adverse impact to daily state operations which include web services, monthly and emergency pay processing, accounting, calculating utility usage costs, and other IT related services (i.e. voice, storage, email, and video conferences) used daily. CMD has stated that payroll, personnel, benefits, and other business functions have been negatively impacted and delayed.

As an initial measure, the CMD was granted nine permanent positions and $3.9 million one-time General Fund and $2.8 million ongoing as part of the 2020-21 Budget as the first phase of this project.

CMD's State Network is required for the daily operations of the department, and at present, the CMD is conducting these functions on a degrading federal Department of Defense (DoD) network with a few departments operating on the nascent State Network initiated with funds and positions provided in the 2020 Budget Act. While the initial efforts have been successful, over 90 percent of the CMD state employees are continuing to operate on the DoD federal network or utilizing costly, subscription based stand-alone cellular wireless access technology.

This request will continue the development, implementation and maintenance of its State Network. The CMD indicates that there will be future phases to complete the State Network, and is still in the process of evaluating these steps.

Staff Recommendation. Approve as requested.

Issue 14: Consolidated Headquarters Complex Maintenance Personnel

Request. CMD requests an increase in position authority of eight positions in 2020-21 and ongoing to be paid for by a portion of the savings generated due to the move from a leased building to the new state-owned Consolidated Headquarters Complex in Rancho Cordova. This proposal also includes the one-time purchase of vehicles, tools, and equipment for the labor activities required to perform maintenance operations at the site.

Background. CMD has leased a building as the headquarters for the Air and Army National Guard since 1993. As part of the lease agreement, the CMD has had a dedicated building manager coordinating all maintenance work, janitorial work, and grounds work/landscaping. This benefit will end once the CMD officially begins moving into its newly constructed Consolidated Headquarters Complex in Spring 2021.

The current lease payment is $2.7 million, which will no longer be necessary when the CMD moves to its new Headquarters. The cost of the 8 positions and the one-time equipment purchases is $972,000 in 2021-22 with ongoing costs of $839,000. The remaining $1.7 million will be returned to the General Fund in 2021-22, with the additional remaining $133,000 in the outyears returned to the General Fund.

The CMD currently does not have expenditure authority or staff for the new headquarters that can monitor, analyze, and predict when an issue will occur and proactively prevent failure and costly repairs. The CMD conducted a workload assessment and concluded that a total of 540 work priorities and requests annually consisting of 11,042 hours per year of labor activities related to the headquarters facility with an increase of 10 percent annually as the building systems age will need to be met.

Staff Recommendation. Approve as requested.

Issue 15: Los Alamitos – STARBASE Classroom Building Preliminary Plans

Request. The CMD requests $1.5 million General Fund for the construction phase of the Los Alamitos: STARBASE Classroom Building project.

Background. STARBASE is a CMD youth program focused on STEM skills that serves fifth-grade students in the Southern California region. The program operates year round and serves more than 3,500 students annually; however, the program currently has a waiting list, and this expansion will help accommodate 900 additional students annually.

This project was originally approved in the Budget Act of 2018 to provide additional classroom space. However, due to design and contracting issues, the working drawing phase of the project was delayed and will likely be approved by June 2021. As a result, construction funds will not be expended or encumbered by the time its authority will expire.

Total estimated costs are $1.7 million ($68,000 for preliminary plans, $102,000 for working drawings, and $1.5 million for construction).

Staff Recommendation. Approve as requested.

Issue 16: Santa Rosa – Sustainable Armory Renovation Program

Request. The CMD requests $98,000 ($49,000 General Fund and $49,000 federal funds) for the performance criteria of the Sustainable Armory Renovation Program: Santa Rosa project.

Background. The renovation of the Santa Rosa Armory, which was built in 1951, includes upgrading the HVAC, electrical and plumbing systems; renovating the bathrooms, and the kitchen; replacing aged roofing; installing energy-efficient windows and code-compliant doors; upgrading storage vaults and security fencing; installing Anti-Terrorism/Force Protection improvements; and related paving and site improvements.

CMD states that the Santa Rosa Readiness Center renovation project is a high priority due to its location; the armory is close to Highway 101 making it an ideal location for emergency response for the Bay Area. It also houses the Battalion Headquarters that is a critical command and meeting point for emergency response for the area.

Once the renovation is complete, the armory will serve as a venue for training, will provide for the proper storage and maintenance of military equipment, and will be available for use as a temporary operations center or emergency shelter during a state emergency. Total project costs are estimated to be $6 million.

The Administration's Five-Year Plan includes $19.3 million ($10.4 million General Fund and $8.9 million federal funds) over the next five years for additional projects in the Sustainable Armory Renovation Program. These armory renovations are proposed for Burbank, Visalia, Petaluma, and Redding.

Staff Recommendation. Approve as requested.

8955 CALIFORNIA DEPARTMENT OF VETERAN AFFAIRS

Issue 17: Rector Creek Instream Flow and Fish Condition Assessment Study

Request. CalVet requests a re-appropriation to extend the liquidation period to complete the Rector Creek Instream Flow and Fish Condition Assessment Study to June 30, 2023.

Background. Funds were appropriated in the 2018 Budget Act for the Rector Creek Instream Flow and Fish Condition Assessment Study. The study is currently underway; however, due to dry rainy seasons the study will not be concluded by June 30, 2021 when the 2018 Budget Act funds revert. This proposal requests an extension of the liquidation period to continue the Rector Creek Instream Flow and Fish Condition Assessment Study. CalVet is requesting to re-appropriate $275,000 General Fund.

Staff Recommendation. Approve as requested.

Issue 18: Northern California Veterans Cemetery, Igo: Water System Upgrade

Request. CalVet requests $954,000 General Fund for the Construction Phase of the water system upgrade at the Northern California Veterans Cemetery in Igo, California.

Background. In 2010, CalVet entered into an agreement with the California Veterans Assistance Group for the purpose of building a veterans memorial building on the grounds of the Northern California Veterans Cemetery in Igo, which is located in Shasta County. According to the lease agreement terms, a 2,200 square foot, faith-neutral veterans memorial building was donated to CalVet, and construction of the memorial building was complete in 2011. Shortly thereafter, CalVet was notified by the Shasta County Fire Marshal that water system upgrades would be required in order to comply with state and local safety standards, and was granted a temporary occupancy permit and fire watch requirement in the meantime. While the temporary permit and the fire watch requirement is still in place, CalVet is now working with the Department of General Services (DGS) and the State Fire Marshal (SFM) to address the additional fire suppression related deficiencies.

The 2019 Budget Act provided $917,000 General Fund to complete the water system upgrade. However, completion of the working design phase was delayed due to the due diligence obligations required by the State and additional requirements set forth by the SFM. Due to this delay, the construction phase that was originally funded in the 2019 Budget Act expired as the funds were not encumbered or expended by the specified dates in the 2019 Budget Act. In addition, the overall project costs have increased by $113,000 to reflect additional escalation and because the 2019 proposal omitted costs for due diligence and extended SFM review.

CalVet estimates that total project costs will be $1.6 million and that working drawings will begin in February 2021 and completed in December 2021, with construction scheduled to begin January 2022 and completed by October 22.

Staff Recommendation. Approve as requested.

Issue 19: Veterans Home of California – Yountville Water Treatment Plan Upgrades

Request. CalVet requests a one-time augmentation of $2.1 million General Fund in 2021-22 for the required renovations for the water treatment plant at the Rector Reservoir near the Veterans Home of California-Yountville.

Background. California built the Rector Dam in 1946; in April 2018, CalVet hired an architectural and engineering firm to evaluate the condition of the Rector Reservoir water treatment plant and the surrounding systems that contribute to the treatment and delivery of clean drinking water. The intent of the evaluation was to identify potential maintenance issues and upgrades as a result of changing regulatory requirements or deferred maintenance requirements. The evaluation concluded that there were three primary maintenance issues that needed to be addressed: 1) installation of the Rip Rap at the internal base of the reservoir, 2) replacement or renovation of the outside roughing filters, and 3) the renovation of the main filters within the water treatment branch.

This proposal requests $2.1 million General Fund one-time to renovate the main filters in the Rector Reservoir water treatment plant. The media filters life within the main filter systems of the water treatment plant at Rector Reservoir is dependent on a number of factors. The recent wildfires have decreased the quality of raw water from the watershed and surrounding area that eventually goes into the reservoir, with runoff from the main watershed that has ash or residue from fires requires additional treatment of the water to bring water quality up to regulatory standards.

The 2019-20 budget included $2.5 million to address critical deferred maintenance projects at Yountville, one of which was the replacement of the filters at the water treatment plant. However, a water line break at the VHC-Barstow in May 2020 impacting the cooling and heating system that serves all of domiciliary buildings required CalVet to redirect funds to address that emergency. This request is to provide funding to replace the media at the water treatment plant that was put on hold in order to address the Barstow emergency.

Staff Recommendation. Approve as requested.

ITEMS FOR DISCUSSION

0840 State Controller's Office (SCO)

Issue 20: California State Payroll System Project

Request. The SCO requests resources to support the California State Payroll System (CSPS) Project through the continuation of the California Department of Technology (CDT) Project Approval Lifecycle (PAL) Stages 3 and 4. SCO requests 6.0 permanent and 1.0 one-year limited-term position and $5.5 million ($3.1 million General Fund and $2.4 million Central Service Cost Recovery Fund)) in 2021-22; 6.0 positions and $1 million ($581,000 General Fund and $439,000 Central Service Cost Recovery Fund) in 2022-23 and ongoing.

Background. Beginning in 2016, SCO began to assess current information technology and the latest industry standards, and initiated the re-engineering of a new human resource management and payroll system, which is now called the California State Payroll System Project (CSPS).

Over the last few years, SCO received resources for CSPS to support the completion of CDT's Pal Stage 1 and 2, and included activities such as:

- Performing business process documentation of human resource management and payroll processing practices to refine the scope of the future project.
- Contracting with a vendor to provide IT consulting business process documentation and reengineering services.
- Contracting with a procurement support vendor to create new, or refine existing, mid-level solution requirements, assist with the performance of a market survey, conduct the final alternative analysis, prepare financial analysis worksheets, and aid in the development of a procurement strategy to be included in the CDT PAL Stage 2.

The CSPS Project intends to modernize and improve the efficiency of the current Uniform State Payroll System (USPS) or replace it entirely. Since the state continues to rely on its 1970s-era legacy systems, which include 13 overarching programs, the CSPS Project is intended to develop a comprehensive approach to allow SCO to meet its strategic objectives to promote financial integrity and accountability; enhance communications and information sharing, among others.

SCO currently is authorized for 24 permanent positions and 1 one-year limited term position. This request will provide for 6 new permanent positions and a continuation of the 1 one-year limited-term position. These resources are intended for continuation through CDT's PAL Stage 3 and 4, both of which are expected to be submitted on July 2021 and May 2023, respectively.

Staff Recommendation. Hold open.

Issue 21: Local Government Oversight – Internal Control Reviews

Request. SCO requests $712,000 ($406,000 General Fund and $306,000 Central Service Cost Recovery Fund) in 2021-22 and ongoing, and a corresponding decrease in reimbursement authority to fund 5 existing positions to perform investigative audits and reviews of the financial oversight of local government agencies.

Background. The 2017-18 Budget provided SCO with $1.1 million ($108,000 General Fund and $1 million in reimbursement authority) and nine positions for the ongoing oversight of local governments as authorized by existing law. Existing law allows the SCO to investigate local governments whose financial transaction reports are not made in the time, form, and manner required or there is reason to believe that a report is false, incomplete, or incorrect. The activities included the enforcement of the financial transactions reporting requirements of local governments, analyzing and monitoring financial data for potentially distressed entities, and conducting audits of local government entities.

Existing law authorizes the local government under review to reimburse the State Controller for any costs incurred during the course of an investigation. However, the SCO states many of its activities when providing oversight to local governments are non-reimbursable - or if reimbursable, go unpaid – and thus requests that funding for these activities shift to General Fund so that SCO may focus its investigations on evaluating local government agencies.

Staff Recommendation. Hold open.

0845 DEPARTMENT OF INSURANCE (CDI)

Issue 22: Continuation of Enhanced Fraud Investigation and Prevention Activities

Request. CDI requests to convert 34 limited-term positions to permanent positions and increase its expenditure authority of $6.1 million General Fund in 2021-22 and ongoing to support enhanced fraud investigation and prevention efforts in civil whistleblower cases. Beginning in 2023-24 and every three fiscal years thereafter, CDI is requesting $640,000 to continue the eDiscovery Software-as-a-Service (SaaS) subscription.

Background. Existing law allows a whistleblower to file a civil lawsuit in the name of the state against any individuals or companies that are alleged to be involved in the submission of false or fraudulent claims to an insurer. These civil actions are also called "Qui Tam" actions. The Insurance Commissioner is authorized to use CDI attorneys to handle this civil litigation.

Since November 2013, the Department has reached settlement agreements in a number of major whistleblower lawsuits resulting in $139.2 million in settlement payments, more than $66 million of which was paid to the General Fund. The CDI has deposited an average of $9.0 million per year in to the General Fund over the last five fiscal years. As a result of these resources the CDI has been able to increase recoveries for the state (refer to resource history table on the following page).

The trend has improved dramatically over the last 24 months as CDI recovered $14.6 million in assessments to the General Fund and has already recovered $15 million in 2020-21.

Since 2014-15 the Legislature has approved multiple requests totaling $54.9 million for CDI to utilize these funds for Enhanced Fraud Investigation and Prevention efforts. The department has had up to 50 limited-term positions and associated authority over the last seven years. All General Fund resources currently authorized will expire June 30, 2021.

This request also includes $640,000 General Fund In April 2017, CDI's Fraud Liaison Bureau under the Legal Branch implemented eDiscovery Software-as-a-Service (SaaS) in order to better handle the large volume of materials associated with pending whistle-blower cases. Since project implementation, this tool has improved efficiencies with FLB's business processes. The FLB has automated 100 percent of processing, organizing, searching and retrieving of discovery documents in whistleblower cases and has been able to intervene in twice as many cases since moving from the manual process to the eDiscovery SaaS tool.

In order to continue to utilize the SaaS solution, the CDI must renew its triennial SaaS subscription in 2023-24. The CDI negotiated a fixed price SaaS subscription fee of $640,000 every three years. This request is for $640,000 General Fund in 2023-24 and would reoccur every three fiscal years thereafter to support the subscription renewal of the eDiscovery SaaS subscription.

Staff Recommendation. Hold open.

0890 SECRETARY OF STATE

Issue 23: CalACCESS Replacement System Project

Request. The Secretary of States requests $7.5 million ($7 million General Fund and $500,000 from the Political Disclosure, Accountability, Transparency, and Access Fund) for the ongoing maintenance and operation of the CAL-ACCESS Replacement System. This request continues funding for 12 positions, professional support services, and software licensing renewals.

Background. SB 1349 (Hertzberg), Chapter 845, Statutes of 2016, established new functional requirements for the California Automated Lobbying and Campaign Contribution and Expenditure Search System (CAL-ACCESS), and the existing system could not meet these new requirements. The current system is a conglomeration of applications that were developed at different times using multiple, now-obsolete coding languages and technologies. The existing campaign finance and lobbying activity process is an inefficient process that does not meet the needs of many stakeholders. SB 1349 requires the development of a new, automated campaign and lobbying reporting and disclosure system.

In the 2019-20 Budget, trailer bill was adopted to delay implementation of the Cal-ACCESS project from December 2019 to February 2021, in part to avoid complications with implementing the system during a presidential election year. According to the SOS, the project is on time for its February 2021 release date.

Staff Recommendation. Hold open.

Issue 24: Continuation of Limited-Term Accounting Resources

Request. The Secretary of State requests $1.6 million ($1.1 million Businesses Fees Fund and $463,000 General Fund) in 2021-22 and ongoing for 12 positions, ten of which are existing and 2 of which are new, for the Accounting and Procurement Sections.

Background. The 2019-20 Budget included $1.5 million for 11 two-year, limited-term positions in support of FI$Cal implementation. SOS implemented FI$Cal in July 2018, and has since experienced significant delays. SOS states that prior to receiving additional resources in 2019, they had insufficient staffing levels to reduce ongoing backlogs which caused exorbitant staff overtime, employee retention problems, and delays in payment.

Staff Recommendation. Hold open.

Issue 25: California Business Connect Project

Request. The SOS requests $11.7 million ($8.2 million from the Business Fees Fund and $3.5 million from the Business Programs Modernization Fund) in 2021-22 to continue implementation of the California Business Connect Project.

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.

Special Project Report #4 for the California Business Connect Project was approved in May 2020. The project has a completion date of December 2021, with a total project cost estimate of $68.4 million.

Although the general business processes for each filing are similar, separate application systems and processes have evolved over time for each filing type. As a result, at least 23 separate automated systems are in use to support 15 of the filing types; the remaining 8 filing types are essentially paper-based manual systems supported only with basic office automation tools, such as Microsoft Access, Word and Excel or 3” x 5” index cards.

June 2020 marked the third year of operation for the bizfile California Portal, which is an online portal to help businesses file, search, and order business records. bizfile California will grow as the SOS adds more California Business Connect online services. In three years, bizfile California has provided the following customer benefits as of 06/30/2020:

New CBC Online Services	Implementation Date	Number of Online Submissions
LLC Statements of Information	6/21/2017	1,368,625
Trademark Registration	1/11/2018	13,014
LLC Formations	5/8/2018	269,221
LLC Terminations	12/27/2018	42,257
Trademark Modifications	10/8/2019	383
Corporation Statements of Information	11/6/2019	401,072
Corporation Formations	3/27/2020	14,904
Certificates of Good Standing (Orders)	6/30/2020	3,028
Uniform Commercial Code	7/15/2020	TBD

Staff Recommendation. Hold open.

Issue 26: Business Programs Division Processing Times

Request. SOS requests a continuation of spending authority for the additional resources needed to reach and maintain and average of five business days or better for processing paperwork for Business Filings and Statements of Information until California Business Connect is fully implemented. The request is for 47 positions, a decrease from the current 56 positions, and $5.1 million from the Business Fees Fund in 2021-22.

Background. The California Business Connect, when fully implemented, will alleviate a majority of the labor-intensive workload, including manual processing of paperwork related to business filings.

Due to prior delays in the California Business Connect implementation, the SOS was approved for spending authority of $5.5 million to support 56 positions and resources in 2016-17 and 2018-19 in order to maintain the five business day processing times. Now, with the recent and ongoing automation and online improvements, SOS has reduced the level of support necessary from 56 positions to 47 positions.

Staff Recommendation. Hold open.

2320 DEPARTMENT OF REAL ESTATE

Issue 27: Accounting Workload Resources

Request. The Department of Real Estate (DRE) requests $125,00 in 2021-22 and $117,000 in 2022-23 and ongoing from the Real Estate Fund, and one permanent position and one two-year, limited-term position to support the accounting activities in Fiscal Operations.

Background. Since July, 1 2018, under the provisions of Chapter 828, Statutes of 2017 (SB173), the California Bureau of Real Estate separated from the Department of Consumer Affairs (DCA), became a department within the Business, Consumer Services, and Housing Agency, and was renamed the DRE. In order for the DRE to function as a department and meet required departmental mandates, the requested core positions were approved via a Budget Change Proposal (2320-001-BCP-2018-GB) and enacted by Chapter 29, Statutes of 2018. Prior to becoming a Bureau, DRE had its own Accounting (Fiscal Operations) Section, which was responsible for implementation of all laws and rules governing State financial accounting and reporting.

In 2018-19 and 2019-20, DRE entered into an interagency contract with DCA for services to assist during the transitional period in its return to department status. This Interagency agreement provided for DCA's assistance with all accounting functions until DRE was able to hire the necessary positions to fulfill most accounting responsibilities. This contract ended on June 30, 2020. In 2019-20, DRE's Accounting Section consists of seven positions.

2018-19 brought new challenges to the newly formed Department, as the number of Funds increased. Prior to 2017-18, the Department had to maintain, reconcile, and prepare financial statements for, at the time, one special fund, the Real Estate Fund, but in 2018-19, the number of funds increased to three. As required in the Business and Professions Code section 10450.6, which states in part, "there shall be separate accounts in the Real Estate Fund for purposes of real estate education and research and for purposes of recovery which shall be known respectively as the Education and Research Account and the Consumer Recovery Account." The Education and Research Account is a special fund and the Consumer Recovery Account is a continuous appropriation. Prior to the establishment of the Consumer Recovery Account and the education and Research Account in SCO and FI$Cal, the Department recorded approximately 8,000 revenue transactions in both checks and credit card transactions in FI$Cal. After, the establishment of these funds, the Department now records an additional 3,600 revenue transactions.

The request is due to the complexity of current funds, as well as to assist with the workload and backlog created with the ending of the interagency agreement with DCA. The Senior Accounting Officer (Specialist) position would assist with credit card and Nationwide Multistate Licensing Service (NMLS) transactions, while the limited-term Accounting Officer (Specialist) would assist with addressing the four-month backlog of miscellaneous revenue functions such as running a deposit tape, processing deposits in CashPro, and keying coded transactions. Without sufficient staffing to address the accounting workload related to reconciling, remittance, and managing the workload, DRE is struggling to meet the deadlines for reconciling, Month End Close, Year End

Close, and preparing financial statements, while maintaining the day to day operations of the accounting office.

Staff Recommendation. Hold open.

Issue 28: Licensing Information Section – Call Workload

Request. The DRE requests three year, limited-term funding of $414,000 in 2021-22, and $374,000 in 2022-23 and 2023-24 from the Real Estate Fund and 5 positions to the support the Licensing Program, Information Section and assist with managing high call volumes and excessive call wait times.

Background. Currently, there are approximately 422,000 real estate licensees in California. Before an applicant can be licensed as a real estate salesperson or broker, they must fulfill certain real estate education requirements and pass an exam administered by DRE. Broker and salesperson licenses are issued for a four-year period. The renewal process for both license types includes the submission of an application, payment of fees, and demonstrating evidence that the licensee has completed 45 hours of DRE-approved continuing education courses. DRE's Licensing program supports the department's mission by providing a variety of services to California consumers, applicants, licensees, and other governmental agencies. These services include qualifying and scheduling examination applicants, developing and administering the real estate salesperson and broker examinations, and the issuance and renewal of real estate salesperson and broker licenses. This group also manages a large volume of telephone inquiries from licensees, applicants, and consumers.

The associated licensing workload, as well as an increasing licensing population, has led to a continually high volume of phone calls received by DRE and an extensive call wait time for licensees, applicants and consumers. Average call wait times are currently estimated at 25 minutes.

Staff who process these applications currently redirect a portion of their time to help manage calls, which results in longer processing times for applications, and in turn, adds to the high volume of telephone calls. DRE has attempted to mitigate this excessive workload through the use of overtime, hiring limited-term staff, as well as the redirection of existing staff and resources from other sections to the extent feasible. While these efforts have provided some relief, the impacts are temporary.

Staff Recommendation. Hold open.

8260 CALIFORNIA ARTS COUNCIL

Issue 29: California Creative Corps Pilot Program

Request. The California Arts Council requests $5 million General Fund in 2020-21 and $10 million General Fund in 2021-22 to implement the California Creative Corps Pilot Program.
This request is part of the Administration's "early action" package.

Background. The California Creative Corps Pilot Program intends to create public awareness of the various methods to stop the spread of COVID-19, that includes public messaging, wearing masks, social distancing, staying at home, and receiving vaccinations. California artists will use a variety of artistic mediums and methods to promote public health awareness, for example, the creation of murals in neighborhoods that have been heavily impacted by COVID-19.

Specifically, the CAC states that the funding will support the costs for artists, ambassadors, and commissions representing all 58 counties in the state and will include statewide media, outreach, engagement, and local administration to support localities. The funding provided in 2020-21 will be used to engage approximately 500 artists, and additional details will be determined by the Council at a later date. The CAC will work with artists, performers, and others, with a focus on BIPOC and LGBTQ individuals.

Staff Recommendation. Hold open.

8955 California Department of Veteran Affairs

Issue 30: CalVet Electronic Health Record Project: Phases 2 and 3

Request. CalVet requests a one-time augmentation of $10 million General Fund in 2021-22 for the second year of implementation of a new long term care electronic health record system in the Veterans Homes of California and Headquarters.

Background. CalVet's existing clinical, financial, and administrative aspects of the Homes rely heavily on paper records. In 2016, CalVet began to work with the Department of Technology to explore various options for an electronic health record system to use in its Veterans Homes. The 2020-21 budget provided a one-time augmentation of $1.2 million General Fund for the first phase of implementing the electronic health record system, which was installed at its Homes in Barstow, Chula Vista, Lancaster, and Ventura.

This request will implement the second and third phase of this project, and will be used to enhance the system at the initial four Homes, and implementing the system at the four remaining Homes in Fresno, Redding, West Los Angeles and Yountville.

The total cost of this project is estimated to be $20.8 million, with a completion date of December 2021.

Staff Recommendation. Hold open.

Issue 31: Northern California Veterans Cemetery, Igo – Columbaria Expansion

Request. CalVet requests $296,000 General Fund for the preliminary plans and working drawings phases for the columbarium expansion at the Northern California Veterans Cemetery (NCVC) in Igo, California.

Background. The NCVC opened for interments in December 2005 with 1,200 columbaria niches. When the cemetery was designed in 2002, the number of in-ground burial plots and columbaria niches was consistent with existing interment rates. Since then, niches have been utilized regularly and seem to be the most desired burial option – niches are the most desired burial option, over double that of requests for casket and in-ground cremains. An additional 2,000 niches were constructed and completed in March 2012.

As of December 23, 2020, only 318 columbaria niches remain and with the current interment rate, the columbaria will be exhausted by the summer of 2021. The nearest veteran's cemetery with available space is nearly 200 miles away in Dixon, California.

CalVet applied for a federal grant in August 2018 to construct additional columbaria, and the pre-application was approved for consideration of grant funding through the VA National Cemetery Administration, State Cemetery Grant Program.

The project intends to build 2,000 additional columbaria niches; additionally, it will build new walk-ways, ramps, curb and gutters, landscaping, and irrigation. Total project costs are estimated to be $2.1 million, of which $1.8 million will be from federal funds.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Wednesday, February 10, 2021
1:00 p.m.
State Capitol - Room 4203

Consultant: Nora Brackbill and Joe Stephenshaw

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

VOTE ONLY ITEMS 1, 2, 3, 6, AND 8 – APPROVED 3-0
VOTE ONLY ITEMS 4, 5, 7, AND 9 – APPROVED 2-1 (Nielsen NO)
ALL OTHER ISSUES HELD OPEN

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

ITEMS FOR VOTE-ONLY

0950 STATE TREASURER'S OFFICE (STO)

Issue 1: Electronic Resources Augmentation

Request. The Governor's budget proposes $400,000 in reimbursements for the Investment Division to meet the increasing cost of electronic services necessary to safely and prudently invest state money for the Pooled Money Investment Account (PMIA).

Background. The Investment Division plays a pivotal role for the State Treasurer in meeting his/her constitutional obligations as the State's banker and chief investment officer. The Investment Division invests temporarily idle funds in the Centralized Treasury System in the PMIA portfolio. The PMIA, created by legislation in 1955, is made up of commingled monies from the General Fund, Surplus Money Investment Fund (SMIF), and the Local Agency Investment Fund (LAIF). SMIF represents the available cash from all the special funds which do not have investment authority of their own and from those special funds which have independent investment authority but choose to participate in the program. LAIF was established in 1977 pursuant to Government Code Section 16429.1 to provide California cities, counties, and special districts with an investment alternative.

The goal of the Investment Division is to prudently manage and safely invest the State's idle or surplus monies to maximize the earnings and to meet the cash flow needs of the State. There is a high degree of visibility and sensitivity regarding the investment of public funds and the subsequent outcome of these investments. The investment program includes a wide variety of complex investment instruments which requires ongoing analysis and review from the management team. The program utilizes more than 100 brokers, dealers, banks and direct issuers of commercial paper and corporate debt. As of June 30, 2020, the PMIA totaled $101 billion with daily investment activity for the month averaging $1.6 billion.

The STO's Investment Division currently utilizes seven fee-based electronic services on a daily basis. These services are critical to the business and operational needs of the division, as well as standard in the investment community. The PMIA has grown by over $30 billion in the past five years, from $69.6 billion on 6/30/15 to $101.0 billion on 6/30/20, with no increase to staffing levels.

Staff Recommendation. Approve as budgeted.

0981 CALIFORNIA ACHIEVING A BETTER LIFE EXPERIENCE ACT BOARD

Issue 2: Continued Administration of the California Achieving a Better Life Experience Act Board

Request. The Governor's budget proposes $1.2 million General Fund, ongoing, to provide the following resources:

1. $845,000 to fund administrative costs and the continued implementation of the California Achievement a Better Life Experience (CalABLE) Program; which includes funding for staff, funding for external consultants and funding necessary for operating and overhead costs; and

2. funding in the amount of $350,000 to support the marketing and outreach activities of increasing awareness and participation in the program.

In addition, CalABLE requests budget bill language to extend the repayment date of the General Fund loans made to CalABLE, beginning in the 2016-17 fiscal year through the 2019-20 fiscal year, to the 2024-25 fiscal year.

Background. On December 19, 2014, President Obama signed the Stephen Beck Jr., Achieving a Better Life Experience Act of 2014 (ABLE), which allows individuals who become blind or disabled before reaching age 26 to create tax-free savings accounts. ABLE accounts generally follow the same rules as 529s: individuals can make nondeductible cash contributions to an ABLE account in the name of a specified beneficiary, and with tax-free earnings. ABLE account distributions are also not included in the beneficiary's income, as long as they are used for qualified services for the beneficiary and distributions do not exceed the cost of those services.

The ABLE Act directs states to establish one ABLE account for each eligible beneficiary. The ABLE Act additionally directs the IRS to issue regulations by June 19, 2015 and implement the program to guide states as they enact legislation to create ABLE accounts. AB 449 (Irwin), Chapter 774, Statutes of 2015, implements the ABLE Act in California, and directs the California Achieving a Better Life Experience Board to administer ABLE accounts on behalf of qualified Californians.

SB 324, (Pavley), Chapter 796, Statutes of 2015 established the Achieving a Better Life Experience Act Board and the California ABLE Program Trust for the purpose of creating a statewide program known as the Qualified ABLE Program. Under the Qualified ABLE Program, a person may make contributions, for the benefit of an individual who is an eligible individual for that taxable year, to an ABLE account that is established for the purpose of meeting the qualified disability expenses of the designated beneficiary of the account.

In July of 2020, CalABLE began developing projections for strategic planning purposes. These preliminary projections, which are based on several assumptions (including growth rate, number of enrollees and their contribution levels and withdrawal rates), show that program expenditures will exceed fee revenues annually for an extended period. This shortfall and need to supplement revenue with additional funding to support its annual expenditures, has led to the need to seek an ongoing General Fund appropriation rather than additional funding through General Fund loans. CaLABLE has received $4.8 million in General Fund loans since its inception.

According to the Administration, with an ongoing General Fund appropriation, the board can focus on developing competitive advantage and advocacy strategies that will increase enrollment growth without additional pressure to extend loans to the program. Revenue generated can then be used solely for loan repayment, further reducing the time estimated for repayment.

Staff Recommendation. Approve as budgeted.

1701 Department of Financial Protection and Innovation (DFPI)

Issue 3: Information Security Strategy and Operations

Request. The Governor's budget proposes $710,000 ($238,000 Credit Union and $470,000 Fund Financial Protection Fund) in 2021-22 and $573,000 ($191,000 Credit Union Fund and $382,000 Financial Protection Fund) in 2022-23 and ongoing for 1.0 Information Technology Manager I, 1.0 Information Technology Specialist II, 1.0 Information Technology Specialist I, and information technology tools to strengthen the DFPI's information technology security safeguards and protocols, and to comply with state information technology security requirements.

Background. The State of California information technology security directives require state departments to increase California's preparedness and response to destructive cyber-attacks and implement comprehensive information technology (IT) security processes, procedures, and practices. The directives include Executive Order B-34-15; IT Security Assessments, Chapter 518, Statutes of 2015 (AB 670); Cyber-Security Incident Response Planning, Chapter 508, Statutes of 2016 (AB 1841); the State Administrative Manual (SAM) Section 5300; the Statewide Information Management Manual (SIMM) Section 5305; and the 2017 California Department of Technology's (CDT) Strategic Plan - Vision 2020. The goals of the CDT Strategic Plan - Vision 2020 are to:

- Protect California's technology assets and maximize information access.
- Develop a robust and collaborative security risk reduction strategy.
- Develop an enterprise approach to security leadership and governance.
- Improve and invest in mission critical security capabilities.
- Foster a security-minded culture throughout California's workforce.

One of the CDT's primary objectives is to make certain that all state departments create and maintain comprehensive IT security safeguards and protocols to protect information and data transactions between the state and its customers. To carry out this mission, the CDT contracts with the California Military Department (Military Department) to perform biennial IT security assessments, and the CDT's Office of Information Security (OIS) performs audits on all state departments. The goal is to make sure state departments achieve acceptable compliance ratings. Noncompliant departments are more vulnerable to security breaches and attacks.

The DFPI, the state's primary regulator of over 400,000 individuals and businesses providing financial services, underwent the Military Department's Independent Security Assessment in May 2017 and May 2019; and the CDT's Information Security Program Audit in July 2018 and a December 2019 Check-In Audit. The final reports from both showed many deficiencies in DFPI's ability to implement and manage the state's required security controls due to an overall lack of maturity in DFPI's security program. DFPI's sole security officer is unable to perform the numerous daily workload activities necessary to meet the State's mandated IT security requirements.

Staff Recommendation. Approve as budget.

Issue 4: Legal Division Rulemaking Workload

Request. The Governor's budget proposes $426,000 in 2021-22 and $408,000 in 2022-23 and ongoing for 1.0 Attorney III and 1.0 Legal Analyst to address increased rulemaking workload.

Background. Since 2013, the Legislature has passed several complex laws to be administered by the Department, including: (1) the Property Assessed Clean Energy law (PACE), (2) the Small Dollar Lending Pilot Program, and (3) the Commercial Financing Disclosure law. These new programs require initial and ongoing rulemaking. The Legislature continually passes new bills that require the Department to update existing regulations or revise those currently being drafted. Each Department program tracks rules under its administration that require updating. Approximately one out of every four new legal opinions issued by the Legal Division identifies ambiguities in the law that should be addressed through rulemaking.

Government Code section 11017.6 requires the Department to prepare a rulemaking calendar each year that includes all proposed rulemaking activities anticipated for the year. This annual filing assists the Office of Administrative Law (OAL) with its staffing needs. Historically, there are always more rulemaking packages anticipated than are completed. Because of workload constraints, Department attorneys are unable to timely draft and submit all the rulemaking packages identified on rulemaking calendars each year. As a result, the Department has prioritized working on rulemaking packages required by the Legislature at the expense of updating and/or clarifying existing laws.

Between 2015 and 2020, to keep pace with the new and changing laws under its administration, the Department identified the need for 27 new rulemaking packages. Due to the lack of adequate staff resources, however, the Department was only able to submit ten packages to the OAL. Six of the ten packages were approved by the OAL; the other four are still active. Of the remaining 17 packages, 7 were abandoned due to the prioritization of other rulemaking packages. Ten are still in the drafting phase. Of those ten being drafted, three of them have been carried over for more than five years.

Staff Recommendation. Approve as budget.

Issue 5: Student Loan Borrower Protection (AB 376)

Request. The Governor's budget proposes $733,000 Financial Protection Fund in 2021-22 and $705,000 in 2022-23 and ongoing to support 1.0 Staff Services Manager II to serve as the Student Loan Ombudsman, 1.0 Senior Financial Institutions Examiner to examine the Student Loan

Servicing Program licensees and investigate borrower complaints, and 1.0 Attorney IV to manage increased enforcement activities, as required by AB 376 (Stone) Chapter 154, Statutes of 2020.

Background. Chapter 24, Statutes of 2016, the Student Loan Servicing Act (SLSA), required all student loan servicers operating in California to obtain licenses as of July 1, 2018. The SLSA also subjects licensees to regulatory supervision and oversight by the department. The department adopted application documents and currently licenses about 36 servicers operating in California. The SLSA requires that the department examine all licensees at least once every 36 months. In 2019, the department promulgated regulations implementing the SLSA.

AB 376, which is effective January 1, 2021, imposes additional servicing standards on student loan servicers, increases borrower protections, and expands prohibitions against predatory student loan industry practices. AB 376 requires the Commissioner to designate a Student Loan Ombudsman no later than 180 days following July 1, 2021 to work within the Department.

The Department currently has eight authorized positions to implement the provisions of the SLSA, including 1.0 Financial Institutions Manager, 1.0 Attorney III, 1.0 Information Technology Specialist, 2.0 Senior Financial Institutions Examiners, 2.0 Associate Governmental Program Analysts, and 1.0 Staff Services Analyst.

The Department requests 1.0 Staff Services Manager II to handle the required duties of the Student Loan Ombudsman. The Department requests 1.0 Senior Financial Institutions Examiner to help manage the anticipated increased examination and investigation workload associated with the requirements of AB 376. The definition of a servicer has been expanded and other department licensees not previously covered are now covered. For example, the expanded definition includes banks and credit unions that service student loans. AB 376 adds new licensee requirements, which increases the need for an expanded examination program to verify compliance. The Department requests 1.0 Attorney IV to manage the increased enforcement caseload expected from AB 376. This law (1) enhances student loan borrower protections, which were not previously in the SLSA; (2) expands the definition of which companies are covered by the law (meaning more unlicensed activity); and (3) increase the number of complaints and the information received about unfair, deceptive, and fraudulent practices coming to the Department because these issues will be affirmatively sought out.

Staff Recommendation. Approve as budget.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 6: Local Prepaid Mobile Telephony Services Surcharge Sunset Removal

Request. The Governor's budget proposes $347,000 from the Local Charges for Prepaid Mobile Telephony Service Fund and two positions in fiscal year 2021-22, growing to $469,000 and three positions in 2024-25 and ongoing to administer the Local Prepaid MTS collection program.

In addition, the Local Prepaid Mobile Telephony Services Act was expected to sunset December 31, 2020. Therefore, the resources required for the closeout of the program were going to be covered by the General Fund. Now that the sunset has been extended, the CDTFA requests to decrease the General Fund authority by 0.5 positions and $79,000 in 2022-23 and 2023-24 as the program will continue to be funded by the Local Prepaid Mobile Telephony Services Act.

Background. The provisions of the Prepaid MTS Surcharge Collection Act, AB 1717 (Perea), Chapter 885, Statutes of 2014, imposed a new prepaid MTS surcharge and local charge to be administered and collected by the CDTFA, which became operative January 1, 2016 on the sale of prepaid MTS. The prepaid MTS surcharge is imposed pursuant to the Prepaid MTS Surcharge Collection Act and the local charges are imposed pursuant to the Local Prepaid MTS Collection Act of 2014, which are separate acts within the tax law that were both added by AB 1717. Both the Prepaid MTS Surcharge Collection Act of 2014 and the Local Prepaid MTS Collection Act of 2014 contained a sunset date of December 31, 2019. SB 344 (McGuire), Chapter 642, Statutes of 2019, extended the sunset date for the Local Prepaid MTS Collection Act from December 31, 2019, to December 31, 2020.

On November 15, 2018, the United States District Court, Northern District of California (Metro PCS California, LLC v. Michael Picker et al, case number 17-cv-05959-SI), enjoined state agencies from enforcing the provisions of the Prepaid MTS Surcharge Collection Act because it conflicts with federal law. A notice of appeal of the court's decision was filed on December 14, 2018, but a judicial stay of the injunction was not requested, thereby ending CDTFA's enforcement of the Prepaid MTS Surcharge Collection Act. However, the local charges are administered under a separate act, the Local Prepaid MTS Collection Act of 2014 (AB 1717). Since the court did not declare the Local Prepaid MTS Collection Act of 2014 invalid, the CDTFA continues to administer the Local Prepaid MTS Collection Act provisions contained in Part 21.1 of Division 2 of the Revenue and Taxation Code (commencing with section 42100).

SB 1441 (McGuire), Chapter 179, Statutes of 2020 extended the sunset date of the Local Prepaid Mobile Telephony Services Act from December 31, 2020 to December 31, 2025. As a result, the CDTFA will continue to manage operating requirements on the local program at least through 2025. If the program sunsets in 2025, the CDTFA will submit a negative BCP retaining only the resources needed to close out the program.

Staff Recommendation. Approve as budgeted.

7730 FRANCHISE TAX BOARD

Issue 7: AB 1876 –Earned Income Tax Credit/ITINs

Request. The Governor's budget proposes $2 million General Fund and 17.0 permanent and 1.0 permanent-intermittent position in 2021-22 and $1.7 million General Fund and 17 permanent and 1.0 permanent-intermittent position in 2022-23 and ongoing to implement and administer provisions of AB 1876 (Committee on Budget) Chapter 87, Statues 2020.

Background. To help the poorest working families in California, the 2015 Budget enacted the state's first-ever Earned Income Tax Credit (EITC). Per the 2015 Budget Act, the taxpayer and/or a qualifying child was required to have a Social Security number (SSN) to claim the state EITC. However, Individual Taxpayer Identification Numbers (ITINs) are commonly used by undocumented taxpayers who have a tax filing requirement. As a general rule, a taxpayer filing with an ITIN has been able to claim the same exemptions, deductions, and credits as a taxpayer filing with an SSN. A major exception to this rule is the state EITC.

The 2020 Budget Act expanded the state EITC, for taxable years beginning on or after January1,2020, allowing the credit to an eligible individual who has, or whose spouse has, a qualifying child younger than 6 years old and if the eligible individual, including their spouse and/or qualifying child has an ITIN. AB 1876 further expands the CalEITC credit to all eligible individuals who have an ITIN, including their spouse and/or qualifying children, significantly expanding eligibility for the credit.

An estimated 200,000 or more families with ITINs will qualify for this state EITC expansion. These potential EITC recipients do not generate the same types of data that FTB usually uses to calculate and validate state EITC amounts. People using ITINs cannot receive a federal EITC, meaning FTB cannot use claimant data from the IRS when checking on the credit amount someone is claiming. Nor can they use their ITINs to receive a W-2, as such, FTB cannot use W-2 data to match information they report on their tax returns.

FTB is requesting these resources in order to ensure returns are processed and refunds are issued timely as well as ensuring improper payments of this refundable credit are minimized.

Staff Recommendation. Approve as budgeted.

Issue 8: Privacy and Security Assessments

Request. The Governor's budget proposes $1.7 million General Fund and $42,000 Special Funds and 12 positions in 2021-22; and $1.6 million General Fund and $39,000 Special Funds in 2022-23 and ongoing. These resources will accommodate newly mandated state and federal workloads within the functions of FTB's Privacy Program and Information Security Oversight Unit (ISOU).

Background. Currently, under the direction of the Chief Security Officer (CSO), the implementation of FTB's Privacy and Information Security Programs are executed by the Privacy, Security, and Disclosure Bureau (PSDB). PSDB develops policies and procedures to ensure the safety and security of FTB's employees; the confidentiality, integrity, and availability of FTB's information systems and the information contained within and the privacy of the personal data collected and used by department. FTB's Chief Privacy Officer (CPO) is responsible for numerous functions regarding the department's responsibility to protect confidential and sensitive data and to ensure the enterprise is collecting, using, and sharing data appropriately. The CPO promotes awareness of and ensures the privacy of employee and taxpayer data, and appropriate use of FTB data that meets federal and state requirements mandates, laws and regulations.

In the last 12 months, 3 significant new federal and state mandates related to enhanced security and privacy reviews and controls were issued in draft form or were adopted. These requirements are, or soon will be, required to be performed as described in the various procedures. They are as follows:

- IRS Publication 1075 – Internal Revenue Service (IRS) requirements stated in the draft Publication 1075, effective December 2019, requires FTB to review and provide analysis for privacy requirements to develop and disseminate an enterprise–wide privacy program plan. This plan should include a description of the privacy program, management's commitment to compliance, strategic goals and objectives and identification and implementation strategies for ongoing efforts to meet these objectives. The plan must include policies and procedures that address the use of Personally Identifiable Information (PII) for internal testing, training, and research (updated IRS Publication 1075). Failure to adhere to these standards risks FTB's ability to obtain critical return information from the IRS that is used to process over 19 million California tax returns and supports the generation of over $4 billion in compliance revenue annually.

- State Administrative Manuel (SAM) 5310.8/SIMM 5310-C mandates, effective August 2019, and revised November of 2019. Under the provisions of SAM 5310.8 and SIMM 5310-C, FTB's Privacy Program is now required to conduct (Privacy Impact Assessments) PIAs on business processes, projects and systems that involve the collection, creation, maintenance, distribution, or disposal of personal information as defined in Civil Code section 1798.3. The objective of a PIA is to identify privacy risks and protections throughout the life cycle of personal information collected to support business processes. PIAs are also conducted to ensure that programs or information systems that contain or use personal information comply with legal, regulatory, and policy requirements regarding privacy. As required by the new mandates, in order to protect personal information, information asset owners are required to apply all applicable statewide and state entity information privacy and security mandates, laws, policies, standards, and procedures. This includes conducting a Privacy Threshold Assessments (PTA) and, if necessary, a PIA when the collection, use, maintenance, storage, sharing, disclosure, or disposal of personal information (as defined by Civil Code section 1798.3) is involved. State entities are required to use the State Information Management Manual (SIMM) 5310-C, which defines PTAs and PIAs, or an equivalent tool to meet this requirement.

  Failure to adhere to these mandates results in FTB being out of compliance with statewide mandates and subjects FTB to both audit findings and the inability to timely identify privacy gaps and risks which ultimately could result in a data breach or the erroneous retention and use of personally identifiable information.

- State Administrative Manuel (SAM) 5305.5/SIMM 5305-A Mandates, effective January 2018, FTB's current security program requirements include planning, oversight, and coordination of information security program activities to effectively manage risk, provide for the protection of information assets, and prevent illegal activity, fraud, waste, and abuse in the use of information assets. This workload is managed by the department's Information Security Program. FTB's assessment process has two goals: 1) determine the privacy risks and effects of collecting, maintaining, using, and disclosing personal information; and 2) evaluate protections and alternative processes for handling personal information to eliminate or mitigate potential privacy risks. In general, FTB's current program focuses on common grouping of programs and system security plans have been developed for these broad groups. Under SAM 5305.5, FTB is required to complete and file System Security Plans for all critical state systems versus common groupings.

Failure to adhere to these mandates results in FTB being out of compliance with statewide mandates and subjects FTB to audit findings and the inability to identify privacy gaps and risks as required which ultimately could result in a data breach to our systems.

If the department does not comply with the new IRS mandates, the privilege to use Federal Tax Information provided by IRS could be revoked. This revocation could result in an annual revenue loss.

In addition to complying with the mandates, this request will strengthen FTB's ability to expand and maintain a compliance program that effectively mitigates internal and external security threats and stays up to date with the latest regulatory changes. It enables the department to evaluate and measure current privacy and information security measures.

To strengthen FTB's strong privacy practices and assist with protecting personal information, the department requests resources for the department's Privacy Program and Information Security Oversight Unit.

Staff Recommendation. Approve as budgeted.

Issue 9: SB 1447 – Small Business Hiring Credit

Request. The Governor's budget proposes $377,000 General Fund and 4.0 positions for 2021-22 and $189,000 General Fund and 4.0 positions for 2022-23 (ending December 31, 2022) to administer provisions of SB 1447 (Bradford), Chapter 41, Statute 2020.

Background. SB 1447 creates a small business hiring credit fund. The fund will allow small business employers to reserve a credit that can be applied against qualified sales, use, or income taxes.

The California Department of Tax and Fee Administration (CDTFA) will administer the tentative credit reservation process and allocate the credit. FTB will be responsible for managing, processing, and ensuring the tax credit under the Personal Income Tax (PIT) law and/or the Corporations Tax law is claimed accurately.

Beginning January 1, 2020, a small business employer could receive a tentative credit reservation equal to $1,000 for each net increase in qualified employees. The credit must have been reserved between December 1, 2020 and January 15, 2021 and shall not exceed $100,000 for any qualified small business.

To claim the credit the claimant must file a timely return. It is estimated that 30 percent of those that apply for the credit will receive the credit and apply the credit to income tax due. This equates to an estimated 16,800 returns claiming the credit. Resources are necessary for managing the portion of these returns that need to be audited.

In order to ensure timely audits, processed returns and accurate refunds are issued, FTB is requesting three Tax Technicians and one Program Specialist I.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

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

GO-Biz provides a single point of contact for economic development, business assistance and job creation efforts. GO-Biz works with companies and organizations across the nation to market the benefits of doing business in California, recruit new businesses, retain businesses, and support private sector job growth. GO-Biz serves as the Governor's lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, economic growth, export promotion, permit assistance, innovation and entrepreneurship. GO-Biz makes recommendations to the Governor and the Legislature regarding policies, programs, and actions for statewide economic goals.

GO-Biz's budget priorities this year include helping businesses recover from the economic effects of COVID-19, expanding support to underserved populations, and attracting and retaining high-value jobs through incentives and support for innovation. Many of these proposals fall under the California Office of the Small Business Advocate (CalOSBA), which serves as the principal advocate in the state on behalf of small businesses. CalOSBA is responsible for sharing information about small business programs, helping small businesses navigate programs and services, and responding directly to small business issues. CalOSBA has grown significantly lately, both in direct administration of small business and startup programs, and direct support of small businesses, particularly as it relates to disaster relief and COVID-19.

Budget. The budget includes $266.6 million ($193.6 General Fund) and 131.3 positions in 2021-22. The following chart from the Governor's budget displays expenditures and positions for GO-Biz for the prior year, current year, and budget year.

		Positions			Expenditures		
		2019-20	2020-21	2021-22	2019-20*	2020-21*	2021-22*
0220	Go-Biz	46.4	48.1	49.1	$25,546	$283,762	$12,157
0225	California Business Investment Services	11.5	16.3	16.3	2,893	3,331	3,525
0230	Office of the Small Business Advocate	5.3	8.8	14.8	21,772	1,106,554	25,349
0235	Infrastructure, Finance and Economic Development	34.1	40.1	40.1	89,804	154,118	170,015
0240	Community Reinvestment Grants Program	7.0	10.0	11.0	44,423	45,517	55,548
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**104.3**	**123.3**	**131.3**	**$184,438**	**$1,593,282**	**$266,594**

FUNDING		**2019-20***	**2020-21***	**2021-22***
0001	General Fund	$102,177	$1,530,694	$193,582
0649	California Infrastructure and Economic Development Bank Fund	35,135	12,382	12,747
0918	California Small Business Expansion Fund	144	2,139	2,159
0995	Reimbursements	17,327	16,908	1,399
3083	Welcome Center Fund	71	111	111
3095	Film Promotion and Marketing Fund	5	10	10
3237	Cost of Implementation Account, Air Pollution Control Fund	746	1,038	1,038
3314	California Cannabis Tax Fund	9,219	-	-
3348	Cannabis Tax Fund - Governor's Office of Business and Economic Development -Allocation 2	19,614	30,000	40,000
3376	Cannabis Tax Fund - Gov Office of Business and Economic Development	-	-	15,548
TOTALS, EXPENDITURES, ALL FUNDS		**$184,438**	**$1,593,282**	**$266,594**

Issue 10: California Competes (CalCompetes) Tax Credit Expansion and Grant Program

Governor's Budget. The budget includes $430 million General Fund to expand the CalCompetes program, including $180 million in additional tax credits split equally between the 2020-21 fiscal year and the 2021-22 fiscal year, and $250 million for grants in the 2020-21 fiscal year. This is part of a package of proposals on which the Administration requests the Legislature take action early in 2021.

Background. Recent, high-profile business relocations have driven a narrative that California is not business friendly. Businesses have cited high corporate and personal income tax rates, cost-of-living, and regulatory burdens. California ranks 49th on the Tax Foundation's 2021 State Business Tax Climate Index[1]. However, as indicated by California's generally strong economy, there are many other factors that influence economic development[2]. In addition, California corporations today actually pay a lower share in income taxes than they did thirty years ago[3]. California continues to enjoy a strong, highly localized venture capital and start-up culture[4], and many of those companies have chosen to stay and grow in California. Even companies that are relocating typically leave many jobs and operations within the state. However, after largely working remotely for almost a year, we may continue to see shifts in the physical location of employees for some businesses.

CalCompetes Tax Credit Program

GO-Biz administers CalCompetes, a program intended to attract or retain businesses that are considering making new investments in California and may be looking elsewhere. Companies seeking tax credits apply to GO-Biz, and the administration negotiates five-year agreements with selected applicants, which include specific hiring and investment goals. The agreements are approved by the GO-Biz committee which consists of the director of GO-Biz, the director of the Department of Finance, the State Treasurer, and one appointee each by the Senate and the Assembly. All businesses are eligible, and the credits are awarded through a competitive process. Applicants must clearly explain how the credit will influence their decision to locate in California, such as by presenting a site selection analysis, and priority is given to businesses in areas of the state with high unemployment. The state may recapture the credit if the taxpayer does not satisfy the terms of the agreement. Starting in 2018-19, based on recommendations from the LAO, changes were made to refocus the program on companies with tradeable goods who may more easily leave the state[5]. A set-aside for small businesses was also eliminated.

GO-Biz allocates $180 million in credits each fiscal year, plus any unallocated or recaptured credits from the prior year, across three application periods. The minimum credit is $20,000, and the maximum credit for a single applicant is 20 percent of the allocation in a given year. The credits are not refundable, but taxpayers may carry the balance forward for up to six years. During the 2019-20 fiscal year, 56 of the 375 companies that applied to the program were successful. The

[1] https://taxfoundation.org/2021-state-business-tax-climate-index/
[2] https://www.ppic.org/content/pubs/report/R_411JKR.pdf
[3] https://calbudgetcenter.org/resources/corporations-pay-far-less-of-their-income-in-state-taxes/
[4] https://www.chicagotribune.com/business/ct-biz-silicon-valley-tech-exodus-california-20201216-ntj2gu2jafdx3ntmgkppd5taby-story.html
[5] https://lao.ca.gov/Publications/Report/4213

majority of California Competes awards go to businesses in three industries: (1) manufacturing; (2) professional, scientific, and technical services; and (3) financial services. A full list of awardees (including agreements) is available on GO-Biz's website[6]. So far, $1.2 billion in credits have been awarded.

The demand for this program is rapidly increasing. In the first application cycle this fiscal year, GO-Biz received over three times the average number of applications (based on the previous two years). $800 million credits were requested, while only $80 million credits were available. The demand is likely driven by both one-time and ongoing factors, including recovering from the current recession, relocation opportunities due to remote work, and general awareness of California's efforts to retain businesses. The proposed budget would increase the amount of tax credit available for allocation by $90 million in both 2020-21 and 2021-22 for a total of $270 million per year.

However, many of the allotted tax credits are either unused or have been recaptured by GO-Biz[7]. Accounting for the five-year agreement structure, roughly $500 million in credits have been earned, but only $160 million have been used. The state also recaptured roughly one-third of the dollar amount of credits awarded ($122 million) during the first three years of the program, and the majority of CalCompetes agreements that have ended resulted in some or all of the credits being recaptured. However, these numbers primarily reflect early CalCompetes agreements, before the program was adjusted in 2018-19. GO-Biz expects those changes, in particular removing the small business set-aside, to reduce the number of recaptures and unused credits moving forward.

CalCompetes Grant Program
In addition, the proposed budget includes $250 million one-time General Fund to establish a grant component of CalCompetes to help businesses with low tax liability. In 2019, only about one-quarter of the state corporation taxpayers owed more than the $800 minimum franchise tax. In general, grants would benefit companies that have little to no tax liability due to significant deductions or credits because they are growing rapidly, are new or small, or reinvest profits into the business, such as in research and development. Grants also get money out faster than tax credits.

GO-Biz would award the grants using the existing California Competes application and evaluation processes, including the same minimum ($20,000) and maximum (20 percent of the yearly allotment) sizes. Successful applicants would negotiate similar multi-year agreements specifying hiring and investment milestones. At least some significant portion of the grant would be paid upfront, but the agreement could be structured to include later payments as milestones are met. The grants would count as taxable income. If a business violated the terms of its agreement, GO-Biz would instruct FTB to recapture the grant, using the same tools they have available to collect delinquent tax liabilities.

In addition to existing program criteria, an applicant would need to meet one of the following to qualify for a grant:

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[6] https://business.ca.gov/california-competes-tax-credit/awardee-list/
[7] https://lao.ca.gov/Publications/Report/4327

- Establish at least 500 net new jobs.
- Make a significant infrastructure investment, as defined by the director of GO-Biz.
- Commit to a high-need or high-opportunity area of the state.
- Receive a designation from the Director of GO-Biz that the application is a strategic priority to the state.

The new program would dedicate at least $50 million of the $250 million one-time General Fund to high-need, high-opportunity areas of the state. These areas are likely based on regional unemployment rates, similar to what is used for the tax credits.

LAO Comments.

Despite Program Features, Concern About Effectiveness Remains. The economic impact of CalCompetes is unclear, as the state will never know whether the business would have left the state if it did not receive the credits (or grant). The high recapture rate is concerning. It suggests that many businesses could not meet their agreements and raises questions about the number of new private-sector jobs created by this program. In additional, many businesses seem to be struggling to use the credits they were awarded. A better understanding of the barriers businesses face in meeting their agreements and using their credits could help the Legislature.

Proposed Grants Raise Significant Questions. The administration correctly notes that not all taxpayers benefit from tax credits. Grants are one way to address this issue, but there may be others. For example, the state could allow a portion of the tax credits to be transferable or refundable. The state also could temporarily allow taxpayers who cannot use credits to sell some of them back to the state at a discount. Even these more modest changes would represent a significant shift in the state's longstanding approach to economic development incentives.

How Would State Manage Risks of Grants? The existing California Competes program does not allow businesses to claim credits until they achieve their hiring and investment commitments. The high recapture rate noted above indicates that this caution has been justified. We suggest that the Legislature consider the risk to the state from paying grants in full upon the approval of the California Competes agreement. FTB could have difficulty recovering grant funds from certain businesses, such as those with minimal assets or under bankruptcy protection. The Legislature could consider putting in place additional guardrails, such as setting a maximum grant amount or requiring that grants only be paid upon the business meeting its commitments.

Growing Companies Have Unprecedented Access to Private Funding. Another advantage of a grant over a tax credit is that the business does not have to wait to receive the money. Under current economic conditions, however, the types of businesses served by California Competes—in particular, businesses that are expanding—have good private sector financing options. Growing businesses can raise funds in two ways: they can sell stock equity or borrow money from a bank (or a non-depository lender). Despite the challenging economic conditions because of the pandemic, this is a remarkably good time for businesses to raise capital through either approach. There were nearly 1,600 initial public offerings in the United States in 2020, a 42 percent increase over 2019. With the stock market at all-time highs, many other corporations raised capital by selling additional shares of stock. At the same time, interest rates are at historically low levels, making borrowing inexpensive.

LAO Suggestion.

Reject Proposed One-Time Expansions of California Competes. California Competes is not a suitable vehicle for addressing the economic effects of the pandemic because it does not target the hardest-hit industries. Furthermore, because the hiring and investment agreements cover a five-year period, the timing of any potential economic benefits does not address the urgency of the current economic situation. While the Governor's grant proposal responds to this timing issue to some extent, it raises other important issues for the Legislature to consider.

Staff Recommendation: Hold Open

Issue 11: Infrastructure and Economic Development Bank Small Business Finance Programs

Governor's Budget. The budget includes two proposals totaling $100 million one-time General Fund in 2021-22 for small business finance programs at the California Infrastructure and Economic Development Bank (IBank).

- *Small Business Finance Center (SBFC).* The proposed budget includes $50 million to be used at IBank's discretion across any SBFC program with a funding priority for underserved California small businesses, including the California Rebuilding Fund.

- *Small Business Loan Guarantees.* The proposed budget includes $50 million to recapitalize the Small Business Loan Guarantee Program (SBLGP).

Background. IBank was created to finance public infrastructure and private development that promotes economic growth. IBank has a broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage state and federal funds. IBank's SBFC promotes statewide economic development by increasing opportunities for entrepreneurs, the self-employed, microbusiness and small business owners to have better access to capital and other technical resources. IBank works closely with CalOSBA on its small business programs.

Small Business Loan Guarantees
SBFC's primary program is the SBLGP, which provides guarantees for loans issued to small businesses from financial institutions, typically banks, which otherwise would not approve such term loans or lines of credit. The loan guarantee serves as a credit enhancement and an incentive for financial institutions to make loans to small businesses that otherwise would not be eligible for such financing. The fund received $84 million in federal funding in 2011 through the State Small Business Credit Initiative (SSBCI) and has used that to support hundreds of millions of dollars in loans, with funds revolving and continuously serving new businesses. This program is utilized by larger small businesses (up to 750 employees) with larger loan sizes (average amount of $500,000 or more).

However, the fund has been challenged by the economic impacts of COVID-19 and the large demand for small business loans. $50 million was provided last year, but the program is again approaching capacity and will be fully leveraged by summer 2021. It will require additional funding to continue supporting small businesses, especially as the economy recovers from the effects of COVID-19. The proposed budget includes $50 million one-time General Fund, which can be leveraged to provide to up to $250 million of loans.

Small Business Finance Center Funding
According to IBank, some businesses were unable to use the loan guarantee programs because many lending institutions did not have the capital to extend loans. In order to address the capital needs of small businesses, particularly underserved businesses dealing with the economic impacts of COVID-19, IBank recently provided an anchor investment commitment to help create the California Rebuilding Fund. The fund combines investments from private, philanthropic, and public sector sources, and is structured such that IBank shoulders most of the risk, encouraging

more lower-risk investment from other sources. Low interest, non-forgivable loans are available to businesses who employed 50 or less full-time equivalent employees and had gross revenues of $2.5 million or below in 2019. The loans would originate and be serviced by Community Development Financial Institutions, who would also provide advisory support. The Fund launched on November 20, 2020 and has received over $600 million in loan requests according to IBank.

The Governor's proposed budget does not provide funding for the California Rebuilding Fund specifically. Instead, it includes $50 million for IBank to use at its discretion across any SBFC program with a funding priority for underserved small businesses, including the Rebuilding Fund. If the demand for loans from the Rebuilding Fund remain high, all $50 million would go towards that. If the demand changes, or there are other changes in the economic outlook or in federal aid programs, the money could be moved to other tools that also support underserved businesses. Other potential uses include Jump Start start-up loans, ClimateTech guarantees, and new initiatives that address Jobs, Economy Recovery, Small Business Innovation and Climate priorities within the SBFC. The Administration has requested this amount of discretionary funding due to the unpredictable economic climate and evolving federal aid programs.

LAO Comments.

Loan guarantee program has merit. Improving small businesses access to capital has merit, and the SSBCI program is intended to complement federal SBA loan programs. Ideally, these programs would be capitalized using federal funds and, if the federal government provides money to the states for SSBCI, then this $50 million may not be necessary.

Notification of alternative use of funding. The administration has indicated that it intends to use the SBFC funding to help capitalize the Rebuilding Fund. The Legislature should require IBank to notify the JLBC if it redirects these funds to a different small business capital assistance program.

Staff Recommendation: Hold Open

Issue 12: California Dream Fund

Governor's Budget. The proposed budget includes $35 million one-time General Fund in the current budget year to support microgrants up to $10,000 to seed entrepreneurship and small business creation in underserved groups that are facing opportunity gaps. This is part of a package of proposals on which the Administration requests the Legislature take action early in 2021.

Background. CalOSBA currently administers the Technical Assistance Expansion Program (TAEP), which provides grants to small business technical assistance centers that provide free consulting and trainings to help businesses start and grow. This program is allocated $17 million annually through 2023-24. TAEP grants focus on expanding service to underserved business groups, which include women, minorities, veterans, as well as communities that are low-wealth, rural, and disaster impacted, and immigrant communities. TAEP grantees in 2020-21 were mostly Small Business Development Centers (SBDCs), as well as Women's Business Centers and the Veterans Business Outreach Center, among others[8].

The underserved business groups that TAEP targets may have difficulty obtaining capital, especially in the current economic climate. The California Dream Fund (CADream) grants would be provided as a supplement to TAEP, so the centers can provide microgrants to participants that utilize their training and advisory services. TAEP grantees would apply for this funding as part of the normal TAEP application in July, and the funding would be available for the next federal fiscal year (Oct 2021 – Sept 2022). TAEP grantees would select CADream grant recipients, with guidance from CalOSBA. TAEP grantees would be required to provide specialized startup training to accompany CADream grant distribution. A maximum five percent administrative fee would be awarded to the TAEP grantee for all CADream funds. TAEP grantees already track success through metrics such as the number of jobs created and the amount of capital raised, which could be expanded to include CADream grant information.

This proposal is also targeted at supporting small businesses in immigrant communities, by expanding the definition of underserved business communities to include individuals who are not U.S. citizens or lawful permanent residents or who are limited English proficient. Nonprofits and community-based organizations would also be allowed to receive TAEP funding (previously, grants were restricted to federally-funded centers).

This program would replace the Social Entrepreneurs for Economic Development Initiative (SEED), which was provided $10 million one-time General Fund in the 2020 Budget Act to provide training and business startup supports for targeted low-income populations including immigrants and Californians with limited English proficiency. While the California Dream Fund proposal is separate from the SEED program, it is intended to provide similar benefits, but through an existing grant program and layering on technical assistance to these businesses.

[8] https://static.business.ca.gov/wp-content/uploads/2020/10/2020-21-TA-Awardees_Final.pdf

LAO Comment.

*Proposed language is vague***.** The stated objective of these grants is to provide seed capital to entrepreneurs in underserved groups that are facing capital and opportunity gaps. The administration does not appear to have defined these terms or provided any other guidance in statute regarding how the grants would be disbursed. The Legislature may want to specify eligibility and selection criteria in budget trailer bill legislation and require reporting or other oversight measures.

Staff Comment.

Selection details. In FY 2019-20, TAEP centers trained nearly 125,000 entrepreneurs and small business owners. As the LAO noted, is not clear how CADream grantees would be selected from this pool, or how much freedom individual TAEP centers would have to set their own criteria. Would this result in a patchwork of slightly different programs at different centers? Would businesses be able to apply at multiple centers? The Legislature may want to consider whether more detail should be specified along these lines.

Results of SEED program. The funding from the SEED program is in the process of being deployed, but it may be useful to have more information about the outcomes of that program before moving forward.

Staff Recommendation: Hold Open

Issue 13: Inclusive Innovation Hub Grants

Governor's Budget. The Governor's budget includes $2.5 million one-time General Fund to provide grants for Inclusive Innovation Hubs (iHub2) administered by CalOSBA.

Background. The original iHub program started in 2013 and was housed under GO-Biz (AB 250 Holden, Chapter 530, Statutes of 2013). Thirteen regional hubs were designated and consisted of partnership between interrelated firms, local governments, economic development organizations, educational entities, and industries that collectively drive economic growth within a defined geographic area. The hubs were intended to stimulate partnerships, economic development, and job creation by leveraging assets to provide an innovation platform for startup businesses, economic development organizations, business groups, and venture capitalists. GO-Biz was required to oversee, coordinate, and provide assistance to each iHub. However, no funding was provided, the program was not closely tracked, and all of the iHub designations have expired or will expire soon.

The proposed budget includes $2.5 million to relaunch the California Innovation Hub program under CalOSBA as the Inclusive Innovation Hub program (iHub2). Similar to the original iHubs, these would be formal, established partnerships between industry, technical assistance providers, startups and entrepreneurs, universities and research institutions, and government in a specific geographic area, focused on a specific sector. However, a key difference is that iHub2 would focus primarily on underserved areas of California that do not currently have a strong startup culture, and leverage regional industries and assets to foster innovation there. Each iHub2 would provide advisory support to entrepreneurs and startups, plan programming and engagement across the partner organizations, and facilitate relationships between startups, researchers, venture capitalists, and financial institutions. The program would be focused on innovation and commercialization of new technologies, as opposed to technical assistance or workforce development, but it would coordinate with other state resources that focus on those areas, such as the TAEP network. As small businesses by definition, startups are also represented by CalOSBA, and moving the program under that umbrella would allow better coordination with state resources.

In the new program, CalOSBA would designate ten hubs for a three-year program and award them $150,000 for year one to incentivize and launch inclusive programming and $50,000 in each subsequent year. The hubs would be selected through a competitive request for proposal process, where potential hubs submit a comprehensive plan that details a targeted focus area including underserved geographies, industry sectors, or business owners, as well as the entities and expertise involved, specific goals and benchmarks, and a sustainability plan. Members of the original iHub network would have to reapply. The grant requirements would also include increased metric and performance tracking to assess the success of the program. If the program were successful, hubs would ideally become self-sustaining in the long run.

LAO Comment.

Reasoning for relaunch and changes. More information is needed about the previous iHub program (including what happened to the original network of hubs), and what changes were made for the relaunch and why.

Increased oversight. The Legislature may want to consider adding language to provide additional oversight of this program. The trailer bill legislation should require reporting to ensure that this program is effective in (1) driving innovation, (2) increasing *outcomes* for underserved business groups (not just training and opportunities).

Staff Comment.

First iHub network has mixed success. As noted by the LAO, it is not clear whether the first iHub program was successful, or if the changes proposed here would create a successful, sustainable program moving forward. Expanding startup ecosystems in new regions of the state may require significant additional state support beyond the iHub2 program.

Expansion of CalOSBA. In addition to this proposal, the budget includes two other new initiatives housed under CalOSBA: the $1.075 billion Small Business Relief Grant Program and the $35 million CADream Fund. This would represent a large increase in CalOSBA's duties this year. The Legislature may want to consider the long-term direction and bandwidth of CalOSBA when weighing these proposals.

Staff Recommendation: Hold Open

Issue 14: CalOSBA - Outreach and Engagement.

Governor's Budget. The Governor's budget includes $901,000 from the General Fund and permanent authority for six positions in 2021-22 and ongoing as part of CalOSBA to provide direct support to small businesses.

Background. CalOSBA is tasked with providing guidance, information and direct support to small businesses, including during disaster response and recovery. However, CalOSBA's capacity has been tested due to an onslaught of repeated and ongoing disasters, including wildfires and the COVID-19 pandemic. According to CalOSBA, last year they received less than 100 requests for general direct support; during disasters, this number increases exponentially. Since March 1st, 2020, they have received 3,733 requests for direct support and response. It is difficult for existing CalOSBA staff to keep up with this demand, as well as communicate with millions of businesses across the state about rapidly changing situations, regulation, and guidance.

CalOSBA does not have staff focused on communication, outreach and engagement. Currently, they have three regional advisors who cover Northern, Southern and Central California. Those advisors develop regional connections and partner with local small business organizations. CalOSBA also has four program team members who manage and implement CalOSBA's programs, including TAEP and iHubs, among others. However, the lack of a communications team makes it difficult to inform the community about these programs and about other sources of support and relevant news and information. In particular, it is difficult to reach traditionally underserved and marginalized businesses.

The Governor's budget includes six new permanent positions at CalOSBA. The team would focus on conducting the required direct support, outreach, engagement and marketing/content creation necessary, increasingly online, to connect with small businesses and help them prepare and be more resilient. The team would prioritize underserved business groups, including women, minority, and veteran- owned businesses and businesses in low-wealth, rural, and disaster-impacted communities, especially African-American and Latinx businesses.

Staff Comment.

Nonprofit and other non-traditional business expertise. CalOSBA is increasingly expanding its reach to serve nonprofits and other types of non-traditional small businesses, such as with the Small Business Relief Grant. The Legislature may want to consider specifying or encouraging CalOSBA to include expertise in those areas on this new team.

Staff Recommendation: Hold Open

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

Overview. CAEATFA was established by Chapter 908, Statutes of 1980, to promote the prompt and efficient development of energy sources which are renewable, or which more efficiently utilize and conserve scarce energy resources. Recognizing the importance of developing a secure energy future to protect the environment and ensure economic stability, the Authority advances the state's goals of reducing greenhouse gas emissions by providing financing options to assist industries in increasing the deployment of sustainable and renewable energy sources, implementing measures that increase the efficiency of the use of energy, creating high quality employment opportunities, and lessening the state's dependence on fossil fuels. To support these goals, the Authority provides financing and credit enhancements to promote the establishment of facilities that use alternative methods and sources of energy, and facilities needed for the development and commercialization of advanced transportation technologies.

The Authority consists of five members: the State Treasurer, who serves as the chairperson, the State Controller, the Director of the Department of Finance, the Chairperson of the State Energy Resources Conservation and Development Commission, and the President of the Public Utilities Commission

Budget. The budget includes $7.8 million from special funds and reimbursements and 10.0 positions in 2021-22. The following chart from the Governor's budget displays expenditures and positions for CAEATFA for the prior year, current year, and budget year.

		Positions			Expenditures		
		2019-20	2020-21	2021-22	2019-20*	2020-21*	2021-22*
0850	California Alternative Energy and Advanced Transportation Financing Authority	9.0	10.0	10.0	$5,934	$6,502	$7,822
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**9.0**	**10.0**	**10.0**	**$5,934**	**$6,502**	**$7,822**

FUNDING		**2019-20***	**2020-21***	**2021-22***
0465	Energy Resources Programs Account	$519	$511	$525
0995	Reimbursements	3,699	4,031	5,387
9332	California Alternative Energy Authority Fund	1,716	1,960	1,910
TOTALS, EXPENDITURES, ALL FUNDS		**$5,934**	**$6,502**	**$7,822**

Issue 15: Sales Tax Exclusion

Request. The Governor's budget proposes a $100 million one-time increase to the cap on the CAEATFA sales and use tax exclusion, doubling the amount available in 2021.

The administration estimates that the proposed increase in the annual cap would have a direct fiscal cost to the state and local governments totaling $38 million over a five-year period, starting in 2021-22. This estimate is less than $100 million for two reasons: 1) based on historical usage rates, the administration estimates that participants would use $60 million of the additional $100 million awarded, and 2) the overlap with a separate partial exemption (described later under LAO Comments) would offset an estimated $22 million of the revenue loss.

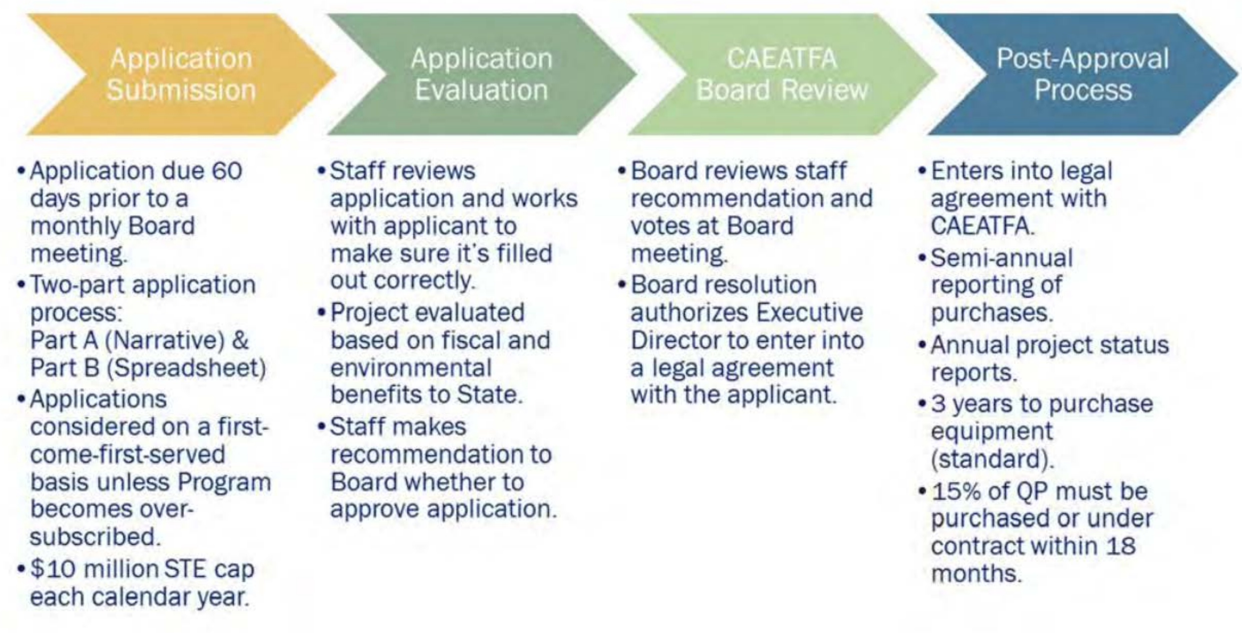
Background. California's state and local governments charge a sales and use tax on retail sales of tangible goods, including many goods purchased by businesses. The overall rate ranges from 7.25 percent to 10.5 percent. The average rate is 8.6 percent. Of that, 3.94 percent raises money for the state's General Fund. Local governments' portion of the sales tax ranges from 3.31 percent to 6.56 percent. The California Department of Tax and Fee Administration administers the sales tax and also administers most sales tax exemptions.

CAEATFA is housed within the State Treasurer's Office and operates a variety of programs that provide financial assistance, such as tax exemptions, loans, and bonds, largely to entities developing technologies intended to reduce air pollution and conserve energy. CAEATFA consists of five members: the State Treasurer (who serves as the chairperson), the State Controller, the Director of the Department of Finance, the Chairperson of the California Energy Commission, and the President of the California Public Utilities Commission.

CAEATFA awards $100 million in Sales and Use Tax Exclusion annually to certain manufacturers, to assist them in purchasing machinery and equipment to retain and expand high-end manufacturing across the state and to incentivize the manufacturing of green technologies that will help reduce greenhouse gases, as well as reductions in air and water pollution or energy consumption. The following table provides the legislative history of the program.

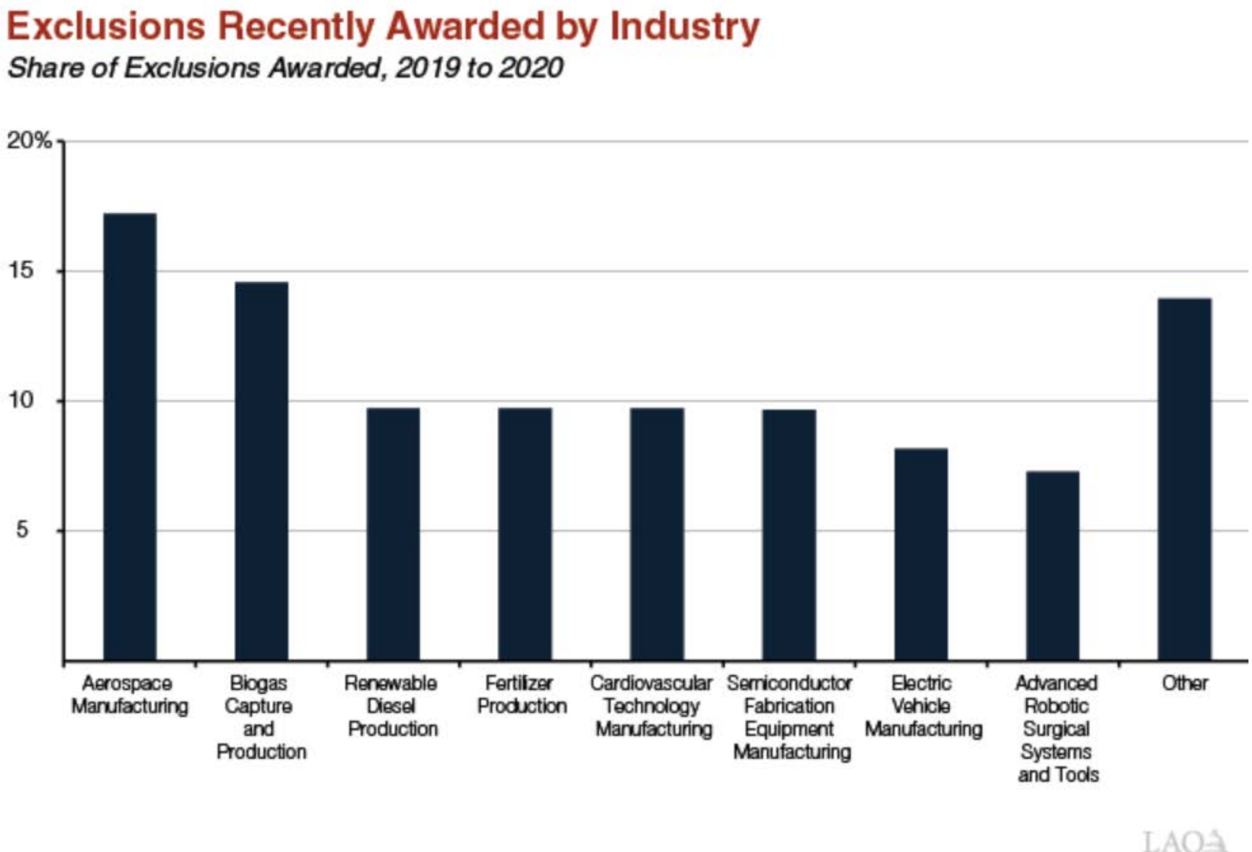
CAAEATFA STE Program Legislative History	
Bill	**Description**
Senate Bill 71 (Padilla), Chapter 10, Statutes of 2010.	Directed CAEATFA to implement the STE Program and authorized CAEATFA to approve eligible projects for a STE on equipment and machinery (Qualified Property) used for the "design, manufacture, production, or assembly" of either advanced transportation technologies or alternative energy source products, components, or systems, as defined.
Senate Bill 1128 (Padilla), Chapter 677, Statutes of 2012.	Expanded the STE Program to include Advanced Manufacturing projects. The legislation also placed an annual limit of $100 million in STE awards for each calendar year.
AB 199 (Eggman), Chapter 768, Statutes of 2015.	Expanded the scope of the STE Program to include projects that process or utilize recycled feedstock.
AB 1583 (Eggman), Chapter 690, Statutes of 2019.	Extended the Program's sunset date from January 1, 2021 to January 1, 2026.

Under the STE Program, applications are evaluated to determine the extent to which the anticipated benefits to the state from a project exceed the estimated cost of the avoided sales and use tax. Specifically, through the net benefits test established in the STE Program's regulations, applicants are evaluated based on criteria designed to measure the fiscal and environmental benefits of their projects. The following figure from CAEATFA's 2019 annual report displays an overview of the application process.



By the July 2019 Board meeting, CAEATFA exhausted the $100 million STE cap – the first time in program history for it to be fully awarded prior to the end of the year and in 2020 and 2021, applications were received that exceeded the cap by the first application deadline.

The Legislative Analyst's Office (LAO) points out that historically, Tesla accounted for a large share of CAEATFA exclusions. In the last couple of years, however, CAEATFA has awarded exclusions to manufacturers across a variety of industries as detailed in the following chart from the LAO.



LAO Comment. The LAO points out that, in addition to the CAEATFA exclusion, the state offers a partial exemption that allows manufacturers and some other types of businesses to buy equipment without paying the 3.94 percent state General Fund portion of the sales tax. Most purchases made under the CAEATFA exclusion would be eligible for the partial exemption, but some (such as many recycling facilities) would not.

The LAO also points out that the majority of the revenue loss would fall on local governments. Specifically, in addition to realignment revenue losses that must be backfilled by the state, the administration's estimates suggest that the proposal would reduce local sales tax revenues by $24.7 million. This results in local governments bearing roughly two-thirds of the direct fiscal cost of the proposal.

Additionally, the LAO makes the following observations:

- **Proposal Does Not Target Hardest-Hit Businesses.** The pandemic has forced many businesses to reduce their operations or close. These adverse effects have been especially severe for businesses in the travel, retail, food and hospitality, health and wellness, and personal care services sectors. The CAEATFA exclusion offers assistance primarily to the manufacturing sector, which has not been among the hardest-hit sectors of the economy.

- **Allocation Process Is Complex.** To use the CAEATFA exemption, equipment purchasers must fill out extensive applications, wait for board approval, and submit periodic reports to CAEATFA. These requirements make participation more costly, but they have led to greater transparency than the state typically provides regarding the use of tax expenditures.

- **Benefits Occur Gradually.** Historically, the usage rate of exclusions has peaked one to two years after the participant receives the award. As a result, many of the benefits of exclusions awarded in 2021 will not materialize quickly enough to address the current economic crisis.

- **Recent Regulations Try to Manage Awards Within Cap.** In 2019 and 2020, CAEATFA issued emergency regulations to address various issues, including the growing demand for exclusions. These include: 1) a reduced "soft cap" on individual awards from $20 million to $10 million, 2) a set aside of $20 million for the smallest applications (less than $2 million each), 3) a set aside of $15 million to be awarded competitively to large applications (more than $10 million), with each applicant receiving, at most, an additional $10 million, 4) a changed evaluation process to award slightly higher scores to applicants who do not qualify for the partial exemption, and 5) creating a new requirement for participants to make at least 15 percent of the projected purchases within 18 months of receiving the award.

The LAO recommends that the Legislature reject this proposal. Because it relies primarily on local funding, by rejecting this proposal, the Legislature would allow local governments to exercise their own judgment regarding the best use of these resources. Furthermore, the CAEATFA exclusion does not provide rapid relief to the businesses most severely affected by the pandemic and economic crisis.

Staff Recommendation. Hold open.

7600 Department of Tax and Fee Administration (CDTFA)

Overview. CDTFA administers numerous tax and fee programs, including the Sales and Use Tax, the Cigarette and Tobacco Products Tax Program, and the excise and cultivation taxes for medicinal and recreational cannabis. The CDTFA also administers the alcohol excise tax and the insurance tax pursuant to agreements with the State Board of Equalization.

Budget. The budget includes $694.2 million ($366.1 million General Fund) and 3,986.1 positions in 2021-22. The following chart from the Governor's budget displays funding and positions for CDTFA for the prior year, current year, and budget year.

		Positions			Expenditures		
		2019-20	2020-21	2021-22	2019-20*	2020-21*	2021-22*
6275025	County Assessment Standards Program	4.6	5.3	5.3	$2,909	$2,721	$2,941
6275050	State-Assessed Property Program	2.4	2.8	2.8	4,841	4,554	4,920
6275075	Timber Tax Program	10.5	9.5	9.5	2,320	2,217	2,358
6275100	Sales and Use Tax Program	3,100.1	3,062.8	3,063.8	555,026	501,409	561,654
6275125	Hazardous Substances Tax Program	37.6	37.4	37.4	6,123	5,852	6,215
6275150	Alcoholic Beverage Tax Program	17.3	17.0	17.0	3,349	3,200	3,437
6275175	Tire Recycling Fee Program	14.4	14.3	14.3	2,198	2,096	2,224
6275200	Cigarette and Tobacco Products Tax Program	119.3	114.8	114.8	37,179	29,697	31,606
6275225	Cigarette and Tobacco Products Licensing Program	61.3	60.9	60.9	11,544	11,046	11,737
6275250	Transportation Fund Tax Program	128.9	133.3	133.3	31,830	32,406	34,464
6275275	Occupational Lead Poisoning Prevention Fee Program	6.6	6.5	6.5	984	940	999
6275300	Integrated Waste Management Program	4.1	4.1	4.1	621	597	632
6275325	Underground Storage Tank Fee Program	23.3	23.1	23.1	4,412	4,195	4,450
6275350	Oil Spill Prevention Program	1.2	1.2	1.2	355	337	359
6275375	Energy Resources Surcharge Program	1.9	1.9	1.9	357	338	355
6275400	Annual Water Rights Fee Program	3.8	3.8	3.8	566	589	624
6275425	Childhood Lead Poisoning Prevention Fee Program	4.2	4.2	4.2	579	558	594
6275450	Marine Invasive Species Program	3.1	3.1	3.1	563	543	577
6275500	Emergency Telephone Users Surcharge Program	10.6	10.4	10.4	1,735	1,659	1,755
6275525	E-Waste Recycling Fee Program	29.3	29.4	29.4	5,354	5,110	5,433
6275550	Lumber Fee Program	12.3	12.1	12.1	1,296	1,257	1,329
6275575	Insurance Tax Program	1.7	1.7	1.7	371	988	1,215
6275600	Natural Gas Surcharge Program	3.5	3.4	3.4	1,134	1,020	1,096
6275650	Prepaid Mobile Telephony Program	5.9	3.9	2.0	1,103	660	361
6275700	Lead-Acid Battery Cleanup Fee Program	9.1	9.0	9.0	1,529	2,128	1,654
6275725	Cannabis Taxes Program	28.6	38.2	38.2	7,679	12,425	9,104
6275760	County Revenue Property Tax Reimbursement Program	-	-	-	-	-	1,643
9900100	Administration	372.9	372.9	372.9	65,925	66,301	66,322
9900200	Administration - Distributed	-	-	-	-65,508	-65,884	-65,905
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**4,018.5**	**3,987.0**	**3,986.1**	**$686,374**	**$628,959**	**$694,153**

Issue 16: Centralized Revenue Opportunity System (CROS) Project Implementation Phase –Fiscal Year 2021-22

Request. The Governor's budget proposes $23.9 million to provide resources required to support the final phases of the CROS Project and the transition to Production Support Maintenance and Operations. The CROS Project is an information technology modernization effort designed to enable the CDTFA to expand tax and fee payer services, to improve the efficiency and effectiveness of its operations, and to enhance its ability to generate increased revenues, reducing the tax gap**.**

Background. The Taxpayer Transparency and Fairness Act of 2017 established the CDTFA in the Government Operations Agency and shifted most of the tax and fee programs previously administered by the Board of Equalization to the CDTFA. The CDTFA administers more than 30 tax and fee programs that generate revenue essential to the State of California. The programs include California's sales and use tax, fuel, cigarette, tobacco, environmental, as well as other special taxes and fees. Over one million discrete businesses currently interact annually with the CDTFA, many involved with multiple tax and fee programs.

The CROS Project is a tax collection and distribution information technology system approved in 2011 and designed to improve the efficiency and effectiveness of the CDTFA's operations, expand tax and fee payer services, and enhance the CDTFA's ability to generate increased revenues. The first production release, Rollout 2, included the Sales and Use Tax Program and was implemented on May 7, 2018. The second production release, Rollout 3 included Special Taxes (such as Alcoholic Beverages, Cigarette and Tobacco, and Fuel Taxes) and was implemented on August 12, 2019. The final production release, Rollout 4 will include all remaining CDTFA tax programs and was implemented on November 9, 2020.

The CROS Project includes the following activities:

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

According to the CDTFA, the most significant outcome of the CROS Project is an increase in the sales and use tax collections of approximately $486.1 million through 2019-20. Additional outcomes include improved services to tax and fee payers, improved operational efficiencies including accounting and General Ledger improvements, improved revenue tracking from receipt through distribution, enhanced security, and greater ability to quickly respond to statutory, judicial, or electoral changes to tax and revenue codes.

Excluding CROS vendor payments, for 2021-22, CDTFA is requesting $7.5 million for operating expenses and equipment. In addition to the standard complement of communication, postage, supplies, and additional, hardware, and software resources needed to support CROS operations, the CDTFA is requesting funding for hardware infrastructure replacement, consultant services and training.

The CDTFA requests $16.4 million for Contractor compensation in 2021-22. This amount includes:

- $5.96 million release of withhold, which is 7 percent of the 10 percent withheld (revenue-based compensation).
- $600,000 release of withhold, this is the full 10 percent withheld for unanticipated tasks related to two new programs (Cannabis and Lead-Acid Battery Fees) and selected online services in Spanish per the contract amendment.
- $9.9 million for the first-year costs of the Maintenance and Operations.

Period Compensation payments began in 2018-19, continuing based on the agreed upon Compensation Model; the CDTFA expects to continue making payments during 2019-20 through 2022-23.

Staff Recommendation. Hold open.

1701 Department of Financial Protection and Innovation (DFPI)

Overview. DFPI serves Californians by overseeing financial service providers; enforcing laws and regulations; promoting innovation and fair and honest business practices; enhancing consumer awareness; and protecting consumers by preventing potential marketplace risks, fraud, and abuse.

Budget. The budget includes $142.6 million (primarily from special funds) and 721.1 positions in 2021-22. The following chart from the Governor's budget displays funding and positions for DFPI for the prior year, current year, and budget year.

		Positions			Expenditures		
		2019-20	2020-21	2021-22	2019-20*	2020-21*	2021-22*
1510	Investment Program	182.4	177.4	177.4	$32,550	$33,266	$35,123
1515	Lender-Fiduciary Program	151.0	144.7	144.7	26,039	26,243	28,566
1520	Licensing and Supervision of Banks and Trust Companies	170.4	172.5	177.5	28,707	29,119	32,327
1525	Money Transmitters	35.5	31.3	32.8	5,366	5,523	6,199
1545	Administration of Local Agency Security	1.9	1.8	1.8	501	486	604
1550	Credit Unions	70.2	68.4	69.9	11,501	11,130	12,805
1555	CalMoneySmart	-	1.0	1.0	-	1,349	1,340
1556	California Consumer Financial Protection	-	44.0	45.0	-	8,444	9,111
1557	Debt Collectors	-	-	71.0	-	-	16,481
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**611.4**	**641.1**	**721.1**	**$104,664**	**$115,560**	**$142,556**

FUNDING		2019-20*	2020-21*	2021-22*
0067	State Corporations Fund	$58,459	$-	$-
0240	Local Agency Deposit Security Fund	501	486	604
0298	Financial Institutions Fund	33,826	-	-
0299	Credit Union Fund	11,426	10,780	12,455
0995	Reimbursements	452	1,380	1,380
3360	Financial Empowerment Fund	-	1,349	1,340
3363	Financial Protection Fund	-	101,565	126,777
TOTALS, EXPENDITURES, ALL FUNDS		**$104,664**	**$115,560**	**$142,556**

Issue 17: Debt Collector Licensing and Regulation (SB 908)

Request. The Governor's budget proposes $10.7 million from the Financial Protection Fund and 44.0 positions in 2021-22, $10.3 million and 51.0 positions in 2022-23, and $10.9 million and 55.0 positions in 2023-24 to implement SB 908 (Wieckowski) Chapter 163, Statutes of 2020, the Debt Collection Licensing Act (Act).

Background. SB 908 created a new licensing law applicable to debt collectors and debt buyers, administered by the DFPI, effective January 1, 2022. The Department is to begin implementing the Act on January 1, 2021 and is required to allow any debt collector that applies for a debt collection license prior to January 1, 2022 to operate pending the approval or denial of the application. The Act allows the Commissioner of the DFPI to promulgate rules and regulations, and issue orders to implement the bill.

The Act requires a debt collector to apply for a license and pay fees to cover application costs, as well as submit to a fingerprint and criminal history record check with the application. The Act outlines licensee requirements and the process and reasons for application denial.

The Act establishes within the Department a Debt Collection Advisory Committee to advise the Commissioner on matters relating to debt collection, including proposed fee schedules and the mechanics and feasibility of implementing requirements proposed in regulations. The Act requires the Commissioner to appoint seven members, including one representing consumers, to the committee. The Act outlines the terms for serving on the committee and requires the committee to meet at least twice a year.

The Department recently secured limited-term funding for the registration (but not full licensing) of debt collectors and other unregulated financial service providers in compliance with AB 1864 (Limón), Chapter 157, Statutes of 2020, the California Consumer Financial Protection Law (CCFP). The Act requires the Department to license (not simply register) and monitor debt collectors, for which the Department does not currently have full resources. The Department has identified resources and positions ($5.8 million and 27.0 positions in the 2021-22 fiscal year growing to $7.1 million and 35.0 positions in 2023-24) from the CCFP program to be redirected to the Debt Collectors program. This proposal requests the remaining resources and positions needed to fully license and regulate debt collectors.

The Department expects up to 7,000 licensees to apply for a license before December 31, 2021. The estimated number of licensees is based on the debt collector registration program of the State of Texas. Applicants will operate with a provisional license while the Department validates their applications. The Department expects to process 4,000 license applications in 2021-22, and 3,000 license applications in 2022-23.

In the first year of licensure, the Department will perform examinations of new licensees. The purpose of the examination is to obtain first-hand knowledge of the licensee’s operation, establish a baseline of their compliance with California Law, and introduce the Department’s regulatory expectations. By the third year of licensure, the Department anticipates licensees will be examined every 10 years as a best practice to comply with the Act.

To license and examine debt collectors, the Department requests a total of 39.0 positions: 1.0 Executive Secretary II, 4.0 Associate Governmental Program Analysts, 17.0 Financial Institutions Examiners, 11.0 Senior Financial Institutions Examiners, 4.0 Financial Institutions Managers, and 2.0 Office Technicians (General).

A Deputy Commissioner (CEA-B) and two Regional Deputy Commissioners (Corporation Examiner IV - Supervisor), which will be redirected from the CCFP program, will oversee all policy, planning and operational aspects of the Debt Collection program as well as provide leadership and strategic direction. The Debt Collection program will be divided into two teams with one Regional Deputy Commissioner supervising the licensing team and the other supervising the examination team.

The Department will support the program in the first year mostly through reserves in the Financial Protection Fund. However, this is not sustainable. To continue to regulate debt collectors, the Department will collect revenues associated with fees from debt collectors, including application, investigation, amendment fees, and payments associated with examinations and assessments, and settlements. The following table details the total revenue needed to cover the cost for the Department to implement the Act, including the cost of resources redirected from the CCFP.

Cost of Debt Collector Licensing (In Thousands)

Appropriation Description	2021-22	2022-23	2023-24
This proposal	$10,713	$10,253	$10,920
Redirected from CCFP	$5,768	$7,180	$7,104
Total DCL Cost	**$16,481**	**$17,433**	**$18,024**

Department licensees are required to support the Department's cost to regulate them. Debt collectors are expected to pay for the cost of debt collection activities. The proposed fee schedule for debt collector regulation is modeled on the fee schedules of the Department's existing licensing laws. Thus, the Department expects to support the program by charging licensees flat-rate application, investigation, amendment, and hourly examination fees while using a pro rata method to calculate annual assessment fees. The following table displays projected revenue from these sources. The Department calculated the projected application and investigation fees assuming it will process 4,000 applications in 2021-22, 3,000 applications in 2022-23, and 700 applications in 2023-24.

Proposed Debt Collector Licensing Revenues (In Thousands)

Funding Source	**2021-22**	**2022-23**	**2023-24**
Application fees @ $350 per application	$1,400	$1,050	$245
Investigation fees @ $150 per application	$600	$450	$105
Amendment fees @ $300 per amendment	$150	$300	$1,650
Examination revenues	$167	$1,076	$2.783
Assessments – pro rata to cover costs	$0	$13,757	$12,441
Settlements	$600	$800	$800
Financial Protection Fund Reserve	$13,564	$0	$0
Total Projected Revenues	**$2,917**	**$17,433**	**$18,024**

To operate in California, debt collectors must be licensed by January 1, 2022. Thus, the department expects to receive license applications in 2021. The Department requests statutory changes to Financial Code section 100007, subdivision (b), to allow the Department to begin collecting a $350 application fee with each application.

In determining the proposed $350 application fee, the department considered both the cost recovery allowable under the State Administrative Manual section 8740, and the application fees charged to other comparable department licensees. The proposed $350 application fee, comparable to the application fees charged to other similar department licensees, is fair and reasonable. The department’s application fees for similar programs range from $200 to $850 with an average fee between $315 and $416.

Staff Comment. Staff notes that the department’s estimate of potential licensees is consistent with the fiscal estimates of SB 908, although it is at the high end of the range. The Senate Floor Analysis for SB 908 included an estimated range between 3,000 and 7,000 licensees. As noted above, the department’s estimate is based on the debt collector registration program of Texas. Industry representatives have raised concern that an estimate of 7,000 is not an accurate reflection of Texas’s licensing program because 1) Texas registers more professions than California law requires, 2) Texas does not purge their registration rolls and a significant number of businesses that had registered are no longer in business, and 3) some organizations are licensed multiple times.

The subcommittee may wish to ask the department to respond to these concerns raised by certain industry groups regarding the estimated number of licensees.

Staff Recommendation. Hold open.

7730 FRANCHISE TAX BOARD (FTB)

Overview. FTB is responsible for collecting personal income tax and corporation tax revenue; operating various collection programs; and conducting field audits for the Fair Political Practices Commission.
Tax program activities include taxpayer assistance and tax return processing, filing enforcement, audits, and tax collection functions. The program also includes the collection and distribution of voluntary contributions to, and on behalf of, certain non-profit charitable organizations.

Budget. The Governor's Budget includes $973.9 million ($936.6 million General Fund) and 5,940.6 positions in 2021-22. The following chart from the Governor's budget displays funding and positions for FTB for the prior year, current year, and budget year.

		Positions			Expenditures		
		2019-20	2020-21	2021-22	2019-20*	2020-21*	2021-22*
6280	Tax Programs	5,209.6	5,227.4	5,375.5	$850,832	$828,948	$933,854
6285	Political Reform Audit	13.0	13.0	13.0	2,112	64	-18
6290	Department of Motor Vehicles Collections Program	81.1	81.1	81.1	10,059	9,344	10,032
6295	Court Collection Program	112.2	101.2	101.2	14,219	12,438	13,600
6300	Legal Services Program	-	-	-	2,979	3,077	3,077
6305	Contract Work	62.2	62.2	62.2	15,303	13,327	13,324
9900100	Administration	310.6	310.6	307.6	36,195	37,018	36,762
9900200	Administration - Distributed	-	-	-	-36,195	-37,018	-36,762
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**5,788.7**	**5,795.5**	**5,940.6**	**$895,504**	**$867,198**	**$973,869**

Issue 18: Mainstreet Business Tax Credit

Request. The Governor's budget proposes $100 million General Fund for the Main Street Small Business Tax Credit (Main Street Credit), a tax credit for small businesses that increase their number of employees. The Administration has said that it plans to pattern the credit after the newly extended federal Employee Retention Credit (ERC), but has not yet provided new statutory language.

Background. In September 2020, the Legislature created the Main Street Credit, which provides income or sales tax credits to eligible small businesses that added jobs in the second half of 2020. Each eligible business receives a credit of $1,000 for each new job. Eligibility is restricted to firms that meet two conditions: 1) they have 100 or fewer employees and 2) their gross receipts dropped by at least half between the second quarter of 2019 and the second quarter of 2020. These eligibility criteria were patterned, in part, after the federal ERC. The state capped the total amount of credits available to all businesses at $100 million and allotted the credits on a first-come, first-served basis.

The federal government created the ERC in March 2020 as part of the Coronavirus Aid, Relief, and Economic Security Act. The ERC provided firms with 100 or fewer employees a credit for 50 percent of wages paid to employees they retained in 2020 (up to $5,000 per employee). Similar to the Main Street Credit, businesses are eligible for the ERC if their quarterly gross receipts dropped by at least half compared to the same quarter in 2019. Firms with smaller drops in gross receipts were eligible if they had to suspend or curtail operations in response to governmental shutdown orders.

LAO. The LAO noted the following in their assessment of this proposal:

1. The credit is relatively well-targeted to businesses affected by pandemic for two reasons. First, eligibility is limited to businesses that have experienced a drop in gross receipts during the pandemic. Second, the credit is available to many businesses in the hardest-hit industries, such as travel, retail, food and hospitality, health and wellness, and personal care services.
2. It leaves out new businesses in affected sectors. One limitation of tying eligibility to a drop in gross receipts from the prior year is that new businesses would not be able to qualify, as these businesses did not have gross receipts in 2019 or early 2020. Nonetheless, new businesses in heavily impacted industries may face challenges with expanding and hiring new employees in the coming months.
3. Not all main street credits are claimed**.** Nearly 10,000 businesses applied for a total of $56 million of Main Street Credits in 2020. This suggests that, despite a fair amount of interest among businesses, the credit could have been set at a higher value without exhausting the $100 million allocation.

Based on their assessment, the LAO has recommended that the Legislature focus resources on this proposal, rather than other proposals included in the Governor's budget, and broaden the proposal by:

- ***Broadening Eligibility to Other Impacted Businesses.*** The LAO suggests considering which groups of businesses impacted by the pandemic would not be served either by the Governor's proposal or by the federal ERC. One example is newly formed businesses in heavily impacted sectors. An option to include these businesses would be to allow new businesses to qualify for the credit if they are in certain sectors—based on their North American Industry Classification System code. Such an approach, however, could create additional administrative responsibilities for the California Department of Tax and Fee Administration and the FTB.

- ***Increasing the Value of the Credit.*** The LAO also suggests increasing the value of the credit beyond $1,000 per employee. One option would be to set the credit at a percentage of wages paid to each new employee—as with the ERC. For example, if funding for the credit program were increased to $400 million, the value of the credit could be increased to 40 percent of wages (up to $4,000 per employee) and still provide credits for roughly twice as many new hires as the Main Street Credit.

Staff Recommendation. Hold open.

Issue 19: Elective S-corporation Tax

Request. The Governor's budget proposes to allow California Personal Income Tax (PIT) filers with income from S corporations to pay an optional 13.3 percent tax at the entity level. This 13.3 percent rate is equal to the top PIT marginal rate. In return, the filer would receive a nonrefundable credit for their full share of the new S corporation tax.

Background. An S corporation is a corporation that elects to be taxed as a pass-through entity. Income, losses, deductions, and credits flow through to the shareholders, partners, or members. They then report these items on their personal tax return. Some key features of S corporations are:

- They do not pay federal income taxes.
- California taxes every S corporation that has California source income at 1.5 percent.
- They are limited by the types of owners (shareholders) and cannot exceed 100 shareholders.
- A separate bank account and separate records are required with this form of business.
- S corporations are subject to the annual $800 minimum franchise tax.

For many individuals with S corporation income, electing to pay the new S corporation tax would reduce their total federal and state taxes. The new state S corporation tax would reduce these taxpayers' federal taxable income, resulting in lower federal taxes. At the same time, they would receive a state PIT credit to compensate for the increased cost of the new S corporation tax. The LAO points out that for most taxpayers with incomes of $1 million or more, the state PIT credit would fully offset the cost of the new S corporation tax. For most of those with incomes below $1 million, the credit would offset most, but not all, of the increased cost. Regardless, total federal and state taxes would go down for both groups. This would help taxpayers recoup some of the tax benefits lost by Californians when the State and Local Tax deduction was limited as part of the 2017 federal Tax Cut and Jobs Act.

LAO. The LAO finds that the general concept behind the Governor's proposal has merit: to restructure state tax payments of certain business owners in a way that reduces their federal taxes without reducing state tax collections. There are various ways, however, the Legislature could carry out the general aim of the Governor's proposal. These alternatives warrant the Legislature's consideration. Given the complexities of this issue and its limited relevance to the state budget, the LAO suggest that the Legislature consider such alternatives in the policy committee process.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, February 17, 2021
2:00 p.m.
State Capitol - Room 4203

Consultant: James Hacker

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION

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

ISSUES PROPOSED FOR VOTE-ONLY

0650 OFFICE OF PLANNING AND RESEARCH (OPR)

Issue 1: Volunteer and Donation Management Planning Guidance (AB 2213)

The budget includes $348,000 General Fund in 2021-22 to develop planning guidance for jurisdictions to leverage volunteer and donation resources during disasters per the mandates of AB 2213 (Limón), Chapter 98, Statutes 2020. AB 2213 requires, among other things, Cal OES and California Volunteers, in coordination with Voluntary Organizations Active in Disasters, to develop planning guidance to identify volunteer and donation management resources that could assist in responding to and recovering from disasters. This funding will support the development and implementation of the planning guidance by May 1, 2022, as required by AB 2213

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING (DFEH)

Issue 2: Workload Resources (Various Legislation)

The budget includes $5.1 million General Fund in 2021-22 and $3.9 million General Fund in 2022-23 and ongoing, and 24 positions to provide resources to implement the expansion of California Family Rights Act (CFRA) protections pursuant to SB 1383 (Jackson), Chapter 86, Statutes of 2020, initiate a mediation pilot program pursuant to AB 1867 (Committee on Budget), Chapter 45, Statutes of 2020, and enforce California's Equal Pay Act and create an IT infrastructure to collect, secure and analyze pay data received pursuant to SB 973 (Jackson), Chapter 363, Statutes of 2020. DFEH plays an important role in the implementation and enforcement of these bills, and additional resources are appropriate.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD)

Issue 3: Infill Infrastructure Grant of 2019 Liquidation Extension

The budget includes budget bill language to extend the liquidation date for the Infill Infrastructure Grant Program of 2019, on a case-by-case basis, from June 30, 2023 to June 30, 2025 to provide sufficient time for grantees impacted by COVID-19 related delays to complete construction of infill infrastructure projects to incentivize housing development. The 2019 funding was an important investment in additional housing production. This change will allow locals who have already received funds to fully expend their funds regardless of any delays they have experienced during the COVID-19 pandemic.

Issue 4: Workload Resources (Various Legislation)

The budget includes $2,924,000 General Fund and 11.5 positions in 2021-22, $1,622,000 General Fund and 9 positions in 2022-23, and $125,000 and 1 position in 2023-24 and ongoing to implement housing laws passed during the 2020 legislative session, including AB 168 (Aguiar-Curry), Chapter 166, Statutes of 2020, and AB 434 (Daly), Chapter 192, Statutes of 2020. This request also includes additional administrative resources to support the additional workload created by these bills. These resources are generally reasonable and in-line with initial cost estimates for these two bills.

Staff Recommendation: Approve Vote Only Items as Budgeted.

ISSUES PROPOSED FOR DISCUSSION

0650 OFFICE OF PLANNING AND RESEARCH

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analysis. OPR formulates long-range state goals and policies to address four key areas: land use and planning, climate risk and resilience, sustainable economic development, and targeted long-range research needs. OPR acts as the state's liaison to a variety of entities including local and regional government, planning professionals, small business, and the Department of Defense. OPR also serves a role as convener across multiple agencies on cross-cutting issues in the four key areas of our work.

The Office of Planning and Research includes three main budget programs: the State Policy Program (often referred to as OPR), which houses most of core planning and research functions; the California Strategic Growth Council, which coordinates and works collaboratively with public agencies, communities, and stakeholders to realize healthy, thriving, resilient communities for all and provides direct grant funding to projects demonstrating the value and feasibility of sustainable communities; and California Volunteers, a program aimed to increase the number and impact of Californians involved with service and volunteering throughout the state.

Budget Overview. The 2021-22 budget provides $521.4 million to support 97.4 positions. This is an increase of nine positions but a decrease of roughly $55 million in funding.

EXPENDITURES BY PROGRAM

Provides expenditures by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
0360	State Planning & Policy Development	$35,769	$44,454	$22,866
0365	California Volunteers	$54,623	$71,775	$71,202
0370	Strategic Growth Council	$70,216	$460,943	$427,335
Total Expenditures (All Programs)		**$160,608**	**$577,172**	**$521,403**

POSITIONS BY PROGRAM

Provides positions data (expressed as full-time equivalents) by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
0360	State Planning & Policy Development	32.5	20.5	29.5
0365	California Volunteers	24.8	43.3	43.3
0370	Strategic Growth Council	23.1	24.6	24.6
Total Positions (All Programs)		**80.4**	**88.4**	**97.4**

Issue 5: Administrative Staff Augmentation

Governor's Budget. The budget includes seven positions and $1.1 million General Fund in 2021-22 and ongoing to address increasing workload and strengthen overall administrative operations of the Office of Planning and Research.

Background. Historically, OPR has maintained a small but efficient administrative staff, spread across five small units: Accounting; Budget; Business Services; Contracts; and Human Resources. OPR has expanded significantly since 2011-12. From 2011-12 to 2020-21, OPR's budget has grown from $36 million to $615 million and OPR's staffing levels have grown from 60 to 94.

The California Environmental Quality Act (CEQA) was signed into law in 1970 and requires all California Public Agencies to disclose the environmental impacts of their discretionary approvals. Under existing law, the State Clearinghouse at OPR is required to coordinate state agency review and comment of CEQA environmental documents and notices. OPR receives approximately 13,000 notices and environmental documents per year from both state and local public agencies, which is a 30 percent increase since 2016-17. OPR is also required to review and recommend proposed changes or amendments to CEQA guidelines at least once every two years.

The 2019-20 Budget provided three positions for FI$Cal and administrative workload.

Staff Comments. OPR has indicated that the seven requested positions include the following:

- One Senior Intergovernmental Program Analyst for workload related to accounting and financial controls.
- One Senior Intergovernmental Program Analyst for additional contracts and procurement workload.
- One Senior Intergovernmental Program Analyst for increased workload related to the state CEQA Clearinghouse.
- One Senior Intergovernmental Program Analyst for additional budgets workload, mostly driven by the increase in OPR staff and resources.
- One Associate Intergovernmental Program Analyst to serve as a FI$Cal Control Clerk and CalCard administrator.
- One Assistance Intergovernmental Program Analyst for increased Human Resources workload related to the growth in OPR's staffing.
- One Senior Project Analyst for a dedicated communications position.

It is reasonable to believe that the growth of OPR in recent years, both in terms of staff and resources, would lead to additional administrative workload. In particular, the positions for Accounting, Budget, Human Resources, and the State CEQA State Clearinghouse seem reasonable. However, some of the other positions seem to envision an expansion in OPR's typical activities, or to duplicate workload for which positions have already been provided. The Committee may want to consider approving part of this request, but not all of it, pending additional justification.

Staff Recommendation: Hold Open.

Issue 6: Just Transition Roadmap

Governor's Budget. The budget includes $406,000 General Fund in 2021-22 and ongoing to develop and implement a Just Transition Roadmap as required by Executive Order (EO) N-79-20.

Background. California has declared their intention to transition to a carbon neutral economy by 2045, and has put multiple goals, regulations, and policies in place to try and accomplish that goal. At the same time, California faces serious climate impacts across regions and sectors that will have a significant impact on our current and future economy. A critical question is how the state can get ahead of these transitions in a way that is sustainable, resilient, and equitable for our workers and regional economies.

Among other things, EO N-79-20 charges OPR and the Labor Workforce Development Agency (LWDA), in consultation with the Department of Finance and other state agencies, with developing a plan to manage the economic changes that will follow the implementation of the EO's carbon neutrality strategies. It requires a Roadmap for this transition be completed by July 15, 2021. The current Just Transition work is led by OPR but currently staffed by a senior advisor contracted through the Employment Development Department (EDD). The position is funded through the federal Workforce Innovation and Opportunity Act Dislocated Worker Grant, until the end of fiscal year 2020-21.

Staff Comments. EO N-79-20 was wide-ranging and set several ambitious goals for the state to reduce greenhouse gas emissions and air pollution. As part of this, it recognized the potential economic impacts from a transition away from fossil fuels, and directed OPR and LWDA to develop a roadmap to ensure that this transition is sustainable, resilient, and equitable for California workers.

The Administration has indicated that the Roadmap will focus on five key areas:

- Economic Diversification & High Road Job Creation
- Industrial Planning for economic transition
- Safety Net Update to support impacted workers and communities
- Workforce Development once high road jobs identified and/or created
- Regional & Industry Partnership Development to design and implement all of the above

Additionally, the Administration has indicated that, while the Roadmap will be completed by July of 2021, the post-Roadmap workload will involve aligning related policies across agencies and Boards, Departments and Offices, as well as working with the Legislature, the federal and local governments, and outside stakeholders to implement the Roadmap across the state. This includes defining the longer-term role and capacity of the state to support and guide an economic transition to carbon neutrality.

The focus on equity and a resilient transition is commendable, as it recognizes the necessity of ensuring that all Californians benefit from the transition to a cleaner and more sustainable economy. However, this proposal seems to envision a role for OPR beyond what the Legislature has conceived or directed. The Committee may want to consider the extent to which the identified approach matches with its goals, or if an alternative approach is warranted.

Staff Recommendation: Hold Open.

Issue 7: Regional Climate Collaborative Program Implementation

Governor's Budget. The budget includes three positions and $508,000 General Fund in 2021-22 and ongoing to continue establishing the Regional Climate Collaborative program.

Background. SB 732 (Steinberg), Chapter 729, Statutes of 2008, established the Strategic Growth Council (SGC) to coordinate the activities of member agencies to meet California's climate commitments. The 2015 Budget Act included $500,000 Greenhouse Gas Reduction Fund for SGC to establish a pilot program for technical assistance for disadvantaged communities through the Affordable Housing and Sustainable Communities program. The pilot program provided individualized, direct application assistance for applicants located in disadvantaged communities.

SB 1072 (Leyva), Chapter 377, Statutes of 2018 tasks SGC with addressing challenges facing under-resourced communities through the development of technical assistance guidelines for state agencies and investing in further capacity building. SB 1072 established a grant program to build and support Regional Climate Collaborative (RCC) Programs to support under-resourced communities in accessing state funding for climate mitigation and adaptation projects. SB 1072 also calls for the development of technical assistance guidelines which compile best practices to maximize the effectiveness of technical assistance provided by state agencies. The 2019 Budget Act included two-year funding for three positions at SGC to implement SB 1072.

Staff Comments. SGC's SB 1072 staff oversee a suite of multi-year programs and initiatives, including the Climate Change Investments Technical Assistance (CCI TA) Program that reduces barriers for under-resourced communities to access state resources that together advance the core objectives and requirements of SB 1072. This work also lays the foundation for the future RCC program which requires at least two funding rounds over the 10 year timeline through the development of Technical Assistance guidelines, local capacity building work (funded with $850,000 in the 2019 Budget Act), and establishing a framework for the RCC grant program.

The staff provided to SGC in the 2019 Budget Act have done important work to lay the groundwork for an eventual SB 1072 grant program. However, the Administration has not proposed funding that grant program as part of the 2021 Budget proposal. The Committee may want to consider whether those grants should be funded (and at what level), or if these resources (which expire at the end of the 2020-21 fiscal year) are justified.

Staff Recommendation: Hold Open.

Issue 8: Wildfire and Forest Resilience Strategy - OPR Component

Governor's Budget. The budget includes $3 million in General Fund resources for OPR to research expanding wood markets to fully utilize the material being thinned from forests and using it for building material, energy or fuel will create incentives for private forest-land management and meet California's carbon goals. The funding is part of the Governor's early action package.

Background. California's last wildfire season broke records for the third time in the past five years. With over four million acres burned, five of the six largest fires in state history burning simultaneously, and at one point, as many as 250,000 people were displaced, the 2020 fire season strained California's emergency response capacity.

In response, the Administration has proposed a $1 billion investment in fire prevention, beginning with $323 million in an early action package to help the state prepare for upcoming fire seasons. In addition, the Governor's Budget proposes $677 million in 2021-22 to build the state's resilience to wildfires, increase pace and scale, and reduce fire risk. This request includes $198 million General Fund in 2020-21 and $477 million General Fund in 2021-22.

Staff Comments. The Administration has indicated that the requested $3 million will be used as follows:

- $500,000, which will leverage philanthropic and private capital, for an X-Prize-like wood products innovation competition.

  OPR will administer the funds and distribute the funds to competition winners following the approach that Government Operations Agency used to administer a similar competition focused on Mass Timber. As with the Mass Timber competition, OPR will partner closely with the Governor's Forest Management Task Force to do outreach and engagement around the wood products innovation X-Prize.

  The purpose of the X-Prize competition is to convey California's commitment to being a hub for wood products innovation and to build relationships among project developers, rural communities, and private capital in the sector to expedite market development.

- $2.5 million will be distributed as directed grants to five pilot projects designed to identify organizational mechanisms to increase the state's capacity to issue long-term feedstock contracts.

  The funds will be administered by OPR via grant agreements with qualified recipients. OPR is developing the projects with applicants in a manner designed to test a diversity of potential methods to increase access to long-term feedstock contracts.

Robust state action to lower the state's risk of repeating the catastrophic wildfires of recent years is likely necessary. Within that, the potential for proactive management of forest resources to thin fire fuel and manage risk should be fully explored. The Joint Institute for Wood Products Innovation, the Wood Utilization Work Group of the Forest Management Task Force and others have identified limited access to long-term feedstock contracts as the single biggest impediment to wood product market expansion. As such, the Administration's proposal has merit. However, this proposal should be considered in the context of the rest of the overall wildfire package, to ensure that the state is approaching the issue in a strategic and holistic way.

Staff Recommendation: Hold Open.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING (DFEH)

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

The Fair Employment and Housing Council (Council) within the Department promulgates regulations interpreting California's civil rights laws.

Budget Summary. The 2021-22 budget provides $48.4 million to support 264.2 positions. This is an increase of roughly $8 million and 30 positions relative to the 2020-21 budget.

EXPENDITURES BY PROGRAM

Provides expenditures by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
1490	Administration of Civil Rights Law	$33,752	$39,652	$47,796
1495	Fair Employment and Housing Council	$10	$222	$221
1500	Department of Justice Legal Services	$308	$429	$429
Total Expenditures (All Programs)		**$34,070**	**$40,303**	**$48,446**

POSITIONS BY PROGRAM

Provides positions data (expressed as full-time equivalents) by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
1490	Administration of Civil Rights Law	228.3	231.2	263.2
1495	Fair Employment and Housing Council	-	1.0	1.0
1500	Department of Justice Legal Services	-	-	-
Total Positions (All Programs)		**228.3**	**232.2**	**264.2**

Issue 9: Addressing Increased Enforcement and Administrative Workload

Governor's Budget. The budget includes $2.2 million General Fund in 2021-22 and $1.7 million General Fund in 2022-23 and ongoing and eight positions to: expand the Department's multi-lingual education and training efforts to reduce discrimination in housing and employment; build a fair housing testing program and attendant enforcement capability; study housing discrimination amid COVID-19; and provide expertise on landlord-tenant issues to strengthen the state's response to the COVID-19 pandemic; enhance the state's commitment to equity; and help keep Californians housed and employed in the long-term.

Background. DFEH receives, investigates, conciliates, mediates, and prosecutes complaints of alleged violations of the Fair Employment and Housing Act (FEHA), the Equal Pay Act (effective January 1, 2021), the Unruh Civil Rights Act, the Ralph Civil Rights Act, Civil Code section 51.9, the Disabled Persons Act, the California Trafficking Victims Protection Act, and Government Code section 11135 et seq (prohibiting discrimination in all state-funded activities and programs). DFEH also meets its statutory obligations by educating employers, businesses, housing providers, state-funded programs and activities, and the public about their rights and responsibilities under the civil rights statutes enforced by DFEH and by affirmatively investigating discriminatory practices within the state in accordance with its statutory mandate "to eliminate discrimination in California."

In fiscal year 2018-19, the Legislature appropriated $3 million in one-time General Fund resources to DFEH to provide outreach and education. This supported three limited-term staff members who focus on educating the public and stakeholders (such as employers, employees, housing providers, tenants, and businesses) about California's civil rights and obligations.

Staff Comments. This proposal includes both positions and programmatic funding, as follows:

- Three administrative positions, to oversee and support the Outreach and Education unit (one continuation of a limited-term position provided in 2019-20 and two new positions.)
- Two positions for Outreach and Education (one continuation of a limited-term position provided in 2019-20, and one new position.)
- Two positions for proactive testing and enforcement of fair housing requirements (both new positions.)
- $120,000 ongoing for outreach and education workload.
- $280,000 ongoing for a proactive fair housing testing program, to be implemented by the Enforcement positions.
- $500,000 in 2021-22 to study housing issues amidst the COVID-19 pandemic. Specifically, DFEH seeks to add three detailed questions to the California Health Interview Survey and to cover survey question development, data analyses, and dissemination of findings.

DFEH plays an important role in enforcing the state's fair housing laws. As California deals with widespread issues of housing affordability, this work has become even more crucial. Additionally, the impacts of COVID-19 have fallen predominantly on lower income individuals and households who are particularly vulnerable to housing discrimination. While the state recently passed an ambitious eviction protection and rental assistance measure, issues of housing discrimination and tenant protection are likely to remain significant in the coming years.

Given this, it is reasonable to provide additional resources to DFEH. However, questions remain about the appropriate level of workload for the Department, and the role and benefits of outreach and education in reducing or managing future enforcement workload.

Staff Recommendation: Hold Open

2240 California Department of Housing and Community Development

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

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

Governor's Budget: The 2021-22 budget provides roughly $2.3 billion to support 962.5 positions. This is an increase of roughly 40 positions but a decrease of roughly $2.9 billion - largely due to the expenditure of one-time federal resources in 2020-21.

EXPENDITURES BY PROGRAM

Provides expenditures by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
1660	Codes and Standards Program	$37,198	$39,308	$40,705
1665	Financial Assistance Program	$2,713,184	$5,037,273	$2,164,454
1670	Housing Policy Development Program	$275,463	$33,666	$31,949
1675	California Housing Finance Agency	$33,852	$36,149	$37,892
1680	Loan Repayments Program	$-1,944	$-1,944	$-1,944
1685	HPD Distributed Administration	$-178	$-179	$-180
9900100	Administration	$25,768	$27,205	$28,938
9900200	Administration - Distributed	$-25,768	$-27,205	$-28,938
Total Expenditures (All Programs)		**$3,057,575**	**$5,144,273**	**$2,272,876**

POSITIONS BY PROGRAM

Provides positions data (expressed as full-time equivalents) by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
1660	Codes and Standards Program	173.7	179.4	179.4
1665	Financial Assistance Program	308.2	350.2	369.7
1670	Housing Policy Development Program	53.1	57.0	69.0
1675	California Housing Finance Agency	182.7	223.2	223.2
1680	Loan Repayments Program	-	-	-
1685	HPD Distributed Administration	-	-	-
9900100	Administration	106.8	114.2	121.2
9900200	Administration - Distributed	-	-	-
Total Positions (All Programs)		**824.5**	**924.0**	**962.5**

Issue 10: Project Homekey

Governor's Budget. The budget includes $750 million in General Fund resources to continue the Homekey Program administered through HCD. Of the $750 million, the Governor requests early action from the Legislature to authorize $250 million in 2020-21. This also includes trailer bill language to continue and expand the program, including certain environmental exemptions.

Background. At the outset of the COVID-19 public health emergency, the state provided $50 million General Fund (later offset by federal funds) for the newly established Project Roomkey to help local governments lease hotels and motels to provide immediate housing to vulnerable individuals experiencing homelessness that were at risk of contracting COVID-19. In November 2020, the state authorized an additional $62 million in one-time funding from its Disaster Response Emergency Operations Account to continue operating the program while transitioning people to permanent housing. The program is administered by DSS. The funding has been nearly fully awarded. Statewide, 14,000 rooms are secured by Roomkey and 70 percent are occupied. Overall, the program has provided short-term housing for 23,000 people in 42 counties.

Building off Project Roomkey, the 2020-21 budget and subsequent action allocated $800 million in one-time funding for the newly established Homekey Program. The program provides for the acquisition of hotels, motels, residential care facilities, and other housing that can be converted and rehabilitated to provide permanent housing for persons experiencing homelessness or at risk of homelessness, and who also are impacted by COVID-19. Homekey provides grants to local governments to acquire these properties, which are owned and operated at the local level. To promote equitable access to Homekey funding, the program divided the state into eight regions and reserved funding for applicants in each region during the initial priority application period. Each region's share of the Homekey funding was based on its statewide share of (1) persons experiencing homelessness and (2) low-income renter households that are rent burdened. The program also provides some exemptions to the California Environmental Quality Act and local zoning restrictions to expedite the acquisition of Homekey sites. Unlike Project Roomkey, this program is administered by HCD.

Staff Comments. The Administration has indicated that the appropriated funding has been fully disbursed through 94 awards to local entities (some entities acquired more than one site). The administration indicates that the existing Homekey funding will create over 6,000 housing units for individuals and families. The average statewide cost to the Homekey Program per housing unit is $124,000 and the average local match is $24,000, making the average total cost per unit $148,000.

While it is still too early to assess the long-term success of the program, the number of units secured by Project Homekey is encouraging. The Homekey program relied on Coronavirus Relief Fund resources, which were initially time-limited and had to be used quickly. This led the state to limit the program purely to acquisition and rehabilitation, with a small General Fund set aside for ongoing operating subsidies. As the 2021-22 proposal relies entirely on General Fund resources, which are not time-limited, the Committee may want to consider whether broadening the uses of program funding is appropriate. Doing so may improve the program's outcomes, particularly given the fiscal challenges many local governments are currently under, and the potential challenges they may face in providing matching or operating funds for acquired properties.

Additionally, as the LAO notes below, it is unclear whether taking early action on this proposal is truly necessary for program success. The state has already pushed out roughly $800 million in Project Homekey funds in the last six months, and it is unclear what the remaining immediate demand for funds is. Additional information is needed to better assess this proposal.

LAO Comments.

Is the Proposal Time Sensitive? The administration proposes providing $250 million to expand Project Homekey in early action. We suggest the Legislature consider whether early action is advantageous. The Legislature has already provided $800 million towards Homekey in 2020-21. Would early state action provide substantial additional benefits? Does the Administration have a list of properties ready for purchase and renovation? Would early action allow individuals experiencing homelessness to move in earlier than they otherwise would?

How Would HCD Evaluate Applications for Grant Funding? The vast majority of the Homekey funding provided in 2020-21 was federal funding. HCD worked quickly to award grants for acquisitions and rehabilitations of properties that could be completed within the tight federal deadline for expenditure of funds. Although the federal deadline was later extended, the state prioritized projects that could be completed quickly when awarding funding through the Homekey Program. Under the Governor's proposal, the state would no longer be under strict federal expenditure deadlines. HCD could give other criteria more weight when evaluating applications for Homekey. For example, HCD could consider applicants' broader plans to address homelessness in their communities.

How Would Local Governments Fund Ongoing Costs Not Included in Proposal? Funding for this proposal is intended to be provided on a one-time basis. Accordingly, local entities would be responsible for funding the ongoing costs associated with maintaining the acquired properties and providing any associated services to occupants. Local entities' capacity to fund such new ongoing costs is unclear and calls into question the state's ability to preserve these units in the long term.

How Would HCD Assess Success and Inform the Legislature of Needed Changes to Homekey Program? The Administration is proposing expanding the Homekey Program without first assessing the successes and challenges associated with the initial $800 million allocation provided in 2021-22. For example, Project Roomkey has experienced low occupancy rates among leased units. The Administration should address how it plans to ensure units purchased through Homekey are effectively utilized. Understanding where Homekey has been successful and where it has faced obstacles will be important if it becomes a cornerstone of the state's approach on homelessness.

How Would Funding for Acquisition of New Facilities Interact With Other Funding for Similar Purposes? All three of the major homelessness proposals in the Governor's budget focus on the acquisition of new facilities. How this funding would be coordinated with the other proposed efforts to reduce homelessness is unclear. Understanding how these resources would be coordinated would help ensure resources are used efficiently.

Staff Recommendation. Hold Open.

Issue 11: Infill Infrastructure Grant Program

Governor's Budget. The budget includes $500 million in General Fund for the Infill Infrastructure Grant (IIG) Program. This includes $250 million in Current Year resources for 2020-21, and an additional $250 million in 2021-22. The budget also includes trailer bill language making a variety of changes to the program for the 2021-22 fiscal year.

Background. IIG was enacted through Chapter 179, Statutes of 2007 to provide gap funding for infrastructure that supports higher-density affordable and mixed-income housing in locations designated as infill. Under the IIG Program of 2007, developers and local governments can partner to apply for infrastructure funding. Originally funded through the Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C), the Veterans and Affordable Housing Bond Act of 2018 (Proposition 1) provided an allocation of $300 million to continue funding for this program. Specific eligible improvements under the program include development or rehabilitation of parks or open space, water, sewer, or other utility service improvements, streets, roads, parking structures, transit linkages, transit shelters, traffic mitigation features, sidewalks, and streetscape improvements.

The 2019-20 budget included an additional $500 million in General Fund resources for the IIG program and included trailer bill language making changes to the program specific to this allocation. The 2019 program included a $90 million set aside for an over-the-counter process for small and rural jurisdictions. $200 million of this funding was reverted to the General Fund in the 2020-21 budget to preserve the General Fund condition during the COVID-related economic downturn.

Staff Comments. The Administration has indicated that, should the Current Year portion of this request be approved, the $250 million in General Fund would be paired with the $160 million Proposition 1 appropriation in the 2020 Budget Act, which is planned to be allocated later this year. This would provide a total of $410 million in the current year for housing-related infrastructure.

The proposed trailer bill language, which would impact the $250 million proposed for the 2021-22 budget year, makes a number of changes to the program. Most notably, it prioritizes brownfield and environmental remediation, allows HCD to administer the program in an over-the-counter manner, and makes changes to project eligibility rules to allow smaller jurisdictions to more easily compete for funding. As written, the proposed trailer bill would allow HCD to redirect funding to traditional IIG projects. This would provide flexibility if funds remain after meeting the demand for remediation projects. It also provides HCD the flexibility to fund traditional IIG infrastructure projects that accompany remediation components of a brownfield application. While environmental remediation is already an authorized use of IIG funding, historically projects/areas with IIG awards have allocated relatively small amounts of the award for these purposes. The trailer bill authorizes HCD to establish a threshold amount of remediation work for the $250 million appropriation so that sites needing significant remediation before being suitable for housing have a dedicated funding source. HCD has estimated that this request could unlock more land to develop more than 7,500 new affordable homes. If less than $250 million were to be utilized for this purpose, remaining funds for brownfield remediation may be used for the general eligible infrastructure and capital improvements under IIG.

Paying for the construction of housing-related infrastructure is a major barrier to housing development in the State of California. As such, providing funding for this purpose is reasonable. Environmental remediation is often a barrier to development. Targeting funding to this purpose makes sense, but likely comes at the cost of immediately producing fewer housing units. The over-the-counter process would create more flexibility by allowing locals to pursue funding when they are ready, rather than when the department schedules it. This flexibility must be balanced against the need to ensure access to funding for both large and well-resourced and small and less-resourced jurisdictions. Given the complexity of these issues, additional review is required.

Staff Recommendation: Hold Open.

Issue 12: Housing Law Assistance

Governor's Budget. The budget includes $4.3 million in General Fund resources for state operations and 16 positions in 2021-22, $3.8 million in state operations for 16 positions in 2022-23 and ongoing to assist local jurisdictions in housing element and housing law compliance.

Background. In 2017, several bills were enacted, including AB 72 (Santiago and Chiu), Chapter 370, Statutes of 2017, which clarified and strengthened existing laws, and increased HCD's accountability and enforcement authority to review any action or inaction by a local government that HCD determines is inconsistent with state housing element laws or the local jurisdiction's own adopted housing element. During its review, HCD may consult with any local government, agency, group, or person. HCD may revoke housing element compliance if the local government's actions do not align with state law. Further, HCD may notify the California Office of the Attorney General (AG) that the local jurisdiction is in violation for non-compliance with: 1) housing element law, 2) the Housing Accountability Act, 3) "no net loss" law, 4) density bonus law, and/or 5) anti-discrimination law. The Legislature previously authorized an Attorney position to enforce AB 72. However, the volume of non-compliance and complaints and enforcement responsibilities is continuing to grow at a steady rate.

HCD's enforcement work is broken into two broad categories. The first category is housing element compliance which consists of reviewing actions a city must take in order to obtain or maintain compliance. The second category is development-related complaints. As housing developers learn that HCD can assist them (within the limits of state law) with delays they are facing in local government processing, HCD expects significant growth in complaints and requests for assistance.

Staff Comments. This proposal includes the following components:

- $600,000 in 2021-22, decreasing to $350,000 in 2022-23 and ongoing, for contracts with external vendors to provide outreach and education to local governments on state housing law issues. This also includes funding for the vendor to analyze bulk data collected through analytical software and to set up systems to increase HCD's transparency as part of a future request.

- 16 positions in a new unit within the Housing Policy Division, divided as follows:
    - 12 positions to oversee all assistance and proactive enforcement work tied to Housing Element Law, including technical assistance and outreach, proactive enforcement, and support for litigating attorneys.

    - Four attorney positions for investigation and enforcement.

Additionally, HCD is in the process of obtaining delegated authority from the Department of Technology to acquire a case management system and analytical software important to effectively and efficiently tracking and monitoring housing planning and land use law compliance, for which HCD intends to submit a future funding request.

Given the ongoing housing crisis in the state, and HCD's central role in addressing it, providing additional resources for technical assistance, investigation, and enforcement of state housing laws is generally reasonable. However, it is unclear what the proper balance between enforcement and technical assistance is, or how HCD can most efficiently and effectively drive compliance at the local level.

Staff Recommendation: Hold Open.

Issue 13: One-Time Allocation for Deferred Maintenance

Governor's Budget. The budget includes a General Fund augmentation of $10 million in fiscal year 2021-22 for deferred maintenance and repairs to address critical deficiencies at Office of Migrant Services housing centers throughout the state.

Background. HCD administers the Office of Migrant Services (OMS) program, which operates 24 migrant centers with 1,885 housing units and provides housing-related services to more than 11,000 migratory farmworkers and their families (see Attachment A—OMS Centers in California). Most of the centers include apartments of between two and four bedrooms per household. While HCD contracts with local housing authorities or nonprofit organizations to operate the centers, HCD is ultimately responsible for repair and maintenance. Historically, resources for repairs and maintenance have been from one-time funding opportunities. SB 854 (Committee on Budget and Fiscal Review), Chapter 28, Statutes of 2014, authorized use of up to $11 million in Proposition 1C funds for OMS centers. General Fund augmentations were provided in the 2015 Budget Act ($3.5 million) and the 2019 Budget Act ($1.5 million). The center operating budget consists of state subsidies and rental income. Rents have not been increased in over a dozen years.

Staff Comments. Many of the OMS centers are old and there is significant deferred maintenance and rehabilitation needs that create health and safety concerns for the tenants. In 2018, HCD hired a consultant to complete a physical needs assessment for each of the centers. The physical needs assessments identified $10.1 million of critical needs recommended for completion within a year, $14.8 million in additional repairs, and the need for an on-going commitment of funds for maintenance to prevent an increase in the backlog of repairs. If repairs and maintenance are unaddressed, the centers will further deteriorate, and the OMS program will be forced to take housing units offline or close centers. The Administration has indicated that the $10 million being requested will allow HCD to complete the most urgent repair projects, such as sewer and wastewater rehabilitation, replacement of roofs and siding to prevent water penetration, ADA remediation, and other significant deferred maintenance needs. These repairs will help to preserve 1,885 housing units for a modest investment of $5,305 per housing unit.

Additional funding for the maintenance of OMS centers is important. However, given the large need at the centers, even after this funding, the committee may want to consider whether additional funding is appropriate.

Staff Recommendation: Hold Open.

Issue 14: Housing on Excess State Lands

Governor's Budget. The budget includes trailer bill language that makes a number of changes to state law to allow increased flexibility for the development of housing on state excess lands.

Background. On January 15, 2019, California Governor Gavin Newsom signed Executive Order N-06-19 that ordered the California Department of General Services (DGS) and the California Department of Housing and Community Development (HCD) to identify and prioritize excess state-owned property and aggressively pursue sustainable, innovative, cost-effective housing projects. The 2020 budget included trailer bill language to make this process faster and more flexible.

AB 1486 (Ting), Chapter 664, Statutes of 2019, aimed to connect developers who are interested in building more affordable homes on surplus local public land that are both available and suitable for housing development. Beginning January 1, 2020, local agencies (cities, counties, and special districts) were required to send notices about available, surplus local public land to HCD, any local public entity within the jurisdiction where the surplus local land is located, and developers who have notified HCD of their interest in developing affordable housing on surplus local public land.

Beginning January 1, 2021, prior to agreeing to terms to dispose of surplus property, local agencies (cities, counties, and special districts) must send a description of notices of availability sent, and negotiations conducted, in addition to a copy of any restrictions to be recorded against the property, to HCD for review using HCD forms.

Staff Comments. Currently, three projects are underway in Sacramento, Stockton and South Lake Tahoe, and the state has an additional nine sites in the pipeline in the coming calendar year. The Administration has indicated that the proposed trailer bill language is intended to encourage additional innovative development, including authorizing market-rate and commercial development that will provide flexibility and financial feasibility to subsidize fair and affordable housing production on excess lands.

Excess state lands provide a significant opportunity for affordable housing development. However, care must be taken to balance state goals, legislative oversight, local control, and appropriate development. The Committee may want to consider the extent to which the proposed language provides a balanced solution.

Staff Recommendation: Hold Open.

0950 STATE TREASURER'S OFFICE

The State Treasurer, a constitutionally established office, provides banking services for state government with goals to minimize interest and service costs and to maximize yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants or checks drawn by the State Controller and other state agencies.

The State Treasurer's Office includes both the California Tax Credit Allocation Committee (CTCAC), which administers the state Low Income Housing Tax Credit program, and the California Debt Limit Allocation Committee, which allocates the state's share of federal tax-exempt bonds.

EXPENDITURES BY PROGRAM

Provides expenditures by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
0740010	Investment Services	$4,188	$3,932	$4,727
0740019	Centralized Treasury & Securities Management	$15,922	$15,123	$16,335
0740028	Public Finance	$13,259	$12,446	$13,745
0740035	Administration	$5,310	$5,458	$5,458
Total Expenditures (All Programs)		**$38,679**	**$36,959**	**$40,265**

POSITIONS BY PROGRAM

Provides positions data (expressed as full-time equivalents) by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
0740010	Investment Services	17.0	16.0	16.0
0740019	Centralized Treasury & Securities Management	65.0	62.0	62.0
0740028	Public Finance	54.2	51.3	51.3
0740035	Administration	91.4	82.7	82.7
Total Positions (All Programs)		**227.6**	**212.0**	**212.0**

Issue 15: Low-Income Housing Tax Credit (LIHTC)

Governor's Budget. The budget includes $500 million in low-income housing tax credits.

Background. Tax credits attract private investment in affordable housing by offering a dollar-for-dollar credit against an investor's state or federal taxes owed. The 2019 and 2020 Budget Acts each authorized $500 million in one-time resources for low-income housing tax credits. In each year, these resources were split between both typical affordable housing projects ($300 million) and mixed-income projects ($200 million). These funds have supported what is known as the federal four percent tax credit, which historically have not been competitive - every project that sought a four-percent credit received one. Recent changes in statute have made these credits more popular. However, as currently structured, these credits must be paired with federally-limited tax-exempt bonds, which are allocated by the California Debt Limit Allocation Committee. The four percent tax credits are therefore limited by a project's ability to secure tax exempt bonds. Increasing demand for four percent credits has led to an oversubscription of tax-exempt bonds.

To maximize the allocation of tax credits, the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee adopted regulations aimed at increasing affordable housing production, containing costs, and maximizing public subsidy and benefit of the credits. These regulations were finalized in late 2020.

BCSH and the Treasurer's Office have established a working group to improve and coordinate a variety of housing finance programs. HCD also implemented a short pause on issuing new Notices of Funding Availability so that the billions of dollars awarded to affordable housing projects around the state align with the regulations promulgated by the California Debt Limit Allocation Committee and Tax Credit Allocation Committee.

Staff Comments. The state's Low Income Housing Tax Credits have proven to be a valuable tool in addressing the state's housing crisis. As such, additional investment in the tax credits is warranted. However, questions remain about the structure of these credits, and the impacts of recent regulatory changes.

As noted above, these tax credits have historically been paired with tax-exempt bonds and federal four percent credits to fully utilize the tax-exempt bond authority the state receives from the federal government. As a result of recent statutory changes, the state LIHTC is very popular and has led to greatly increased demand for tax exempt bonds. Recent bond allocations have been oversubscribed. Additional tax credits may add to this issue at CDLAC, hampering the state's ability to put these tax credits to work developing housing in the near future. This raises questions about whether the current tax credit structure is the best tool to achieve the state's goals.

Additionally, recent statutory changes made in the 2020 Budget have only recently been implemented. The full impact of these statutory changes remains to be seen, making the full impact of another $500 million in tax credits somewhat uncertain.

Staff Recommendation: Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Jim Nielsen
Senator Richard Roth

Wednesday, February 24, 2021
1:00 p.m.
State Capitol - Room 4203

Consultant: Yong Salas

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

ITEMS FOR VOTE-ONLY

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

Issue 1: Vehicle Repair Assistance Program (Bureau of Automotive Repair)

Request. The Bureau of Automotive Repair (BAR) under DCA requests an increase of $2.3 million in 2021-22 and 2022-23, from the High Polluter Repair or Removal Account (HPRRA), to increase repair assistance to consumers when their vehicles fail a Smog Check inspection.

Background. BAR is responsible for administering the nation's largest motor vehicle emissions reduction program. To help in its clean air efforts, BAR administers the Consumer Assistance Program (CAP). CAP improves California air quality by helping consumers comply with the requirements of the Smog Check Program. Consumers can also receive financial incentives to retire their unwanted vehicle at any time and for any reason through CAP.

CAP has two programs for assisting consumers:

- Repair Assistance (RA) provides income-eligible consumers financial assistance to make emissions-related repairs when their qualifying vehicle fails a biennial Smog Check inspection. RA is funded by HPRRA.

- Vehicle Retirement (VR) allows consumers to retire a vehicle based upon certain criteria. It has two different funding sources and eligibility requirements. Consumers can voluntarily retire their high-polluting vehicle when it fails its most recent biennial Smog Check inspection. Income-eligible consumers receive $1,500; all other consumers receive $1,000. HPRRA funds this portion of VR. In addition, income-eligible consumers can also retire their vehicle at any time and for any reason and receive up to $1,500. The Enhanced Fleet Modernization Subaccount (EFMS) funds this portion of VR. In many instances, a consumer's vehicle is eligible for retirement with funding from either EFMS or HPRRA.

Participation in RA has declined steadily for many years due to a low state subsidy of $500, an unpopular consumer copay structure requiring the applicant to pay all diagnostic fees, and seemingly unnecessary eligibility restrictions pertaining to vehicle registration. The program has seen fewer applicants, and a lower percentage of those who do apply are actually approved.

BAR developed new regulations intended to remedy this issue. Under these regulations:

- Approved applicants with 1995 and older vehicles may now receive up to $900 in state subsidized repairs. Those with 1996 and newer vehicles may receive up to $1200 in state subsidized repairs.
- The co-payment is now only 20 percent of all diagnostic and repair costs, reducing the upfront cost of participation.
- Eligibility criteria have been changed to allow participation of applicants with vehicle registrations expired up to 365 days instead of 120 days.

- Eligibility criteria limiting registration lapses that occurred in prior registration years have been removed.

This request is intended to fund these changes for the next two fiscal years. Limited-term funding will allow BAR to collect data from 2020-21 and 2021-22 to determine the appropriate ongoing level.

Staff Recommendation. Approve as requested.

Issue 2: Information Technology Security

Request. DCA is requesting two positions and $2.0 million in 2021-22 and $1.7 million ongoing to meet State of California mandated information technology security regulations and processes across all five department domains.

Background. Beginning in 2016-17, the State of California began conducting enhanced security assessments and audits of all State of California departments and agencies. The Information Security Program Audit (ISPA) provides expertise to evaluate compliance with state security and privacy policies, by validating security systems, procedures, and practices are in place and working as intended. The Cyber Network Defense Team of the California Military Department through Chapter 518, Statutes of 2015 (AB 670) added the requirement to conduct, or require to be conducted, an independent security assessment of any state agency, department, or office, the cost of which is to be funded by the state agency, department, or office being assessed.

During the 2018-19 CMD security assessment, each department domain had a list of Plan of Action and Milestones (POAMS) that identified key security best practices that require remediation. Within the assessments and audits, recommendations have been made by California Department of Technology (CDT) and CMD that detailed the security software, services, and best practices that each Department domain must adopt and resolve through the POAM process. This process was a collaborative process between DCA , CDT, and CMD to make sure that each POAM and associated costs to remediation were kept to a minimum. Through this collaborative process, the CMD identified the major cyber security gaps across all Department domains and provided possible solutions and actions that would keep costs to a minimum while closing security gaps. In support of the remediation of the security assessment outcomes, DCA must purchase additional security hardware, software, services and cannot absorb the cost within the existing appropriation.

These costs will be broken down by domain, per the following table:

Cost Breakdown by Domain

Description	DCA	Accountancy	BREA	MBC	CSLB	2021-22	Ongoing
Information Technology Specialist I	$170,000	-	-	-	-	$170,000	$162,000
Information Technology Specialist I	$190,000	-	-	-	-	$190,000	$182,000
Security Hardware	$390,000	-	-	-	-	$390,000	$78,000
Security Software	$445,000	$29,000	$19,000	$50,000	$255,000	$798,000	$798,000
Security Services	$460,000	-	-	-	-	$460,000	$460,000
Total	$1,655,000	-	-	-	-	$2,008,000	$1,680,000

This request includes two positions to implement the various improvements needed to comply with state security and privacy policies. The positions will be responsible for the design, implementation and maintenance of end point protection systems, monitoring IT security subsystems and email security systems, installing and maintaining all security software and auditing Department servers, desktops, laptops and other IT hardware for security software. Additionally, these positions will serve as the point of contact for all CDT requests for security information and future CMD IT security assessments.

Staff Recommendation. Approve as requested.

Issue 3: Business Modernization Cohort 1

Request. The Department of Consumer Affairs requests funding for maintenance activities associated with the selected Business Modernization Cohort 1 software alternative. The total combined request is $1.8 million in fiscal year 2021-22 to fund software licensing, project management, maintenance, credit card services, technical knowledge transfer, and 3.5 existing positions.

Background. In January 2020, three boards and one bureau completed the Project Approval Lifecycle (PAL) process and began project implementation activities: the Board of Professional Engineers, Land Surveyors, and Geologists (BPELSG), the Bureau of Private Postsecondary Education (BPPE), the California Acupuncture Board (CAB), and the Board of Chiropractic Examiners (BCE). Collectively, these boards/bureau make up Business Modernization Cohort 1.

Below is a summary table of the request, broken down by board or bureau:

Acupuncture Board	$	434,000
Board of Chiropractic Examiners	$	159,000
Board for Professional Engineers Land Surveyors and Geologists	$	131,000
Bureau for Private Postsecondary Education	$	1,021,000
DCA Admin - Distributed (Office of Information Services) *Costs included in the above boards/bureau authority*	$	506,000
TOTAL	$	1,745,000

For each of the boards/bureau, the project has already delivered functionality to production that includes online application submissions, back office streamlined workflows, online consumer complaint submissions, and real-time application status updates with the applicant via email and text messages. To date, the project is within its baseline budget and is within a month of its baseline schedule. Several successful software releases have occurred since project implementation, increasing and refining functionality for the boards/bureau.

With upgrading current systems to allow for a stronger online presence, the Department and some of its boards and bureaus are integrating functionality to allow applicants and licensees to pay for their fees using credit card payments. Cohort 1 is funding credit card processing fees on behalf of users of credit card payments.

The proposal also includes $350,000 for payment of credit card processing fees on behalf of users of credit card payments. The requested amounts assume that 80 percent of all estimated revenue will be collected via online payments and assumes an average convenience fee of two percent per transaction in the second year of the project’s implementation.

Staff Recommendation. Approve as requested.

Issue 4: Enforcement Staffing Augmentation (Veterinary Medical Board)

Request. The Veterinary Medical Board is requesting $430,000 in fiscal year 2021-22, $406,000 in 2022-23, $246,000 in 2023-24 and ongoing, and three positions, to sufficiently address oversight and probation monitoring workload. Funding for one of the positions is requested on a two-year limited-term basis.

Background. In 2018-19, the Board began researching and implementing additional efficiencies to address the ever-increasing number of complaints received since 2014-15. The Board attributes the increase in complaints to BreEZe, as it became more readily available and simpler for the consumer to submit a complaint online. The size of the enforcement team had not proportionally increased with the amount of complaints, and this trend was causing a backlog of complaints as well as a steady increase in case investigation cycle times.

As a result of the growing complaints, the Board's pending case backlog nearly quadrupled since 2014-15 (from 607 cases to 2,416 cases). Further, overall investigation cycle times are currently 309 days, which will continue to rise while the oldest of the backlogged cases are completed.

The 2020 Budget provided the Board with six enforcement positions with three years of limited-term funding. This continual increase in pending complaints was the catalyst for the Board's 2020-21 BCP request for six enforcement analysts. In October 2019, the Board voted to raise fees to support the need for ongoing resources, knowing that without the additional resources, the Board's backlog would continue to increase, putting thousands of consumers and animals at risk. While the new positions will have a positive impact to address the rising complaints, the impact will generate more probationers downstream, contributing to the need for more probation monitoring staff.

Staff Recommendation. Approve as requested.

Issue 5: Licensure with Criminal Background (Structural Pest Control Board)

Request. The Structural Pest Control Board (Board) is requesting $188,000 in fiscal year 2021-22, $180,000 in 2022-23 and 2023-24, and one position to address the additional workload associated with implementing Chapter 995, Statutes of 2018 (AB 2138), and oversee the Board's probation monitoring.

Background. AB 2138 became operative on July 1, 2020, and reduced barriers to licensure for individuals with prior criminal convictions.

Currently, the Board reviews the fingerprint reports along with the conviction disclosed on their application to determine if the crime is substantially related to the duties, qualifications, or functions of a pest control technician, and to evaluate if the applicant has demonstrated sufficient rehabilitation. Depending on the applicant's criminal history and rehabilitation provided, the Board will either deny a license to the applicant or the applicant will be offered a probationary license.

As of 2019-20, the Board has 22,582 active and inactive Applicator, Field Representative, and Operator licensees and 3,578 company registrations and branch offices. Over the last four years, the Board fingerprinted 28,698 individuals. Of those, approximately 13 percent (3,678) had at least one conviction of some kind. Only 173 (or 4.7 percent) of those with criminal records were denied a license and 194 (or 5.2 percent) were placed on probation.

In either case, the Board requires the criminal history information to meet the due process requirements in the event an administrative case is initiated against an applicant or a licensee with a criminal conviction. If the Board is unable to obtain the criminal history from the applicant directly, it must request the information from the courts and arresting agencies.

This proposal would address the mandates as prescribed in AB 2138 and provides the Board with the necessary licensing staff to follow several new procedures and processes to obtain criminal history records. Most of this proposal is to manage the additional workload expected to obtain that criminal history information either from the applicant directly through responses to inquiries or by obtaining it from county courthouses. Staff would need to contact the counties for this information and the Board will need to pay any associated costs for such documents, including possible certification costs from the courts.

Staff Recommendation. Approve as requested.

Issue 6: Board of Optometry – Mobile Optometric Office License (AB 896)

Request. The California State Board of Optometry is requesting $262,000 in the fiscal year 2021-2022, $246,000 in 2022-23 and 2023-24, and two three-year limited-term positions to address anticipated workload as a result of Chapter 121, Statutes of 2020, which creates a new license type for mobile optometric offices.

Background. AB 896 was signed into law by Governor Newsom on September 24, 2020. Among other things, AB 896 creates a new licensure type for mobile optometric offices, which is affiliated with nonprofit and charity care organizations to provide optometric services to patients regardless of the patient's ability to pay.

The Board is requesting two positions to implement the new mobile optometric office licensure program. Specifically, the Board requires one Associate Governmental Program Analyst to perform the program implementation changes necessary to integrate the new licensing programs into the Board's processes, develop application and renewal forms, as well as develop the consumer notice. Once the program has been implemented, the analyst will be responsible for reviewing complaints, reviewing quarterly reports from the mobile clinics, analyzing enforcement issues and referring cases to outside agencies or the Attorney General’s office. Additionally, the Board requires one Office Technician (OT) to oversee the application process, assist with administrative functions, respond to phone and email inquiries, conduct the initial complaint review, process the quarterly reports, and assist with other enforcement issues. The Board cannot implement the provisions of AB 896 without additional resources.

Staff Recommendation. Approve as requested.

Issue 7: Witness and Court Reporter Costs (Board of Psychology)

Request. The California Board of Psychology is requesting funding to augment the Board’s expert witness budget and to support court reporter expenses as follows: $165,000 in 2021-22, $178,000 in 2022-23, $186,000 in 2023-24, and $193,000 thereafter for expert witnesses, and $13,000 in

2021-22 and $14,000 thereafter for court reporters. This will align the Board's budget more closely with actual costs.

Background. The Board's enforcement efforts are focused on protecting a vulnerable consumer population from exploitative, unscrupulous, and/or otherwise negligent psychologists. In 2015-16, in order to attract and retain more qualified expert witnesses for the enforcement unit, the Board increased its reimbursement rates for all expert witnesses. It is important the Board maintain and attract high quality experts in its pool to draw from when enforcement cases need their expertise. In 2019-20, the Board reorganized its expert witness review process to streamline the review, allowing one expert to become familiar with the case from the beginning, thus allowing for their assistance with an assigned investigator when one is needed.

Due to the restructuring of this process, the Board modified its reimbursement rates, differentiating reimbursements for the more expedited initial case review, and a final review which entails the completed report utilized by the Office of the Attorney General should it be determined that there was a departure from the standard of care. Both rate increases are not properly appropriated and have been absorbed within the Board's existing resources since the inception of the first increase in 2015-16. Over the same time period, the Board was able to absorb increasing operating costs, but is no longer able to do so.

The Board is required to use court reporters during formal hearings or petitions before the Board. Formal hearings begin after the Board has determined that the licensee or registrant departed from the standard of care and has filed an accusation against the licensee. Petitions take place when a current or former licensee/registrant is petitioning the Board for the reestablishment of their license, reduction in probation, or modification of specific probationary terms. The Board also utilizes court reporters when applicants, who have been denied a license, request a formal hearing.

The Board does not have a court reporter line item budget; however, it spends an average of $9,000 annually. Additionally, the Board has an evidence/witness line item budget of $90,000 to support costs that have increased annually and exceeded $300,000 in 2019-20. These costs are not expected to decrease. The Board has been forced to absorb these costs within existing resources. However, with increasing complaint intake, increases in expert reimbursements, and overall increases in costs to the Board, these costs can no longer be absorbed.

Staff Recommendation. Approve as requested.

Issue 8: Cemetery and Funeral Bureau (AB 795)

Request. The Cemetery and Funeral Bureau requests a 0.5 position and $86,000 in 2021-22, and $78,000 in 2022-23 and ongoing, from the Cemetery and Funeral Fund, to address the additional workload related to the requirements of Chapter 309, Statutes of 2019 (AB 795).

Background. An endowment care cemetery is a private cemetery where a portion of the purchase price of a cemetery grave, niche, or crypt is deposited into an endowment care fund. The fund's assets are invested and the income generated is used to pay for ongoing care and maintenance of the cemetery. Without sufficient assets in the fund, there is a possibility that, once a cemetery is no longer profit-generating, it will not be adequately maintained by a private cemetery authority, thereby requiring taxpayers to assume responsibility for care and maintenance.

Chapter 750, Statutes of 2017 (AB 926) required the Bureau to develop processes and functions necessary to facilitate and regulate the conversion of endowment care trust funds from a net income distribution method to a unitrust distribution method. Under the net income method, only the income generated from endowment care fund investments may be used for cemetery care and maintenance. The unitrust method allows expenditures based on the total net value of endowment care fund assets, regardless of the actual income earned from the investment of those assets. AB 926 capped the unitrust amount at 5 percent and capped trustee fees at 0.1 percent of the net fair market value of endowment care funds.

AB 795 modified current law to convert an endowment care fund from a net income distribution method to a unitrust distribution method by requiring the compensation of the trustee to be reasonable and meet specified requirements based on the net fair market value of the endowment care fund. In addition, AB 795 increased allowable trustee fees to up to 0.8 percent of the fund and removed investment advisor fees and other operating expenses from this cap. The intent of AB 795 was to provide more flexibility in asset management and encourage trustees to maximize total assets of these trusts.

AB 795 also required the Bureau to conduct additional analyses of licensed cemetery authorities' initial applications to convert from the net income distribution method endowment care fund to a unitrust distribution method endowment care fund.

Staff Recommendation. Approve as requested.

Issue 9: Examination Development and Validation (Board of Optometry)

Request. The California State Board of Optometry requests $60,000 in fiscal year 2021-22 and ongoing to fund continued optometry examination development and validation. Ongoing annual development and validation of the Board's licensing exams is critical to avoid any potential compromises of the exams.

Background. In 2018-19, the Board regulated a total of 8,402 optometrist licensees, and received 367 applications for licensure. Of the 367 applications, 94 were approved for an optometric license. Pursuant to California Code of Regulations §1531, the Board requires applicants to pass two exams to obtain licensure to practice optometry in California, both of which must be subjected to the necessary review and analysis to make sure they are psychometrically sound and legally defensible:

- National Boards of Examination in Optometry (NBEO) – Sections I, II, III
- California Laws and Regulations Exam (CLRE)

The Department of Consumer Affairs (DCA) Office of Professional Examination Services (OPES) assists the Board in examination development and validation. Existing law requires that the Board utilize OPES as staff possess the necessary expertise to assist the Board in validating the exam. The Board enters into an annual contract with OPES to conduct such work, which typically includes performing an occupational analysis (OA), conducting exam item development, evaluating the performance of examinations, and consulting on matters pertaining to the measurement of minimum competency standards for licensure.

Ongoing exam development is required for a licensing program to provide continuously valid exams. Ongoing exam development includes maintaining a sufficient pool of current, functioning test items that discriminate between candidates who have mastered the knowledge required to practice their profession competently, and those who have not. After a new exam is developed, item analysis should be performed continuously to monitor item performance. Ongoing exam development workshops are required to review and revise items to maintain optimum discrimination performance.

In addition, new items must be added to the pool to prevent item overexposure. A large item pool is required to protect the Board if an exam is compromised. For these reasons, maintaining a sufficient pool of items is especially necessary for the Optometry CLRE. The Board must also take the necessary steps to preclude candidates from having prior knowledge of exam questions in the CLRE. This is critical to prevent item overexposure. Ongoing workshops are required to provide a constant supply of new items into the jurisprudence exam.

Staff Recommendation. Approve as requested.

Issue 10: Continued Resources for Accounting and Business Services Workload

Request. DCA requests $436,000 in fiscal year 2021-22 and ongoing to support one existing position in the Business Services Office and two existing positions in the Fiscal Operations Office, which were received in 2019-20 with two years of limited-term funding. These positions will continue to address significant ongoing workload increases, enhanced reporting requirements, and complex accounting processes. This proposal also includes removal of the remaining four positions, also received in 2019-20, which are not requested to be continued.

Background. In July 2017, DCA was onboarded and began transacting in the new Financial Information System for California (FI$Cal). This transitional year posed significant process changes that created many challenges and hurdles to overcome. In addition to staff and managers working overtime, as an interim solution, DCA hired student assistants and retired annuitants to address the increased workload.

The organizational composition under DCA presents a unique challenge in that boards and bureaus all have their own individual appropriations and specific funding sources. While many of the transactions that occur within the 70 special fund sources in DCA's portfolio are similar in nature, such as payroll transactions and various operating purchases, the mere volume exacerbates the issues regarding transactional processing timelines and back office reconciliations.

DCA received seven positions and two years of funding in the 2019 Budget that included costs for contracts and student assistants to assist with the significant changes to DCA's processes, workloads, and reporting requirements in various areas including, but not limited to, procurement, accounting, budgeting, and cash management. These changes have presented DCA staff with many unforeseen challenges and has contributed to significant delays and missed deadlines in the processing of several of DCA's fiscal responsibilities including, but not limited to, monthly and annual reconciled financial statements, late payments to vendors, delayed utility payments, and timely reimbursements to Subject Matter Experts (SMEs) who are critical to DCA's mission. In addition, DCA is unique from other state entities with regard to its basic organizational structure, which lends to an extraordinarily high volume of invoices, transactions, and complex workloads. Late payments are damaging to DCA's reputation and erode its relationships with vendors and SMEs.

Many of the issues, complexities, and challenges DCA faced with the transition to the FI$Cal system have stabilized since July 2017. DCA's needs have since shifted as the system continues to mature and functionality becomes more streamlined. However, both the volume and the steps involved to process transactions in FI$Cal still require the need to address ongoing workload that justifies and will require permanent funding for three of the seven positions.

Staff Recommendation. Approve as requested.

1703 CALIFORNIA PRIVACY PROTECTION AGENCY

Issue 11: Establishing the California Privacy Protection Agency

Request. The budget includes $5 million General Fund in 2020-21 and $10 million ongoing General Fund beginning in 2021-22 to support the operations of the agency.

Background. Proposition 24, the California Privacy Rights Act of 2020, was approved by California voters on November 3, 2020, creating the California Privacy Protection Agency. The Agency is vested with administrative power, authority, and jurisdiction to implement and enforce the California Consumer Privacy Act of 2018, which is aimed at protecting the use of personal information and the promotion of public awareness and understanding of the risks, rules, and rights related to the collection, use, sale, and disclosure of personal information, including the rights of minors.

Proposition 24 requires that $5 million is appropriated in 2020-21 and that $10 million is appropriated in 2021-22, with $10 million appropriated in each following year with adjustments for cost-of-living.

Staff Recommendation. Approve as requested.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL (ABC)

Issue 12: Business Modernization and Responsible Beverage Service

Request. ABC requests an increase in expenditure authority of $2,943,000 one-time Alcohol Beverage Control Fund in 2021-22 for ongoing support costs following the completion of the Business Modernization and Responsible Beverage Service (BizMod/RBS) project.

Background. Prior to its modernization efforts, ABC licensees did not have the option to renew licenses online, pay fees electronically, apply for licensure online, or other administrative actions that can be generally completed online in this modern time. The 2019 Budget provided the first phase of funding to build a system to support the implementation of the Responsible Beverage Service (RBS) Training Program Act, which has a target completion date of March 2021. The 2020 Budget Act also shifted the effective date of the requirement that all servers be trained by July 1, 2022. This funding will allow ABC to retain the solution provider contract and state staffing as it continues to further progress.

The second phase of the funding was authorized in 2020-21 and began the modernization of ABC public services including electronic payment, electronic notifications, license renewal, and online application origination options in order to provide licensees the ability to interact with ABC in a more efficient and customer-centric manner.

This proposal requests funding for the first year after the project's scheduled completion date of June 30, 2021. This proposal includes funding for 2021-22 based on updated project costs estimates contained in the Stage 4 project approval documents with an additional contract for a Product Manager/Solution Architect. This additional contract is estimated to cost $288,000.

Ongoing funding to support ABC's modernization effort will be determined as part of the Post Implementation Evaluation Report (PIER) that is due June 30, 2022, and ABC plans to submit a final budget proposal related to the ongoing costs of this effort for the 2023-24 fiscal year based on that report.

Staff Recommendation. Approve as requested.

7502 DEPARTMENT OF TECHNOLOGY (CDT)

Issue 13: Security Operations Center and Audit Program Funding Conversion

Request. CDT requests a $21 million General Fund augmentation in 2021-22 and ongoing to convert 49 existing Office of Information Security positions currently funded through the

Technology Services Revolving Fund. This request will be accompanied by a trailer bill to allow for CDT to receive General Fund for audits.

Background. The current statewide funding model makes it difficult for state entities to absorb the cost of these services. Several entities cannot allocate funding to meet their security requirements due to competing priorities while others are not able to sustain audits, assessments, security solutions, and Security Operations Center (SOC) mitigations. At times, this has resulted in substandard security implementations and deferred security requirements.

This request proposes California adapt an interim centralized security funding model to ensure SOC and Statewide Information Security Oversight continue to provide critical statewide security benefits to all state entities and support the maturity of the statewide infrastructure of information security program oversight services, threat information sharing, protection, and centralized SOC services. By funding these activities through the General Fund, these state entities would be able to repurpose funds budgeted for their audits/assessments to fix critical gaps identified through the oversight program and strengthen their security posture.

The requested funding will ensure that the SOC and the Information Security Program Audit can continue to provide critical statewide security benefits to state entities while enabling those state entities to focus their limited resources on remediating identified security vulnerabilities.

Legislative Analyst's Office (LAO). The LAO recommends the Legislature approve CDT's information security budget proposal with revised statutory language to reflect the intent of the administration for state entities to use funding previously budgeted for information security program audits to remediate deficiencies in their information security programs. The LAO also recommends the Legislature direct CDT to report back at future budget hearings on the possibility of funding statewide SOC services in this proposal through the state's Pro Rata and Statewide Cost Allocation Plan processes, as well as other alternative funding sources for new programs and services.

Staff Recommendation. Approve funding as requested and adopt placeholder trailer bill language.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 14: Contracted Fiscal Services Workload 2021-22

Request. The Department of General Services (DGS), Contracted Fiscal Services requests $1.146 million in additional ongoing authority comprised of the following funds: General Fund ($567,000), Central Services Cost Recovery Fund ($431,000), and Service Revolving Fund ($148,000). Additionally, DGS requests seven positions to provide administrative services for four new client agencies.

Background. The Financial Information System for California (FI$Cal) provides a unified and consistent financial system that will be used by virtually all state entities, and provides transparency in state financial data. With the transition to the new system, FI$Cal changed how some state entities performed their accounting and budgeting functions. For example, FI$Cal requires multiple users operating within it to maintain a separation of duties in order to prevent fraud and minimize errors, and changed how transactions were recorded. At the same time, the Contracted Fiscal Services (CFS) unit within DGS, which provides budgeting and accounting services to other state departments, boards, and commissions that do not have the staff or expertise necessary to perform budget and/or accounting functions, has seen an increase in its clientele. Currently, CFS provides accounting services to 46 state entities, budgeting services to 22 state entities, and HR services to 17 clients using FI$Cal, and recovers its costs by billing customers through an interagency agreement.

In 2021-22, CFS will be providing services for the California African American Museum, the California Arts Council, the Native American Heritage Commission, the Delta Protection Commission, and the Office of Energy Infrastructure Safety.

Staff Recommendation. Approve as requested.

Issue 15: Facilities Management Division (FMD) New Buildings Operations and Support

Request. The Facilities Management Division (FMD) within DGS requests $15.31 million ongoing Service Revolving Fund (SRF) expenditure authority and 105.0 authorized permanent positions beginning in fiscal year 2021-22 to manage, operate, and maintain the new Clifford L. Allenby (Allenby) and new Natural Resources Headquarters (Resources) buildings located in Sacramento.

Background. The newly-constructed Allenby and the Resources buildings are expected to open in Spring and Summer 2021, respectively.

The new Allenby building is 11 stories high and is approximately 361,000 square feet in size. Tenants will include the California Health and Human Services Agency (CHHS), the Department of State Hospitals (DSH), and the Department of Developmental Services (DDS). Once Allenby is constructed, tenants from the Bateson Building will be transitioned over floor by floor beginning in February through March 2021. DGS states that a total of 50 positions are required to properly maintain this building.

The new Resources building is 21 stories and approximately 875,500 square feet. The tenant departments under the California Natural Resources Agency are primarily relocating from the current Natural Resources and Bonderson buildings, though some tenants will be relocating from leased space into the new building. Their phased move-in is expected to occur from August through November 2021. Since phased move-ins are being employed at both locations, FMD will need to simultaneously maintain both the current and new state office buildings once the moving commences. DGS states that a total of 97 positions are required to properly maintain this building.

In total, 147 positions are required to properly maintain both the Allenby and the new Resources building. The balance of required positions will be redirected from the existing Resources, Bateson, and Bonderson Building staff where possible – while the Resources and Bateson building are in warm shutdown modes due to renovations, staff may service multiple buildings within a service area and may be unable to be redirected to the new buildings.

Staff Recommendation. Approve as requested.

Issue 16: FMD Fire Alarm System Deferred Maintenance

Request. The Department of General Services (DGS) Facilities Management Division (FMD) requests $20 million in one-time General Fund for fiscal year 2021-22 to address critical Fire, Life, and Safety (FLS) issues related to Fire Alarm Systems in three state buildings owned and operated by DGS.

Background. Fire alarm systems include fire alarm control panels (FACP), accessible pull stations, smoke detection systems, and accessible audio-visual announcement devices. The existing fire alarm systems require replacement for a number of reasons, including increased failure rates of system components and the inability of manufacturers to provide replacement parts for antiquated systems. This proposal will address the most urgent fire alarm system safety deficiencies. Below is a list of the proposed projects:

Table 1: Proposed Statewide Fire-Life-Safety Projects

Project Type	Location – Building Name	Amount
FLS	San Francisco – Ronald M. George SOC (Hiram Johnson Bldg.)	$7,600,000
FLS	Los Angeles – Ronald Reagan State Building	$7,000,000
FLS	Sacramento – DOJ Attorney General Building	$5,400,000
	TOTAL	**$20,000,000**

<u>Ronald M. George SOC (Hiram Johnson Building)</u>

The fire alarm system for the Hiram Johnson Building at 350 McAllister Street is original to the building's construction in 1998 (22 years old). The existing Fire Alarm system has not been able to be certified due to continuing component failures – last certification was 2017. The design phase for this integrated safety improvement is ready to begin as soon as funding is available.

<u>Ronald Reagan State Building</u>

The fire alarm system for the Ronald Reagan Building at 300 Spring Street, Los Angeles is original to the building's construction in 1991 (29 years old). The existing Fire Alarm system has not been able to be certified due to continuing component failures and as of date of this report the building is on fire-watch due to the condition of the existing system. The design phase for this integrated safety improvement is ready to begin as soon as funding is available.

<u>DOJ Attorney General Building</u>

The DOJ Attorney General Building located at 1300 I Street, Sacramento was completed in 1995. The fire alarm system has had some upgrades over the past 25 years; however, it is largely original to the building and no longer code compliant. There have been on going issues with the fire alarm system, including extensive issues related to the smoke control and stairwell pressurization. Many of the components of the system have become inoperative and are no longer compatible with each other or just broken. Some of the noted deficiencies include; some detectors that are incompatible with the current fire alarm system; smoke and strobes do not meet code requirements for coverage; the existing Fireman's Override Panel and Fire Alarm program have been set in bypass mode due to system malfunctions; and the exit stairways have been over-pressurized during fire alarm events, thereby restricting access to the stairways with the door pressure exceeding code maximum.

Staff Recommendation. Approve as requested.

Issue 17: Division of the State Architect Evaluation of Detectable Warnings

Request. The Department of General Services, Division of the State Architect (DSA) requests a one-time budget authority increase of $1.3 million in the Disability Access Account for 2021-22 to complete a statutorily-mandated study of detectable warning surfaces.

Background. In 1999, the California Legislature passed Assembly Bill 685 (Chapter 386, Statutes of 1999), which requires DSA to select an independent entity to issue a two-year product approval, renewable upon reevaluation at two-year intervals thereafter, and assist in the development of criteria to ensure that shape, color fastness, confirmation, sound-on-cane acoustic quality, resilience, and attachment of detectable warning surfaces will not degrade significantly for at least five years. Detectable warning surfaces are required by the federal Americans with Disabilities Act Accessibility Guidelines (ADAAG) and the California Building Code. These surfaces are applied on pedestrian paths (for example, the raised yellow bumps at a crosswalk) to warn individuals who are blind or visually-impaired that they are approaching or entering hazardous areas like a street, vehicular area or the edge of a transit station boarding platform.

DSA kick started the evaluation process between 2001 and 2002 by promulgating framework regulations in the California Building Code (CBC). DSA also entered into a contract with a nationally recognized laboratory testing consultant, Underwriters' Laboratories (UL) for the technical expertise required to test and facilitate the standards and criteria to be developed by DSA, which was approved in 2003.

In 2004, DSA's Access Codes and Standards (ACS) section established an ad-hoc Evaluation of Detectable Warnings Advisory Committee (EDWAC) to work on the study. The committee was comprised of product users, members of the disability community and organizations, architects and design professionals, public works departments, code enforcement departments, and other government agencies with the objective to propose durability and degradation testing standards for detectable warning surfaces. The committee worked with the UL consultant to draft recommended testing criteria and protocol standards to be used as the basis for the evaluation and approval of detectable warnings and directional surfaces in California.

All funding for these efforts came from the Disability Access Account. Once the contracted funding for UL was exhausted, the contract expired in 2006. In 2008, DSA issued another Request for Proposal to complete the work. Since the initial contract was established only to help create a protocol and did not include the services to validate and test the protocol and criteria, DSA needed to renew the contract in order to complete the testing and validation phase and thereafter the full study.

When DSA received the 2008 cost proposal from UL for the validation phase it was determined the division's budget could not accommodate this item and the EDWAC project would be deferred. Though the EDWAC project deferral was expected to be short-term, the economic downturn between 2008 and 2012 prolonged that deferral.

Basing the current need on initial contract costs and quotes and factoring in inflation, DSA requires a total of $1,300,000 in budget authority to renew the contract with the testing consultant so UL can review the history and meeting notes, assemble and work with a new ad hoc committee, provide initial review and commentary, and finalize and validate the testing protocols.

Staff Recommendation. Approve as requested.

Issue 18: Statewide Support Emergency Management Functions

Request. The DGS Office of Risk & Insurance Management (ORIM) requests $300,000 in ongoing Service Revolving Fund expenditure authority and two permanent positions to support the increased demand for departmental and statewide emergency management functions, specific to statewide resiliency and emergency planning.

Background. The 2020 Budget provided ORIM with two new permanent positions to accommodate the ongoing nature of wildfires and other statewide emergencies, bringing the total to four. However, due to COVID-19, the unit's emergency activation tasks significantly increased. The table below displays the significant increase in the workload:

DGS Emergency Activation Tasks

Year	Number of Events	Total Duration (days)	Total Number of Tasks	Total Support Hours	Total Expense
2015	1	54	13	1,012	$ 2,611,916
2016*	1	183	4	336	$ 23,545
2017	3	407	262	5,374	$ 9,540,396
2018	4	536	403	9,064	$ 58,024,770
2019**	4	48	108	2,031	$ 6,976,568
2020***	2	151	1302	19,287	$ 1,995,917,765

*Support hours are an estimate based on activation duration

**2019 expense data is based current FI$Cal data and received invoices

***Both events are currently ongoing

Staff Recommendation. Approve as requested.

9210 LOCAL GOVERNMENT FINANCING

Issue 19: Local Government Backfill

Request. The Administration requests $10.3 million to reimburse the Counties of Alpine and San Mateo for shortfalls incurred in 2019-20.

Background. As part of the 2004 Budget compromise, the Vehicle License Fees (VLF) – which were a local revenue source – were reduced, and any shortfalls were offset from a countywide educational revenue augmentation fund (ERAF).

Local property taxes are shared by local governments, including K-12 and community college school districts. K-12 districts are guaranteed an overall funding level between state and nonstate resources, which is called a revenue limit. K-12 districts whose nonstate share from local property taxes meet or exceed its revenue limit are called basic aid districts. ERAF distributes property taxes to nonbasic aid school districts to offset revenue they would otherwise receive from the General Fund, and the 2004 Budget compromise provided that ERAF would also backfill the revenue shortfalls due to the changes in the VLF.

The Administration is proposing $10.1 million for San Mateo County and $148,000 for Alpine County so it can reimburse its cities and the counties in the context of there being (1) insufficient ERAF monies and (2) too many basic aid school districts.

The subcommittee has received letters of support for these adjustments from the following entities: County of San Mateo Board of Supervisors, San Mateo City Council, City of Redwood City, City of South San Francisco, and Woodside Town Manager Kevin Bryant.

Staff Recommendation. Approve as requested.

ITEMS FOR DISCUSSION

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

Issue 20: Special Project Report 9 Update

Overview. FI$Cal is the statewide project to integrate and re-engineer the statewide business processes related to budgeting, accounting, procurement and cash management. FI$Cal provides a unified and consistent financial system that will be used by virtually all state entities, and provides transparency into state financial data. The FI$Cal project was developed and implemented by a partnership of four control agencies – Department of Finance, State Controller's Office (SCO), State Treasurer's Office, and the Department of General Services, and is managed by the Department of FI$Cal.

Departments began operating in FI$Cal in July 2013, and since then, have onboarded in "waves" and "releases" through July 2018. In 2016-17, the Legislature approved a permanent administrative structure for FI$Cal, establishing it as a stand-alone department. FI$Cal is a central service agency, and non-general fund costs are recouped through the Central Service Recovery Fund, which charges various special and nongovernmental funds. There are 10 deferred departments, who are implemented or in the process of implementing their own financial management system (and as these systems require upgrades or the departments desire expanded functionality, they will move on to FI$Cal). There are also 10 exempt departments, who have statutory authority to use systems other than FI$Cal for their financial management.

FI$Cal is a working system with 152 departments and approximately 15,000 end users processing $363 billion in expenditures each year. The State Treasurer's Office (STO) functionality handles about $2 trillion in state government banking transactions annually. Departments are paying their bills and balancing their budgets every single day using the FI$Cal system.

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

Progress Update. In its October 2020 report to the Legislature, FI$Cal states that effective July 2020, seven areas of major functionality that were deployed for more than a year were formally closed out. Deployed functionality closeout reports (DFCRs), which were accepted by the California Department of Technology (CDT), acknowledge that the majority of the project has been successfully completed. The seven areas of functionality include: Centralized Financial Transactions functionality and departmental onboarding; Deposits and STO control functions;

Budget; Procurement; Department of General Services (DGS) – Activity Based Management System (ABMS); Legacy Data Repository; and Security Information and Event Management (SIEM).

In June 2020, FI$Cal successfully completed implementation of SCO/STO Integrated Solution Milestone 3 and 4 functionality, enabling FI$Cal to start collecting financial transactions in order to produce a statewide ledger in parallel with the SCO legacy system. Currently, FI$Cal allows the legacy systems and FI$Cal to run in tandem on a daily basis.

Special Project Report 9. FI$Cal is an ambitious and complex project that has undergone numerous changes in scope, schedule and cost. These various changes have been incorporated and documented in special project reports (SPRs) with the project currently working under the rubric of SPR 9, which was approved in October 2020. SPR 9 details one primary change from SPR 8, which is a 24-month schedule extension for implementing the functionality that will fulfill the minimum viable product (MVP) for SCO and complete the FI$Cal project. The MVP will allow FI$Cal to capture the information required to generate the financial reports, validate the balances, and ensure the data captured in FI$Cal aligns with the SCO's legacy system. This approach provides SCO with an accurate solution and the opportunity to validate data in FI$Cal with its legacy systems prior to turning off those legacy systems. This is estimated to be completed in June 2022.

Staff notes that under SPR 8, total project costs were estimated to be over $1 billion. However, under SPR 9, these costs were reduced to $965.5 million – a savings of nearly $100 million.

Auditor's Concerns. The State Auditor issued a letter report on FI$Cal on January 7, 2021, and raised concerns, including: (1) the FI$Cal Project Office missing many target completion dates and extending the project completion date to June 2022; (2) agencies operating in FI$Cal continue to struggle to produce financial reports on time and caused delays to critical state financial reporting that determines the State's ability to secure low-cost financing; and (3) continuing independent oversight and promptly address the concerns that oversight raises.

One of the examples the Auditor provides is that as of September 2020, the oversight contractor has reported that the project office has not developed adequate processes and requirements for FI$Cal and the State Controller's existing system to run in parallel. The project plan update identifies the parallel operation of these two systems as a key project goal because this operation will allow the State Controller to verify the accuracy of data in FI$Cal and prepare for a final transition to using FI$Cal exclusively. However, as of September 2020, the oversight contractor repeated its finding that the project office lacked processes to ensure that parallel operations run smoothly. The oversight contractor tempered its report by noting that the issue had shown some improvement. For example, the contractor observed improvements in test procedures and related error resolution that allowed staff to more efficiently perform testing tasks. Lack of proper processes and procedures could ultimately introduce inefficiencies for State Controller staff as they attempt to reconcile these complex, interconnected systems.

Potential Questions for the Subcommittee to Consider:

- What is FI$Cal doing to ensure that parallel operations between the State Controller's legacy system and FI$Cal are running smoothly?
- What are the drivers in the savings between SPR 8 and SPR 9, and are there any expected changes or future funding requests that would change the new estimated project total?
- As of February 5, 2021, the SCO reports that there are 11 departments still delinquent on closing out their annual financial reports. What kind of additional assistance is being provided to these departments and departments who are struggling to close out their financial reports?

Staff Recommendation. This is an oversight item.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 21: Progressive Design-Build Trailer Bill Language

Request. DGS requests trailer bill language to allow the Director of DGS to use the progressive design-build procurement process for up to three public works projects, as jointly determined by DGS and the Department of Finance.

Background. Progressive design-build is a variant of the design-build method of procurement, and is designed to streamline the traditional design-build process, saving time, and in turn, costs.

Under a traditional design-build procurement process, DGS will contract with a criteria architect who establishes performance criteria; this process typically takes eight to twelve months. This criteria then serve as the basis for a design competition, which DGS would evaluate and then award to a design-build entity that completes the design and construction of the project. Recent projects that utilized the traditional design-build procurement process includes the Richards Boulevard Office Complex in Sacramento, and the New Natural Resources and the Clifford Allenby Buildings.

A progressive design-build method eliminates the role of the criteria architect, which also eliminates the need for a design competition. Instead, design-build entities compete and are selected based on a review of their qualifications. The selected design-build entity then completes the pre-construction phase of the project and proposes a guaranteed maximum price, which can be negotiated by the state. Under the progressive design-build method, the state has sole and absolute discretion on whether to award the second, subsequent phase. If the state has any concern at this point in the project, it would be able to solicit alternate firms to award the design-build phase using a stipulated sum.

The progressive design-build strategy was piloted with the swing space at 10th and O Streets, which began in 2018 and is slated to finish by the fall of 2021. In comparison, the New Natural Resources and the Clifford Allenby Buildings, both delivered under the traditional design-build process, started in 2016 and will be completed in Summer and Spring 2021, respectively. Additionally, DGS states that the state's COVID laboratory was constructed ahead of schedule and within budget using a form of progressive design-build.

DGS states that the progressive design-build process would be used for the three renovation projects proposed in 2021-22: (1) the Gregory Bateson Building, (2) the Jesse Unruh Building, and (3) the Resources Building. These proposals are detailed in the next few agenda items.

Staff Recommendation. Adopt placeholder trailer bill language.

Issue 22: Sacramento Region: Gregory Bateson Building Renovation

Request. DGS requests $191.6 million lease-revenue bond authority in 2021-22 for the design-build phase of a project to renovate the Gregory Bateson Building, located at 1600 Ninth Street in Sacramento.

Background. The 2018 Budget Act provided $5.2 million General Fund for the performance criteria phase of the Gregory Bateson Building renovation project. This request brings the current total estimated project cost to be $196,798,000 ($5,213,000 for performance criteria and $191,585,000 for design-build). It should be noted that in 2018, the total project costs were estimated to be $161 million; however, in addition to construction escalation, DGS states that while exterior water intrusion was evident, further investigation revealed the entire exterior system was unsalvageable. In addition, replacement of the exterior balcony guard rails is needed. However, DGS states that under the traditional design-build model, escalation costs would have increased the total project cost to $199.7 million; under the progressive design-build model, escalation costs increased the total project cost to $196.8 million.

The building ranked sixth statewide for state owned, DGS- controlled office buildings requiring renovation or replacement. The current occupants, the Health and Human Services Agency, Department of Developmental Services, and Department of State Hospitals, will be relocated to the New O Street Office Building starting April 2021. Proposed tenants for the renovated Bateson Building include California Natural Resources Agency departments from leased space that are not consolidating into the New Natural Resources Agency Headquarters Building.

This renovation project includes the correction of building-wide deficiencies such as: fire and life safety improvements; hazardous materials removal; repairs to water damage and water intrusion prevention; detailing of exterior facades and their components; updates and repairs for accessibility compliance; improvements and enhancements to energy systems; addition of high-tech HVAC and lighting controls; addition of security systems and procedures controlling movement within the building and between spaces security officer station, and physical barriers at the west entrance; and improvements to interior spaces.

The project would continue implementation of the Ten Year Sequencing Plan.

Staff Recommendation. Approve as requested.

Issue 23: Sacramento Region: Jesse Unruh Building Renovation

Request. DGS requests $122.4 million lease-revenue bond authority in 2021-22 for the design-build phase of a project to renovate the historic Jesse Unruh Building, located at 915 Capitol Mall in Sacramento.

Background. The 2018 Budget Act provided $6.3 million General Fund for the performance criteria phase of the Jesse Unruh Building renovation project, and at the time, total project costs were estimated to be $89.9 million. However, DGS states that due to construction escalation, as well as mitigation for more hazardous materials found than previously anticipated, as well as repair costs due to more severe water intrusion than previously anticipated, total project cost is estimated to be $128,727,000 ($6,335,000 for performance criteria and $122,392,000 for design-build). However, DGS states that under the traditional design-build model, escalation costs would have increased the total project cost to $130.6 million; under the progressive design-build model, escalation costs increased the total project cost to $128.7 million.

The building is located in a prominent area on Capitol Mall, adjacent to the historic Stanley Mosk Library and Courts Building, and the State Capitol. The current occupants of the building include the State Treasurer's Office, Government Operations Agency, Business, Consumer Services and Housing Agency, and the California State Transportation Agency. The proposed backfill tenant is the State Treasurer's Office.

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

The Jesse Unruh building was built in 1929 and is a historical landmark – the proposed renovation will restore the building's historical character and also address critical life safety and other code deficiencies. The proposed $122.4 million in lease-revenue bond financing would only be enough to renovate the building. To include restoration to the fountain, the total amount needed would $118.8 million, an increase of $2 million, and would also include potential modification costs to the Capitol Mall roundabout area as well.

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

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

Staff Comments. Treasurer Fiona Ma submitted a letter expressing concerns over the timing and costs of the project. The Treasurer's Office is currently located in the Jesse Unruh Building and will be temporarily relocating to the Bonderson building located at 901 P Street until renovations at the Jesse Unruh building are complete. The letter expressed concerns over cost escalations, the inability to properly social distance during a pandemic in the Bonderson building, and the need for a reassessment of space needs with regard to teleworking.

Preservation Sacramento, Save Our Heritage Organization, and the California Capitol Historic Preservation Society have submitted letters requesting restoration of the Capitol Fountain as an addition to the Jesse Unruh building renovation.

Should the subcommittee consider approving this project, staff recommends approving $124.4 million in lease-revenue bond financing for the design build phase of the renovations to the Jesse M. Unruh Building and the Capitol Plaza, including the restoration of the State Capitol Fountain in accordance with the Secretary of Interior's Standards for treatment of historic properties, and adopting budget bill language that prohibits the demolition of the State Capitol Fountain.

Staff Recommendation. Hold open.

Issue 24: Sacramento Region: Resources Building Renovation

Request. DGS requests $452.1 million lease revenue bond authority for the design-build phase of a project to renovate the Resources Building, located at 1416 Ninth Street in Sacramento.

Background. The 2019 Budget Act provided $8.9 million General Fund for the performance criteria phase of the renovation project, and at the time, total project costs were estimated to be $367 million. However, since then, DGS states that the extent of the hazardous materials in the building will now require a phased demolition approach, which is costlier than a more straightforward demolition approach, and abatement costs that were not previously included. This request brings the total estimated project cost to be $460,980,000 ($8,874,000 for performance criteria and $452,106,000 for design-build).

Current tenants include departments within the Natural Resources Agency, which will relocate to the New Natural Resources Agency Headquarters Building when it is completed in November 2021. Proposed tenants include the Employment Development Department currently located at 800 Capitol Mall, 750 N Street, and 751 N Street, as well as other departments within the Labor and Workforce Development Agency. This project would continue implementation of the Ten Year Sequencing Plan.

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

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

Staff Recommendation. Approve as requested.

Issue 25: OS EVSE Infrastructure Assessment and Facility Development

Request. Office of Sustainability (OS) in DGS requests a one-time budget augmentation of $50 million in General Fund and $1.3 million in Service Revolving Fund (SRF) authority. This request is to fund year five of the DGS Zero Emission Vehicles (ZEV) Five-Year Infrastructure Investment Plan (2017-18 through 2021-22) to continue performing installations of Electric Vehicle Service Equipment (EVSE) at state-owned and leased facilities, to meet California's transportation and greenhouse gas goals.

Background. DGS supports state agencies in completing readiness surveys, conducting site assessments, and providing oversight of architectural and engineering functions, construction management, system activation, and identification of alternative funding options if available.

Prior budgets funded this project through an equal split between the Service Revolving Fund, which receives General Fund and charges for work rendered by DGS, and the General Fund. However, the 2020 Budget provided $23.1 million in Service Revolving Fund authority to fund Year Four of the ZEV Action Plan, with no General Fund split due to the economic uncertainty as a result of COVID.

DGS states that restrictions on fund use and budgetary challenges kept departments from using special funds, and made it difficult for DGS to obtain the necessary funding. The table below reflects DGS' use of General Fund and special funds in prior years (in thousands), and shows that of the total budget authority provided, only 45 percent of fund authority has been utilized:

Year	Budget Authority Received	General Fund Actuals	Special Funds Actuals	Total Utilized
2017-18	$ 6,700	$ 3,300	$ 1,400	$ 4,700
2018-19	$ 15,600	$ 7,800	$ 6,600	$ 14,400
2019-20	$ 18,600	$ 9,300	$ 200	$ 9,500
2020-21	$ 23,100	$ -	$ -	$ -
TOTAL	$ 64,000	$ 20,400	$ 8,200	$ 28,600

The 2016 ZEV Action Plan requires DGS to oversee plans to make electric vehicle charging infrastructure available in at least five percent of workplace parking spaces at state facilities.

Further, DGS is responsible for ensuring that 25 percent of annual light-duty fleet purchases are ZEVs by 2020 and 50 percent of those purchases are ZEVs by 2025.

The Governor issued an executive order in September 2019 that leveraged state assets to advance the state's climate goals, DGS adopted an administrative policy that prohibits state agencies from purchasing sedans powered solely by an internal combustion engine (ICF) utilizing fossil fuels, as well as sedans powered by flex-fuel or bi-fuel engines utilizing petroleum-based fuels and other alternative fuels, such as ethanol.

On September 23, 2020, Governor Newsom issued another executive order that set new statewide goals for phasing out gasoline-powered cars and trucks in California. Under this executive order, 100 percent of instate sales of new passenger cars and trucks are to be zero-emission by 2035 and 100 percent of in-state sales of medium- and heavy-duty trucks and busses are to be zero-emission by 2045, where feasible.

This request is to fund year five of the DGS ZEV Five-Year Infrastructure Plan to install EVSEs in state facilities to support both the state fleet and state employee charging needs. 1,801 charging ports have been installed to date, funded from both Legislature-approved budget authority and administrative authority. With this request, DGS states that an additional 2,015 charging ports will be installed.

Staff Comments. Senate Subcommittee #2 is also considering the Administration's broader ZEV proposal, which includes requests for $1 billion of future revenues to increase the pace and scale of the construction of electric vehicle charging and hydrogen fueling stations necessary to accelerate zero-emission vehicle adoption, and $465 million one-time Cap and Trade funds to improve access to new and used ZEVs. This proposal is one of the components of the Administration's broader ZEV strategy.

The proposal states that utilities and other providers are beginning to offer charging services which may be cost efficient in certain situations in lieu of state-owned infrastructure. DGS states that more data will be gathered and additional analysis performed before leveraging these alternative options. DGS is also leading efforts to negotiate agreements with utilities and other third parties that have EV infrastructure programs that can be leveraged by DGS and other state departments to meet their EVSE goals.

Additionally, COVID is evolving the state's teleworking policies and workforce, and may have impacts even after COVID-related restrictions are lifted across office space usage and parking and charging patterns. The Administration's telework dashboard shows that of the approximately 11,200 staff, 9,500 staff are eligible for telework due to COVID restrictions.

The subcommittee may wish to inquire how the evolving nature of the teleworking policies as well as evolving charging technologies may impact decisions to invest in further building out state-owned charging infrastructure.

Staff Recommendation. Hold open.

0511 GOVERNMENT OPERATIONS AGENCY (GOVOPS)

Issue 26: Workload BCP

Request. GovOps requests four positions, and $1 million in expenditure authority—$649,000 General Fund and $362,000 reimbursements—in 2021-22, and $836,000 ongoing, to fund and manage existing and new workload associated with oversight and management of state government operations. The request includes trailer bill language that authorizes the Governor to appoint a Chief Equity Officer.

Background. This request is for the following four positions:

- *Special Advisor/Chief of Staff*. This position is currently filled by a borrowed vacant exempt position from the Department of General Services, and serves to assist the Agency Secretary with her oversight, management and involvement in GovOps' activities.

- *Attorney, Tax Specialist*. GovOps has a significant need for independent legal services with a specific focus and background in tax law and policy. Currently, GovOps oversees the Franchise Tax Board (FTB) and the California Department of Tax and Fee Administration (CDTFA) and has numerous interactions with the Office of Tax Appeals and the Board of Equalization. Collectively, all these agencies are responsible for the collection of over $100 billion in annual revenues for the State of California and handle tax appeal cases for businesses and individuals. Navigating the complex landscape of state and federal tax laws is becoming ever more challenging each year and the need for independent counsel on such laws requires specialized knowledge of such tax laws that currently doesn't exist within GovOps.

- *Office Technician*. Currently, GovOps only has one Office Technician supporting 18 different staff persons including managing their calendars, arranging meetings, processing mail, routing documents, etc. This ratio is insufficient to support the large increase in work that GovOps has undertaken under this Administration.

- *Chief Equity Officer*. The Chief Equity Officer will address disparities in state government by: (1) review existing policies and practices in state hiring and procurement; (2) design and update training initiatives on cultural competency, gender differences, and other topics; (3) work with CalHR to develop training to promote cultural understanding and competency; (4) develop and coordinate diversity training manuals and materials, among others.

This request also includes one-time $175,000 General Fund for its upcoming move from the Jesse Unruh building to 1304 O Street.

Staff Recommendation. Hold open.

Issue 27: Statewide Data Strategy

Request. GovOps is requesting three positions and $558,000 General Fund in 2021-22 and ongoing to facilitate and support the implementation of the Statewide Data Strategy (SDS) and conduct evaluations for GovOps' Center of Government Excellence.

Background. The 2020 Budget provided resources for a Chief Data Officer, and this position serves as the primary steward of the data portal for the state's public data, and a mediator when disagreements arise among data holders who decline to share requested data. The chief data officer was also working with the Department of Technology to develop a public repository of state government interagency data exchange agreements. Supplemental reporting language was added for the chief data officer to summarize the proposals in the repository in the 2020 Budget.

GovOps established a Center for Government Excellence and Transformation (GET) within their existing resources, and intends to help departments and agencies prototype ideas, research best practices, and map possible next steps under the GET Center process. Defined challenges and opportunities will be selected by the review team, guided by the key criteria chosen. The objectives of the GET Center are to: (1) better prioritize time and resources; (2) gather and share best practice; and (3) break silos and foster connections across government. This request will allow the GET Center to deploy toolkits tailored to the demands of a problem or priority. A portion of the requested staff resources will support ongoing evaluation of these projects to help inform how well they are working and if they should be scaled.

Staff Recommendation. Hold open.

7502 DEPARTMENT OF TECHNOLOGY (CDT)

Issue 28: Stabilize Critical Services and IT Infrastructure

Request. CDT requests 17 positions and $11.4 million General Fund in 2021-22, $9.4 million in 2022-23, and $6.4 million ongoing to invest in proactive measures to stabilize critical services and enhance performance statewide. Additionally, this request proposes to augment resources to support the State's Broadband for All initiative.

Background. This request can be broken down as follows:

- The Office of Enterprise Technology (OET) manages and delivers IT state services and information to enhance digital government that works for all Californians by providing foundational platforms and technology (such as GIS/Open Data, Web Portals, Software Engineering and Open Source code curation). CDT requests seven positions within OET in order to support application and infrastructure development and operations, and provide strategic leadership over expanded operations.

- The Office of Technology Services (OTech) manages and operates the State Data Center. OTech is responsible for providing innovative, reliable, and secure cloud based, on-premise and telecommunications services to state, federal and local government entities and custodian of the state's mission critical data. CDT requests three positions within OTech to partner with departments to stabilize legacy infrastructure and build scalable services iteratively.

- The Office of Statewide Project Delivery (OSPD) comprises three functions: Project Approvals and Oversight (PAO), Statewide Technology Procurement (STP) and the California Project Management Offices (CA-PMO). CDT requests four positions within OSPD in order to develop a brand new Service Assessment capability, which does not currently exist. This capability will allow CDT to understand the "vitals" of critical services enabled or delivered through information technology, and will enable OSPD to trigger targeted diagnostic and intervention efforts, and support more departments as they embark upon incremental continuous service improvement programs.

- The Office of Government Affairs - Policy Office is responsible for establishing and enforcing statewide IT policies, standards, instructions, and guidelines regarding IT operations, security, project approval, procurement, enterprise architecture and oversight. CDT requests one attorney for this office.

- The Office of Government Affairs - Broadband Digital Literacy (OGA-Broadband) supports the California Broadband Council (Council) which was established by SB 1462 (Chapter 338, Statutes of 2010) to promote broadband adoption and broadband deployment in unserved and underserved areas of the state, as defined by the Public Utilities commission. Recently, the Governor issued an executive order in August 2020 establishing the Broadband Action Plan. CDT requests two positions in OGA-Broadband to support statewide Broadband for All efforts. A policy analyst to design and consult on statewide broadband policy initiatives, and a technical assistance lead to support local governments and tribes seeking to accelerate broadband deployment and adoption. This request may evolve pending action plan development.

CDT also requests $3 million to sustain operational expenses for the ongoing support of COVID-19 software and cloud services. OET implemented many new technology solutions directly related to the COVID-19 response including data warehouses, Extract Transform and Load (ETL) tools, GIS solutions and cloud infrastructure. Although the initial cost of these solutions were submitted for reimbursement, OET needs ongoing funding for annual license renewals, maintenance and cloud service consumption costs. This operation expense is needed as the technology tools and infrastructure that was created for the COVID-19 response is already being leveraged for other statewide emergencies such as the state's fire response.

In addition to staff, CDT requests $5 million to bring in the necessary specialist diagnostic capabilities required during the assessment process, and bootstrap initial critical service stabilization activities. Unfortunately, the State does not yet have all the necessary skills, such as business operations analytics, required to assess, stabilize, and transform services. It is anticipated the amount required will decrease to $3 million in subsequent years.

Vision 2023. The follow is an excerpt from the Administrations Vision 2023, which was released on January 15, 2021.

> "Vision 2023 lays out how technology powers not just more efficient and effective government, but a compassionate and fair government. Our vision is of a government that operates without surprises or hidden traps. It is a convenient, accessible, and reliable government and one that hears its people's voices and reacts to their needs and desires.
>
> "In the next three years and beyond, our goals are to:
>
> - Deliver easy-to-use, fast, dependable, and secure public services.
> - Ensure public services are equitable and inclusive.
> - Make common technology easy to access, use, and reuse across government.
> - Build digital government more quickly and more effectively.
> - Build confident, empowered multi-disciplinary teams.
>
> "We will achieve our vision by working toward these goals and applying our guiding principles: **to put people first**, **make continuous, timely improvement** and recognize that **working together beats working alone**."

Broadband for All. In California, more than 673,000 households are not served by adequate broadband. These connectivity gaps primarily impact low-income residents, rural communities, and communities of color, thereby exacerbating existing inequities across communities and regions in California, and was further exacerbated by the COVID-19 pandemic.

In August 2020, Governor Newsom issued an executive order launching the California Broadband Action Plan development process. This plan identified three main goals: (1) all Californians should have access to high-performance broadband at home, (2) all Californians should be able to afford broadband and the devices necessary to access the Internet, and (3) all Californians should be able to access necessary training and support to enable digital inclusion.

The recently approved federal COVID-19 relief bill will make an additional $5.1 billion available nationwide to address broadband access issues. It will provide funding for low-income California households to receive a $50 or $75 per month subsidy for broadband access, and opportunities for California tribal governments or colleges to compete for $1 billion in nationwide grants for tribal broadband programs. The bill also provides opportunities for California local governments and tribes to compete for $300 million in nationwide grants for deployment of broadband infrastructure in rural areas, and for California-based minority-serving colleges to compete for $285 million available nationwide for broadband improvements in their communities. This funding would be in addition to the nearly $700 million in federal broadband funding that California recently secured from the Federal Communications Commission Rural Digital Opportunity Fund.

LAO. The LAO recommends the Legislature approve CDT's Stabilize Critical Services and IT Infrastructure proposal with budget bill language that conditions the expenditure of some amount of approved funding on the completion of changes in administrative policy and notification of (at a minimum) the Joint Legislative Budget Committee for legislative review. The exact amount of approved funding subject to this provision would be negotiated between the administration and the Legislature.

Staff Comment. This request reflects CDT's prominent role in managing the state's high-risk IT projects, as well as its role in managing a statewide network for an evolving workforce that has been teleworking due to the COVID-19 pandemic. This request also reflects CDT's role in this Administration's advancement towards a more sophisticated data management strategy (please see GovOps' request for Statewide Data Strategy in the previous item).

The Broadband Action Plan was released in December 2020, and laid out an ambitious plan to achieve the goals identified by the executive order and identified key parties to help implement aspects of the plan. The Broadband Action Plan identifies CDT as the key party for the creation of a Broadband for All website portal, which is intended to serve as a clearinghouse for broadband resources, including state and federal funding opportunities. Additionally, the Plan identifies CDT for various contracting and purchasing strategies, as well as leveraging existing state resources around broadband infrastructure, among others. The subcommittee may wish to inquire the following:

- What can the state do through its purchasing power to encourage and accelerate broadband deployment to unserved areas?

- What kind of technical assistance can the CDT provide to local agencies, nonprofits, and tribal entities that will help them submit competitive funding applications?

Staff Recommendation. Hold open.

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

Issue 29: Regulations Unit – Funding Extension

Request. DCA requests a two-year limited-term extension of $1.7 million in 2021-22 and 2022-23 to continue supporting eight existing positions in the Department's Regulations Unit. A two-year limited-term extension will allow DCA to fully implement and evaluate the effectiveness of a dedicated Regulations Unit.

Background. Development and review of regulations at DCA involves board and bureau members and staff, the Department's legal, budget, and executive staff, and staff of the Business, Consumer Services and Housing Agency (BCSHA).

In March 2018, the Senate Business, Professions & Economic Development Committee and the Assembly Committee on Business and Professions, in its sunset review hearing over DCA, raised issues regarding the centralization of legal services that are housed within DCA, limiting legal resources and subject matter expertise, rather than allowing boards and bureaus to hire their own counsels.

The regulation review process was modified in late 2016 to improve the quality of DCA rulemaking packages. Before the process change, the Office of Administrative Law (OAL) disapproved some of DCA's rulemaking files for failing to meet statutory standards. In an effort to improve the quality of the rulemaking packages, BCSHA rescinded a longstanding waiver of the requirement that the Form Std. 399 (Economic and Fiscal Impact Statement) must be reviewed and approved at the agency level before a notice of proposed action was submitted to OAL for publication in the California Regulatory Notice Register. As a result, DCA restructured its review process to make sure that DCA and BCSHA reviewed rulemaking files before and after publication in the Notice Register.

The process change improved the quality of rulemaking packages and reduced the number of packages that OAL disapproved. The number of disapproved regulations dropped from nine in 2017 (a 16% disapproval rate) to zero. However, the enhanced review process also lengthened the time needed to develop and review files.

The following chart identifies (1) the number of regulations anticipated each calendar year according to the OAL rulemaking calendar; (2) the number of regulation files submitted to DCA for review; and, (3) the actual number of regulations filed with OAL each year. DCA states that only one package has been disapproved (in 2018) since 2018.

Chart 1 - Historical Regulation Workload

Calendar Year	**2013**	**2014**	**2015**	**2016[2]**	**2017**	**2018**	**2019**	**2020**
Proposed – OAL Calendar[3]	116	113	133	107	164	173	246	260
Submitted to DCA	52	64	84	59	46	52	101	28 (as of 6.30.2020)
Final Submission to OAL[4]	56	50	53	69	46	28	18	21 (as of 7.24.2020 / 60 projected for year-end)

In 2019, DCA stated that impending regulations packages as a result of AB 2138 (Chiu, 2018), which reduced barriers to licensure for individuals with prior criminal convictions, necessitated a dedicated regulations unit to focus on preparing and submitting regulations packages. Of the AB 2138 regulation packages that need to be submitted, DCA states that 29 have been submitted to OAL, seven have been approved, none have been disapproved, and nine are still in development.

Staff Recommendation. Hold open.

Issue 30: Budget Bill Language Request (Contractors State License Board)

Request. The CSLB is requesting the following Budget Bill language to authorize the augmentation of its Construction Management Education Account (CMEA) appropriation, to provide the flexibility to increase the grants awarded from the fund based on the amount of contributions made to the CMEA:

> *The Department of Finance may augment this appropriation, based on revenues available in the Construction Management Education Account, for the purpose of increasing the number of grant disbursements to public postsecondary construction management education programs. Any augmentation shall be authorized not sooner than 30 days after notification in writing to the Chairperson of the Joint Legislative Budget Committee, or whatever lesser time the chairperson, or the chairperson's designee, may determine.*

Background. In the early 1990s, the construction industry recognized it was facing a critical shortage of qualified workers, particularly at the supervision and management levels, and sponsored the Construction Management Education Sponsorship Act of 1991 (Act). Several construction management programs existed within the California State University system, but they were severely underfunded. The Act was established to address that issue.

Each year, the Board's Licensing Division notifies accredited construction management education programs to prepare an application for funds in the coming year. Staff review the applications to confirm the applying institutions remain properly accredited and propose an award amount for all qualifying institutions based on the number of students that graduated the prior year. The Board is the ultimate decision maker on the disbursements from the CMEA. In recent years, the Board has received more voluntary contributions than what has been appropriated to the program (see Resource History Chart). The Board is requesting the flexibility to align its appropriation, as needed, to the amount of contributions received annually.

History of CMEA Grant Disbursements

Accredited Universities	2005-06	2009-10	2010-11	2011-12	2012-13	2013-14	2018-19	2019-20
CSU, Chico	$81,409	$77,325	$45,029	$48,387	$57,970	$59,210	$42,125	$38,596
CSU, Fresno	$42,168	n/a	$16,125	$18,710	$17,753	$28,125	n/a	$8,421
CSU, Long Beach	$39,715	n/a	$15,517	$20,000	$29,347	$14,803	n/a	n/a
CSU, Northridge	n/a	n/a	$6,998	$5,161	n/a	n/a	n/a	n/a
CPU, Pomona	$14,000	$15,698	$17,951	$24,193	n/a	n/a	n/a	n/a
CPU, San Luis Obispo	$48,708	$41,279	$37,119	$20,968	$36,231	$32,072	$45,421	$33,333
CSU, Sacramento	$13,000	$15,698	$11,257	$12,581	$8,695	$15,790	$12,454	$19,650
Totals Granted	**$239,000**	**$150,000**	**$149,996**	**$150,000**	**$149,996**	**$150,000**	**$100,000**	**$100,000**

In the coming year, the Board will disburse just under $100,000 (its current budget appropriation) even though the current fund balance is approximately $337,000. The CMEA fund balance continues to rise due to increasing contributions and the current expenditure authority of $100,000. The CMEA receives an average of $120,000 annually in contributions. From 2018-19 to 2019-20, the CMEA has seen a 14-percent increase in annual contributions. The fund will have approximately $574,000 at the end of this fiscal year.

Staff Comment. The CMEA was created at a time when there was a shortage of construction management staff. However, since then, the construction industry is experiencing a labor shortage – the Associated General Contractors of America, in its 2020 Construction Outlook Survey, reports that 81 percent of construction companies are having difficulty filling some or all positions. Additionally, of those surveyed, top concerns include worker quality (75 percent) and worker shortages (72 percent).[2]

There are apprenticeship preparation system and business recruitment requirements that are tied to agencies receiving SB1, or the gas tax, funds. The California Workforce Development Board oversees a suite of investments and policy initiatives to advance construction careers as a reliable pathway to the middle class for disadvantaged Californians. One of its programs, the High Road Construction Careers (HRCC), prioritizes partnerships that link local building and construction trades councils to workforce boards, community colleges, and community-based organizations, creating structured pathways to state-certified apprenticeships in a variety of crafts.

The subcommittee may wish to ask the Board about the potential impacts of expanding the eligibility of these funds to apprenticeship and pre-apprenticeship programs, especially in the context of the current workforce landscape.

Staff Recommendation. Hold open.

1115 DEPARTMENT OF CANNABIS CONTROL

Issue 31: Establishing the Department of Cannabis Control

Summary of the Request. The Department of Cannabis Control (Department) is requesting $153.8 million in 2021-22, $151.1 million in 2022-23, $150.3 million in 2023-24, $136.6 million in 2024-25 and ongoing, and 621 permanent positions, to assume the ongoing regulatory responsibilities of the three state cannabis licensing authorities pursuant to the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) (Chapter 27, Statutes of 2017). Of the positions requested, 598 positions are from existing position authority and 23 are new. These resources are requested from the Cannabis Control Fund, which is funded by licensing fees. The Department also requests statutory changes as necessary.

[2] https://www.agc.org/sites/default/files/Files/Communications/2020_Outlook_Survey_National.pdf

Background. Since the 2016 passage of Proposition 64—the Control, Regulation and Tax Adult Use of Marijuana Act, which authorized adults aged 21 years or older to legally grow, possess, and use marijuana for non-medical purposes—the Legislature passed two pieces of legislation that further implemented the Act. First, in 2017, the Legislature passed Senate Bill 94 (Committee on Budget and Fiscal Review), Chapter 27, Statutes of 2017, the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA), that created a single-comprehensive system to control and regulate the cultivation, distribution, transport, storage, manufacturing, processing and sale of both medicinal and adult-use cannabis. Then, in 2019, Assembly Bill 97 (Committee on Budget), Chapter 40, Statutes of 2019, strengthened enforcement tools and licensing requirements, and extended the time for local governments to undergo the California Environmental Quality Act to July 1, 2021, related to cannabis activities, among other provisions.

Prior to the passage of Proposition 64, the Legislature and the voters created a layered network of cannabis-related policies. These include:

- In 1996, California voters approved Proposition 215, known as the Compassionate Use Act, which statutorily authorized the use of medical cannabis, and provided protections for physicians who made medical cannabis recommendations.

- In 2003, Senate Bill 420 (Vasconcellos), Chapter 875, Statutes of 2003, established the voluntary Medical Marijuana Program under the California Department of Public Health, which provided access to medical cannabis for qualified patients and primary caregivers and created a medical marijuana identification card and registry database.

- In 2015, Governor Jerry Brown signed the Medical Marijuana Regulation and Safety Act, comprised of Assembly Bill 243 (Wood), Chapter 688, Statutes of 2015; Assembly Bill 266 (Bonta), Chapter 689, Statutes of 2015; and Senate Bill 643 (McGuire), Chapter 719, Statutes of 2015. Together, these bills established the oversight and regulatory framework for the cultivation, manufacture, transportation, storage, and distribution of medical cannabis in California.

As a result of varied and layered policies, the pathway for cannabis licensure has been, anecdotally, burdensome and costly. Existing law and regulations require operators to be dually-licensed at both the local and state levels. However, approximately 70.6 percent of cities and 58.6 percent of counties have passed ordinances that ban all legal medicinal and adult-use cannabis sales in their jurisdictions as of February 4, 2021. Less than 45 percent of California's 482 cities and 58 counties currently permit commercial cannabis businesses. It is estimated that legal sales make up about 23 percent of the total adult use cannabis market in California (excluding medicinal cannabis), and that the total addressable cannabis market is about $7.8 billion – of which only $2.1 billion comprises legal taxable cannabis sales.[3]

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[3] Applied Development Economics, Inc. (2020). *Analysis of Cannabis Market in California and Case Study Cities.* http://www.cahcc.com/Portals/0/ADE%20Cannabis%20Report%20_8-6-20.pdf?ver=2020-08-11-125659-360&timestamp=1597175841928

State and local governance. While the law prior to Proposition 64 generally limited a medical cannabis licensee to hold state licenses in no more than two categories, Proposition 64 allowed nonmedical cannabis licensees to hold licenses in more than two categories. For vertically-integrated licensees, this could mean interfacing with several state licensing authorities and experiencing challenges during enforcement efforts. The regulatory entities listed below are responsible for regulating cannabis standards for labelling, testing, and packaging products and to develop a system to track such products from production to sale. Local governments continue to have the ability to regulate where and how cannabis businesses operate.

Cannabis Industry Regulated by Multiple State Agencies

Regulatory Agency	Primary Responsibilities
Bureau of Cannabis Control	License cannabis distributors, transporters, testing facilities, and retailers.
Department of Food and Agriculture	License and regulate cannabis growers.
Department of Public Health	License and regulate producers of edible cannabis products.
State Water Resources Control Board	Regulate the environmental impacts of cannabis growing on water quality.
Department of Fish and Wildlife	Regulate environmental impacts of cannabis growing.
Department of Pesticide Regulation	Regulate pesticide use for growing cannabis.

Cannabis Equity Programs. The burdens of cannabis prohibition in California, including arrests, convictions, and long-term collateral consequences fell disproportionately on Black and Latinx communities, despite the fact that people of all races use and sold cannabis at nearly identical rates. The California Department of Justice data shows that from 2006 to 2015, inclusive, Black Californians were two times more likely to be arrested for cannabis misdemeanors and five times more likely to be arrested for cannabis felonies than White Californians. During the same period, Latinx Californians were 35 percent more likely to be arrested for cannabis crimes than White Californians.

In response to the disproportionate impacts of cannabis prohibition on disadvantaged communities in California, some local jurisdictions established equity programs that assist those impacted by cannabis prohibition in overcoming longstanding barriers to entry into the legal cannabis market. These local efforts included application assistance, microloans for businesses, or technical assistance. In 2018, the Legislature passed SB 1294 (Bradford), Chapter 794, Statutes of 2018, the California Cannabis Equity Act, which provides state resources to local equity applicants. Pursuant to SB 1294, the budget provided resources for local equity programs, with the 2018 budget providing $10 million, and the 2019 budget providing nearly $30 million.

In 2019, the Legislature passed SB 595 (Bradford), Chapter 852, Statutes of 2019, that requires cannabis licensing entities to develop and implement a program that provides a fee deferral or fee waiver to obtain or renew a license for a needs-based applicant or licensee, as specified, contingent upon an appropriation in the annual Budget Act or another statute.

Proposal. The new Department will be comprised of 10 divisions: (1) the Executive Division, (2) the Licensing Division, (3) the Compliance Division, (4) the Enforcement Division, (5) the Laboratory Division, (6) the Information Technology Division, (7) Legal Affairs Division, (8) Legislative Affairs Office, (9) Administration Division, and (10) the External Affairs Division.

The chart below summarizes the existing resources of the licensing authorities compared with the consolidated request in this proposal. The additional positions are primarily added to the Executive and Information Technology Services Divisions to create a management structure similar to other state departments.

Department	BY Funding	BY+1 Funding	PYs
BCC	$73,446,00	$74,535,000	322
CDFA	$48,129,000	$44,450,000	155
CDPH	$29,080,000	$29,080,000	121
Total	**$150,675,000**	**$148,065,000**	**598**
DCC	$153,834,000	$151,268,000	621
Difference	**$3,159,000**	**$3,203,000**	**23**

Below is a summary of the divisions' responsibilities and roles in the consolidated department:

- *Executive Division.* The Department's Executive Division will be responsible for all statewide policy and procedures impacting licensees, stakeholders, staff, and the public. The Executive Division will serve as the primary liaison with the Legislature, and other state government entities on behalf of the Department. Lastly, the Executive Division will provide crucial oversight of the Department's divisions and programs.

- *Licensing Division.* The Department's Licensing Division will be responsible for administering all aspects of the license cycle (application review, license issuance, renewal, and modifications), providing technical assistance and support to applicants and licensees, engaging and working closely with local jurisdictions, coordinating license actions with compliance and enforcement, and providing enhanced assistance to equity applicants and licensees. The Division will also work collaboratively with other state agencies, such as State Water Resources Control Board and the California Department of Fish and Wildlife, to coordinate and develop policy recommendations, environmental remediation protocols, and environmental analysis studies and surveys on environmental health and natural resource management. Additionally, this division will be responsible for serving as the statewide point of contact for local jurisdictions regarding the state's statutory and regulatory licensing requirements. This division will also work closely with the Governor's Office of Business and Economic Development and administer and oversee the Department's equity activities.

- *Compliance Division.* The Department's Compliance Division will be responsible for processing all complaints submitted to the Department, conducting inspections, investigating violations of law and regulation by licensees, and partnering with other regulatory and law enforcement agencies throughout the state as needed to better administer the Department's inspection and enforcement activities.

- *Enforcement Division.* The Department's Enforcement Division will be responsible for handling criminal and unlicensed commercial cannabis investigations for the Department. This Division will work closely, and coordinate investigative actions, with other state and local law enforcement agencies and state departments as needed to address illegal market activities.

- *Laboratory Division.* The Laboratory Division will provide regulatory oversight of cannabis testing laboratories, oversee the activities of the state cannabis reference laboratory, and stay informed of the emerging science on cannabis and cannabis products.

- *Information Technology Division.* The Information Technology Services Division is comprised of Application Support and Information Technology (IT) Operations.

- *Legal Affairs Division.* The Legal Affairs Division will provide the full range of legal services to the Department including providing legal advice and guidance to the Department's executive management and staff regarding legal issues that develop during the Department's day-to-day operations. Legal staff will conduct research in complex and emerging areas of law, provide advice on a broad range of legal issues, draft and review legal documents and responses, liaise with the Attorney General's office regarding Department litigation, and provide legal support to the licensing, compliance, and enforcement divisions.

- *Legislative Affairs Office.* The Legislative Affairs Office will be responsible for advancing the policy interests of the Department. The Office will monitor and anticipate relevant political and policy developments impacting the Department and develop strategies and recommendations in response. Members of the office will attend legislative hearings and represent the Department as needed. This team will track, analyze, and develop bill analyses on the behalf of the Department. They will provide technical assistance to legislative offices and bill sponsors regarding legislation, interact with authors of bills that impact the Department, and monitor daily file for floor actions and scheduled events. The Office will represent the Department and Agency as needed in meetings and policy engagements with local officials, legislators, and key stakeholders.

- *Administrative Division.* The Administration Division will provide a multitude of services to guarantee the timely and efficient execution of the Department's day-to-day operations and administrative oversight. The Administration Division will include three key functions: Financial Management, Human Resources, and Operations. In order to create an efficient and effective division and to determine the appropriate staffing level for the Administration Division, the Department looked to similarly sized departments and determined the requested staff were necessary to meet the Department's administrative needs.

- *External Affairs Division.* The External Affairs Division will be responsible for developing the Department's communications strategy, public engagement plans, media strategy, internal and external publications, and educational efforts. The Division will be responsible for the overall communications and outreach activities of the Department with its internal and external stakeholders. In addition, the Division will develop and execute public affairs strategies to support the goals and objectives of the Department. The Division's primary responsibilities will include media relations, risk communications, web services, social media, development of key publications and educational tools.

This proposal also includes approximately $35 million for external contracts, of which approximately $30.7 million will be used for track and trace licensing systems and the Proprietary Plant and Package radio-frequency identification tags.

Staff Comment. While legal, taxable, regulated cannabis is a multi-billion dollar industry in California, the industry as a whole largely remains in the unregulated shadows. Barriers to licensing, access to capital, and access to local jurisdictions that permit cannabis, among others, are significant challenges that continue to impact the cannabis industry.

Licensing is an area where businesses attempting to enter the legal market have struggled and continue to struggle. For example, in 2019, temporary licenses issued by the Department of Food and Agriculture were allowed to expire without resolution on pending applications for provisional or annual licenses, leaving businesses who were attempting to enter the legal market at risk of becoming noncompliant and unlicensed. The Legislature worked with the Administration at the time, who redirected resources to address the backlogs that were occurring in the Department and threatening the lapse in licensing. AB 97 in 2019 provided a two-year extension period ending on January 1, 2022 and authorized the issuance of provisional licenses while compliance with the California Environmental Quality Act (CEQA) was underway. The CEQA review process is still ongoing, with the sunset of provisional license authority approaching. SB 59 (Caballero) was introduced this year to address this issue.

In the context of some of these licensing challenges, the Administration's proposal does not seem to augment licensing staff in its consolidation efforts, and no new resources are requested for the licensing division. In addition to licensing responsibilities, the licensing division will be tasked with liaising with local governments and supporting equity efforts. The subcommittee may wish to discuss whether the Administration's proposal provides an appropriate level of resources given some of the challenges that licensing cannabis businesses have posed in the past.

Additionally, uneven enforcement and compliance at the local level have created uncertainty for individuals who wish to participate in the legal marketplace but unknowingly end up tangled in the illegal marketplace. A Politico article from February 2021 shares the story of a dispensary security guard hired through a contractor in Los Angeles who mistakenly thought he was working at a licensed dispensary, but was in fact not, and arrested as a result. The Administration stated that in this year alone, it has seized 23,000 pounds of unlicensed cannabis – however, it is unclear whether those impacted by these seizures were flagrantly violating the law, or were attempting to abide by the law but fell short of compliance.

The Administration is proposing statutory changes to allow the Department to recall and condemn products – these are important and necessary tools to protect consumers, especially in the absence of federal action. The subcommittee may wish to inquire how the Administration plans to balance compliance and enforcement during this transition period in an industry that is struggling to enter the legal market.

Potential Questions for the Subcommittee to Consider:

- What are some of the efforts that the Administration is doing to encourage businesses to participate in the legal marketplace?

- What are some of the efforts that the Administration is doing to encourage local governments to permit cannabis within their jurisdictions?

- How will the Administration guarantee that regular business operations will not be disrupted during consolidation efforts?

- It’s estimated that the unlicensed cannabis sales comprise approximately three-quarters of all cannabis activities in the state; does the state’s enforcement efforts against unlicensed activity versus licensed activity reflect this split as well?

- Given that the funding to support all of these resources is derived from licensing fees, what is the Administration's plan to ensure that there isn't a significant decline in licensed businesses as we approach the sunset on provisional licenses?

- To the extent that consolidation is intended to streamline the licensing process, including technical assistance, how does this consolidation proposal improve the customer experience and licensing outcomes? Can the Administration speak to whether the timeline for a licensee to be issued a license will be shortened with this plan?

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna M. Caballero
Senator Jim Nielsen
Senator Sydney K. Kamlager

Wednesday, May 5, 2021
1:00 p.m.
State Capitol - Room 4203

Consultant: James Hacker

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION

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

ISSUES PROPOSED FOR VOTE-ONLY

0650 Office of Planning and Research (OPR)

Issue 1: Administrative Staffing

Governor's Budget. The budget includes seven positions and $1.1 million General Fund in 2021-22 and ongoing to address increasing workload and strengthen overall administrative operations of the Office of Planning and Research. This issue was first heard in subcommittee on February 17th.

LAO Comments:

Positions for Human Resources and CEQA Clearinghouse are Justified. OPR's growth in staff and California Environmental Quality Act (CEQA) workload support the request for additional positions in these functions.

Additional Capacity for Accounting, Budgeting, and Procurement Justified in Part. The department has provided justification for some increase in the capacity for accounting and fiscal oversight given the increase in the number of contracts and grant programs. However, much of the accounting office's workload does not scale with this growth. OPR requested a total of four additional positions across procurement, accounting and budgets. There are currently six staff across these related functions and a 67 percent increase is not justified. We recommend reducing this part of the request from four positions to two positions.

Need for Additional External Affairs Staff Unclear. OPR did not provide a strong justification for increasing the number of staff in its external affairs office.

LAO Recommendation. We recommend reducing this proposal to $622,000 to fund increased personnel in the CEQA Clearinghouse and OPR's cross-programmatic administrative functions.

Staff Recommendation: Approve $622,000 to fund increased personnel in the CEQA Clearinghouse and OPR's cross-programmatic administrative functions.

Issue 2: Just Transition Roadmap

The budget includes $406,000 General Fund in 2021-22 and ongoing to develop and implement a Just Transition Roadmap as required by Executive Order (EO) N-79-20. The focus on equity and a resilient transition is commendable, as it recognizes the necessity of ensuring that all Californians benefit from the transition to a cleaner and more sustainable economy. This issue was first heard in subcommittee on February 17th.

Staff Recommendation. Approve as Budgeted.

Issue 3: Regional Climate Collaboratives Program

The budget includes three positions and $508,000 General Fund in 2021-22 and ongoing to continue establishing the Regional Climate Collaborative program. SB 1072 established a grant program to build and support Regional Climate Collaborative (RCC) Programs to support under-resourced communities in accessing state funding for climate mitigation and adaptation projects. SB 1072 also calls for the development of technical assistance guidelines, which compile best practices to maximize the effectiveness of technical assistance provided by state agencies, and requires at least two funding rounds over a 10-year timeline. The 2019 Budget Act included two-year funding for three positions at the Strategic Growth Council (SGC) to implement SB 1072. It is reasonable to make these positions permanent, as existing law requires OPR to facilitate two rounds of funding for SB 1072 in the next eight years.

Staff Recommendation: Approve as Budgeted.

2240 Department of Housing and Community Development (HCD)

Issue 4: Deferred Maintenance Allocation

Governor's Budget. The budget includes a General Fund augmentation of $10 million in fiscal year 2021-22 for deferred maintenance and repairs to address critical deficiencies at Office of Migrant Services (OMS) housing centers throughout the state. This proposal was first heard on February 17th.

HCD has identified $15.3 million in critical repairs to the state OMS centers, and $14.8 million in additional repairs. Given the state's strong fiscal position, critical repairs should be prioritized by increasing the requested appropriation from $10 million to $15.3 million. Action on the additional $14.8 million should be considered as part of the May Revision.

Staff Recommendation: Approve $15.3 million for critical repairs at state OMS centers.

ISSUES PROPOSED FOR DISCUSSION

SENATE BUDGET PLAN ON HOMELESSNESS AND AFFORDABLE HOUSING

Issue 5: Senate Priority: Homelessness Package

Budget Proposal. The Senate Budget includes $20 billion over five years for a variety of programs designed to end the state's homelessness crisis and reduce the number of homeless individuals in the state.

Background. Recent state budgets have provided local jurisdictions with historic levels of funding to address homelessness. Since 2018, the state has provided $1.45 billion to local governments for the Homeless Emergency Aid Program and the Homeless Housing, Assistance and Prevention Program to support regional coordination and immediate homelessness challenges. These investments demonstrate California's commitment to working collaboratively with local partners to mitigate this crisis.

Despite this, the state's homeless population has remained stubbornly high. The 2019 Point in Time (PIT) count identified 151,278 homeless individuals on a single night across the state. Over the course of 2020, the state's 44 Continuums of Care served 248,130 homeless individuals.

Staff Comments. The state's current fiscal forecasts suggest that the state can afford a significant investment in combating homelessness with the goal of ending the crisis and significantly decreasing the number of Californians experiencing homelessness.

The Senate has proposed a five year, $20 billion dollar investment in this issue, with a focus on supporting local governments, helping individuals transition from homelessness to permanent housing, and creating new housing units for homeless individuals. This investment includes:

- Funding acquisition/rehab of multi-family, motels, board & care, more to convert to permanent housing for homeless very low income Californians.
- Funding local efforts to reduce homelessness, with strong accountability measures. This includes multi-year support for local governments to provide transition services for those experiencing homelessness to exit to permanent housing.
- Providing "first and last month" rental assistance to remove a key barrier for those experiencing homelessness to move back into permanent housing.
- Providing multi-year flexible funding for homelessness programs that serve populations that are served by programs such as Adult Protective Services, SSI/SSP, CalWORKs, Child Welfare Services, and Foster Care to direct funds to specific, local needs.

Given the size and scope of this investment, action should be taken on this proposal as part of the May Revision, to allow for a more complete review of the state's fiscal situation.

Staff Recommendation: Hold Open.

Issue 6: Senate Priority: California Dream for All First Time Homebuyer's Program

Proposal. The Senate proposes language to direct the State Treasurer and the Administration to develop a first time homebuyers program in detail and present it back to the Legislature to be implemented through statute in 2022.

Background. The wealth gap – particularly among racial minorities – is a growing problem throughout the country and here in California. Generation after generation, those with wealth have gotten wealthier, and those without have fallen further behind. As has been the case so often throughout the nation's history, this has been made worse by racial barriers, such as redlining, constructed to hold communities back.

Historically, the first step to reaching the California dream of thriving in the middle class and building family wealth starts with homeownership. But taking that first step is even more challenging as the cost of California homes has grown higher and higher. This is reflected in declining levels of homeownership, which are currently at the lowest level since the 1940s.

Staff Comments. The California Dream For All first time homebuyer program aims to address historical and economic barriers to homeownership with a new way for Californians to buy a first home and get a foothold in the middle class and to begin to build family wealth. The California Dream For All program would allow Californians to purchase a first home with a "silent partner," therefore reducing the cost for the homebuyer. This would work as follows:

- A state sponsored corporation would establish a new revolving fund, called the California Dream Fund (Fund), which would be infused with a one-time deposit of available state or federal funds.

- Eligible first-time homebuyers would "partner" with the Fund in purchasing eligible homes. The Fund would serve as a "silent partner" and own a minority share of up to 45 percent of the house. This enables a $400,000 home to be essentially purchased for a more affordable price of $220,000, with the Fund purchasing the other $180,000 share.

- Eligibility for the homebuyer would be based on income levels. Eligibility of homes would be based on the home price. Sliding scales could be established to avoid any "cliff effects" on eligibility. The eligibility requirements for incomes and home prices would differ by region to reflect the reality that incomes and home prices differ dramatically throughout California.

- Specific outreach efforts to target benefits of the California Dream For All program would be made to underrepresented homeownership communities, those that have still not returned to homeownership after losing homes in the Great Recession, and those with high student debts.

- Shares of the Fund would be sold to investors, and the revenues generated by the sale of shares would then be used to partner with additional homebuyers. As the value of the homes partially owned by the Fund increases, the value of the Fund also increases.

- The Fund, and therefore the investors, would not receive any rent payments, so the investment is tied only to the value of the homes.

- The homebuyer would be responsible for 100 percent of home maintenance, property taxes, insurance requirements, and any other similar costs.

- As with any first home, homebuyers can use the equity growth from their share of the property to “move-up” in their next home, or stay in that home as long as they would like, and even pass on their home and their ownership share to heirs.

The state’s strong fiscal position creates an opportunity to provide long-term and transformative solutions to the state’s housing affordability crisis. Given the potential size and scope of this investment, action should be taken on this proposal as part of the May Revision, to allow for a more complete review of the state’s fiscal situation.

Staff Recommendation: Hold Open.

Issue 7: Senate Priority: Affordable Housing Package

Proposal. The Senate budget proposes several investments into the further creation and preservation of affordable housing.

Background. California is in the midst of a serious housing crisis. Homeownership rates in the state have fallen to the lowest rate since the 1940s. As of April 2021, by some measures California is home to seven of the ten most expensive rental housing markets in the country, which has had a disproportionate impact on the middle class and the working poor. The lack of affordable housing increases economic insecurity among California families and creates challenges for companies seeking to recruit and retain workers.

Staff Comments. Specifically, the Senate proposes to fund innovative approaches to expanding and preserving affordable housing, such as:

- Establishing financing tools for Accessory Dwelling Unit construction to produce more affordable units, provide wealth building opportunities for low and moderate-income homeowners, and benefit historically disadvantaged communities.

- Providing incentives to convert vacant or underused commercial and retail space into affordable housing.

- Assisting local governments, nonprofits, or other qualified buyers acquire foreclosed homes to be used for housing.

- Provide emergency grants to low-income homeowners to avoid foreclosure.

- Bring tax fairness and relief for renters by reforming and expanding the Renters Tax Credit.

- Incentivize Earthquake Retrofit with federal 75 percent match funds.

Given the ongoing issue of housing affordability in the state, and the state's strong fiscal footing, a large investment in housing affordability is appropriate. However, action on this proposal should occur as part of the May Revision, to allow for a more complete review of the state's fiscal situation.

Staff Recommendation: Hold Open.

2240 California Department of Housing and Community Development

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

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

Governor's Budget: The 2021-22 budget provides roughly $2.3 billion to support 962.5 positions. This is an increase of roughly 40 positions but a decrease of roughly $2.9 billion - largely due to the expenditure of one-time federal resources in 2020-21.

EXPENDITURES BY PROGRAM

Provides expenditures by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
1660	Codes and Standards Program	$37,198	$39,308	$40,705
1665	Financial Assistance Program	$2,713,184	$5,037,273	$2,164,454
1670	Housing Policy Development Program	$275,463	$33,666	$31,949
1675	California Housing Finance Agency	$33,852	$36,149	$37,892
1680	Loan Repayments Program	$-1,944	$-1,944	$-1,944
1685	HPD Distributed Administration	$-178	$-179	$-180
9900100	Administration	$25,768	$27,205	$28,938
9900200	Administration - Distributed	$-25,768	$-27,205	$-28,938
Total Expenditures (All Programs)		**$3,057,575**	**$5,144,273**	**$2,272,876**

POSITIONS BY PROGRAM

Provides positions data (expressed as full-time equivalents) by each budgeted program area for the past, current, and budget years.

Code	Program	Actual 2019-20*	Estimated 2020-21*	Proposed 2021-22*
1660	Codes and Standards Program	173.7	179.4	179.4
1665	Financial Assistance Program	308.2	350.2	369.7
1670	Housing Policy Development Program	53.1	57.0	69.0
1675	California Housing Finance Agency	182.7	223.2	223.2
1680	Loan Repayments Program	-	-	-
1685	HPD Distributed Administration	-	-	-
9900100	Administration	106.8	114.2	121.2
9900200	Administration - Distributed	-	-	-
Total Positions (All Programs)		**824.5**	**924.0**	**962.5**

Issue 8: Housing Law Assistance

Governor's Budget. The budget includes $4.3 million in General Fund resources for state operations and 16 positions in 2021-22, $3.8 million in state operations for 16 positions in 2022-23 and ongoing to assist local jurisdictions in housing element and housing law compliance. This request was first heard on February 17th.

Background. In 2017, several bills were enacted, including AB 72 (Santiago and Chiu), Chapter 370, Statutes of 2017, which clarified and strengthened existing laws, and increased HCD's accountability and enforcement authority to review any action or inaction by a local government that HCD determines is inconsistent with state housing element laws or the local jurisdiction's own adopted housing element. During its review, HCD may consult with any local government, agency, group, or person. HCD may revoke housing element compliance if the local government's actions do not align with state law. Further, HCD may notify the California Office of the Attorney General (AG) that the local jurisdiction is in violation for non-compliance with: 1) housing element law, 2) the Housing Accountability Act, 3) "no net loss" law, 4) density bonus law, and/or 5) anti-discrimination law. The Legislature previously authorized an Attorney position to enforce AB 72. However, the volume of non-compliance and complaints and enforcement responsibilities is continuing to grow at a steady rate.

Staff Comments. Given the ongoing housing crisis in the state, and HCD's central role in addressing it, providing additional resources for technical assistance, investigation, and enforcement of state housing laws is generally reasonable. As this request does not include any expansion of HCD's existing enforcement authority, HCD has indicated that the proposed resources would focus on technical assistance and education - working with jurisdictions, developers, and other stakeholders to identify issues and resolve them before enforcement action is necessary. Given this intent, the requested resources are reasonable to aid in the implementation of existing state law.

Staff Recommendation. Approve as budgeted.

Issue 9: Infill Infrastructure Program Proposition 1 Reallocation

Governor's Budget. The budget includes an April Finance Letter that requests a reappropriation of $160 million in Veterans and Affordable Housing Bond Act of 2019 (Proposition 1) funds for the IIG originally appropriated in the 2020 Budget Act to extend the encumbrance period from June 30, 2021 to June 30, 2022. The April Finance Letter includes an additional $124.1 million in Proposition 1 funds for 2021-22 for IIG with an encumbrance period through June 30, 2023 and a liquidation date of June 30, 2026.

Background. The IIG program was originally funded through an $850 million allocation of Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 1C) bonds which have been fully awarded. In 2018, the IIG program received an additional $300 million allocation of bonds through Proposition 1. After setting aside funds for state operations, $284.1 million is available for awards to qualifying infill areas and projects. The 2020 Budget Act appropriated $160 million of Proposition 1 for the IIG program with an encumbrance period of June 30, 2021, leaving $124.1 million available for future appropriations. While HCD planned to award the $160 million in 2020-21, there was a delay to allow HCD to coordinate housing funds across multiple state housing entities. This pause provided an opportunity for HCD to evaluate its IIG program guidelines to align with other key housing program regulations.

Staff Comments. The IIG program is an important program to help spur the development of housing in infill areas. The requested appropriation is bond-funded, and is consistent with the requirements of Proposition 1C. Additionally, HCD has indicated that the $284.1 million in Proposition 1 funding requested here will be awarded in two funding rounds. Based on historical trends, HCD estimates that this funding could potentially fund 55 parcels with roughly 4,460 housing units. Historically, HCD expects housing to be built within two to three years from award for qualified infill areas. For qualified areawide infrastructure projects, it may take five years before housing units are built.

Additionally, the Administration recently proposed a $500 million General Fund augmentation to the IIG program as part of the January budget. After setting aside funds for state operations, $475 million is available for awards to qualifying infill areas and projects. The Administration proposes $237.5 million be authorized for 2020-21, with the remaining $237.5 million authorized for 2021-22, with a focus on remediation. This proposal was discussed on February 17th.

However, the opportunity for additional action on the 2020-21 has passed. As such, it is unclear how the January proposal for $500 million in General Fund resources for the IIG will interact with this proposal, and what it means for IIG program funding over the next year. Action on these proposals should be taken as part of the May Revision, to get a better sense of the state's fiscal position and how these proposals will interact with one another.

Staff Recommendation: Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Sydney Kamlager
Senator Jim Nielsen

Wednesday, May 12, 2021
1:00 p.m.
State Capitol - Room 4203

Consultants: Nora Brackbill, Yong Salas, and Joe Stephenshaw

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

ITEMS FOR VOTE-ONLY

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

Issue 1: Inclusive Innovation Hub Grants

Governor's Budget. The Governor's budget included $2.5 million one-time General Fund to provide grants for Inclusive Innovation Hubs (iHub2) administered by California Office of the Small Business Advocate (CalOSBA).

Background. The original iHub program started in 2013 and was housed under GO-Biz (AB 250 (Holden), Chapter 530, Statutes of 2013). Thirteen regional hubs were designated and consisted of partnership between interrelated firms, local governments, economic development organizations, educational entities, and industries that collectively drive economic growth within a defined geographic area. The hubs were intended to stimulate partnerships, economic development, and job creation by leveraging assets to provide an innovation platform for startup businesses, economic development organizations, business groups, and venture capitalists. GO-Biz was required to oversee, coordinate, and provide assistance to each iHub. However, no funding was provided, the program was not closely tracked, and all of the iHub designations have expired or will expire soon.

The proposed budget includes $2.5 million to relaunch the California Innovation Hub program under CalOSBA as iHub2. Similar to the original iHubs, these would be formal, established partnerships between industry, technical assistance providers, startups and entrepreneurs, universities and research institutions, and government in a specific geographic area, focused on a specific sector. However, a key difference is that iHub2 would focus primarily on underserved areas of California that do not currently have a strong startup culture, and leverage regional industries and assets to foster innovation there. Each iHub2 would provide advisory support to entrepreneurs and startups, plan programming and engagement across the partner organizations, and facilitate relationships between startups, researchers, venture capitalists, and financial institutions. The program would be focused on innovation and commercialization of new technologies, as opposed to technical assistance or workforce development, but it would coordinate with other state resources that focus on those areas, such as the Technical Assistance Expansion Program (TAEP) network. As small businesses by definition, startups are also represented by CalOSBA, and moving the program under that umbrella would allow better coordination with state resources.

In the new program, CalOSBA would designate ten hubs for a three-year program and award them $150,000 for year one to incentivize and launch inclusive programming and $50,000 in each subsequent year. The hubs would be selected through a competitive request for proposal process, where potential hubs submit a comprehensive plan that details a targeted focus area including underserved geographies, industry sectors, or business owners, as well as the entities and expertise involved, specific goals and benchmarks, and a sustainability plan. Members of the original iHub network would have to reapply. The grant requirements would also include increased metric and performance tracking to assess the success of the program. If the program were successful, hubs would ideally become self-sustaining in the long run.

The Subcommittee heard this proposal on February 10th of this year.

Recommendation: Approve as Budgeted and adopt placeholder trailer bill language.

Issue 2: CalOSBA - Outreach and Engagement

Governor's Budget. The Governor's budget includes $901,000 from the General Fund and permanent authority for six positions in 2021-22 and ongoing as part of CalOSBA to provide direct support to small businesses.

Background. CalOSBA is tasked with providing guidance, information and direct support to small businesses, including during disaster response and recovery. However, CalOSBA's capacity has been tested due to an onslaught of repeated and ongoing disasters, including wildfires and the COVID-19 pandemic. According to CalOSBA, in the year prior to the pandemic they received less than 100 requests for general direct support; during disasters, this number increases exponentially. Since March 1, 2020, they have received 3,733 requests for direct support and response. It is difficult for existing CalOSBA staff to keep up with this demand, as well as communicate with millions of businesses across the state about rapidly changing situations, regulation, and guidance.

CalOSBA does not have staff focused on communication, outreach and engagement. Currently, they have three regional advisors who cover Northern, Southern and Central California. Those advisors develop regional connections and partner with local small business organizations. CalOSBA also has four program team members who manage and implement CalOSBA's programs, including TAEP and iHubs, among others. However, the lack of a communications team makes it difficult to inform the community about these programs, other sources of support, and other relevant news and information. In particular, it is difficult to reach traditionally underserved and marginalized businesses.

The Governor's budget includes six new permanent positions at CalOSBA. The team would focus on conducting the required direct support, outreach, engagement and marketing/content creation necessary, increasingly online, to connect with small businesses and help them prepare and be more resilient. The team would prioritize underserved business groups, including women, minority, and veteran-owned businesses and businesses in low-wealth, rural, and disaster-impacted communities, especially African-American and Latinx businesses.

The Subcommittee heard this proposal on February 10th of this year.

Recommendation: Approve as budgeted.

0511 GOVERNMENT OPERATIONS AGENCY (GOVOPS)

Issue 3: Statewide Data Strategy

Request. GovOps is requesting three positions and $558,000 General Fund in 2021-22 and ongoing to facilitate and support the implementation of the Statewide Data Strategy (SDS) and conduct evaluations for GovOps' Center of Government Excellence.

Background. This item was heard in this subcommittee's hearing on February 24, 2021.

The 2020 Budget provided resources for a Chief Data Officer, and this position serves as the primary steward of the data portal for the state's public data, and a mediator when disagreements arise among data holders who decline to share requested data. The chief data officer was also working with the Department of Technology to develop a public repository of state government interagency data exchange agreements. Supplemental reporting language was added for the chief data officer to summarize the proposals in the repository in the 2020 Budget.

GovOps established a Center for Government Excellence and Transformation (GET) within their existing resources, and intends to help departments and agencies prototype ideas, research best practices, and map possible next steps under the GET Center process. Defined challenges and opportunities will be selected by the review team, guided by the key criteria chosen. The objectives of the GET Center are to: (1) better prioritize time and resources; (2) gather and share best practices; and (3) break silos and foster connections across government. This request will allow the GET Center to deploy toolkits tailored to the demands of a problem or priority. A portion of the requested staff resources will support ongoing evaluation of these projects to help inform how well they are working and if they should be scaled.

Staff Recommendation. Approve as requested.

0840 STATE CONTROLLER'S OFFICE (SCO)

Issue 4: SCO Information Security Workload and Continuity of Operations

Request. SCO requests two positions and $308,000 ($234,000 General Fund and $74,000 Unclaimed Property Fund) in 2021-22, with two positions and $287,000 ($218,000 General Fund and $69,000 Unclaimed Property Fund) ongoing to validate compliance with statewide information security policy, standards, and procedures; verify SCO's internal information security systems and policies are in place and functioning as intended; and to support business continuity operations.

Background. This issue was agendized during this subcommittee's February 3, 2021 hearing.

On March 19, 2020, Governor Newsom declared a state of emergency due to the COVID-19 pandemic. In compliance with the Executive Order that was issued, SCO and other state agencies and departments mobilized most of the existing workforce to work remotely from home. SCO states that this resulted in the need for a greatly expanded remote workforce, which introduced new information security risks along with an increased number of phishing attacks and cybercrimes being committed.

Prior to the COVID-19 pandemic the SCO states that it did not have a technology infrastructure in place to support a telework environment, such as mobile devices, virtual meeting platforms, and network infrastructure and bandwidth. The SCO states that with the current level of resources, the information security control deficiencies will expose the SCO information systems and business operations to vulnerabilities and risks.

Staff Recommendation. Approve as requested.

Issue 5: SCO Infrastructure and Operational Costs

Request. SCO requests $1.6 million ($1.1 million General Fund and $474,000 Unclaimed Property Fund) in 2021-22 and ongoing to support increased infrastructure and operational costs associated with personnel services, training, statewide fees, and contracted costs.

Background. This issue was agendized during this subcommittee's February 3, 2021 hearing.

In recent years, SCO has experienced increased operational costs without adjustments to its budget authority to accommodate these costs. SCO states that the increase of its infrastructure and operational costs impact its ability to continue performing these workloads while keeping pace with rising costs. Costs such as the Department of General Services (DGS) Statewide Surcharge, price of warrants and envelopes, staff benefits, and other miscellaneous items have increased without additional funding to cover them.

In addition to the general operational cost increases outlined above, SCO states that they are also experiencing additional administrative cost pressures due to mandated department-wide training, and compliance activities for deficiencies found in a State Personnel Board Compliance Review Report.

Staff Recommendation. Approve as requested.

Issue 6: California State Payroll System Project

Request. The SCO requests resources to support the California State Payroll System (CSPS) Project through the continuation of the California Department of Technology (CDT) Project Approval Lifecycle (PAL) Stages 3 and 4. SCO requests six permanent and one one-year limited-term position and $5.5 million ($3.1 million General Fund and $2.4 million Central Service Cost

Recovery Fund)) in 2021-22; six positions and $1 million ($581,000 General Fund and $439,000 Central Service Cost Recovery Fund) in 2022-23 and ongoing.

Background. This subcommittee heard this item at its February 3, 2021 hearing.

Beginning in 2016, SCO began to assess current information technology and the latest industry standards, and initiated the re-engineering of a new human resource management and payroll system, which is now called the California State Payroll System Project (CSPS).

SCO currently is authorized for 24 permanent positions and 1 one-year limited term position. This request will provide for six new permanent positions and a continuation of the one one-year limited-term position. These resources are intended for continuation through CDT's PAL Stage 3 and 4, both of which are expected to be submitted on July 2021 and May 2023, respectively.

Staff Recommendation. Approve the budgeted amount with placeholder budget bill language that requires regularly scheduled oversight meetings with the Legislative Analyst's Office (LAO), the SCO, CalHR, CDT, and the Department of Finance to allow the LAO to receive project updates and review oversight documents such as CDT independent project oversight reports and independent verification and validation reports with the project team.

Issue 7: Local Government Oversight – Internal Control Reviews

Governor's January Budget Request. SCO requests $712,000 ($406,000 General Fund and $306,000 Central Service Cost Recovery Fund) in 2021-22 and ongoing, and a corresponding decrease in reimbursement authority to fund five existing positions to perform investigative audits and reviews of the financial oversight of local government agencies.

Spring Finance Request. The Administration requests that the ongoing $306,000 from the Central Services Cost Recovery Fund and associated 2.1 positions be funded instead from General Fund, because appropriations for local government oversight are not an appropriate use of the Central Service Cost Recovery Fund.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

The 2017-18 Budget provided SCO with $1.1 million ($108,000 General Fund and $1 million in reimbursement authority) and nine positions for the ongoing oversight of local governments as authorized by existing law. Existing law allows the SCO to investigate local governments whose financial transaction reports are not made in the time, form, and manner required or there is reason to believe that a report is false, incomplete, or incorrect. The activities included the enforcement of the financial transactions reporting requirements of local governments, analyzing and monitoring financial data for potentially distressed entities, and conducting audits of local government entities.

Existing law authorizes the local government under review to reimburse the State Controller for any costs incurred during the course of an investigation. However, the SCO states many of its activities when providing oversight to local governments are non-reimbursable - or if reimbursable, go unpaid – and thus requests that funding for these activities shift to General Fund so that SCO may focus its investigations on evaluating local government agencies.

Staff Recommendation. Approve the proposal, as adjusted by the spring finance request.

Issue 8: FI$Cal Audit Workload

Spring Finance Request. SCO requests $408,000 ($233,000 General Fund and $175,000 Central Service Cost Recovery Fund) in 2021-22 and ongoing to support three existing positions to perform pre-payment audits of Financial Information System of California (FI$Cal) vouchers.

Background. State departments input vouchers into FI$Cal to have their claims paid. In 2019-20, 1.01 million vouchers were submitted in FI$Cal and work flowed to Audits from various state departments through FI$Cal. This volume is expected to increase gradually over the next few years as departments continue to transition from paper and electronic claim processes.

Prior to the implementation of FI$Cal, on average, 13 invoices were attached to each manual claim—where each claim is a stand-alone document with all supporting documentation attached and readily auditable to determine the legality, propriety, and accuracy of the claim—submitted by departments. The prior manual process allowed multi-invoice claims to be quickly sorted by organizational code, then by the various attributes for audit by claim auditors.

The FI$Cal system requires one invoice per voucher (claim). As new departments have on-boarded into the FI$Cal system, SCO continues to receive an increased number of vouchers that must be audited. SCO states that the requested resources are critical to ensure that claim payments are legal and proper and paid within the 15-day time period to avoid late-payment penalties.

The 2018 Budget provided 3 three-year limited term positions to audit FI$Cal vouchers, and these positions expire at the end 2020-21. This request makes permanent those resources.

Recommendation. Approve as requested.

0845 DEPARTMENT OF INSURANCE (CDI)

Issue 9: Mental Health or Substance Use Disorders (SB 855)

Request. CDI requests an increase of $81,000 in Insurance Fund in 2021-22 and $70,000 and ongoing to monitor insurer compliance as mandated by Chapter 151, Statutes of 2020 (SB 855).

Background. This issue was agendized during this subcommittee's February 3, 2021 hearing.

SB 855 put in place a broader requirement on health plans and disability insurers to cover medically necessary treatment of mental health and substance use disorders under the same terms and conditions applied to other medical conditions. It also established new requirements for medically necessary care determinations and utilization review and banned discretionary clauses in health plan contracts.

The bill broadened CDI's authority for oversight and enforcement over health insurers' coverage decisions. This request would fund 0.5 position that specializes in mental health and substance use disorder parity, and would complement an existing 0.5 vacant position.

Staff Recommendation. Approve as requested.

Issue 10: Continuation of Enhanced Fraud Investigation and Prevention Activities

Request. CDI requests to convert 34 limited-term positions to permanent positions and increase its expenditure authority of $6.1 million General Fund in 2021-22 and ongoing to support enhanced fraud investigation and prevention efforts in civil whistleblower cases. Beginning in 2023-24 and every three fiscal years thereafter, CDI is requesting $640,000 to continue the eDiscovery Software-as-a-Service (SaaS) subscription.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

Existing law allows a whistleblower to file a civil lawsuit in the name of the state against any individuals or companies that are alleged to be involved in the submission of false or fraudulent claims to an insurer. These civil actions are also called "Qui Tam" actions. The Insurance Commissioner is authorized to use CDI attorneys to handle this civil litigation.

Since 2014-15 the Legislature has approved multiple requests totaling $54.9 million for CDI to utilize these funds for Enhanced Fraud Investigation and Prevention efforts. The department has had up to 50 limited-term positions and associated authority over the last seven years. All General Fund resources currently authorized will expire June 30, 2021.

This request also includes $640,000 General Fund. In April 2017, CDI's Fraud Liaison Bureau (FLB) under the Legal Branch implemented eDiscovery Software-as-a-Service (SaaS) in order to better handle the large volume of materials associated with pending whistle-blower cases. The FLB has automated 100 percent of processing, organizing, searching and retrieving of discovery documents in whistleblower cases and has been able to intervene in twice as many cases since moving from the manual process to the eDiscovery SaaS tool.

In order to continue to utilize the SaaS solution, the CDI must renew its triennial SaaS subscription in 2023-24. The CDI negotiated a fixed price SaaS subscription fee of $640,000 every three years. This request is for $640,000 General Fund in 2023-24 and would reoccur every three fiscal years thereafter to support the subscription renewal of the eDiscovery SaaS subscription.

Staff Recommendation. Approve as requested.

0890 SECRETARY OF STATE

Issue 11: Corporations – Board of Directors – Underrepresented Communities (AB 979)

Request. The SOS requests $343,000 in 2021-22 and $333,000 annually thereafter from the Business Fees Fund to establish two positions to implement Chapter 316, Statutes of 2020 (AB 979).

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

AB 979 requires each publicly held corporation whose principal executive offices are located in California to have a minimum number of directors from underrepresented communities on its board of directors. The bill required the SOS to annually report corporations subject to the requirements of the bill and their compliance, as well as authorized the SOS to impose fines for violations of these requirements.

Staff Recommendation. Approve as budgeted.

Issue 12: Statement of Information Labor Judgment Language (AB 3075)

Request. The SOS requests $216,000 in 2021-22 and $79,000 in 2022-23 and ongoing from the Business Fees Fund to support one position to implement Chapter 357, Statutes of 2020 (AB 3075).

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

AB 3075 changed existing requirements for the annual filings of stock corporations, foreign corporations and limited liability companies by requiring corporations and limited liability companies to certify whether specified officers/directors or managers/members of the entity have an outstanding final judgment issued by the Division of Labor Standards or a court of law. The implementation of the business filing requirements would be subject to the certification by the Secretary of State that the California Business Connect Project is implemented, or January 1, 2022, whichever is earlier.

Staff Recommendation. Approve as requested.

Issue 13: Human Resources Bureau of Critical Administrative Resources

Request. SOS requests $783,000 in 2021-22 ($555,000 Business Filing Fees Fund and $228,000 General Fund) and $753,000 ($534,000 Business Filings Fees Fund and $219,000 General Fund) in 2022-23 and ongoing to fund six permanent full-time positions to align the Human Resources Bureau staffing with Agency growth.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

The human resources bureau within SOS is a support organization and serves as the personnel office, and includes 17 permanent positions and two student assistants. A recent audit by the State Personnel Board identified the Secretary of State as having findings that hinder the ability to strengthen internal controls. In the past ten years, SOS states that the agency has increased from 485 to 629 employees; however, in the same time, the human resources bureau only received one limited-funded position in 2013-14 and one permanent position in 2018-19.

Staff Recommendation. Approve as requested.

Issue 14: CAL-ACCESS Replacement System Project

Governor's January Budget Request. The Secretary of States requests $7.5 million ($7 million General Fund and $500,000 from the Political Disclosure, Accountability, Transparency, and Access Fund) for the ongoing maintenance and operation of the California Automated Lobbying and Campaign Contribution and Expenditure Search System (CAL-ACCESS) Replacement System (CARS). This request continues funding for 12 positions, professional support services, and software licensing renewals.

Spring Finance Request. The Secretary of State requests an additional $3.2 million in 2021-22 and $2.9 million in 2022-23 for maintenance and operation of CARS.

Background. The COVID-19 pandemic impacted the CARS Project, and necessitates a time extension for software vendors to complete their development and required SOS to re-plan the project schedule to prevent extended delays and loss of efficiencies.

In response to present business challenges and project risks, SOS has moved to a phased approach in launching the new system beginning with Release-1 in February 2021. The system will be available for internal users and select stakeholders to continue testing and familiarization. Two additional releases will take place after February; development of Release-2 and Release-3 will conclude in June 2021. System certification and full public access will take place in Release-3, also known as the public access launch of the system in June 2021. Following the public access launch of the new CAL-ACCESS, SOS will enter into maintenance and operation activities beginning July 1, 2021.

SB 1349 (Hertzberg), Chapter 845, Statutes of 2016, established new functional requirements for the CAL-ACCESS, and the existing system could not meet these new requirements. The current system is a conglomeration of applications that were developed at different times using multiple, now-obsolete coding languages and technologies. The existing campaign finance and lobbying activity process is an inefficient process that does not meet the needs of many stakeholders. SB 1349 requires the development of a new, automated campaign and lobbying reporting and disclosure system.

Staff Recommendation. Approve this proposal, as adjusted by the spring finance request.

Issue 15: Continuation of Limited-Term Accounting Resources

Request. The Secretary of State requests $1.6 million ($1.1 million Businesses Fees Fund and $463,000 General Fund) in 2021-22 and ongoing for 12 positions, ten of which are existing and two of which are new, for the Accounting and Procurement Sections.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

The 2019-20 Budget included $1.5 million for 11 two-year, limited-term positions in support of FI$Cal implementation. SOS implemented FI$Cal in July 2018, and has since experienced significant delays. SOS states that prior to receiving additional resources in 2019, they had insufficient staffing levels to reduce ongoing backlogs which caused exorbitant staff overtime, employee retention problems, and delays in payment.

Staff Recommendation. Approve as requested.

Issue 16: California Business Connect Project

Request. The SOS requests $11.7 million ($8.2 million from the Business Fees Fund and $3.5 million from the Business Programs Modernization Fund) in 2021-22 to continue implementation of the California Business Connect Project.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

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.

Special Project Report #4 for the California Business Connect Project was approved in May 2020. The project has a completion date of December 2021, with a total project cost estimate of $68.4 million.

Although the general business processes for each filing are similar, separate application systems and processes have evolved over time for each filing type. As a result, at least 23 separate automated systems are in use to support 15 of the filing types; the remaining 8 filing types are essentially paper-based manual systems supported only with basic office automation tools, such as Microsoft Access, Word and Excel or 3" x 5" index cards.

Staff Recommendation. Approve as requested.

Issue 17: Business Programs Division Processing Times

Request. SOS requests a continuation of spending authority for the additional resources needed to reach and maintain an average of five business days or better for processing paperwork for Business Filings and Statements of Information until California Business Connect is fully implemented. The request is for 47 positions, a decrease from the current 56 positions, and $5.1 million from the Business Fees Fund in 2021-22.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

The California Business Connect, when fully implemented, will alleviate a majority of the labor-intensive workload, including manual processing of paperwork related to business filings.

Due to prior delays in the California Business Connect implementation, the SOS was approved for spending authority of $5.5 million to support 56 positions and resources in 2016-17 and 2018-19 in order to maintain the five business day processing times. Now, with the recent and ongoing automation and online improvements, SOS has reduced the level of support necessary from 56 positions to 47 positions.

Staff Recommendation. Approve as requested.

Issue 18: Elections Enhancement

Request. The SOS requests $1,651,000 General Fund in 2021-22 and $1,641,000 General Fund in 2022-23 and ongoing for resources to support elections in California. This request will provide ongoing resources to maintain the operation, access, and integrity of public services provided by the SOS including funding for the expansion of existing system maintenance services and licenses.

Background. The SOS hosts the state registration system containing over 22 million voters' information. Other critical applications to the state include business filings and formations, and political and lobbying disclosures. The number of public visitors of SOS systems in 2020 doubled and even tripled at times when compared to previous election cycles. This was first seen in the run up to the March primaries and continued after the General Election in November. Due to the unprecedented traffic on SOS resources - far beyond projected estimates and worst-case scenarios - the underlying infrastructure and security layers of the systems were pushed beyond or up to the line of current contract agreements. SOS first experienced this increase in the March primaries where the main website struggled in the early hours of the day. This directly impacted the public, as online resources were temporarily taken offline to allow an emergency change to expand capacity to the system.

Recommendation. Approve as requested.

Issue 19: Increasing Access to CA's Historic Records

Request. SOS requests a General Fund augmentation of $3,078,000 in 2021-22 and $1,622,000 in 2022-23 and ongoing and three positions to automate paper-based processes and support increased online and contactless access to the State's historic public records and data held in the State Archives in response to the ongoing COVID-19 pandemic.

Background. In March of 2020, the SOS closed public counters in line with direction for the Governor's Office and public health officials in response to the ongoing COVID-19 pandemic. Since then, there has been a significantly increased demand from State Archives' customers and researchers for copies and scans of historical public documents to be shipped to them due to public counter closures, stay at home orders, travel restrictions, and other safety precautions put in place to mitigate the public health crisis. The SOS was able to use a limited portion of existing funding to facilitate some remote services for State Archives customers in recent months; however, the majority of the State Archives' services and processes remain paper-based due to funding limitations and aged infrastructure, workflows and processes. These workflows are manual and inefficient, inadequately matched to meet the new requirements of providing online services to the public in light of the global health crisis and evolving needs of the public.

Recommendation. Approve as requested.

Issue 20: Elections – Voter Eligibility

Request. The SOS is requesting a one-time General Fund increase in the amount of $265,000 for 2021-22 for additional voter registration card costs and a one-time Federal Trust Fund increase in the amount of $140,000 for 2021-22 for the cost of system changes to VoteCal, the state's centralized voter registration database.

Background. Chapter 320, Statutes of 2020 (AB 646, McCarty) removed the prohibition for people on parole for a felony conviction from voting, registering to vote, or preregistering to vote. These changes required significant changes to the SOS' current documentation and processes for voter registration and preregistration, both online and paper. This includes the Voter Registration/Pre-Registration Application forms, possessed by either the SOS or individual counties and published in ten languages; updating VoteCal, which requires coordination with the DMV to change the language on DMV's online and paper forms for voter registration and preregistration; and printed and digital materials need to be reprinted and updated.

Recommendation. Approve as requested.

0984 CalSavers Retirement Savings Board

Issue 21: CalSavers Budget Bill Language

Request. The Governor's budget included budget bill language to extend repayment of previous General Fund loans.

Background. The 2016 Budget Act provided a $1.9 million General Fund loan to cover implementation and administrative costs. The 2016 Budget Act specified that this loan is to be repaid in 2022.

The 2017 Budget Act included a General Fund loan of $15 million to support the start-up costs of the program. The 2017 Budget Act specified that this loan is to be repaid in 2023.

The current budget bill language extends the repayment of both of these loans to no later than June 30, 2024. The repayment extensions for these loans are included in the Governor's Budget to account for the COVID-19 health pandemic's impact on CalSavers. CalSavers estimates program revenues to be lower than initially projected due to the recession and the high unemployment rates.

Recommendation: Approve as budgeted.

1111 Department of Consumer Affairs (DCA)

Issue 22: Regulations Unit – Funding Extension

Request. DCA requests a two-year limited-term extension of $1.7 million in 2021-22 and 2022-23 to continue supporting eight existing positions in the Department's Regulations Unit. A two-year limited-term extension will allow DCA to fully implement and evaluate the effectiveness of a dedicated Regulations Unit.

Background. This item was heard in this subcommittee's hearing on February 24, 2021.

Development and review of regulations at DCA involves board and bureau members and staff, the Department's legal, budget, and executive staff, and staff of the Business, Consumer Services and Housing Agency (BCSHA).

In March 2018, the Senate Business, Professions & Economic Development Committee and the Assembly Committee on Business and Professions, in the sunset review hearing over DCA, raised issues regarding the centralization of legal services that are housed within DCA, limiting legal resources and subject matter expertise, rather than allowing boards and bureaus to hire their own counsels.

In 2019, DCA stated that impending regulations packages as a result of AB 2138 (Chiu, 2018), which reduced barriers to licensure for individuals with prior criminal convictions, necessitated a dedicated regulations unit to focus on preparing and submitting regulations packages. Of the AB 2138 regulation packages that need to be submitted, DCA states that 29 have been submitted to OAL, seven have been approved, none have been disapproved, and nine are still in development.

Staff Recommendation. Approve as requested.

Issue 23: Budget Bill Language Request (Contractors State License Board)

Request. The Contractors State License Board (CSLB) is requesting the following Budget Bill language to authorize the augmentation of its Construction Management Education Account (CMEA) appropriation, to provide the flexibility to increase the grants awarded from the fund based on the amount of contributions made to the CMEA:

> *The Department of Finance may augment this appropriation, based on revenues available in the Construction Management Education Account, for the purpose of increasing the number of grant disbursements to public postsecondary construction management education programs. Any augmentation shall be authorized not sooner than 30 days after notification in writing to the Chairperson of the Joint Legislative Budget Committee, or whatever lesser time the chairperson, or the chairperson's designee, may determine.*

Background. This item was heard in this subcommittee's hearing on February 24, 2021.

Each year, the Board's Licensing Division notifies accredited construction management education programs to prepare an application for funds in the coming year. Staff review the applications to confirm the applying institutions remain properly accredited and propose an award amount for all qualifying institutions based on the number of students that graduated the prior year. In recent years, the Board has received more voluntary contributions than what has been appropriated to the program. The Board is requesting the flexibility to align its appropriation, as needed, to the amount of contributions received annually.

In the coming year, the Board will disburse just under $100,000 (its current budget appropriation) even though the current fund balance is approximately $337,000. The CMEA fund balance continues to rise due to increasing contributions and the current expenditure authority of $100,000. The CMEA receives an average of $120,000 annually in contributions. From 2018-19 to 2019-20, the CMEA has seen a 14-percent increase in annual contributions. The fund will have approximately $574,000 at the end of this fiscal year.

Staff Recommendation. Approve as requested.

Issue 24: Augmentation for Attorney General Services

Request. The Bureau of Security and Investigative Services is requesting $800,000 in fiscal year 2021-22 and 2022-23 to support increased Attorney General (AG) services as a result of Chapter 800, Statutes of 2016 (SB 1196), requiring all firearm assessment appeals be referred to the AG's Office.

Background. SB 1196 requires an applicant for an initial firearm permit, who is a Bureau security guard registrant, to complete an assessment to demonstrate that they are capable of exercising appropriate judgment, restraint, and self-control for the purpose of carrying and using a firearm while on duty (Business and Professions Code (B&P) section 7583.47). The Bureau successfully implemented the firearms assessment on July 1, 2018. If an applicant fails the assessment, the Bureau is required to deny their application for a firearm permit. An applicant who is denied a firearm permit as a result of a failed assessment has the right to appeal the denial by requesting a hearing before an Administrative Law Judge (ALJ) pursuant to B&P section 7583.29. The failure rate on firearm assessments is approximately 12-15 percent. The Bureau was unable to accurately estimate the number of failures or the number of denials being appealed to the ALJ at the time SB 1196 was enacted due to the lack of resources and tools available to assess what the number or rate would be.

Due to the significant increase in AG services, primarily driven by appeals related to firearm assessments, the Bureau had to request unanticipated cost funding in the amount of $800,000 in 2019-20 to cover its AG expenses.

Recommendation. Approve as requested.

Issue 25: Business Modernization Cohort 2

Request. DCA requests one-time funding of $4,346,000 and eight positions to allow the Structural Pest Control Board (SPCB), the California Architects Board (CAB)/Landscape Architects Technical Committee (LATC), the Cemetery and Funeral Bureau (CFB), and the Bureau of Household Goods and Services (BHGS) to begin implementing their selected Business Modernization software alternative, consistent with the Department's Business Modernization Plan (BMP).

Background. The funding requests below are divided by program and reflect the necessary appropriation augmentations to cover system integration, software licensing, project management, credit card activities, project oversight costs, and a total of eight positions (five positions in the Department's Office of Information Services (OIS) to support project implementation). The Department requests $735,000 and five positions in 2021-22. Costs will be distributed among the participating programs and built in each program's project costs.

The total combined request of $4,346,000 in fiscal year 2021-22 is as follows:

Program Name	Project Costs	Credit Card Costs (80% usage rate)	Total
SPCB	$805,000	$92,000	$897,000
CAB (1.0 position) *	$605,000	$60,000	$665,000
LATC	$151,000	$14,000	$165,000
CFB	$875,000	$27,000	$902,000
BHGS – Electronics and Appliance Repair (2.0 position) *	$1,082,000	$44,000	$1,126,000
BHGS – Home Furnishings and Thermal Insulation	$309,000	$80,000	$389,000
BHGS – Household Movers	$155,000	$47,000	$202,000
Total	**$3,982,000**	**$364,000**	**$4,346,000**

*CAB/LATC and BHGS is comprised of different funds and appropriations. The requested positions will address the backfill workload associated with all programs and will be reimbursed through an interagency agreement between the programs.

In addition to the funding request, this proposal includes provisional language to allow the authorization of expenditures upon the California Department of Technology's (CDT) project approval. This language provides flexibility to sync the approval milestones of the budget process and CDT's Project Approval Lifecycle (PAL) to allow the Department's BMP to continue without interruption (See Provisional Language for Cohort 2).

SPCB, CAB, LATC, CFB, and BHGS all rely on antiquated legacy systems incapable of providing the responsive and transparent level of service the public expects based on current technology. Basic transactions like the ability to submit an electronic payment are limited in the legacy systems. The legacy systems also do not facilitate efficient management of resources due to a lack of automated workflow functionality.

Current legacy systems also do not provide the ability to effectively conduct enforcement in the field, a major opportunity for a program like CFB that conducts many inspections as part of its enforcement program. Market research revealed several software solutions can upload data and issue citations while in the field from a laptop or mobile device like a cell phone or tablet. This will make field staff more effective as they can enter information into the system while in the field as opposed to having to do so later when they return to the office.

Staff Recommendation. Approve as requested.

Issue 26: Business Modernization – Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board

Request. The Department of Consumer Affairs' Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board requests one-time funding of $1,117,000 and two positions to complete planning activities and begin implementing its selected Business Modernization software alternative, consistent with the Department's Business Modernization Plan.

Background. The Board's current systems lack an intuitive online public-facing portal that consumers and licensees can use to submit complaints, applications, and license renewals. This proposal will allow the Board to implement its selected Business Modernization software alternative by providing funding to cover planning activities, system integration, software licensing, project management, and staffing costs. The Board has determined a proven robust software solution capable of interacting with other software applications in real-time and implementing functionality in an incremental manner over the course of the project is the best path forward to modernize its business operations and enhance services to stakeholders.

The project length is anticipated to be 36 months with 24 months of Maintenance and Operations (M&O) and minimal ongoing post-M&O support. This project length will allow the Board to modernize its business operations incrementally without significant negative impacts to the Board's fund condition. This approach exemplifies the organization's BMP as it provides a path to modernization that is in alignment with maintaining a balanced fund condition. The Board is currently progressing through the CDT Project Approval Lifecycle (PAL).

The proposal also includes funding for payment of credit card processing fees on behalf of users of credit card payments. The requested amounts assume that 80 percent of all anticipated revenue will be collected via online payments and assumes an average convenience fee of two percent per transaction.

Recommendation. Approve as requested.

1750 CALIFORNIA HORSE RACING BOARD

Issue 27: Horse Safety Panel Funding Shift

Request. The California Horse Racing Board (CHRB) requests a decrease in expenditure authority of $434,000 Horse Racing Fund and two positions in 2021-22, $662,000 in 2022-23, and $890,000 in 2023-24 and ongoing. CHRB also requests an increase in expenditure authority of $890,000 Horse and Jockey Safety and Welfare Account in 2021-22 and ongoing and two positions to fulfill the requirements of Chapter 251, Statutes of 2020 (AB 1974), which provides additional revenue sources for enhanced equine and jockey safety measures consistent with the statewide implementation of safety review panels designed to effectively assess the fitness of horses prior to racing. These requests will result in a net-zero funding shift by 2023-24.

Background. CHRB requests to shift the resources included in the 2020 Budget Act to establish horse safety panels across the state from the Horse Racing Fund to the newly established Horse and Jockey Safety and Welfare Account to support the horse safety panels and to implement the safety related measures required by AB 1974. Currently, the racing associations are solely responsible for fully funding all CHRB operations, which includes the safety review panel expenditure increases. This funding shift would provide a reprieve to the racing associations that have experienced significant financial hardships due a decline in wagering, intermittent closures required to implement safety enhancements, and extensive racing restrictions and closures due to the COVID-19 pandemic.

Staff Recommendation. Approve as requested.

2320 DEPARTMENT OF REAL ESTATE

Issue 28: Accounting Workload Resources

Request. The Department of Real Estate (DRE) requests $125,00 in 2021-22 and $117,000 in 2022-23 and ongoing from the Real Estate Fund, and one permanent position and one two-year, limited-term position to support the accounting activities in Fiscal Operations.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

In 2018-19 and 2019-20, DRE entered into an interagency contract with DCA for services to assist during the transitional period in its return to department status. This Interagency agreement provided for DCA's assistance with all accounting functions until DRE was able to hire the necessary positions to fulfill most accounting responsibilities. This contract ended on June 30, 2020. In 2019-20, DRE's Accounting Section consists of seven positions.

2018-19 brought new challenges to the newly formed department, as the number of Funds increased. Prior to the establishment of the Consumer Recovery Account and the education and Research Account in SCO and FI$Cal, the department recorded approximately 8,000 revenue transactions in both checks and credit card transactions in FI$Cal. After, the establishment of these funds, the department now records an additional 3,600 revenue transactions.

Staff Recommendation. Approve as requested.

Issue 29: Licensing Information Section – Call Workload

Request. The DRE requests three year, limited-term funding of $414,000 in 2021-22, and $374,000 in 2022-23 and 2023-24 from the Real Estate Fund and five positions to the support the Licensing Program, Information Section and assist with managing high call volumes and excessive call wait times.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

Currently, there are approximately 422,000 real estate licensees in California. Before an applicant can be licensed as a real estate salesperson or broker, they must fulfill certain real estate education requirements and pass an exam administered by DRE. Broker and salesperson licenses are issued for a four-year period. The renewal process for both license types includes the submission of an application, payment of fees, and demonstrating evidence that the licensee has completed 45 hours of DRE-approved continuing education courses. DRE's licensing program supports the department's mission by providing a variety of services to California consumers, applicants, licensees, and other governmental agencies. These services include qualifying and scheduling examination applicants, developing and administering the real estate salesperson and broker examinations, and the issuance and renewal of real estate salesperson and broker licenses. This group also manages a large volume of telephone inquiries from licensees, applicants, and consumers.

The associated licensing workload, as well as an increasing licensing population, has led to a continually high volume of phone calls received by DRE and an extensive call wait time for licensees, applicants and consumers. Average call wait times are currently estimated at 25 minutes.

Staff who process these applications currently redirect a portion of their time to help manage calls, which results in longer processing times for applications, and in turn, adds to the high volume of telephone calls. DRE has attempted to mitigate this excessive workload through the use of overtime, hiring limited-term staff, as well as the redirection of existing staff and resources from other sections to the extent feasible. While these efforts have provided some relief, the impacts are temporary.

Staff Recommendation. Approve as requested.

7502 DEPARTMENT OF TECHNOLOGY (CDT)

Issue 30: Stabilize Critical Services and IT Infrastructure

Request. CDT requests 17 positions and $11.4 million General Fund in 2021-22, $9.4 million in 2022-23, and $6.4 million ongoing to invest in proactive measures to stabilize critical services and enhance performance statewide. Additionally, this request proposes to augment resources to support the State's Broadband for All initiative.

Background. This item was heard in this subcommittee's hearing on February 24, 2021.

This request can be broken down as follows:

- The Office of Enterprise Technology (OET) manages and delivers IT state services and information to enhance digital government that works for all Californians by providing foundational platforms and technology (such as GIS/Open Data, Web Portals, Software Engineering and Open Source code curation). <u>CDT requests seven positions within OET in order to support application and infrastructure development and operations, and provide strategic leadership over expanded operations.</u>

- The Office of Technology Services (OTech) manages and operates the State Data Center. OTech is responsible for providing innovative, reliable, and secure cloud based, on-premise and telecommunications services to state, federal and local government entities and custodian of the state's mission critical data. <u>CDT requests three positions within OTech to partner with departments to stabilize legacy infrastructure and build scalable services iteratively.</u>

- The Office of Statewide Project Delivery (OSPD) comprises three functions: Project Approvals and Oversight (PAO), Statewide Technology Procurement (STP) and the California Project Management Offices (CA-PMO). CDT requests four positions within OSPD in order to develop a brand new Service Assessment capability, which does not currently exist. This capability will allow CDT to understand the "vitals" of critical services enabled or delivered through information technology, and will enable OSPD to trigger targeted diagnostic and intervention efforts, and support more departments as they embark upon incremental continuous service improvement programs.

- The Office of Government Affairs - Policy Office is responsible for establishing and enforcing statewide IT policies, standards, instructions, and guidelines regarding IT operations, security, project approval, procurement, enterprise architecture and oversight. CDT requests one attorney for this office.

- The Office of Government Affairs - Broadband Digital Literacy (OGA-Broadband) supports the California Broadband Council (Council) which was established by SB 1462 (Chapter 338, Statutes of 2010) to promote broadband adoption and broadband deployment in unserved and underserved areas of the state, as defined by the Public Utilities Commission. Recently, the Governor issued an executive order in August 2020 establishing the Broadband Action Plan. CDT requests two positions in OGA-Broadband to support statewide Broadband for All efforts. A policy analyst to design and consult on statewide broadband policy initiatives, and a technical assistance lead to support local governments and tribes seeking to accelerate broadband deployment and adoption. This request may evolve pending action plan development.

CDT also requests $3 million to sustain operational expenses for the ongoing support of COVID-19 software and cloud services. OET implemented many new technology solutions directly related to the COVID-19 response including data warehouses, Extract Transform and Load (ETL) tools, GIS solutions and cloud infrastructure. Although the initial cost of these solutions were submitted for reimbursement, OET needs ongoing funding for annual license renewals, maintenance and cloud service consumption costs. This operation expense is needed as the technology tools and infrastructure that was created for the COVID-19 response is already being leveraged for other statewide emergencies such as the state's fire response.

In addition to staff, CDT requests $5 million to bring in the necessary specialist diagnostic capabilities required during the assessment process, and bootstrap initial critical service stabilization activities. Unfortunately, the State does not yet have all the necessary skills, such as business operations analytics, required to assess, stabilize, and transform services. It is anticipated the amount required will decrease to $3 million in subsequent years.

Staff Recommendation. Approve as requested.

7730 Franchise Tax Board (FTB)

Issue 31: Asset Forfeiture Account Increase

Governor's Budget. A Spring Finance Letter requests to increase the Budget Act Authority from $150,000 to $740,000, beginning in the 2021-22 fiscal year and annually thereafter for the Asset Forfeiture Account. FTB's Criminal Investigation Bureau (CIB) will use these funds for costs associated with criminal investigation law enforcement activities, such as additional training and equipment. Per the Equitable Sharing Agreements, these resources cannot be used to replace or supplement any General Fund resources.

Background. Asset Forfeiture Programs encompass the seizure and forfeiture of assets from individuals and organizations engaged in criminal activities. After codified due process has been given, seized assets are forfeited and converted into currency which is then distributed to law enforcement agencies that participated on the task force. Any federal, state, or local law enforcement agency that directly participated in an investigation or prosecution that results in asset forfeiture may request an equitable share of the new proceeds.

In June 2011, Department of Finance (DOF) approved FTB's request to establish Asset Forfeiture Accounts within the Special Deposit Fund in order to participate in the Equitable Sharing Agreement. In 2014-15, FTB submitted a budget change proposal (BCP) to receive spending authority from the fund.

FTB's CIB participates on several federal, state, and local task forces to investigate suspected refund fraud, failure to file tax returns and the filing of false or fraudulent tax returns. The program's efforts play a major role in bringing individuals and business entities involved in the underground economy into compliance with California's tax laws and, in turn, reducing the tax gap. FTB's CIB has entered into Equitable Sharing Agreements with the US Department of Justice, US Department of Treasury, and the CA Department of Justice. FTB participates in these Asset Forfeiture Programs as a second tier agency. As a second tier agency, FTB is not responsible for doing the civil asset forfeiture proceeding nor is FTB responsible for storing or disposing of any assets. Participation in these task forces allows FTB to receive an equitable share of assets seized in criminal activities in which FTB provided assistance.

FTB is requesting Budget Act Authority of $740,000 per fiscal year with provisional language to increase this amount upon approval by the Department of Finance and 30-day notification of the Joint Legislative Budget Committee, which will enable FTB to utilize additional Special Deposit account funds.

LAO Comments. The LAO found that the use of Asset Forfeiture Account Funds appears reasonable. Additional asset forfeiture account spending may not replace any General Fund resources. FTB developed their expenditure plan to enhance their tax fraud investigation capabilities and the plan appears to be consistent with the allowable uses of these funds. They note that FTB's special agents are law enforcement officers who are subject to the same training and certification requirements of all other law enforcement staff across the state.

Recommendation: Approve as budgeted.

Issue 32: Increased Litigation Costs

Governor's Budget. FTB requests an augmentation of $2,000,000 to its litigation budget with the Attorney General's (AG) Office to defend against increasing tax refund lawsuits for the 2021-22 fiscal year. FTB has continued to see increased litigation efforts with very complex tax matters

Background. Over the past ten years, FTB has continued to see more and more litigation arising out of complex laws, non-conformity at the federal level, class action lawsuits and suits by high net worth individuals, among others. As the result, FTB is seeking to augment its litigation budget with the AG's Office in order to defend these lawsuits and protect the interests of the state.

FTB and the AG's Office are aware of the increasingly complex and varied tax refund suits which are being filed against FTB, in which the AG's Office is representing the FTB. The Attorney General's Office has advised FTB that in order to adequately protect the state's interests and defend FTB, FTB needs to increase its budget to cover the expenses associated with the addition of four experienced lawyers and an analyst from the AG Office. The AG's Office has also advised that they anticipate that the staffing will cost $1.7 million starting in fiscal year 2021-22. Because of the increasing complexity of these cases, expert witnesses are often needed to explain the intricacies to the court hearing the matter.

Recommendation: Approve as budgeted.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 33: Centralized Revenue Opportunity System (CROS) Project Implementation Phase –Fiscal Year 2021-22

Request. The Governor's budget proposed $23.9 million to provide resources required to support the final phases of the CROS Project and the transition to Production Support Maintenance and Operations. The CROS Project is an information technology modernization effort designed to enable the CDTFA to expand tax and fee payer services, to improve the efficiency and effectiveness of its operations, and to enhance its ability to generate increased revenues, reducing the tax gap**.**

Background. The CROS Project is a tax collection and distribution information technology system approved in 2011 and designed to improve the efficiency and effectiveness of the CDTFA's operations, expand tax and fee payer services, and enhance the CDTFA's ability to generate increased revenues. The first production release, Rollout 2, included the Sales and Use Tax Program and was implemented on May 7, 2018. The second production release, Rollout 3 included Special Taxes (such as Alcoholic Beverages, Cigarette and Tobacco, and Fuel Taxes) and was implemented on August 12, 2019. The final production release, Rollout 4, which includes all remaining CDTFA tax programs, was implemented on November 9, 2020.

According to the CDTFA, the most significant outcome of the CROS Project is an increase in the sales and use tax collections of approximately $486.1 million through 2019-20. Additional outcomes include improved services to tax and fee payers, improved operational efficiencies including accounting and General Ledger improvements, improved revenue tracking from receipt through distribution, enhanced security, and greater ability to quickly respond to statutory, judicial, or electoral changes to tax and revenue codes.

Excluding CROS vendor payments, for 2021-22, the CDTFA is requesting $7.5 million for operating expenses and equipment. In addition to the standard complement of communication, postage, supplies, and additional, hardware, and software resources needed to support CROS operations, the CDTFA is requesting funding for hardware infrastructure replacement, consultant services and training. The CDTFA requests $16.4 million for contractor compensation in 2021-22.

This item includes provisional language to augment unencumbered funds for vendor compensation payments with reporting to the Joint Legislative Budget Committee within 30 days.

The Subcommittee heard this proposal on February 10th of this year.

Staff Recommendation. Approve as budgeted.

Issue 34: The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act (Proposition 19)

Request. The Governor's budget included a General Fund appropriation of $1.6 million in the 2021-22 fiscal year, $266,000 and 1.5 positions in 2023-24, and $245,000 in 2024-25, and ongoing to address the costs associated with the passage of Proposition 19.

Background. Proposition 19 (Prop. 19) was approved by California voters in the November 3, 2020 General Election. Beginning April 1, 2021, Prop 19 amends Article XIIIA of the California Constitution to:

- Define "taxable value" as the base year value plus any adjustments specified in the constitutional amendment.
- Allow up to three taxable value transfers per taxpayer for taxpayers who are severely disabled, over the age of 55, or victims of a wildfire or other natural disaster, regardless of the replacement property's value or location, provided the replacement property is purchased or constructed within two years of the date the original property is sold.
- Limit the parent-child and grandparent-grandchild exclusion from change in ownership of a principal residence or family farm.

The CDTFA is required to determine each eligible local agency's aggregate gain every three years, based on the amounts determined by the counties. Counties with a negative gain are eligible to receive funds from the County Revenue Protection Fund. If the County Revenue Protection Fund is insufficient to reimburse all claims, the CDTFA is required to allocate available funds based on each local agency's pro rata share, as specified. The State Controller is required to transfer any remaining funds less reimbursements from the County Revenue Protection Fund to the General Fund after reimbursing each eligible local agency that has experienced a negative gain during that three-year period.

The CDTFA will utilize the Centralized Revenue Opportunity System (CROS) to administer this program. CROS is specifically designed for integrated tax administration and provides full functionality for processes such as registration, returns, payments, refunds, collections, revenue accounting, audit, correspondence, imaging, analytics, and workflow. The CDTFA is requesting $1.4 million in 2021-2022 to administer changes to CROS. The CDTFA will contract with FAST Enterprises Inc. (FAST) to design and administer changes to online services, administration, financial disbursement and other administrative processes in the CROS system.

Counties will need to register with the CDTFA and annually report the revenue effect for each county, city, and special district. The CDTFA will need to program CROS Online Services to allow 58 counties and approximately 2,800 jurisdictions to report their revenue impact, determine each eligible aggregate gain every three years based on the amounts determined by the counties, calculate any needed proration of funds, and provide reimbursements to each special district with a negative gain at the end of the three years.

Staff Recommendation. Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 35: OS EVSE Infrastructure Assessment and Facility Development

Request. Office of Sustainability (OS) in DGS requests a one-time budget augmentation of $50 million in General Fund and $1.3 million in Service Revolving Fund (SRF) authority. This request is to fund year five of the DGS Zero Emission Vehicles (ZEV) Five-Year Infrastructure Investment Plan (2017-18 through 2021-22) to continue performing installations of Electric Vehicle Service Equipment (EVSE) at state-owned and leased facilities, to meet California's transportation and greenhouse gas goals.

Background. DGS supports state agencies in completing readiness surveys, conducting site assessments, and providing oversight of architectural and engineering functions, construction management, system activation, and identification of alternative funding options if available.

Prior budgets funded this project through an equal split between the General Fund and the Service Revolving Fund, which receives General Fund and charges for work rendered by DGS. However, the 2020 Budget provided $23.1 million in Service Revolving Fund authority to fund Year Four of the ZEV Action Plan, with no General Fund split due to the economic uncertainty as a result of COVID-19.

DGS states that restrictions on fund use and budgetary challenges kept departments from using special funds, and made it difficult for DGS to obtain the necessary funding. The table below reflects DGS' use of General Fund and special funds in prior years (in thousands), and shows that of the total budget authority provided, only 45 percent of fund authority has been utilized:

Year	Budget Authority Received	General Fund Actuals	Special Funds Actuals	Total Utilized
2017-18	$ 6,700	$ 3,300	$ 1,400	$ 4,700
2018-19	$ 15,600	$ 7,800	$ 6,600	$ 14,400
2019-20	$ 18,600	$ 9,300	$ 200	$ 9,500
2020-21	$ 23,100	$ -	$ -	$ -
TOTAL	$ 64,000	$ 20,400	$ 8,200	$ 28,600

The 2016 ZEV Action Plan requires DGS to oversee plans to make electric vehicle charging infrastructure available in at least five percent of workplace parking spaces at state facilities. Further, DGS is responsible for ensuring that 25 percent of annual light-duty fleet purchases are ZEVs by 2020 and 50 percent of those purchases are ZEVs by 2025.

The Governor issued an executive order in September 2019 that leveraged state assets to advance the state's climate goals, DGS adopted an administrative policy that prohibits state agencies from purchasing sedans powered solely by an internal combustion engine (ICF) utilizing fossil fuels, as well as sedans powered by flex-fuel or bi-fuel engines utilizing petroleum-based fuels and other alternative fuels, such as ethanol.

On September 23, 2020, Governor Newsom issued another executive order that set new statewide goals for phasing out gasoline-powered cars and trucks in California. Under this executive order, 100 percent of in-state sales of new passenger cars and trucks are to be zero-emission by 2035 and 100 percent of in-state sales of medium- and heavy-duty trucks and busses are to be zero-emission by 2045, where feasible.

This request is to fund year five of the DGS ZEV Five-Year Infrastructure Plan to install EVSEs in state facilities to support both the state fleet and state employee charging needs. 1,801 charging ports have been installed to date, funded from both Legislature-approved budget authority and administrative authority. With this request, DGS states that an additional 2,015 charging ports will be installed.

Staff Recommendation. Approve as requested.

Issue 36: DSA Oversight

Request. The DGS Division of the State Architect (DSA) requests increase in expenditure authority of $11 million ($9.3 million for the Public School Planning, Design, and Construction Review Revolving Fund and $1.7 million for the Disability Access Account), and 26 permanent positions beginning in fiscal year 2021-22 to provide necessary resources to manage increasing public school construction workload and required oversight.

Background. DSA was approved for a two-year budget authority increase of $9.6 million ($8.1 million Public School Planning, Design, and Construction Review Revolving and $1.5 million Disability Access Account) to support costs to manage the increasing public school construction workload for fiscal year 2019-20 and fiscal year 2020-21. After fiscal year 2020-21, the current $9.6 million authority will expire and DSA will no longer be able to absorb staff and operating costs required to manage current and future workload.

DSA is responsible for approving design documents and providing oversight for the construction projects of K-12 public schools, community colleges and various other state-owned and state leased facilities throughout the State of California. DSA must also enforce compliance with building standards published in Title 24 of the California Code of Regulations with a focus on structural safety, fire & life safety, accessibility, energy efficiency and sustainability. In order for construction to begin, plans must be approved by DSA and comply with building standard codes.

Since 2016-17, DSA has experienced an increase in its public school design and construction workload and expects workload to continue to increase in the future. DSA is presently fulfilling plan review commitments with existing staff consisting of 11.0 blanket positions and four retired annuitants, utilizing the expenditure authority which will expire if this proposal is not approved. The two-year budget augmentation for fiscal year 2019-20 and fiscal year 2020-21 supports the use of staff overtime hours and an increased use of consultants for the disciplines of structural safety, fire and life safety, and accessibility plan review. However, current efforts are still resulting in a steadily increasing backlog and a DSA workload analysis finds continuing with current staffing and the dependency on consultants and overtime is not a viable long-term solution.

Staff Recommendation. Approve as requested.

8620 FAIR POLITICAL PRACTICES COMMISSION (FPPC)

Issue 37: Continuation of California Disclose Act Workload

Request. The FPPC requests $430,000 General Fund in 2021-22 and ongoing to continue funding three existing limited-term funded positions on a permanent basis to continue interpretation, outreach and education, enforcement, and refinement for continuing workload associated with AB 249 (Chapter 546, Statutes of 2017), the California Disclose Act.

Background. This item was heard in this subcommittee’s hearing on February 3, 2021.

The California Disclose Act provided comprehensive provisions for campaign advertising and for reporting the source of campaign contributions, among other provisions. The FPPC states that its Enforcement Division received 518 complaints related to the California Disclose Act from June 1, 2019 through October 31, 2020.

This request will continue funding for one senior commission counsel, one political reform consultant, and one special investigator.

Staff Recommendation. Approve as requested.

8955 CALIFORNIA DEPARTMENT OF VETERAN AFFAIRS

Issue 38: CalVet Electronic Health Record Project: Phases 2 and 3

Request. CalVet requests a one-time augmentation of $10 million General Fund in 2021-22 for the second year of implementation of a new long-term care electronic health record system in the Veterans Homes of California and Headquarters.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

CalVet's existing clinical, financial, and administrative aspects of the Homes rely heavily on paper records. In 2016, CalVet began to work with the Department of Technology to explore various options for an electronic health record system to use in its Veterans Homes. The 2020-21 budget provided a one-time augmentation of $1.2 million General Fund for the first phase of implementing the electronic health record system, which was installed at its Homes in Barstow, Chula Vista, Lancaster, and Ventura.

This request will implement the second and third phase of this project, and will be used to enhance the system at the initial four Homes, and implementing the system at the four remaining Homes in Fresno, Redding, West Los Angeles and Yountville.

The total cost of this project is estimated to be $20.8 million, with a completion date of December 2021.

Staff Recommendation. Approve as requested.

Issue 39: Northern California Veterans Cemetery, Igo – Columbaria Expansion

Request. CalVet requests $296,000 General Fund for the preliminary plans and working drawings phases for the columbarium expansion at the Northern California Veterans Cemetery (NCVC) in Igo, California.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

The NCVC opened for interments in December 2005 with 1,200 columbaria niches. When the cemetery was designed in 2002, the number of in-ground burial plots and columbaria niches was consistent with existing interment rates. Since then, niches have been utilized regularly and seem to be the most desired burial option – niches are the most desired burial option, over double that of requests for casket and in-ground cremains. An additional 2,000 niches were constructed and completed in March 2012.

As of December 23, 2020, only 318 columbaria niches remain and with the current interment rate, the columbaria will be exhausted by the summer of 2021. The nearest veteran's cemetery with available space is nearly 200 miles away in Dixon, California.

CalVet applied for a federal grant in August 2018 to construct additional columbaria, and the pre-application was approved for consideration of grant funding through the VA National Cemetery Administration, State Cemetery Grant Program.

The project intends to build 2,000 additional columbaria niches; additionally, it will build new walk-ways, ramps, curb and gutters, landscaping, and irrigation. Total project costs are estimated to be $2.1 million, of which $1.8 million will be from federal funds.

Staff Recommendation. Approve as requested.

Issue 40: Veterans Home of California – Yountville Steam Distribution System, Reappropriation

Request. CalVet requests the reappropriation of $7,833,000 in Public Buildings Construction Fund for the construction phase of the Steam Distribution System Renovation project at the Veterans Home of California-Yountville (VHC-Yountville).

Background. The reappropriation is necessary due to delays from the United States Department of Veterans Affairs (USDVA) awarding grant funding for projects. The state cannot proceed to bid until the grant has been officially awarded to CalVet.

This project includes restoration of the antiquated steam/condensate system by replacing underground lines and piping to the mechanical rooms, manholes, insulation, and valves. The project will also add an additional ten Americans with Disabilities Act (ADA) parking spaces to the southwest corner of Lincoln Hall. Total project costs are estimated at $19,065,000, including preliminary plans ($579,000), working drawings ($1,080,000), and construction ($17,406,000). The construction amount includes $13,222,000 for the construction contract, $1,058,000 for contingency, $1,339,000 for architectural and engineering services, and $1,787,000 for other project costs. The preliminary plans were completed in January 2012 and the working drawings are scheduled to be completed March 2021. Construction is expected to begin February 2022 and be completed by January 2024.

Recommendation. Approve as requested.

Issue 41: Strategic Realignment for the Barstow Veterans Home

Request. The California Department of Veterans Affairs requests an augmentation of $330,000 General Fund and 3.1 positions in 2021-22 and $588,000 General Fund and six positions annually thereafter to realign levels of care in the Barstow Veterans Home. These changes are necessary to meet current and future programmatic needs as outlined in the 2020 Veterans Homes of California Master Plan and the 2021 Barstow Report.

Background. Beginning January 1, 2022, CalVet requests a reduction of 120 Dom and 60 ICF beds, with a corresponding addition of 31 RCFE beds and an increase of 20 SNF beds. If approved, the Home will convert the existing budgeted dual-occupancy ICF to a single-occupancy RCFE; approximately one-quarter of the ICF residents would be placed in the SNF, while the remainder would remain in the unit while the license is converted to an RCFE. No significant facility modifications would be required to accomplish this. The Home will permanently halt all admissions to the Dom and ICF, slowly drawing down the census through attrition.

CalVet will not discharge any current residents to meet this objective. CalVet anticipates having the new RCFE licensed and operational during fiscal year 2022-23, but this estimate is contingent upon highly variable attrition rates as well as individual healthcare needs and control agencies.

To begin the transition, CalVet requests 1.5 Registered Nurses (RNs), two Certified Nursing Assistants (CNAs), .5 Activity Coordinator, and two Food Service Technicians I (FST I) starting January 1, 2022. These positions are required to staff the 20 additional SNF beds appropriately, which must occur prior to licensing the new RCFE. However, staff will be redirected from the existing ICF to minimize the impact on staffing levels. In addition to converting the active ICF unit into an RCFE, the 2020 Master Plan recommended that CalVet consider whether the vacant inactive ICF unit should be converted to an additional 31-bed RCFE (for a total of 62 beds). While not proposed at this time, CalVet will continue to explore this option for future years based on existing infrastructure, programmatic needs, and resource availability.

Recommendation. Approve as requested.

Issue 42: Extension of Liquidation Period of Barstow Veterans Home Nurse Call System Project

Request. CalVet requests an extension of the liquidation period to complete the infrastructure upgrades for the nurse call system at the Barstow Veterans Home.

Background. In 2019, CalVet initiated an infrastructure upgrade effort to replace legacy nurse call equipment at the Home.

From August 2019 through March 2020, CalVet kicked-off the contract work and the vendor completed the first set of deliverables (plans); in addition, hardware was delivered to the home for installation. Due to the COVID-19 pandemic, the contract was placed on hold in March 2020. CalVet sent a stop work letter to vendor on March 13, 2020 due to the COVID-19 outbreak. In January 2021, CalVet signed a letter to trigger contract resumption.

Recommendation. Approve as requested.

ITEMS FOR DISCUSSION

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

Issue 43: Augmentation and Continuation of Resources for the Licensed Physicians and Dentists from Mexico Pilot Program

Request. The Medical Board of California (MBC) is requesting three-year limited term funding of $242,000 in 2021-22, $341,000 in 2022-23, and $275,000 in 2023-24 to align the appropriation for the Licensed Physicians and Dentists from Mexico Pilot Program (Mexico Pilot Program) to match the revised timeline for the program's implementation as required by Chapter 1157, Statutes of 2002 (AB 1045).

Background. The Mexico Pilot Program was designed to bring physicians and dentists from Mexico with rural experience, who speak the language, understand the culture, and know how to apply this knowledge in serving the large Latino communities in rural areas who have limited or no access to primary health care services. Proponents of the measure were concerned about addressing primary care physician and dentist shortages while maintaining a high quality of care.

In 2018-19, the Board received approval for a budget revision that established an initial appropriation of $110,000 to implement the program, and as of April 2019, MBC began accepting applications for the Mexico Pilot Program. In 2019-20, an approved budget change proposal provided three-year limited term funding and position authority for 1.1 positions to continue the implementation of the program. Through 2019-20, the Board has expended approximately $132,000 of the original appropriation to review physician and community health center applications and review and evaluate the orientation programs. While the Board received and reviewed physician applications and community health center applications, it was not able to issue licenses due to several statutory requirements that had not been met, such as establishing the six-month externship required under Business and Professions Code (B&P) section 853(c)(4), securing a medical school to conduct the evaluation required under B&P section 853(j), and sufficient philanthropic funding needed to implement the program under B&P section 853(c)(8).

In December 2020, MBC received the required funding commitments necessary for program implementation. MBC reports that it has received and evaluated approximately 29 applications (25 applicants are committed to the program). MBC was ready to start issuing licenses in February 2021 to all of the applicants who had met the requirements and was asked by program representatives to delay the issuance while the applicants prepared their visa applications. The issue of securing visas for participants has been raised as a potential challenge, and is not a unique challenge for non-US residents who are wishing to enter the country at this time.

The spending authority in this request will be from MBC's Special Deposit Fund, which was established to support the program and all funding from donations is deposited into the fund.

Funds to support the program must be appropriated by the Legislature; this request would provide the necessary appropriation to allow the Board to fully implement and oversee the program. This request includes expenditure authority to fund the evaluation contract and estimated staff time associated with overseeing the program. The majority of costs associated with the program, specifically the evaluation to be conducted by a medical school within California, are not anticipated to begin until the fourth quarter of 2020-21 and will run through 2023-24.

Recommendation. Approve as requested.

7502 DEPARTMENT OF TECHNOLOGY (CDT)

Issue 44: CA.gov Resources

Request. CDT requests 10 positions and $2.3 million General Fund in 2021-22 and 2022-23 to develop the CA.gov web portal and expand the CAWeb team to increase capacity and reduce time required for onboarding partner agency websites into the state's web portal.

Background. In 2019, the Administration began working on a prototype of the CA.gov web portal as a single website with links to various California government services so that visitors can ultimately visit one website to find any state service. The Administration calls this the "Alpha" site, which serves as a proof of concept for re-imagining how California residents could connect and interact with the state based upon their individual need, organizing content around the needs of the public and offering multiple services from multiple state entities that could all be accessed directly from the CA.gov site. While this effort was paused due to shifting priorities related to the COVID-19 pandemic, Office of Enterprise Technology (OET) and Office of Digital Innovation (ODI) have recently re-initiated their CA.gov collaboration in anticipation of building out a staffing and project plan for the development of the "Beta" CA.gov website.

Legislative Analyst's Office (LAO). The LAO recommends the Legislature approve this request as proposed. Additionally, to determine whether anticipated improvements to and the promotion of CDT's offering is increasing the number of websites hosted using CAWeb, the Legislature could adopt provisional budget bill language that requires CDT to set specific targets for the number of state websites to be hosted using CAWeb over the next two fiscal years and update the Legislature on the department's progress towards those targets. Finally, the LAO recommends the Legislature consider in future budget years whether to require state entities that do not operate complex websites with enterprise-level applications (such as the complex websites of the Department of Motor Vehicles and the Employment Development Department) to use CDT's CAWeb State Enterprise Web Hosting offering to improve the consistency and ongoing support of state entity websites.

Recommendation. Approve as requested.

Issue 45: Digital Identification

Request. CDT requests two positions and $1.1 million General Fund in 2021-22 and 2022-23 to develop a Digital Identification (ID) system.

Background. According to this proposal, "the user experience needs to be simplified for California residents by allowing access to state services through a single digital identifier; therefore, eliminating the need to repeatedly prove their identity and manage multiple user IDs to obtain services. Considering there are hundreds of state services, we need to first establish the foundational Digital ID ecosystem and then deploy it to a subset of state services. This initial effort will prove the ecosystem works effectively and is scalable, as well as identify the best path to integrate the Digital ID ecosystem with the many technologies that deliver existing state services today." In summary, this proposal aims to create a system in which a resident may have one account, or a digital identification, that is able to access the myriad of digital state services that California provides.

With regard to privacy, the proposal states: "The Digital ID ecosystem will be architected to deliver program efficiencies and a seamless user experience for residents accessing government services, while prioritizing user consent and privacy, and ensuring the highest levels of security for the data involved. The ecosystem will be fully compliant with state and federal statutes and policies applicable to the type of resident information collected for purposes of authentication, including but not limited to the Information Practices Act (IPA) and Health Insurance Portability and Accountability Act (HIPAA). Privacy controls include the following:

1. Resident will be required to consent to and designate each service that is authorized to receive personal information provided for the creation of the digital ID.
2. Resident information required for authentication will be program specific and obtained incrementally on an as-needed basis.
3. Resident information will be provided to departments for designated purposes only.
4. Law enforcement will be required to obtain a subpoena, search warrant or other legal process to access the information in the system.
5. Information collected from residents will be customized to the program requirements for authentication.
6. Resident information uploaded for authentication purposes will be deleted after their identity has be confirmed.
7. Security controls will be implemented to match the Impact Level of the information collected. Data will be further protected through encryption and tokenization."

Legislative Analyst's Office. The LAO recommends the Legislature reject this request as proposed, without prejudice to the proposal's policy merits. First, for any state entity to request funding to plan an information technology project through CDT's Project Approval Lifecycle, the entity must submit a Stage 1 Business Analysis that is approved by CDT to the Legislature upon request. The Stage 1 Business Analysis is still under review by CDT, which means the Legislature does not have the information it needs to fully evaluate the proposal. Second, the proposed trial implementation is too limited, and would not demonstrate how (for example) a single digital identifier would work for more complex services or services that require a substantial amount of coordination with federal and/or local governments. Third, the proposal raises a number of questions about privacy and security. Based on the LAO's conversations with the administration, CDT intends to involve information security staff in the roadmap planning process and incorporate a number of privacy controls into the single digital identification platform. While it is possible that more information about these and other privacy and security measures is contained in the Stage 1 Business Analysis, the Legislature would benefit from a more deliberative and thorough planning process for digital identification that addresses legislative and stakeholder concerns and questions about the risks and scope of the project.

Staff Comment. More than 150 departments manage several hundred websites for California residents to navigate and access services, which range from reserving camping grounds to filing business documents to accessing health care or filing taxes. Requiring separate log-ins for each public service has been the norm, as it was in the private sector, until the practice of digital identification emerged. These can be seen in the private sector if one visits a website and requests to log-in, and is asked to verify their identity through a Google, Facebook, or other verification account. The concept of digital identification in government is similar in that an individual would have one profile when accessing various services, which could reduce the risk of fraud, improve access to services, and allow residents to have better interactions with its government. The ease of such a system, if set up correctly, is undeniable and an exciting prospect for California's digital services.

However, the Administration has yet to provide sufficient details that would ease concerns around privacy, data security, and costs. The department states that the digital ID system would be piloted in one or two departments, but is still working to identify which departments those would be. The department is still developing how a digital ID system could be structured, and therefore could not provide details on what it may look like scaled up and what potential future cost liabilities could be. The proposal provides privacy controls, but some are not guaranteed without legal or statutory support. And because some of these privacy controls lack authority needed to be enforced, questions about how the Administration would handle sensitive populations, like undocumented individuals, have also fallen short.

The subcommittee may wish to ask the following questions:

- What type of information will the digital ID system store, track, or access? Will any of this information be shared with non-government partners?

- Can you please provide specific examples of how the Administration would mitigate potential security breaches?

- Could the government potentially monetize data it collects through the digital ID system in the future?

- What criteria is the department using to select the initial departments to pilot the digital ID system? What criteria is the department using to decide how to scale up?

- If the Administration decides to impose the digital ID system in the more complex departments, like the Department of Social Services or health care departments, will stakeholder outreach be done before deploying it in these departments, and what would that stakeholder outreach look like?

Recommendation. Hold open.

8940 CALIFORNIA MILITARY DEPARTMENT (CMD)

Issue 46: Consolidated Headquarters Complex

Background. Existing law (Public Contract Code section 10107) exempts CMD as well as a handful of other departments and agencies, from having its projects under the sole charge and direct control of the Department of General Services. The 2017 Budget provided lease revenue bond authority for CMD to begin the design-build phase of the Consolidated Headquarters Complex project in Rancho Cordova, and at the time total project costs were estimated to be $163.4 million with a project completion date of December 31, 2019. Since then, total project costs are $171 million, and its contract with Walsh Construction Company, which is headquartered in Chicago and is the contractor for this project, is approximately $132 million.

On March 19, 2021, the State Fire Marshal (SFM) issued a stop-work order for CMD's Headquarters Complex, citing five areas of deficiencies, including a lack of on-site fire protection. At the release of the Governor's January budget, the estimated move in time was spring of 2021, and as of now, the move in date has been pushed back to 2022. Since the SFM issued its stop-work order, the project has ceased to continue until a resolution can be reached.

Related Requests.

1. *January Proposal.* Maintenance personnel position authority. CMD requests an increase in position authority of eight positions in 2020-21 and ongoing to be paid for by a portion of the savings generated due to the move from a leased building to the new state-owned Consolidated Headquarters Complex in Rancho Cordova. This proposal also includes the one-time purchase of vehicles, tools, and equipment for the labor activities required to perform maintenance operations at the site.

2. *Spring Budget Proposal.* Consolidated Headquarters Complex: Elimination of Lease Savings. CMD requests $1.7 million one-time General Fund to reflect the elimination of lease savings due to completion delays at the new Consolidated Headquarters Complex.

Staff Recommendation. Reject the January proposal providing position authority for maintenance personnel at the new Consolidated Headquarters Complex, and approve the one-time augmentation of $1.7 million that reflects the elimination of lease savings.

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

Issue 47: Support for Underserved Financial Markets

Proposal. The Senate budget plan includes two investments in underserved financial markets:

- Support for Community Development Financial Institutions (CDFIs) through the establishment of a state CDFI fund and a grant program.

- Funding for the Financial Empowerment Fund to provide grants to non-profit groups serving underbanked and unbanked Californians.

Background. Lack of access to banking and financial services disproportionately affects minority and low-income households and communities. For example, the proportion of unbanked Californians is starkly different across racial groups (Black: 15.2 percent, white: 1.9 percent) and family income levels (<$15k: 23.9 percent, >$75k: 0.3 percent)[1]. Without access to a bank account, many un- or underbanked Californians turn to predatory check cashing (to cash their federal Economic Impact Payments, for example) or other alternative financial services. They also lack access to the other financial services offered by banks, including mortgages and other loans.

Community Development Financial Institutions (CDFIs).
CDFIs are mission-driven community organizations, separate from government control, dedicated to providing financial products and services to low-income communities underserved by traditional financial markets[2]. CDFIs are certified by the California Department of Insurance and/or the U.S. Treasury[3], and include a wide range of organizations offering different financial services. They do not have to be non-profit, although many are. They include both non-depository lenders, focusing on investment in community development projects such as affordable housing, occasionally in return for equity, and depository institutions such as credit unions. Other sectors often served by CDFIs include small business financing, rural communities, and consumers with limited English proficiency. CDFIs typically develop close partnerships within the communities they serve, in order to best meet their needs.

California often uses CDFIs to distribute government support to hard-to-reach communities. For example, California partnered with CDFIs to capitalize the Golden State Acquisition Fund, which provides financing for affordable housing projects[4]. During the COVID-19 pandemic, CDFIs have distributed billions of dollars on behalf of the state for grants and loans to small businesses and non-profits, and for rental assistance[5]. California used to support CDFIs through a tax credit, but that expired at the end of 2016[6].

CDFIs are facing a lack of capital due to the economic impacts of the COVID-19 pandemic, limiting their ability to promote an equitable recovery. For example, the California Infrastructure

[1] https://www.economicinclusion.gov/five-year/documents/fiveyearestimates.html?where=2015_2019_State_California&Til=
[2] http://www.insurance.ca.gov/0250-insurers/0700-coin/20-CDFI-Tax-Credit/
[3] https://lao.ca.gov/reports/2016/3489/cdfi-tax-credit-063016.pdf
[4] http://www.goldenstate-fund.com/
[5] careliefgrant.com, https://ibank.ca.gov/small-business/california-rebuilding-fund/, https://housing.ca.gov/covid_rr/partner_resources.html
[6] https://lao.ca.gov/reports/2016/3489/cdfi-tax-credit-063016.pdf

and Economic Development Bank (IBank) has a loan guarantee program for small businesses but has reported that some businesses were unable to utilize it because many lending institutions did not have the capital to extend loans. To address this, IBank recently provided an anchor investment to help create the California Rebuilding Fund, which combines investments from private, philanthropic, and public sector sources to provide loans to small businesses. The terms and eligibility of these loans are set by the state, but they originate and are serviced by CDFIs, who also provide advisory support.

Federal CDFI Support. CDFIs receive support from the U.S. Treasury through the CDFI Fund, which encompasses a number of programs[7]. These include the CDFI Program, which provides financial and technical assistance to CDFIs on a competitive basis, and the Capital Magnet Fund, which provides grants to CDFIs in support of affordable housing development, among other programs. Many of these federal programs require CDFIs to match funds through private capital or other means. There is not a similar program at the state level, which could provide support to CDFIs that are not awarded competitive federal grants and help streamline the state's various programs that support or utilize CDFIs.

Financial Empowerment Fund. The Financial Empowerment Fund (SB 455, Bradford, 2019) was established to help underbanked Californians identify and access low-cost, responsible financial products, establish or improve credit, increase savings, or reduce debt. Non-profits can apply for grants up to $100,000 to develop and provide free financial education, coaching, and/or products and services[8]. The fund is administered by the Department of Financial Protection and Innovation, which can issue up to $1 million per year in grants and was seeded with an initial $4 million investment.

Senate Proposal. The Senate budget proposes the following additional support for underbanked Californians and communities:

- *Establishment of a state CDFI fund:* This proposal would establish the California Investment and Innovation Program, administered by IBank, to enable the distribution of state resources to CDFIs. An initial $70 million investment could be used to provide grants to CDFIs on a competitive basis, as outlined in SB 625 (Caballero and Limón). Eligible uses of grant funding would include providing loans, grants, equity investments, or technical assistance within low-income communities or for purposes that have a direct and substantial benefit to lower income households, and could be used to match federal funds.

- *Financial Empowerment Fund Investment:* The Senate budget proposal includes a $10 million investment in the Financial Empowerment Fund to provide grants to non-profit groups serving unbanked and underbanked Californians. The grants can be used to provide free financial education, coaching, and/or services and tools.

[7] https://www.cdfifund.gov/
[8] https://dfpi.ca.gov/calmoneysmart/, https://dfpi.ca.gov/2020/09/21/dbo-awards-nearly-1-million-in-grants-for-financial-education-and-empowerment-programs/, https://dfpi.ca.gov/2021/04/06/dfpi-accepting-applications-for-second-round-of-calmoneysmart-grants/

Staff Comment. A large component of the CDFI grant program may be related to affordable housing, which is not something traditionally facilitated through IBank. However, IBank is familiar with CDFIs and their capital challenges, so it may still be the best home for this program.

Staff Recommendation. Hold Open.

Issue 48: Microbusiness Relief Fund

Proposal. The Senate's budget plan includes additional support for California's small businesses, including a microgrant program for the smallest businesses that were not able to access other sources of state or federal funding.

Background. More than a year into the COVID-19 pandemic, small business revenue is down 28 percent and 35.7 percent fewer businesses are open compared to pre-pandemic[9]. The need for targeted small business relief has been recognized at both the federal and state level. This has resulted in a variety of relief programs, including the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loans and Advances at the federal level, the Small Business COVID-19 Relief Grant Program at the state level, and local aid such as the LA Regional COVID Fund. These programs varied in terms of eligibility and application details, and the diversity of this sector is reflected in the numerous definitions for "small business" used across these programs.

However, access to these funds has proved challenging for the smallest businesses. While many of these programs aimed for equity and accessibility[10], they also faced pressures to provide near-immediate relief, prevent fraud, and keep administrative costs low. As a result, many of these programs, including the California Small Business COVID-19 Relief Grant Program, had online, English-only applications that required formal documentation such as tax returns, businesses licenses, and certain types of personal identification. Such applications may not be a barrier for a business with hundreds of employees (which qualifies as a small business for PPP), but might be very challenging for a sole proprietor or an informal business. While these programs succeeded in rapidly deploying relief to many businesses in need, certain types of businesses were left out.

In particular, many informal and microbusinesses, which are disproportionately owned by underserved individuals including immigrants, women, and people of color, faced complex challenges accessing relief despite being severely impacted by the pandemic. On a technical level, business owners may have lacked knowledge of aid options or were not able to access and fill out applications that were online and in English. Even if they were able to fill out the application (or get sufficient technical assistance), they may have lacked the required documentation or they may have encountered issues due to their immigration status, especially if they are undocumented and did not already have a federal Individual Taxpayer Identification Number. Micro- and informal businesses are also more likely to have the required documentation organized and accessible.

Non-profits and community-based organizations (CBOs) throughout the state have worked to help these businesses access relief. Many provided technical assistance and outreach, sometimes with

[9] https://tracktherecovery.org/
[10] https://www.sba.gov/article/2021/feb/22/sba-prioritizes-smallest-small-businesses-paycheck-protection-program

state or federal financial support. In Los Angeles, a coalition of community organizations raised roughly $500,000 for the Street Vendor Emergency Fund, to reach vendors who largely did not qualify for other aid. This fund provided $400 cash grants to roughly 1,200 street vendors[11]. However, the coalition estimates that there are 50,000 vendors in the Los Angeles region alone.

The Senate's proposed budget includes a statewide Microbusiness Relief Fund, which would include funding for both sidewalk vendors and other cottage industries and informal businesses that have been impacted by the pandemic. Under one proposed structure, GO-Biz would allocate funding to local governments on a competitive basis, who would work in partnership with CBOs to distribute grants of up to $5k. Eligible businesses would have less than $50k in annual revenue, and businesses that previously received a CA Relief Grant would not be eligible. Proof of business operation could include city permits or alternative documentation such as attestation letters from CBOs.

Staff Comment.

Distribution of funds across the state. The proposed program structure would rely on a competitive grant process from local cities and counties. However, some local governments, such as Los Angeles, are better prepared to apply and run such a program. The Legislature may wish to consider alternate distribution methods, such as based on population or including a set-aside for rural areas.

Defining the microbusiness sector. It is challenging to define and quantify the microbusiness sector, especially statewide. Allowing local governments flexibility to target specific microbusiness populations will help communities best distribute funds based on local needs.

Outreach. Reaching the targeted businesses will be challenging. Thus, a relatively large portion of the overall funds will likely be needed for administrative costs such as outreach and technical assistance. It may also be necessary to distribute funds over a longer time period, so CBOs have more time to work with businesses.

Staff Recommendation: Hold Open

Issue 49: Live Events Grants and Arts and Culture Investments

Proposal. The Senate's budget plan includes grants for independent live venues and businesses (such as promotors) that focus on live events. This is part of a larger request from a coalition of arts and culture groups that also includes funding for the California Arts Council, the California Cultural and Historical Endowment, and workforce development and jobs training for creative sector workers.

Background. Live events have largely been cancelled and venues have been completely closed for more than a year due to the COVID-19 pandemic. Revenues for the live events industry

[11] https://static1.squarespace.com/static/5cc9edf1af4683c0da44bd62/t/5fdbb8698d12c91f516d4c4f/1608235119322/2020+Annual+Report_FINAL+%28FULL%29-compressed.pdf

declined 63.8 percent during 2020 and aren't projected to recover to pre-pandemic levels until at least 2024[12]. Multiple factors contribute to the slow projected recovery, including the time needed to plan live events and tours, and limitations on crowds due to continued public health measures and consumer comfort levels. Currently, 29 percent of American adults said they would feel comfortable attending a concert[13], with most preferring to wait for widespread vaccination[14]. Many venues also have large ongoing costs, and the National Independent Venues Association (NIVA) has estimated that venues in California are losing $25k to $250k or more each month.

California is home to hundreds of independent venues, festivals, and promotors. In addition to directly employing thousands of Californians, many live venues are cultural institutions and anchors in their communities, driving traffic to local restaurants and bars. An economic impact study in Chicago estimated that every dollar in ticket sales generated $12 in total economic impact[15] in the local area.

Federal support. The need for live event specific support has been recognized federally and by a number of other states. At the federal level, $16 billion was designated for Shuttered Venue Operator Grants. That program is administered by the Small Business Administration (SBA), and the applications are currently open for entities that suffered a 90 percent or greater gross revenue loss between April 2020 through December 2020 due to the COVID-19 pandemic. Eligible applicants can receive grants up to 45 percent of their gross earned revenue, up to $10 million. $2 billion is reserved for eligible applications with up to 50 full-time employees. In the first week, SBA reported receiving just over 10,000 applications[16].

Programs in other states. A number of other states, including Maryland, Oregon, Colorado, Wisconsin, Utah, and Montana, have created grant programs for live events and cultural institutions. The largest program was $50 million in Oregon (which included a single grant of $4.7 million to the Oregon Shakespeare Festival). The details of these programs vary, but typically set the grant size as a portion of expenses, revenue loss, or annual revenue, up to a maximum grant size ranging from $75k to $500k or larger. Eligible entities typically had to demonstrate a significant loss of revenue due to the impacts of the COVID-19 pandemic and related closures.

Proposed Live Venues Grant Program. The proposed program structure would be similar to the non-profit cultural institution grants that were part of the California Small Business COVID-19 Relief Grant Program. As in that program, the Live Venues Grants would be administered by the Office of the Small Business Advocate within GO-Biz. Eligible businesses include entities whose primary business activity is organizing or hosting live events, and who are able to demonstrate a significant revenue loss during the last three quarters of 2020 as compared to 2019, among other criteria. According to industry size estimates from NIVA, a program with grant sizes set to 20 percent of 2019 revenue and capped at $500,000 would cost $250 million. A program with grant sizes set to 10 percent of 2019 revenue and capped at $100,000 would cost $60 million.

[12] https://www.pwc.com/gx/en/entertainment-media/outlook-2020/perspectives.pdf
[13] https://morningconsult.com/return-to-entertainment/
[14] https://www.reuters.com/article/us-health-coronavirus-usa-events/most-americans-to-avoid-sports-other-live-events-before-coronavirus-vaccine-reuters-ipsos-idUSKCN22A2AK
[15] https://loopchicago.com/assets/f4fdbc1e00/Arts-in-the-Loop-Study.pdf
[16] https://www.billboard.com/articles/news/9567342/shuttered-venue-operator-grants-first-week-application-statistics/

Proposed statewide investment in creative industries. The venues grant program is part of a larger budget request made by a coalition of arts and cultural organizations. The total request is for $1 billion, split equally among the venue grants and three other areas. The other areas, as outlined by the coalition, are:

- *Community Access to Arts*: Funding for the California Arts Council to expand grants programs and direct relief to artists; cultural districts including a cultural access pass program for arts access for all; arts education, creative youth development, arts and veterans, public art, nonprofit sustainability and capacity building including increased costs for AB 5 compliance.

- *Workforce Development and Infrastructure Investments:* Funding for workforce development and jobs training programs to employ creative workers in their communities including infrastructure projects, and to provide training and support to new creative workers in the creative industries with contracts and living wages (See SB 628 (Allen)). This bucket of funds could also explore affordable housing opportunities for arts workers and artists.

- *Support for Museums and Cultural Institutions*: Funding for the California Cultural and Historical Endowment to be distributed competitively to government entities, non-profit organizations, and Tribal Organizations for the acquisition, restoration, preservation, and interpretation of California's historical, cultural, and natural resources. Of this amount, $50 million will go to the Museum Grant Program for capital projects or programs that support and enhance museums services and serve historically underserved communities and/or students subject to Title 1 of the Federal Elementary and Secondary Education Act.

Staff Comments.

Overlapping eligibility with CA Relief Grant. The proposed grant structure would prioritize venues who did not receive relief through the California Small Business COVID-19 Relief Grant Program. However, the maximum grant size for that program was $25k, which would likely be smaller than this program. The Legislature may want to consider how the receipt of previous relief should be taken into account.

Coordination with Shuttered Venues Operator Grants (SVOG). The federal SVOG program recently opened, and many businesses just completed their applications. Aligning the state guidelines and application requirements with that program as much as possible would ease the application process.

Support for museums and other cultural institutions. SVOG is available to institutions like museums and zoos in some cases. The proposed arts and culture investment provides museum support through a different mechanism, but the Legislature may wish to clarify this.

Potential exclusions. The venue grant structure proposed by stakeholders would exclude venues owned or controlled by publicly traded companies or by larger, multi-state entities. However, many of their venues are small, and they have also experienced significant revenue declines due to the pandemic. The Legislature should consider whether to include these venues, and if so, how to ensure the funds are directed towards the venues themselves.

Staff Recommendation: Hold Open

Issue 50: Tourism Recovery Campaign

Proposal. The Senate's budget plan includes $45 million for Visit California to support a local and national marketing campaign.

Background. The tourism industry has been severely impacted by the health and safety restrictions resulting from the COVID-19 pandemic. Visitor spending in California declined 54.5 percent, from $145 billion to $65 billion, and is not expected to fully recover until 2024[17]. Over 500,000 leisure and hospitality workers have lost their jobs[18]. This also puts a strain on local governments, as state and local tourism-related hotel and sales taxes declined from $12.2 billion in 2019 to $5.9 billion last year.

Visit California was established by the California Tourism and Marketing Act (1995) as a nonprofit mutual benefit corporation to promote travel to and within California. It is under the direction of a board of commissioners composed of 37 members, including industry representatives and the Director of the GO-Biz. According to Visit California, their programs delivered $14.8 billion of revenue to the state's economy in 2019. However, Visit California is funded by private businesses through a self-imposed assessment, which means the closure of the state's tourism industry immediately and dramatically reduced Visit California's revenue. These shortfalls resulted in Visit California cancelling existing marketing programs and closing all 14 international offices, in addition to reducing staff by more than 50 percent.

California has invested in Visit California previously, and other states are considering investments in their corresponding organizations. After September 11, 2001, California made a one-time investment of $8.3 million in Visit California for a marketing campaign to encourage people to travel. According to Visit California, that campaign drove an additional $3.2 billion of visitor spending and generated $10.6 million in tax revenue. In response to the COVID-19 pandemic, other states have made investments in tourism. Florida is using federal funds to increase its support for Visit Florida from $50 to $75 million[19], New York included $15 million for tourism marketing projects[20], and New Mexico has proposed $25 million in tourism support[21].

The Senate budget plan includes a proposal based on SB 285 (McGuire), which allocates $45 million in one-time funding to Visit California to support a local, regional, and national marketing campaign encouraging travel to and within California. Visit California stated that such an investment would deliver $10.3 billion in revenue to California businesses and $865 million in

[17] https://industry.visitcalifornia.com/research/travel-forecast
[18] https://www.sfchronicle.com/travel/article/Pandemic-cost-California-more-than-500-000-15960937.php
[19] https://www.orlandosentinel.com/politics/os-ne-florida-budget-talks-federal-money-20210426-qux3hz6t65c7dnvkdmdgxppx4m-story.html
[20] https://www.governor.ny.gov/fy-2022-new-york-state-budget/fy-2022-enacted-budget-highlights
[21] https://www.nmdfa.state.nm.us/wp-content/uploads/2021/01/FY22-Executive-Budget-Recommendation.pdf

additional state and local tax revenue ($19 for each $1 invested), based on a report by SMARI Marketing Insights

Staff Recommendation: Hold Open.

Issue 51: Worker-Ownership Transition Support

Proposal. The proposal is to establish the California Worker-Owned Small Business Credit Support and Grant Incentives Fund at GO-Biz, in order to support transitions to worker-ownership business models. Funding would be allocated for outreach and education, loan guarantees through IBank, grants to cover conversion costs such as feasibility studies, technical assistance and business development, and administrative costs.

Background. Almost half of privately held businesses in the United States are owned by baby boomers, and over 85 percent of them do not have a succession plan in place for when they retire[22]. If businesses owners have difficulties finding a buyer, they may turn to a larger chain or non-local buyer to take over. Transitioning to worker-ownership models could help these businesses stay open and independent. In addition, worker-owned businesses provide high quality jobs that help employees build wealth[23] and have been more resilient throughout the COVID-19 pandemic[24].

Worker-owned businesses can be structured in a few ways. These include worker cooperatives, where the employees directly own the company, Employee Stock Ownership Plans (ESOPs), where retirement plans own all or part of a company on behalf of the employees, or Employee Ownership Trusts. According to the Worker-Owned Recovery California (WORC) Coalition, there are around 100 worker cooperatives and 800 ESOPs in California. These are businesses that span an array of industries, including retail, engineering, manufacturing, child care, administrative or professional services and home care.

Business owners looking to sell do not always consider transitioning to a worker-ownership model. A number of states, including Vermont, Massachusetts, Colorado, Iowa and Missouri, encourage worker-ownership though state funded offices or centers, outreach and education campaigns, and/or financial incentives such as reimbursement of feasibility studies and tax breaks when selling stock to an ESOP. Many cities in California and across the country also have employee-ownership initiatives.

This proposal would establish the California Worker-Owned Small Business Credit Support and Grant Incentives Fund at IBank to assist qualified small businesses in transitioning to worker-ownership models. Funding would be used for outreach and education, IBank loan guarantees specifically for conversion to worker-owned entities, grants to cover conversion costs such as feasibility studies, technical assistance and business development, and administrative costs for the state.

[22] https://project-equity.org/communities/small-business-closure-crisis/
[23] https://project-equity.org/wp-content/uploads/2020/05/The-Case-For-Employee-Ownership-Executive-Summary-2019-Project-Equity.pdf
[24] https://employeeownershipfoundation.org/research/employee-owned-firms-excel-at-employee-retention-during-pandemic

A proposed funding structure includes a one-time allocation of $36.5 million for this fund, distributed as follows:

- $1,500,000 for worker-ownership outreach and education.
- $24,500,000 for loan guarantees through IBank.
- $3,500,000 for grant incentives through GO-Biz and/or a partner financial institution.
- $3,500,000 for a targeted business pipeline development and technical assistance program at GO-Biz.
- No more than $3,500,000 for administrative costs.

Staff Recommendation: Hold Open.

7730 FRANCHISE TAX BOARD (FTB)

Issue 52: Enterprise Data to Revenue Project, Phase 2

Governor's Budget. The Governor's budget included an augmentation of $55.6 million General Fund and 22.0 permanent positions, one permanent-intermittent position, and 13.0 limited-term positions in 2021-22 to begin the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan.

Additionally, a Spring Finance Letter requests an augmentation of $32.8 million General Fund and one permanent position to begin the EDR2 project.

Background. The EDR2 project represents phase 2 of an enterprise-wide TSM effort to align FTB's IT infrastructure with its strategic business plan. The project will move FTB's siloed compliance systems onto an enterprise CM platform (infrastructure implemented in phase 1 of the EDR project). According to FTB, the transition will improve efficiency, provide a better taxpayer experience and increase revenue.

The EDR2 project will support replacement of two legacy systems that are near end-of-life: Accounts Receivable Collection System (ARCS) and Professional Audit Support System (PASS). In addition to taking steps to address the tax gap.

This step will provide technology to more effectively manage the tax gap by transitioning the Audit, Legal, Filing Enforcement (FE) and Underpayment SOWs to FTB's enterprise platform and implementing new Audit, FE, and Underpayment strategies that will identify new revenue streams. The systems being replaced are 20 years of age or older.

The EDR2 project follows the California Department of Technology's (CDT) Project Approval Lifecycle Process. The most recent document approved for the EDR2 project was the Stage 3 Solution Development (S3SD). The S3SD was approved August 15, 2019 and included the department's final Compensation Model and Detailed Solution Requirements. The final document is the Stage 4 Project Readiness and Approval. This document is scheduled to be completed during spring of 2021 and will include the EDR2 vendor selection and project approval.

This request also includes the following annual provisional language to allow for any funding not used to carry over to the next fiscal year.

> *Of the funds appropriated in this item, any unused amount is allowed as one-time carryover funds to the subsequent fiscal year to support the vendor payment due to the solution provider for services performed and subject to Payment.*

LAO Comments.

New Positions Appear Justified. FTB is requesting a total of 37 new limited-term and permanent positions to help implement EDR2. These positions would supplement roughly 160 staff redirected internally in support of the project. The positions cover a myriad of functions within the department. Some of these, such as a limited-term internal audit position, are very clearly and explicitly related to overseeing the project directly. Others, such as the total of 14 new positions related to training and documentation, are less directly related. However, FTB has provided justification for all of the new positions that it has requested. For example, following the completion of the EDR project, the department identified that there was a significant need for increased resources across the organization for training and documentation related to the case management and modeling system. The expected expansion of staff to support EDR2 also justifies an increase in finance and administrative services positions.

Novel Contingency Planning Strategy. The EDR2 contract has a contingency clause that is common for complex and costly state government IT projects and is consistent with CDT guidance. According to FTB, funds for unanticipated costs will be budgeted each year as a percentage of total vendor payments. If these funds go unused, they will roll over to subsequent fiscal years. The proposed provisional language, however, would allow for an additional appropriation of up to five percent of the vendor payments in each fiscal year. FTB does not expect to use this language in 2021-22. It is unclear whether this provisional language is necessary. Alternatively, the Legislature could either provide more flexibility to the department by appropriating funds to FTB to hold in reserve for a contingency fund or provide less flexibility by requiring the department to submit a budget change proposal in the event of significant unanticipated costs.

Vendor Compensation Includes Complicated Benefits- and Performance-Based Components. Quarterly payments to the vendor are calculated based in part on the completed deliverables and in part on the revenue benefits to the state. The benefits of the project are measured quarterly, are likely to initially be small, but are expected to grow over the life of the project. In addition, FTB withholds ten percent of the payment to ensure that the deliverables function as intended. The provisional language FTB has requested provides additional flexibility in the timing of the payments as required by the benefits- and performance-based structure of the contract.

Recommendation: Approve as budgeted.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Sydney Kamlager
Senator Jim Nielsen

Wednesday, May 19, 2021
1:00 p.m.
State Capitol - Room 4203

Consultant: Nora Brackbill, James Hacker, Yong Salas, and Joe Stephenshaw

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

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

ITEMS FOR VOTE-ONLY

0511 Government Operations Agency (GovOps)

Issue 1: Census Funding Reappropriation

Request. GovOps Agency requests to reappropriate up to $2.2 million from the 2019 Budget Act appropriation for residual costs of Census activities.

Background. The 2019 Budget appropriated $87 million for Census activities. This request is to use the existing funding to cover long-term IT costs of maintaining the Census website and completing outstanding contract costs for Census. CDT provided estimated costs of maintaining the Census 2020 website on an annual basis which total $742,000 through 2030. In addition, Census has $1.5 million in outstanding contract costs for deliverables to be provided after June 30, 2021.

Staff Recommendation. Approve as requested.

0890 Secretary of State

Issue 2: Oral History Program and Preservica Subscription

Request. The Secretary of State requests $225,000 General Fund in 2021-22 and ongoing to reflect of funding for the State Government Oral History Program and digital preservation subscription services from the State Library to the Secretary of State. This request aligns with a corresponding reduction to the State Library's budget by an equivalent amount.

Background. The State Government Oral History program, which is administered by the California State Archives, has produced more than 200 interviews through partnerships with oral history programs at California colleges and universities, capturing the stories of California's policy makers, legislators, and other key players in state history. The selection process for previous interviews is nonpartisan, with the goal of illuminating key aspects of California government history. Going forward, the SOS is creating a more engaging and inclusive State Government Oral History Program, prioritizing a more diverse group of interviewees, not only focusing on state officials, but capturing the stories of community leaders and other influential individuals that are shaping the Golden State. The State Archives is also working to provide broader access and awareness of the program and the resources that it provides.

Since 2016, the State Archives has utilized a digital preservation subscription to digitally preserve historic electronic records. With state agencies moving toward paperless environments and teleworking during the ongoing pandemic, it is anticipated that the State Archives will receive increasing volumes of legacy electronic records that will be added to a digital preservation subscription. From 2016 to 2019, the SOS was able to fund a digital preservation subscription by deferring equipment purchases and utilizing salary savings; however, this was not a sustainable long-term solution. In 2018-19, $75,000 was allocated for the SOS' digital preservation subscription and funding routed to the State Library's budget. The SOS maintained statutory authority over the program and worked diligently with parties involved on an interagency agreement. Funding was provided to SOS via a reimbursement process, for which the SOS needed to pay for program costs from existing funds prior to reimbursement. An interagency agreement was executed in in 2019-20 and was negotiated in May for 2020-21.

Staff Recommendation. Approve as requested.

0950 State Treasurer's Office (STO)

Issue 3: Jesse Unruh Building Relocation Costs

Governor's Proposal. The May Revision proposes a one-time General Fund augmentation of $1.2 million for relocation costs necessary to facilitate the renovation of its headquarters, the Jesse Unruh building located at 915 Capitol Mall in Sacramento. The renovation is part of the State's Ten Year Sequencing Plan for the renovation or replacement of state office buildings in Sacramento.

The proposal also includes the following budget bill language that allows the Department of Finance, upon notice of the fiscal committees in each house of the Legislature and the Joint Legislative Budget Committee, to authorize expenditures in excess of the amount requested.

> *Of the amount provided in this item, $1,222,000 is provided on a one-time basis to cover the cost of relocating staff and building contents prior to the renovation of the State Treasury Building. Notwithstanding any other law, the Director of Finance may authorize expenditures in excess of the amount provided, if deemed necessary but not sooner than 30 days after notification in writing of the necessity therefor is provided to the chairpersons of the fiscal committees in each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or the chairperson's designee, may in each instance determine.*

Background. An infrastructure study ("Infrastructure Study - Jesse Unruh Office Building"), completed in 2008 and updated in 2013, identified a variety of fire and life safety, building code, hazardous materials, and other infrastructure deficiencies in the Jesse Unruh Building. A facility condition assessment completed in 2015 ranked the Jesse Unruh Building fifth in Sacramento and ninth statewide for state-owned, DGS-controlled office buildings requiring renovation or replacement.

Due to the invasive nature of the remodeling and renovation, STO staff and its operations are required to temporarily relocate to the Paul Bonderson building, located at 901 P. St, for the duration of construction. The STO is scheduled to begin moving in the spring of 2022 and the project is slated to begin in June 2022, and is estimated to take three years to complete. There is no alternative to remain in the current building location once renovations begin

The STO is responsible for all staff (approximately 475) and equipment relocation movement tasks, and for physical decommission and/or storage of defined office furniture and equipment related to the vacated Jesse Unruh building.

STO is requesting one-time funding of $1.2 million in General Fund for the purpose of securing services to perform tasks associated with completing moving activities for office furniture/equipment, information technology infrastructure, and staff members.

Some of the required activities that must be completed are: tear down and remove modular furniture cubicles; remove furniture from private offices; remove furniture from conference rooms; remove contents of vault; disconnect electrical cables; move miscellaneous equipment and cabinets; the move of 475 staff members' related office equipment, files, etc.; and relocation of information technology infrastructure to ensure continuity of operations (e.g. pulling fiber, network needs, etc.) to the Paul Bonderson building.

Recommendation: Approve as budgeted.

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 4: Adjustment to Debt Collector Licensing and Regulation (SB 908)

Governor's Proposal. The May Revision proposes a reduction of the resources included in the Governor's Budget to license, examine, and regulate debt collectors under the provisions of SB 908 (Wieckowski), Chapter 163, Statutes of 2020.

The Governor's Budget proposal requested an increase in expenditure authority of $10.7 million Financial Protection Fund and 44.0 positions in 2021-22, $10.3 million and 51.0 positions in 2022-23, and $10.9 million and 55.0 positions in 2023-24. The department requests a reduction in expenditure authority of $4.9 million and 21.0 fewer positions in 2021-22, $5.3 million and 28.0 fewer positions in 2022-23, and $6.0 million and 32.0 fewer positions in 2023-24. The total net resources needed to license, examine, and regulate debt collectors is:

- $5.8 million and 23.0 positions in 2021-22,
- $5.0 million and 23.0 positions in 2022-23, and
- $4.9 million and 23.0 positions in 2023-24.

Background. The Governor's Budget proposal was based on debt collection data provided by the Consumer Financial Protection Bureau. From this data, it was estimated that the Department would license approximately 7,000 debt collectors.

Since January 2021, the Department has received additional data from industry experts and other states. Analysis of this more recent data indicates that the debt collector population in California may be closer to 3,500 licensees. The data provided by industry included the number of debt collectors operating in states throughout the nation. When comparing this data to US Census data on state population size, there appears to be a relationship between the number of debt collectors operating in each state and that state's population. Texas reported 2,372 debt collectors and a population of 28.9 million. California, with a population of 39.5 million and more robust consumer protection laws, will likely have closer to 3,500 debt collectors.

The decrease in the expected number of licensees, from 7,000 to 3,500, will reduce the program workload and the number of staff needed to implement SB 908. This request reduces the number of staff and the expenditure authority needed to license and regulate debt collectors.

The implementation of the Debt Collector program is intertwined with the resources the Department received beginning in 2020-21 to register and oversee the new entities covered under the California Consumer Financial Protection (CCFP) program. Debt collectors are a subset of these expected new registrants and, as a result, some resources are being redirected from the CCFP program to the Debt Collector program.

The subcommittee heard the Governor's budget proposal on February 10th.

Recommendation: Approve as budgeted.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 5: Used Motor Vehicle Sales Tax Gap

Governor's Proposal. The May Revision proposes $5.9 million General Fund in fiscal year 2021-22 to reimburse the Department of Motor Vehicles (DMV) for the costs associated with the passage of Chapter 8 of the Statutes of 2020 (AB 85) and Chapter 14 of the Statutes of 2020 (AB 82).

Background. To increase compliance among the industry, AB 85 and AB 82 were passed to require used motor vehicle dealers to pay sales tax on their retail sales of vehicles at the same time they submit a vehicle registration application. The CDTFA and the DMV are required by law to partner to collect and administer the sales tax for used motor vehicle dealers, decreasing the sales tax gap.

The CDTFA and the DMV have partnered as prescribed by AB 85 and AB 82. Used car motor vehicle dealers affected by this new law will be required to pay the sales tax directly to the DMV upon registering a motor vehicle. This will increase the likelihood that the sales tax will be paid since used motor vehicle dealers are required to register motor vehicles associated with their in-state retail sales. The DMV will provide reports indicating which vehicles have unpaid sales tax so that the CDTFA can issue department assessed billings.

The CDTFA requests $5.9 million in 2021-22 to reimburse the DMV to develop and implement an information technology (IT) solution ($4.4 million) to collect use tax from used motor vehicle dealers and for the costs of administering this program ($1.5 million). Additionally, provisional language is being requested making $2.15 million of the $4.4 million requested for the IT solution, contingent upon submittal and approval of the appropriate Project Lifecycle documents by Finance and the Department of Technology, and after appropriate Joint Legislative Budget Committee notification. The DMV is requesting $3.75 million in reimbursement authority for the costs associated with the design of the IT solution and the administration of the program. The DMV will conduct an industry assessment of used motor vehicle dealers and other program stakeholders to develop and design the automated use tax collection process to ensure that the sales tax collection process is effective and efficient for all impacted parties. The requested resources include one-time staff and consultant costs to develop business requirements, perform project management duties, implement Report of Sale System enhancements, and other automation efforts to meet the business requirements developed by the program stakeholders. The requested resources also include administration of this program and the additional workload associated with the collection of use tax from approximately 2,500 used motor vehicle dealers that submit 497,000 transactions annually to the DMV.

Without funding to reimburse the DMV for its costs, the CDTFA will not be able to successfully implement this new law. These efforts will help address the sales tax gap known in the used motor vehicle dealer industry and will result in an increase in sales tax revenue.

Recommendation: Approve as budgeted.

7730 FRANCHISE TAX BOARD (FTB)

Issue 6: Reappropriation of Golden State Stimulus Outreach Funding

Governor's Proposal. The May Revision proposes to reappropriate $2 million or whatever greater or lesser amount of the unexpended outreach funds appropriated to the FTB by AB 81 (Ting), Chapter 5, Statutes of 2021, for the continued provision of outreach for the Golden State Stimulus.

Background. AB 81 appropriated $5 million from the General Fund to the FTB to be allocated to existing California Earned Income Tax Credit for outreach contracts to provide increased awareness of the Golden State Stimulus.

Recommendation: Approved as budgeted.

Issue 7: Earned Income Tax Credit -The American Rescue Plan Act and In-Home Supportive Services (IHSS)

Governor's Proposal. The May Revision proposes $2.8 million General Fund, one-time, and 45.0 permanent-intermittent positions in 2021-22 to allow FTB to proactively provide assistance to those taxpayers who have already filed a return and are impacted by the retroactive provision enacted in the American Rescue Plan Act (ARPA) and a recent opinion issued by the Office of Tax Appeal (OTA) related to what qualifies as earned income for the purposes of computing the California Earned Income Tax Credit (CalEITC).

Background. There were recently two changes that impacted the calculation of CalEITC, Young Child Tax Credit (YCTC), and potentially the Golden State Stimulus payments:

1. The ARPA was signed into law on March 11, 2021. One of the provisions of the ARPA was a federal income exclusion of up to $10,200 ($20,400 for Married Filing Joint) of Unemployment Insurance (UI) income received in the 2020 tax year. This would result in a lowering of the taxpayers federal Adjusted Gross Income for the year, which is the starting income for California's EITC. For federal purposes, the IRS has committed to proactively assisting taxpayers who have already filed a return to correct their federal EITC without requiring them to file an amended return. For taxpayer's who have filed a return but did not originally claim the federal EITC, taxpayers are required to file a federal amended tax return. FTB is proposing to adopt the IRS treatment. For taxpayers who have already filed a return and claimed the CalEITC, FTB will allow the proper amount of CalEITC onto these accounts without action from the taxpayer, where possible. For those that have already filed a return and are now eligible for the CalEITC for the first time, FTB will work with these taxpayers as desired to file an amended return.

   FTB has identified almost 1 million taxpayers (as of 4/14/21) who have already filed a California tax return for the 2020 tax year and the CalEITC may be misstated due to this issue. Of these taxpayers, over 600,000 have claimed the CalEITC and have UI income. Due to the newly enacted federal law provision excluding UI income, these taxpayers may now qualify for a larger CalEITC or YCTC. As possible, FTB will adjust these taxpayers' accounts and issue any additional refunds.

   For another 300,000 plus taxpayers who did not claim the CalEITC on their original return, but now might qualify for the credit, FTB will notify these taxpayers, and where appropriate, provide FTB Form 3514 (California Earned Income Tax Credit) to claim the refund.

2. In a recent OTA decision, it was held that certain IHSS payments can be included as earned income for purposes of determining the CalEITC at the taxpayer's election.

   FTB has identified about 100,000 taxpayers who have already excluded the IHSS income from the CalEITC calculations, which now can be included as earned income. This includes tax returns that have an open statute at this point in time. As possible, FTB will assist these taxpayers to correct their CalEITC computation with an amended FTB Form 3514.

   In addition, FTB has potentially identified another 100,000 taxpayers who did not claim the CalEITC on their original return, but now might qualify for the credit as a result of this decision. FTB will notify these taxpayers, and where appropriate, allow taxpayers to provide FTB Form 3514 (California Earned Income Tax Credit) to claim their refund.

The requested resources are needed in order for FTB to issue the correct refunds to the most vulnerable Californians quickly without adding financial burden and hardship to these individuals.

Recommendation: Approved as budgeted.

Issue 8: FTB Central Office Campus: Data Center Upgrades

Governor's Proposal. The May Revision $1.6 million General Fund for Preliminary Plans ($680,000) and Working Drawings ($937,000) phases in 2021-22. The project includes upgrades to the existing data center within the existing Los Angeles building and Sacramento building; HVAC systems and controls, upgrade of the entire electrical infrastructure, fire protection upgrades, telecommunication upgrades and mechanical system upgrades to achieve mandated energy efficiency requirements.

Background. The FTB Data Center is a continuous operation that houses critical IT infrastructure allowing FTB to maintain day-to-day operations and generate revenue for the State of California. FTB currently maintains a Tier III equivalent Data Center, indicated in SAM Section 4982.1, which is housed in two locations in FTB's Sacramento Central Office Campus in Sacramento. The Los Angeles Building Data Center, was commissioned in 1985 and the Sacramento Building Data Center, was commissioned in 2005. The total space of the two locations encompasses approximately 26,000 square feet.

As a Tier III equivalent Data Center, FTB requires perpetual, uninterrupted power and cooling. FTB Data Centers currently do not meet numerous required California executive orders and statewide energy efficiency mandates. Resources requested in this will allow FTB to comply with these standards.

The FTB Data Center is an interminable operation that houses critical IT infrastructure necessary for FTB to provide critical services to California taxpayers. FTB's return and payment processing systems have a goal of zero downtime because they are utilized by California taxpayers and almost 6,000 FTB staff in processing 21 million returns and 14 million payments per year and serve FTB compliance and service functions.

As technology has advanced, the data center equipment has become more efficient and requires a smaller footprint. As a result, much of the current raised floor space has become vacant creating an inefficient operating environment. These factors impede the FTB from meeting the Governor's executive order and related statewide energy saving mandates.

In the FTB Data Center located on our Sacramento, CA campus, much of the equipment that supports the Data Center is out of date and at or approaching end of life (EOL). EOL equipment is no longer supported by the manufacturer and presents a risk of failure to the department. The Los Angeles infrastructure is 36 years old and the Sacramento infrastructure is 16 years old. Neither have had any significant upgrades and both need to be refreshed. In 2020 alone, FTB experienced 19 incidents due to aging equipment.

In order to ensure that stable and reliable IT services are delivered to California taxpayers, FTB requires uninterrupted Data Center operations that meet statewide energy mandates, and address current deficiencies related to aging equipment.

Recommendation: Approved as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

Issue 9: California Commission on Disability Access

Request. DGS requests an increase of $99,000 General Fund to allow the California Commission on Disability Access to expend its share of fee revenues collected over fiscal years 2015-16 through 2019-20.

Background. Government Code section 68085.35 was added by Chapter 755, Statutes of 2015 to require that of each $1,000 high-frequency litigant fee collected pursuant to Government Code section 70616.5, $500 shall be distributed to the General Fund for use by the Commission, upon appropriation by the Legislature, to supplement the Commission's existing program funding.

Staff Recommendation. Approve as requested.

Issue 10: Contracted Fiscal Services Workload Increase

Request. The Department of General Services (DGS), Contracted Fiscal Services requests $300,000 in ongoing authority comprised of the following funds: General Fund ($171,000) and Central Services Cost Recovery Fund ($129,000). Additionally, DGS requests two positions to provide administrative services for a new client, the Office of Energy Infrastructure Safety (OEIS).

Background. OEIS is moving from the California Public Utilities Commission to the California Natural Resources Agency. The workload associated with providing budgeting and procurement services for OEIS will be absorbed within existing resources. Considering the size of the funds, amount of transactions, and complexity of accounting, the workload associated with providing accounting services cannot be absorbed within existing staff resources.

This proposal requests two positions to assume OEIS' accounting workload. These positions will enable DGS to effectively onboard and transition the requisite functions of this new client agency and ensure that all operational and regulatory requirements are met without delay.

Staff Recommendation. Approve as requested.

8940 California Military Department

Issue 11: Santa Rosa: Sustainable Armory Renovation Program

Request. The Military Department requests to withdraw the Santa Rosa: Sustainable Armory Renovation project.

Staff Recommendation. Approve the withdrawal.

Issue 12: Los Alamitos: National Guard Readiness Center

Request. Due to multiple barriers in developing an agreement that suited both federal and state joint use needs and additional contracting issues, it is requested that the remaining funds for the acquisition and design-build phase for the California Office of Emergency Services and the California Military Department (CMD) joint Los Alamitos: Southern Region Emergency Operations Center funds be reverted, resulting in a reversion of $26,842,000 from design-build and $190,000 from acquisition. This project will be discontinued.

Background. This project was originally approved in the Budget Act of 2016 to replace the current Southern Region Emergency Operations Center, located on federally-owned real property used by the Governor's Office of Emergency Services (Cal OES) and the CMD in Los Alamitos. The intent was to build a joint use facility that would include the Southern Region Emergency Operations Center and a Los Alamitos armory for CMD.

The project has experienced delays and significant challenges related to securing appropriate real property rights, as the project site is located on a larger property, which is owned by the U.S. Department of the Army. CMD's current use of the project site is from a license which is terminable at the will of the U.S. Department of the Army, and only provides a personal property right as opposed to a real property right. Therefore, this project is being canceled, the funds are requested to be reverted and the planned joint-facility project discontinued.

Background. Approve the reversion of the funds.

8955 California Department of Veterans Affairs

Issue 13: Federal Veterans Administration Grant

Request. The California Department of Veterans Affairs (CalVet) requests a one-time augmentation of $7,725,000 Federal Trust Fund from the United States Department of Veterans Affairs (VA) through the Consolidated Appropriations Act, 2021 (Public Law 116-260) for State Veterans Homes. The funding will be used to support efforts to prevent, prepare for, and respond to COVID-19 in CalVet's eight Veterans Homes of California.

Staff Recommendation. Approve as requested.

Issue 14: Reappropriation

Request. CalVet requests to use deferred maintenance funding from the 2018 Budget Act to make Americans with Disabilities Act renovations to two restrooms at the Yountville Veterans Home. CalVet also requests to reappropriate funds to complete upgrades to a nurse call system at the Yountville Veterans Home.

Staff Recommendation. Approve as requested.

ITEMS FOR DISCUSSION

0515 Business, Consumer Services, and Housing Agency

Issue 15: Homelessness Proposals

May Revision. The May Revision includes $4.7 billion in proposals for homelessness. This is in addition to the $2.1 billion in investments proposed in the Governor's Budget, for a total 2021-22 homelessness package of $6.8 billion. This includes the following:

- Homekey Family Housing—$2.75 billion one-time funds over two years for the additional acquisition and rehabilitation of facilities through the Homekey program. Of this amount, $1 billion is targeted for families experiencing homelessness or at risk for being homeless. This increases the $750 million proposed in January, for a total of $3.5 billion over two years.

- Challenge Grants & Technical Assistance—$40 million one-time General Fund available over 5 years, for the Homeless Coordinating Financing Council to provide grants and technical assistance to local jurisdictions to develop action plans that will address family homelessness and move the state closer to attaining functional zero family homelessness.

- Department of Social Services Homelessness Supports—The May Revision includes $475 million General Fund in both 2021-22 and 2022-23 to expand the existing CalWORKs Housing Support program.

- Behavioral Health Continuum Infrastructure—The Governor's Budget proposed $750 million one-time General Fund for competitive grants to qualified entities to construct, acquire, and rehabilitate real estate assets to expand the community continuum of behavioral health treatment resources. The May Revision increases the Governor's Budget proposal by $10 million Coronavirus Fiscal Recovery Fund (CFRF) and shifts $300 million General Fund to the CFRF. In addition, the May Revision includes $1.4 billion ($1.2 billion General Fund and $220 million CFRF) for the program in 2022-23.

- The May Revision includes $150 million one-time General Fund to support the stability of the state's FEMA-funded non-congregate shelter population and transition of individuals from Project Roomkey into permanent housing following the September 2021 sunset of the federal reimbursement availability from the pandemic.

- The May Revision includes $53 million in one-time General Fund resources to coordinate encampment outreach services to connect individuals living along California's streets and freeways with critical services, supports, and housing solutions. This includes:

    - Encampment Resolution Grants—$50 million one-time General Fund for the Homeless Coordinating and Financing Council (HCFC) to partner with local governments and assist them with resolving critical encampments and transitioning individuals into permanent housing.

- ○ Caltrans Encampment Coordinators—$2.7 million one-time General Fund for Caltrans Encampment Coordinators to mitigate safety risks at encampments on state property and to coordinate with the HCFC and local partners to connect these individuals to services and housing. These resources will also help Caltrans coordinate with the cleaning of trash and debris from encampment sites and inspection of encampment sites for potential damage to Caltrans infrastructure.

- The May Revision includes $5.6 million one-time General Fund for HCFC to conduct an assessment of local homelessness service providers and state funded homelessness programs. The assessment will provide a detailed view of the range of services and strategies that are utilized at the local level and help determine if state investments are aligned with local homelessness response systems.

- Additional Funding at the Department of Social Services and Department of Healthcare Services is covered in Subcommittee 3 on Health and Human Services.

Staff Recommendation: Hold Open.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 16: HCD Budget Summary

Proposal. The May Revision includes a number of budget proposals and the Department of Housing and Community Development. Specifically, it include:

- **Housing Law Assistance: IT Component**—The May Revision includes $360,000 General Fund in fiscal year 2021-22 and ongoing to develop and operate a case management system at the Department of Housing and Community Development (HCD) to assist local governments in complying with housing element laws. This effort would be part of HCD's new accountability unit, as proposed in the Governor's Budget.

- **One-Time Deferred Maintenance**—The May Revision includes $20 million in 2021-22 for remaining critical repairs and deferred maintenance needs at Office of Migrant Service Centers. This brings the total proposed in the 2021-22 budget to $30.1 million.

- **Foster Care Transitional Housing Extension**—The May Revision includes $4 million in 2022-23 and $8 million General Fund ongoing to provide funding to support county transitional housing services for young adults, with a priority on serving former foster youth between the ages of 18 to 25.

Staff Recommendation: Hold Open.

Issue 17: Major Housing Proposals

Proposal. The May Revision includes $2.6 billion in one-time resources for a variety of major housing proposals. These include:

- **Affordable Housing Backlog -** $1.75 billion one-time federal ARPA funds to help support HCD affordable housing projects that qualified for, but did not receive, low income housing tax credits and tax-exempt private activity bonds. This funding would serve as a replacement for the financing provided by said tax credits and bonds. This could help roughly several thousand units of shovel-ready affordable housing move forward quickly rather than waiting for a potential future tax credit.

- **Scaling Excess Sites Development–Housing Infrastructure**—The May Revision includes $45 million Coronavirus Fiscal Recovery Fund of 2021 in 2021-22 to expand the state excess sites program to incentivize further affordable housing development on state excess lands.

- **Planning and Implementation Grants -** $500 million one-time federal ARPA funds for HCD to provide additional planning and implementation grants to regional entities for infill developments, targeted towards the state's climate goals and reducing vehicle miles traveled.

- **Affordable Housing Preservation -** $300 million one-time federal ARPA funds to sustain and preserve HCD legacy projects affordability requirements by funding affordability requirements and other preservation or rehabilitation activities.

Staff Recommendation: Hold Open.

Issue 18: CalHFA Proposals

Proposal. The May Revision includes roughly $200 million in resources for several housing programs at the California Housing Finance Authority (CalHFA). These include:

- An additional $81 million one-time federal ARPA funds to expand CalHFA's ADU program to inject a total of $100 million in available financing for ADUs. Accessory Dwelling Units (ADUs) have become an increasingly popular and cost-efficient tool to create needed housing. AB 101 (Committee on Budget), Chapter 159, Statutes of 2019 provided $19 million General Fund for CalHFA to finance ADUs for low- and moderate-income households, which is anticipated to begin in July 2021. The additional $81 million one-time federal ARPA funds requested here would expand CalHFA's ADU program to inject a total of $100 million in available financing for ADUs. Because ADUs have quicker local approvals, this proposal could further expedite low-cost production and more quickly increase the housing units statewide.

- $100 million one-time federal ARPA funds to CalHFA to expand its First Time Homebuyer Assistance Program, which helps first-time homebuyers with making a down payment, securing a loan, and paying closing costs on a home. The May Revision proposes to expand the program to lower-income households and expand CalHFA's lender network to help address the wealth gap, particularly in disadvantaged areas throughout the state.

Staff Recommendation: Hold Open.

0650 Governor's Office of Planning and Research

Issue 19: OPR Budget Summary

Proposal. The May Revision includes several proposals at the Office of Planning and Research. These include:

- **Climate Resiliency Package** - The Administration's Climate Resiliency Package includes several proposals at OPR. The total amount of these proposals is $481 million over three years. These proposals were also heard in Budget Subcommittee 2 on Resources, Environmental Protection and Energy on May 18th.

    - *Transformative Climate Communities.* $140 million per year for three years ($420 million General Fund) for the existing Transformative Climate Communities program. The program is administered by the Strategic Growth Council (SGC) funds the development and implementation of neighborhood–level community plans that include multiple projects to reduce greenhouse gas emissions. This program has previously funded grants to eight communities. The Governor's proposal would allow the program to fund grants to additional communities, but SGC has not specified a number of new grants. This spending is considered to be local assistance capital outlay and is excluded from the state appropriations limit (SAL).

    - *Regional Climate Collaboratives.* $10 million General Fund per year for two years to this existing program that provides technical assistance and start-up grants to community groups to build the expertise, partnerships, and local capacity necessary to develop successful applications for state funding programs.

- *Adaptation and Planning Grants.* $25 million General Fund over two years for the Integrated Climate Adaptation and Resiliency Program (ICARP). These funds would support local and regional planning needs.

- *Vulnerable Communities Platform & CalAdapt Mapping.* $5 million for ICARP to fund the development of new data visualization tools.

- *Fifth Climate Assessment.* $11 million to fund OPR's workload in preparing the Fifth Climate Assessment.

- **Student Success Coach Grant Program**—The May Revision includes $15 million one-time to create a grant program that will establish student success coaches in communities to nurture relationships with K-12 students and collaborate with teachers to help prepare students with skills to achieve their goals.

- **Precision Medicine: Adverse Childhood Experiences (ACEs)**—The May Revision includes $12,415,000 one-time to expand ACEs research which assists in detecting toxic stress to prevent long-term health impacts of youth homelessness. It is also requested that provisional language be added to specify that the resources provided are available for encumbrance or expenditure until June 30, 2026 .

- **California Climate Action Corps State Service Program**—The May Revision includes $4,683,000 and 5 positions in 2021-22, decreasing to $823,000 ongoing, to create service opportunities to take on climate action such as urban greening, food waste recovery, and wildfire prevention.

- **California Volunteer's Statewide Emergency Response Framework**—The May Revision includes $1,324,000 and 7 positions ongoing to maintain an emergency response framework to prepare and train for future disaster response.

- **Californians For All College Service Program**—The May Revision includes $285.2 million one-time to create the Californians For All College Service Program in partnership with the University of California, California State University system, and California Community Colleges. This program will provide 12,500 part-time service opportunities to college students in critical issue areas such as climate action, education and youth development, specifically tutoring and mentoring, health, and disaster response. This includes provisional language to specify that the resources provided are available for encumbrance or expenditure until June 30, 2024. This proposal was also heard in Budget Subcommittee 1 on Education on May 18th.

- **Regional K-16 Education Collaboratives**—The May Revision includes $250 million one-time to provide support for a regional K-16 education collaborative grant program to promote educational alignment across institutions and workforce and economic development in specific regions. This request also includes provisional language to specify the qualifications of the grant program. This proposal was also heard in Subcommittee 1 on Education on May 18th.

- **Science, Technology, Engineering, and Mathematics (STEM) Teacher Recruitment Grants**—IThe May Revision includes $3 million one-time to provide grants to help recruit STEM professionals into the teaching profession by connecting them with teaching, tutoring, and speaking opportunities in K-12 schools. These grants are intended to address the shortage of STEM teachers in California by providing learning and training opportunities for potential future teachers, especially in under-resourced communities. This request includes provisional language to specify the use of funds for these grants.

- **Youth Workforce Development Program**—The May Revision includes $200 million one-time for grants to cities or counties to create or expand youth volunteer and job opportunities. The funding, which will be administered by California Volunteers, will be provided both directly to large cities on a per capita basis and to other cities and counties through a competitive grant process. The goal of this funding is to increase employment opportunities, such as part-time work or summer jobs, for youth to provide them an opportunity to gain valuable work experience.

LAO Comments.

Climate Resilience

- ***Previous LAO Comments on Climate Resilience Proposal.*** We reiterate our previous comments on the Governor's climate resiliency package. To ensure the ultimate package the Legislature adopts is coordinated, strategic, and comprehensive, we recommend considering this package in tandem with other proposed packages—such as those related to water, cap-and-trade, wildfire, and disaster preparedness—so that, in combination, all of the Legislature's climate-related priorities are reflected at its desired levels. Given the magnitude of the spending and number of activities being proposed, the Legislature may want to defer decisions on this package until later in the summer. This would allow to the Legislature time to (1) learn more about the Governor's proposals—especially for programs and initiatives that are being proposed for the first time; (2) craft implementing statutory language to ensure sufficient oversight and accountability (such as program eligibility and prioritization criteria and data to be collected); and (3) incorporate key legislative priorities, such as components of climate bond proposals that the Legislature has been considering. Some key factors to consider:

- Are there certain activities or areas of focus that are high priorities for the Legislature that are not included or sufficiently emphasized in the Governor's package? For example, the two legislative bond proposals include significantly more funding for activities to respond to the threat of sea-level rise compared to the Governor's package.

- What type and amount of support should the state provide for local governments as compared to focusing on state-level activities and assets?

- What are the overall outcomes the state is seeking, and how will it know whether those objectives are achieved? Should there be any additional focus on identifying and measuring outcomes?

Higher Education California Volunteers Proposals

- ***California Volunteers: College Service Program.*** Provides $285 million ($239 million American Rescue Plan and $46 million General Fund) one-time to support service opportunities for documented and undocumented students at CCC, CSU, and UC.

- ***Key Information Lacking.*** The administration has not clarified many fundamental aspects of this proposal, such as the problem the initiative is trying to address and how the initiative would be evaluated. Moreover, it is unclear how this new program would interact with the state's numerous financial aid programs. One existing program—the Dreamer Service Incentive Grant program in CSAC—supports similar activities for financially-needy undocumented students.

- ***Regional K-16 Education Collaboratives.*** Provides $250 million General Fund to establish between five and eight regional collaboratives comprised of K-12 schools, community colleges, and universities. The collaboratives would focus on developing streamlined academic pathways that align with regional workforce needs.

- ***Reject.*** The state already provides education agencies billions of dollars annually to educate students, coordinate their academic programs, and produce workforce-aligned degrees and credentials. The administration has not justified the need for further funding to accomplish these objectives.

Youth Workforce Development

- ***$200 Million Federal Funds For Local Assistance Grants.*** The May revision includes $200 million in federal fiscal relief funds to make grants to local governments to develop part-time summer employment service opportunities for youth. $150 million would be allocated among the state's 13 largest cities according to a population-based formula. Counties and smaller cities would competitively apply for the remaining $50 million. Grants would require a 1:1 match.

- ***Many Cities Have Successful Existing Programs With Similar Objectives.*** Providing employment and service opportunities for youth has a variety of positive benefits ranging from workforce development, to increasing civic engagement, to reducing youth homelessness. Many California cities have successful programs that are administered by public agencies or nonprofit organizations to increase employment and service opportunities for the youth in their communities.

- ***Allocate All Grants Competitively.*** The Governor proposes to allocate most of the funds based on a formula that would benefit cities that already have successful youth workforce development programs. We think that it is important to consider how this new program should relate to these existing programs. While additional funds would likely allow those cities to improve or expand their existing programs, it is not clear that this would be the best use of the funding. Perhaps these funds might be better used to incentivize other cites to create or significantly improve such programs. Awarding all of the funds on a competitive basis would allow for the best proposals to receive funding.

- ***No Direct AmeriCorp Nexus.*** California Volunteers has not clearly articulated a strong justification for its role in administering these grants. While California Volunteers has some administrative capacity for grant making, it's expertise is in administering the federal AmeriCorps program.

- ***Consider Providing Technical Assistance to Smaller Cities.*** Cities with successful existing programs likely will be well-positioned to apply for and receive additional grant funding. However, under-resourced cities might have a great need for these grants.

- ***Reconsider Proposal Timing.*** California Volunteers indicated a desire to get funds distributed quickly and to perhaps provide grants for cities to use for the summer of 2021. However, that time frame is unrealistic for two reasons. First, our understanding that many local governments already have finalized their summer programing. Second, many local governments would not have time to prepare their grant application between the time the Budget Act is signed and the end of summer. Approving funds now to be allocated for programs in summer 2022 would allow time for the grant program to be more fully developed and marketed. It also would allow more time for local governments to prepare their applications and get approval from their elected leadership.

Other California Volunteers Proposals

- ***No Concerns with Student Success Coaching Proposal.*** The Student Success Coach Grant program would be established with $15 million one-time General Fund to create a new focused AmeriCorps program targeting service at K-12 schools.

- ***No Concerns with California Climate Action Corps State Service Program.*** $4.7 million General Fund for three years and then $823,000 ongoing to create service opportunities for activities related to climate change mitigation. This proposal would expand the California Climate Action Corps pilot program and establish it as an ongoing program.

- ***Reject STEM Teacher Recruitment.*** The STEM Teacher Recruitment Grant program would be established with $3 million one-time General Fund to connect STEM professionals with teaching, tutoring, and speaking opportunities in K-12 schools. We recommend rejecting this proposal because it is disconnected from the state's broader teacher recruitment activities. The Commission on Teacher credentialing has historically received a significant amount of funding for teacher recruitment, especially for the science, technology and math fields.

- ***No Concerns with Statewide Emergency Response Framework.*** $1.3 million 7 positions General Fund ongoing to maintain an emergency response framework to prepare and train for future disaster response.

Precision Medicine

- ***No Concerns with Restoring Funding for Adverse Childhood Experiences (ACEs).*** Previously budgeted funding for competitive grants for ACEs research was reallocated last year from the California Initiative to Advance Precision Medicine (CIAPM) to address the anticipated state budget problem. This proposal would restore $12.4 million to support CIAPM.

Staff Recommendation: Hold Open.

1115 DEPARTMENT OF CANNABIS CONTROL

Issue 20: May Revise Proposals

Request. The May Revision proposal for cannabis includes the following:

- **Cannabis Equity and Inclusion Deputy Director Position.** Creates a Deputy Director of Equity and Inclusion to further the Department's mission to implement progressive cannabis policies and license and regulate commercial cannabis activity in a way that best protects public health, safety, the environment, and local communities throughout the state.

- **Cannabis Local Jurisdiction Assistance Grant Program.** Includes $100 million one-time General Fund for a grant program to assist local jurisdictions that have high numbers of provisional licenses obtain California Environmental Quality Act compliance required for annual licensure.

- **Provisional license program, among other statutory changes.** Proposing additions to the statutory changes put forward earlier this year. Chief among these is language to extend the Department's ability to issue new provisional cannabis licenses by six months, to July 1, 2022, make explicit environmental compliance requirements before annual licensure, and require the Department to promulgate regulations identifying steps that must be taken for provisional licensees to show progress toward achieving annual licensure. As of early April 2021, approximately 82 percent of the state's cannabis licensees held provisional licenses. Absent this extension, it is possible that a significant number of these licensees could fall out of the legal cannabis system, significantly curtailing the state's efforts to facilitate the transition to a legal and well-regulated market.

- **Sustainable California Grown Cannabis pilot program.** Includes $9 million one-time General Fund to collect data to establish best practices in: (1) reducing the environmental impact of cannabis water and energy use; (2) pest management and fertilizer practices; and (3) enhancing soil health.

- **Provisional language for transition period until new department is established.** Allows the Business, Consumer Services, and Housing Agency to act on behalf of the new Department until the appropriate staff are hired, and also provides language that helps transition positions from the three legacy departments to the new Department of Cannabis Control.

Staff Comment. At its February 24 hearing, this Subcommittee discussed the Administration's proposal to consolidate the three cannabis licensing entities into one standalone department.

Provisional Licenses. The May Revise proposal folds in language similar to provisions in SB 59 (Caballero) regarding provisional licenses into the Administration's proposal by extending the sunset of the provisional licensing program to June 30, 2022 and removing the sunset of provisional licenses issued prior to 2022. Additionally, the new proposed language exempts the Attorney General's office from representing the department during certain proceedings, and also exempts certain statutes from the Administrative Procedures Act.

Cannabis Local Jurisdiction Assistance Grants. The Cannabis Local Jurisdiction Assistance Grant program directs resources to the eight jurisdictions with the most provisional cultivation, manufacturing, distribution, testing, microbusiness, and/or retail licenses issued, and provides additional support to these identified jurisdictions who also have local equity programs. These jurisdictions can use the funds for the following:

- Review, technical support, and certification for application requirements.
- Local government or other professional preparation of environmental documents in compliance with the California Environmental Quality Act for permits, licenses, or other authorizations to engage in commercial cannabis activity.
- Mitigation measures related to environmental compliance, particularly those that promote efficient water use and water conservation measures.
- Other uses that further the intent of the program as determined by the Department of Cannabis Control.

This grant program is intended to maintain stability across the supply chain and distributes these one-time resources to a significant number of jurisdictions implementing local equity programs, transitioning larger populations of legacy operators to the regulated market, and/or that are located in areas rich in natural resources and require additional capital to meet environmental compliance standards.

Other proposals. The May Revision also includes resources for the Sustainable California Grown Cannabis Pilot Program, and a deputy director for cannabis equity and inclusion.

Legislative Analyst's Office. **"**This proposal raises a number of issues for the Legislature to consider, including:

- Whether it is appropriate to use the General Fund to offset local costs that are normally covered with local fees and/or licensees' private funds.
- Whether it is appropriate to subsidize the costs of annual licensure for only a portion of licensees.
- Whether structuring the program as a loan rather than a grant would be more appropriate.
- How DCC would ensure funding is prioritized for licensees who would not otherwise be able to transition into an annual license.
- How DCC would ensure that funding is allocated to licensees who are likely to be able to operate successfully for the long-term.
- How DCC will ensure jurisdictions that receive funds will fully pursue other avenues of expediting the transition to annual licenses rather than relying solely on state grant funds.
- What activities DCC would authorize funds be used for beyond those explicitly identified in the proposal."

Staff Recommendation. Hold open.

7502 DEPARTMENT OF TECHNOLOGY (CDT)

Issue 21: Technology Modernization Funding

Request. CDT requests a one-time $50 million General Fund, available over three years, to provide funding for an estimated 10 to 25 system stabilization improvements and solutions.

Background. According to the department, "during the COVID-19 pandemic, the state proved it can deliver and stabilize critical state services in days and weeks, rather than the months and years it normally takes to deliver IT projects. The availability of COVID-19 funding outside of the standard budget process was a major factor contributing to these successes.

"Existing IT funding requests are subject to state budget and legislative processes. The budget process is based on a standardized timeline that is not conducive to providing funding for IT solutions in a timely manner. If approved, this proposal would provide a resource enabling the timely funding of smaller and iterative modernization efforts without losing necessary oversight. One example of the problem posed by the current IT funding timeline surfaces when departments, in response to security audit and assessment findings or urgent threats, must wait to implement security solutions as requests for funding move through the budget process. Another example is when departments complete the market research and alternative analysis portions of the Project Approval Lifecycle (PAL), but due to timing, may miss the window to submit a funding request for the budget year."

Proposed provisional language will also require CDT to report to the Legislature biannually on: the use of funds, the progress of funded projects, the status and results of system assessments, as well as the contents of the prioritized list. The department stated that projects less than $10 million would be eligible and would be determined after its Stage 1 business analysis document is submitted to the Department of Technology.

Staff Comment. The Administration's request proposes to remove standard legislative oversight from IT projects that would normally go through the budget process. This year, the Senate has adopted modernization projects with budget bill language that releases funds upon approval of project documents to better align the PAL process with the budget process and help alleviate some of the timing issues raised in this proposal.

Additionally, the 2019 Budget established the Office of Digital Innovation (ODI), and along with it, $20 million for a continuously appropriated revolving fund called the Digital Innovation Services Revolving Fund. The mission of ODI is to "deliver better government services to the people of California through technology and design," and is authorized to deliver services including IT products. The revolving fund may be used to cover costs associated with approved IT projects. If an IT project is submitted to the Administration with such urgency that it necessitates bypassing legislative oversight, the Administration has alternative options it can exercise to fund such endeavors.

Staff Recommendation. Hold open.

8940 California Military Department

Issue 22: Headquarters Complex – Supplemental Appropriation

Request. The California Military Department (CMD) requests a supplemental appropriation of $25,855,000 one-time General Fund for the design-build phase of the Sacramento: Consolidated Headquarters Complex project. The additional funds are necessary to secure project management, construction supervision, engineering support and inspection services through the duration of the project, and to address numerous required change orders and contractor re-mobilization activities and related costs. The additional funds will allow the project to be completed in 2021-22.

Background. At its May 12 hearing, this subcommittee discussed CMD's Headquarters Complex project, and the stop-work order issued by the State Fire Marshal in late March.

This request covers the following estimated costs:

Supplemental Appropriation Estimate				
PCO's		$	12,000,000	Includes costs primarily related to utilities and technology connections, permits, and other State Fire Marshall compliance changes
De-mob-Re-mob & Overhead (6 mos)		$	6,000,000	For 6 months of delays
Criteria Architect/Engineer Contract Extention Jul 21 -Jun 22 (Burns & MacDonald)		$	2,300,000	Provides Specialty Inspections & Engineering Support validation of contract requirements, and provides historical engineering data as well as continuity of Civil Engineered design.
DGS Fees & Services		$	2,300,000	Includes all Soft Costs for Inspection, fully burdened costs for Project Director III ($360K) for 18 months, and 2.5 Construction Supervisor II's ($774K) for 18 months.
3rd Party Construction Management Firm		$	1,700,000	Includes a 3rd Party Construction Management Firm ($1.7M).Military is currently in the process of procuring these services.
Remaining Cap Out Funds for 1 year Warranty Monitoring Contract		$	1,230,000	CMD to let Contract to Burns & MacDonald upon completion and occupancy. A portion of that Appropriation is good until June 22'.
Connection Fees		$	325,000	Water Connection fee: $198K, SMUD Fee: $125K
TOTAL SUPPLEMENTAL COST		**$**	**25,855,000**	

Total project costs are estimated at $197,242,000 including acquisition ($8,831,000), performance criteria ($6,889,000), and design-build (181,522,000).

Staff Recommendation. Hold open.

0509 GOVERNOR'S OFFICE OF BUSINESS AND DEVELOPMENT

Issue 23: Additional Small Business Grants

Proposal. The May Revision includes $1.5 billion one-time federal American Rescue Plan Act (ARPA) funds for the California Small Business COVID-19 Relief Grant Program, which is administered by the California Office of the Small Business Advocate (CalOSBA) within the Governor's Office of Business and Economic Development (GO-Biz). This would bring the total investment in this program to $4.075 billion, including the $500 million initial investment in November 2020 and the additional $2.075 billion expansion approved by the Legislature in February 2021.

Background. Small businesses have been disproportionately affected by over a year of pandemic-related closures and restrictions, with hundreds of thousands of businesses permanently shuttered and many more on unstable financial footing[1]. Despite improving economic conditions, small business revenue is still down 28 percent and 35.7 percent fewer businesses are open compared to pre-pandemic[2]. Roughly a quarter of small businesses reported in April that they would require financial assistance or additional capital to survive the next few months[3].

There have been targeted small business relief grant programs at the federal and state levels, which are described in detail below. However, these programs typically only covered a few months of expenses, were oversubscribed, and are now largely out of funds. There are currently no open programs at the federal or state level for general small business relief.

Federal aid. There are a number of related federal programs administered by the Small Business Administration (SBA):

- The Paycheck Protection Program (PPP) provides forgivable, low-interest loans to businesses with fewer than 500 employees. However, it recently ran out of funding and has stopped accepting most new applications[4]. As of May 2021, at least 600,000 California businesses have received a total of roughly $100 billion in PPP loans[5]. The program tied loan forgiveness to maintaining payroll and specified that businesses must use the majority of funds on payroll expenses within a period of a few months.

- The Economic Injury Disaster Loans (EIDL) Advance program provided grants of up to $10,000 but ran out of funding in July 2020[6]. However, a total of $25 billion is now being used for Targeted and Supplemental Targeted Advances. These have been offered to previous EIDL applicants or recipients who are located in low-income communities and meet certain criteria related to business size and declines in gross receipts.

- $16 billion has been designated for the Shuttered Venue Operators Grants to live venues, independent movie theaters, and other cultural institutions with fixed-seating theaters. In the first week, SBA reported receiving just over 10,000 applications for this program[7].

- $28.6 billion has been allocated for the Restaurant Relief Fund, which opened on May 3. As of May 12, this program had received more than 266,000 applications representing over $65 billion in requested funds, and $2.7 billion has been distributed to 21,000 restaurants[8].

California Small Business COVID-19 Relief Grant Program.
At the state level, the California Small Business COVID-19 Relief Grant Program, administered by CalOSBA, has awarded $2.575 billion in grants to impacted small businesses. The program was initially authorized by Executive Order No. E 20/21-182 in November 2020, and received an $500 million allocation from the Disaster Response-Emergency Operations Account. An

[1] https://www.brookings.edu/wp-content/uploads/2020/09/PP_Hamilton_Final.pdf
[2] https://tracktherecovery.org/
[3] https://portal.census.gov/pulse/data/#data, https://smallbusinessmajority.org/sites/default/files/research-reports/April-COVID-19-small-business-survey.pdf
[4] https://www.nytimes.com/live/2021/05/04/business/stock-market-today#paycheck-protection-program-closes
[5] https://home.treasury.gov/system/files/136/SBA-Paycheck-Protection-Program-Loan-Report-Round2.pdf, https://www.sba.gov/sites/default/files/2021-05/PPP_Report_Public_210509-508.pdf
[6] https://www.sba.gov/article/2020/jul/11/sba-provided-20-billion-small-businesses-non-profits-through-economic-injury-disaster-loan-advance
[7] https://www.billboard.com/articles/news/9567342/shuttered-venue-operator-grants-first-week-application-statistics/
[8] https://www.sba.gov/article/2021/may/12/recovery-smallest-restaurants-bars-administrator-guzman-announces-latest-application-data-results

additional $2.075 billion was appropriated in February 2021 as part of SB 87 (Caballero), Chapter 7, Statutes of 2021, which also formally established the program in statute. CalOSBA used between four and five percent of this funding to contract with Lendistry, a California-based Community Development Financial Institution, to administer the program.

The program was open to businesses and nonprofits with up to $2.5 million annual gross revenue. Priority was given to impacted industries, underserved business groups such as businesses owned by women, minorities or veterans or businesses located in rural and low-wealth communities, and disadvantaged communities as indicated by socioeconomic factors such as unemployment rates. Grant funds could be used for costs resulting from the COVID-19 pandemic, such as employee expenses, working capital and overhead including rent, and costs associated with health and safety restrictions such as purchasing PPE. Funds could not be used to cover costs already covered by other relief or grant programs. The grants were excluded from gross income for state taxes.

The funding was awarded over six rounds: two open rounds for the initial $500 million, a closed third round for previous applicants, a fourth round for nonprofit cultural institutions (with no limitation on annual gross revenue), and finally two open rounds. The last round closed on May 4, 2021. Approximately 198,000 small businesses either have been or will be awarded grants, with the majority going to the priority areas described above[9]. However, GO-Biz has reported that there are over 180,000 remaining applicants, representing roughly $2.5 billion in requests, who did not receive funding.

Proposed Expansion. The May Revision includes an additional $1.5 billion in federal ARPA funding to provide three additional rounds of grants through this program. CalOSBA would first administer two closed rounds to applicants who are currently waitlisted. Then, a final round would be opened for new applicants, as well as waitlisted applicants, to capture any entities who have not applied before or may still be on the waitlist.

Staff Comment.

Businesses excluded from previous relief efforts. Despite efforts to make these programs equitable and accessible, stakeholders have reported that certain businesses have been consistently left out of relief. All of these programs had applications that were only in English and only available online, and some businesses were not able to get the technical assistance necessary to apply. In other cases, businesses may not have had the required documentation, including tax returns and personal identification documents. They may have encountered issues due to their immigration status, especially if they are undocumented and did not already have a federal Individual Taxpayer Identification Number. The Legislature could consider ways to increase accessibility for the final rounds of the California Small Business COVID-19 Relief Grant Program, such as: requiring a Spanish language application, increasing funding for outreach and technical assistance, and extending the open application period to allow partner organizations to reach more businesses.

Open versus closed rounds. The proposal includes two closed rounds, where grants would only be distributed to businesses who have already applied, and only one open round for new applicants.

[9] https://static.business.ca.gov/wp-content/uploads/2021/05/SBCRG-Final-Awards-Data-as-of-5132021.pdf, https://business.ca.gov/coronavirus-2019/

It is not clear how competitive the remaining applicant pool is, or if it contains many businesses who were not heavily impacted or not from priority areas. The Legislature could consider switching the structure and/or order of these rounds to allow more new businesses access to relief.

Staff Recommendation: Hold Open

Issue 24: Film and Television Tax Credit Expansion

Proposal. The May Revision includes $30 million for a one-time expansion of the Film and Television Tax Credit in 2021-22. The expansion would be used to target relocating television series.

Background. Film and television production was halted by the pandemic-related public health restrictions for several months in 2020. Unemployment in this industry was relatively high. While employment in film and television production has not yet fully recovered, the situation has significantly improved in recent months.

More than thirty states, including California, use tax breaks to attract film and television productions. California allocates $330 million annually in credits, typically for 20 percent of qualified expenses. The program is oversubscribed, with only 22 out of 61 applicants awarded credits in the most recent round[10]. Georgia, which has an uncapped 30 percent tax credit and doled out $870 million in credits in 2019, briefly overtook California as the top movie-production state in 2016, although California has since reclaimed that title and dominates in television production[11].

Film and Television Tax Credit. The California Film Commission (CFC), housed within GO-Biz, administers the Film and Television Tax Credit Program, which provides tax credits based on qualified expenditures for eligible productions that are produced in California. The program was established in 2009 with $100 million in credits awarded annually by lottery ("Film and TV Tax Credit 1.0"), and was restructured and expanded to $330 million for 2015-16 to 2019-20 ("Film and TV Tax Credit 2.0"). In 2018, the Legislature enacted the Film and TV Credit 3.0, which made minor changes, including a diversity reporting requirement, and extended the credit until 2024-25. The three iterations of the credit are summarized in the table from the LAO below.

[10] https://news.bloombergtax.com/daily-tax-report/hollywood-seeks-to-be-film-king-again-with-expanded-tax-breaks
[11] https://www.indiewire.com/2021/04/georgia-boycott-film-tax-credits-1234629128/, https://www.hollywoodreporter.com/news/general-news/feature-film-production-georgia-outpaced-california-last-year-study-says-1006912/, https://www.hollywoodreporter.com/news/general-news/california-ranks-as-top-filming-location-narrative-feature-films-1282548/, https://www.filmla.com/wp-content/uploads/2021/01/2020_TV_Report_WEB_v1.pdf

Comparison of California Film Tax Credit Programs

Program	First Film Tax Credit	"Program 2.0"	2018 Extension
Years in Effect	2009-2017	2015-2020	2020-2025
Amount per Year	$100 million	$330 million[a]	$330 million
Credit Allocation	Lottery	Jobs ratio score	Modified jobs ratio score
Allocation Categories	10 percent of total credits reserved for independent films	Credits allocated as follows: • 40% for TV projects • 35% for feature films • 20% for relocating TV series • 5% for independent films	Credits allocated as follows: • 40% for TV projects • 35% for feature films • 17% for relocating TV series • 8% for independent films
Credit Percentage	Base: 20% of qualifed spending • Independent films: 25% • Relocating TV series: 25%	Base: 20% of qualifed spending, plus additional: • 5% of spending outside LA • 5% of visual effects • 5% of music scoring Independent films and relocating television: 25%	Base: 20% of qualifed spending, plus additional: • 5% to 10% of spending outside LA (up to 30% total) • 5% of visual effects Independent films and relocating television: 25%
Other Requirements		Complete "career readiness" requirement. Provide a statement that credit was a significant factor in choice of location.	In addition to the added requirements of Program 2.0, production companies must have a written policy against sexual harassment and provide a summary of programs to increase workplace diversity.

[a] Only $230 million was available in the first year of Program 2.0 because it was concurrent with the first credit.

Source: LAO[12]

The current program allows a credit in an amount equal to 20 percent (for feature films or new or recurring television series) or 25 percent (for independent films or relocating television series) of qualified expenditures for the production of a qualified motion picture in California. The project is defined as being in California if 75 percent of the shooting days take place or 75 percent of the budget is spent within the state. Smaller budget projects, commercials, music videos, reality shows, and documentaries are not eligible. Qualified expenditures do not include the amounts paid to actors or directors, among other exclusions. Extra credits are available for programs that film outside of Los Angeles or that include original music or visual effect expenditures. The credits are nonrefundable and nontransferable, and apply to income tax liability. However, independent film projects can sell the credits once, and all projects can choose to apply the credits to sales and use tax liability or to income tax liability in previous or upcoming years.

The credit allocation is competitive and is based on the projected economic impact of the project, measured by the number of associated jobs, the amount of money spent, and the facilities utilized within the state. The applicant must provide documentation to CFC after the project is complete, and the tax credit may be adjusted if the final information is different than the application. For the Film and TV Tax Credit 1.0, roughly $183 million out of $800 million credits went unused because the projects were not completed or ended up not meeting the eligibility requirements of the program[13].

[12] https://lao.ca.gov/LAOEconTax/Article/Detail/388
[13] https://lao.ca.gov/LAOEconTax/Article/Detail/388

Related proposed legislation. A number of bills have been proposed this year which would alter this credit. SB 485 (Portantino) would allow additional credits to be allocated for studio construction projects. This would be an uncapped and sellable credit. SB 611 (Allen) would provide additional credits to projects that hire individuals from the Career Pathways Assistant Director Program or an equivalent program. These credits would come out of the $330 million allocation. AB 986 (Gipson) would make an additional $200 million credit allocation available exclusively to independent films produced and staffed by minorities, at a rate of 40 percent of qualified costs.

Proposed expansion. The May Revision includes a one-time expansion of $30 million specifically for relocating television series, which are shows that move to California after having filmed their most recent season outside of the state.

LAO Comment: *No Concerns.* While we have raised concerns with the effectiveness of this program in the past, this proposal would have no fiscal effect in the budget year and only a very modest impact on the state's long-term budget condition. Moreover, decisions for relocating television productions to film in California are somewhat more likely to be influenced by this credit than are similar decisions for most other types of film and television productions.

Staff Recommendation: Hold Open

7730 Franchise Tax Board

Issue 25: Golden State Stimulus 2.0

Governor's Proposal. The May Revision proposes $8.1 billion for an additional Golden State Stimulus (GSS 2.0) payment, including:

- $600 payments for income tax filers earning up to $75,000 who did not already receive a GSS payment (approximately 9.4 million filers).

- An additional $500 to income tax filers with a dependent making up to $75,000 (approximately 4.3 million filers).

- An additional $500 to Individual Taxpayer Identification Number (ITIN) income tax filers that earn up to $75,000 and have a dependent (approximately 520,000 filers).

In addition, $3.4 million and 46.6 positions are proposed for the FTB to administer the GSS 2.0.

Background. SB 88 (Committee on Budget and Fiscal Review), Chapter 8, Statutes of 2021, created the Golden State Stimulus and Golden State Grant programs, which provided $600 in direct relief to millions of low-income Californians who qualify for the California Earned Income Tax Credit (CalEITC) or are recipients of other specific benefit programs. Specifically, SB 88:

1) Directed the Controller to make a one-time Golden State Stimulus tax refund payment in the applicable amount to each qualified recipient, as follows:

   a) $600 for a qualified recipient who is an eligible individual for the CalEITC who filed a California individual income tax return for the taxable year beginning on or after January 1, 2020, and before January 1, 2021, who has been allowed a CalEITC for that taxable year by November 15, 2021, and is a California resident on the date the Controller issues the payment.
   b) $600 for a qualified recipient who 1) filed a California individual income tax return on or before October 15, 2021, for the taxable year beginning on or after January 1 2020, and before January 1, 2021, 2) include on their return either their ITIN, or, if married, the ITIN number of their spouse 3) reported California adjusted gross income of $75,000 or less, and 4) is a California resident on the date the Controller issues the payment.
   c) $1,200 for a qualified recipient who satisfies the requirements of both a and b.

2) Directed the State Department of Social Services to make a one-time grant payment in the amount of $600 to each person who is one of the following:

   a) An assistance unit as defined in Section 11450.16 of the Welfare and Institutions Code under the California Work Opportunity and Responsibility to Kids Act.
   b) A recipient of benefits provided under the Cash Assistance Program for Aged, Blind, and Disabled Legal Immigrants.
   c) A recipient of benefits under the Supplemental Security Income/State Supplemental Program.

The recession caused by the COVID-19 pandemic disproportionately impacted low-income jobs and exacerbated existing economic inequality in California[14]. As of October 2020, employment rates for high-wage workers ($60,000) had returned to pre-pandemic levels, while employment rates for low-wage workers (<$27,000) were down almost 30 percent[15]. Many Californians have reported food and housing insecurities and difficulty in paying for usual household expenses[16].

Three direct stimulus payments have been provided by the federal government since the beginning of the COVID-19 pandemic. The March 2020 CARES Act package included $1,200 per adult and $500 per child under 17 for individuals whose income was less than $75,000, and a reduced benefit up to incomes of $99,000. The December 2020 aid package included an additional $600 per adult and up to $600 for each qualifying child. The initial payment kept an estimated eight million Americans out of poverty[17,18]. The third round of economic impact payments was authorized by the American Rescue Plan Act of 2021 and provides $1,400 for an eligible individual with a valid Social Security number ($2,800 for married couples filing a joint return) and $1,400 for each

[14] https://www.ppic.org/wp-content/uploads/incoming-inequality-and-economic-opportunity-in-california-december-2020.pdf
[15] https://www.tracktherecovery.org/
[16] https://www.census.gov/data-tools/demo/hhp/#/?measures=EXR&mapAreaSelector=st&barChartAreaSelector=st
[17] https://www.urban.org/research/publication/using-cash-payments-reduce-poverty
[18] https://www.nber.org/papers/w27729

qualifying dependent. The third payment began to be reduced for individuals with adjusted gross income of more than $75,000 (or $150,000 if married filing jointly).

ITIN-filers are typically excluded from federal aid, even though many are essential workers or work in industries hit hard by COVID-19[19]. The March 2020 CARES Act excluded families if any member filed using an ITIN, which also prevented millions of spouses and children who are U.S. citizens or permanent resident immigrants from receiving the initial stimulus payment. Some of those families became eligible in the December federal aid package and could receive the initial payment retroactively. However, families where both parents use ITINs are still ineligible, which has also prevented stimulus support from reaching more than two million U.S. citizen and legal-immigrant children nationwide[20].

The GSS 2 proposal would bring the total investment in the GSS to $11.9 billion. The following chart from the California Budget and Policy Center displays total GSS payments for tax filers under both the first GSS and the proposed GSS 2.0.

Total Golden State Stimulus Payments
Under Governor Newsom's Revised Budget Proposal

	Californians Who File with SSNs			Californians Who File with ITINs		
	First GSS	Proposed Second GSS	Total	First GSS	Proposed Second GSS	Total
	Income of $30,000 or Less			Income of $30,000 or Less		
With Dependents	$600	$500	$1,100	$1,200	$1,000	$2,200
Without Dependents	$600	$0	$600	$1,200	$0	$1,200
	Income Between $30,000 and $75,000			Income Between $30,000 and $75,000		
With Dependents	$0	$1,100	$1,100	$600	$1,000	$1,600
Without Dependents	$0	$600	$600	$600	$0	$600

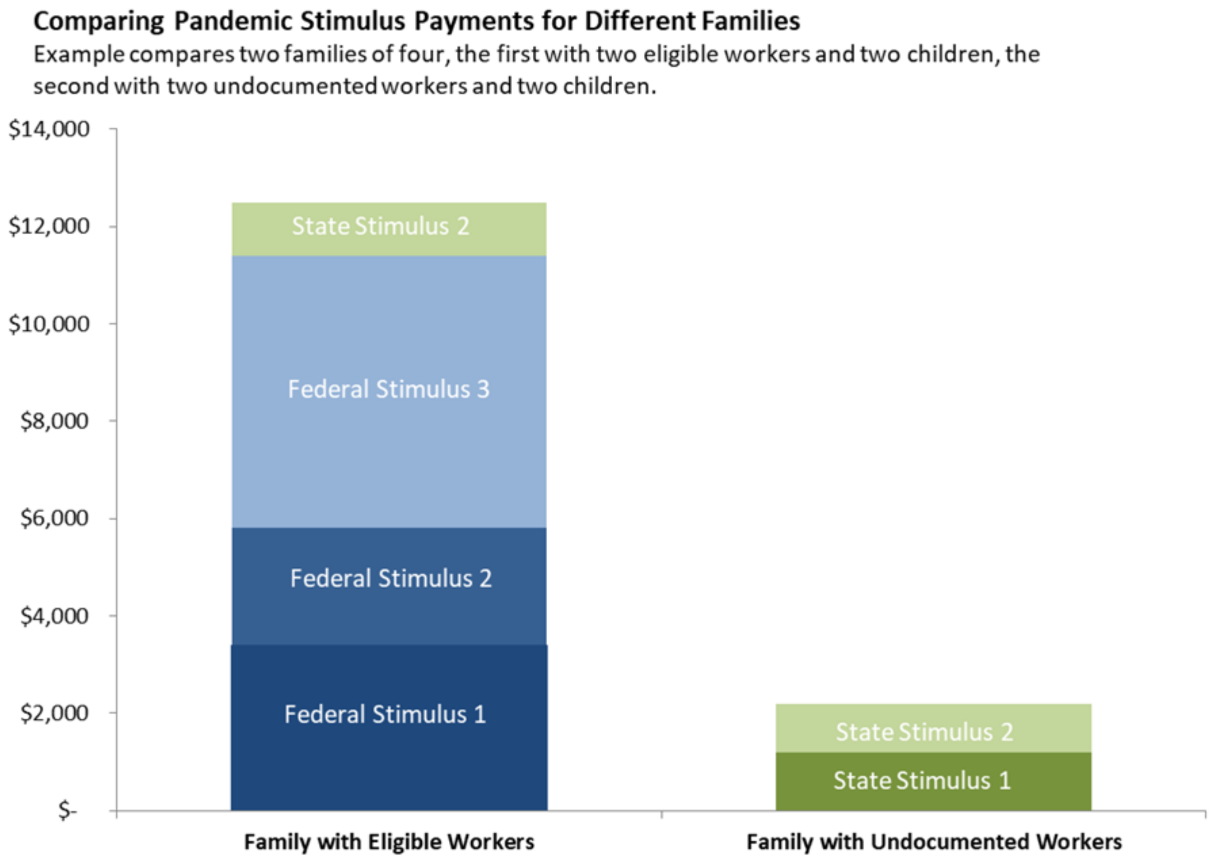
Note: SSNs = Social Security numbers. ITINs = federally issued Individual Taxpayer Identification Numbers.
Source: California Budget & Policy Center analysis of Governor's Golden State Stimulus proposal

LAO Comments. In the LAO's review of this proposal, they suggest that the state should consider focusing on filling gaps in the federal relief that has been provided to date. Federal relief efforts during the pandemic have been unprecedented in scale. The state's capacity to provide relief is much more limited. The state, therefore, should ensure that its pandemic relief 1) targets those most in need and 2) focuses primarily on those not served by federal programs.

The LAO points out that most households proposed to receive payments under the Governor's expanded Golden State Stimulus have already benefited from unprecedented federal pandemic aid. As an example, as shown in the LAO figure below, an eligible family of four who would receive

[19] https://calbudgetcenter.org/resources/about-2-in-3-immigrant-workers-excluded-from-the-caleitc-are-covid-19-essential-workers/
[20] https://www.migrationpolicy.org/news/cares-act-excluded-citizens-immigrants-now-covered

a stimulus payment under the expanded proposal would, in total, receive more than $12,000 in federal and state stimulus payments. An otherwise similar family, but with undocumented workers, would receive much less overall—about $2,000—due to being ineligible for federal stimulus payments. Given the significant overlap with prior federal efforts, the Governor's expanded Golden State Stimulus proposal would not significantly fill in gaps in federal relief. Based on cost estimates provided by the administration, the LAO estimates that less than 10 percent of the proposed stimulus funds would benefit taxpayers and families who have been ineligible for federal aid programs during the pandemic.



The LAO suggests that a more targeted approached could fill the gaps:

- **Reworking Governor's Proposal to Fill in Gaps in Federal Relief.** Undocumented low-wage workers have faced significant job losses and have not benefitted from federal income support. The Legislature has options—to expand or redirect—the Governor's broad proposal in order to more equitably target state assistance to undocumented, low-wage workers. Below, the LAO provides two examples of these options:

  - **Expand Proposal to Provide Larger Payments to Undocumented Workers with Dependents.** One option the Legislature could consider is simply to build on the Governor's May Revision proposal by increasing the payment amount for undocumented families. As an example, by adding $2 billion in funds to the

Governor's stimulus proposal, the Legislature could increase payments to undocumented households with dependents who file using ITINs from $500 (under the Governor's proposal) to $4,000.

- **Redirect Some Proposed Payments to Provide Larger Payments to Undocumented Workers.** As an alternative, a second option is to work within the Governor's budgeted amount for the May Revision proposal. As an example under this option, the Legislature could limit the stimulus expansion to taxpayers with income below $50,000 instead of $75,000. The remaining funds could be redirected to increased payments for undocumented households with dependents who file using an ITIN. Using the remaining funds in this way, the LAO estimates that one-time payments to undocumented households could be increased from $500 to $3,000.

Recommendation: Hold open.

Issue 26: Homeless Hiring Tax Credit

Budget Proposal. The Legislature is considering a proposal to establish a tax credit between $2,500 and $10,000, per qualified individual hired, for employers that pay at least 120 percent of the state of California's minimum wage. Each eligible employee—certified by local Continuums of Care—must work not less than a specified number of hours (depending on the size of the credit) the year for which the employer is claiming the credit. A qualified employer would be able to claim $30,000 in tax credits annually, with an allowable maximum of $30 million in credits allocated annually statewide.

Background. According to a 2019 annual report by the United States Department of Housing and Urban Development (HUD), which compiles the point-in-time (PIT) counts from regions across the United States, California had 151,278 homeless individuals in 2019, which accounted for 27 percent of the nation's homeless population. In this count, most individuals experiencing homelessness across the nation lived in emergency shelters or transitional housing programs, while nearly 72 percent (108,432 people) of California's homeless population remained unsheltered. While these numbers provide a snapshot of the state's homeless population during a single night in 2019, they likely underestimate the scope of the crisis because: (1) the HUD PIT count only measures the homeless population on one day of the year, and (2) it does not capture everyone experiencing homelessness, as some do not wish to be counted, while others cannot be counted because their location is not known to the counters.

The COVID-19 pandemic has exacerbated the needs of California's most vulnerable communities and increased the risks for individuals experiencing homelessness, while the pandemic-generated recession has put severe strains on employers and businesses. During the state's crisis, it is now more critical than ever to provide tools to serve one of California's most vulnerable populations that face significant barriers to employment.

The proposed tax credit is intended to streamline the hiring of homeless individuals while providing incentives to businesses to provide these employment opportunities. The credit will facilitate the hiring of homeless individuals who frequently experience stigma and systemic barriers when attempting to attain employment. The purpose of the Homeless Hiring Tax Credit is to encourage qualified employers that provide family-sustaining career pathways to hire and retain employees from the homeless population.

Recommendation: Hold open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senate Sydney Kamlager
Senator Jim Nielsen

Wednesday, May 26, 2021
1:30 p.m.
State Capitol - Room 4203

Consultant: Nora Brackbill, James Hacker, Yong Salas, and Joe Stephenshaw

ITEMS FOR VOTE ONLY

ITEMS FOR VOTE-ONLY

0110/0120/0130 STATE LEGISLATURE

Issue 1: Constitutional Adjustment

Governor's Proposal. The Legislature's budget for 2021-22 was proposed in January to be $153.3 million for the Senate and $202.1 million for the Assembly. Under the terms of Proposition 140, the growth in the Legislature's budget is constitutionally limited to the growth in the state's appropriation limit (SAL). The year-to-year SAL increase is calculated to be 4.75 percent in the Governor's May Revision. Applying the May Revision SAL rate to the legislative budget would result in funding of $157.9 million for the Senate and $208.0 million for the Assembly.

Background. Funds from the Senate and Assembly appropriations are also used to fund the Legislative Analyst's Office, which, adjusted for SAL, amounts to $10.7 million in 2021-22.

Recommendation: Staff recommends that the Legislature's budget be adjusted to reflect the SAL increase as provided for in the State Constitution.

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

Issue 2: Economic Support for Ports

Governor's Proposal. The May Revision includes one-time funding of $250 million one-time Coronavirus State Fiscal Recovery Fund to allocate to California ports that provide a vital role in the state's economy.

Background. California's 11 public ports1 were deemed essential early in the Covid-19 Pandemic, and were allowed to remain open so that essential goods could continue to reach consumers. Since the onset of the pandemic, California ports have faced abrupt, and in some cases dramatic, revenue shortfalls as cargo declined and tourism and recreational opportunities grounded to a halt.

Staff Comments. California's 11 public ports have compiled and shared revenue losses as a result of the pandemic, which provides the approximate estimate of cumulative need of $250 million. GoBiz has indicated that they intend to develop a standardized method for determining revenue losses, and subsequently allocate funding to the ports based on their proportion of lost revenue.

While economic support for California's ports is clearly important, it is unclear why GoBiz is the appropriate entity to distribute funding, or if the Legislature should more clearly allocate funding instead of deferring to the administration.

Staff Recommendation: Defer action on this proposal for further consideration.

Issue 3: Small Business Finance Center and Small Business Loan Guarantees

Governor's Proposal. The May Revision includes $70 million one-time General Fund for two initiatives at the California Infrastructure and Economic Development Bank (IBank):

- $20 million for the Small Business Loan Guarantee Program
- $50 million for the Small Business Finance Center, to use across programs including the California Rebuilding Fund

These proposals were included in the January Governor's budget proposal, and were heard by the subcommittee on February 10th. The May Revision makes the following changes:

- Reduces the funding for the Small Business Loan Guarantee Program from $50 million to $20 million in anticipation of federal State Small Business Credit Initiative funding. IBank asserts that state funds will allow it to sustain its small business loan guarantee activities until it receives the new federal funds. Moreover, IBank notes that its program fills gaps in the existing federal programs, such as funding business acquisitions or lending to businesses that are owned by undocumented immigrants, for example.
- Includes a requirement to notify the Joint Legislative Budget Committee if the Small Business Finance Center funding is not used for the Rebuilding Fund.
- Realigns the funding to the correct item.

Staff Recommendation. Approve as budgeted.

Issue 4: California Dream Fund

Governor's Proposal. The May Revision maintains the $35 million one-time General Fund proposal to support micro-grants up to $10,000 to seed entrepreneurship and small business creation in underserved groups that are facing opportunity gaps. The May Revision shifts the funding from FY 2020-21 to FY 2021-22. This item was heard in this subcommittee on February 10, 2021.

Staff Recommendation. Approve as budgeted with placeholder trailer bill language.

Issue 5: California Jobs Initiative Staffing

Governor's Proposal. GO-Biz requests $1,350,000 General Fund and 10 positions in 2021-22 and ongoing, including 6 positions for California Competes, 3 positions for the California Office of the Small Business Advocate (CalOSBA), and 1 position for the Legislative and Inter-Governmental Unit.

LAO Comment. We previously have been supportive of staffing increases at GO-Biz in acknowledgement of the increased amount of responsibilities placed on the office by the Legislature. It is not clear, however, that these proposals are justified on a workload basis. These proposals also raise larger questions about whether the administration is appropriately considering the costs and implementation details when developing its major new proposals.

LAO Recommendation. Consistent with our recommendation to reject the California Competes grants, we recommend reducing this proposal by the six positions proposed for the California Competes program. In addition, the proposal for an ongoing increase of three positions for CalOSBA is not justified because that workload is temporary. We recommend reducing this proposal to $535,000 for 2021-22 and $127,000 ongoing to fund three one-year limited-term positions for CalOSBA and one permanent legislative position.

Staff Recommendation. Approve LAO recommendation for $535,000 in 2021-22 and $127,000 ongoing to fund three one-year limited-term positions for CalOSBA and one permanent legislative position.

0515 BUSINESS, CONSUMER SERVICES, AND HOUSING AGENCY

Issue 6: Homelessness Landscape Assessment

Governor's Proposal. The May Revision includes $5.6 million one-time General Fund and 4.0 positions in 2021-22, $590,000 and 4.0 positions in 2022-23 to for HCFC to conduct an assessment of local homelessness service providers and state funded homelessness programs. The assessment will provide a detailed view of the range of services and strategies that are utilized at the local level and help determine if state investments are aligned with local homelessness response systems.

Background. Current law establishes the Homeless Coordinating and Financing Council (HCFC) within Agency and sets several statutory goals, including serving as the statewide facilitator, coordinator, and policy development lead for homelessness at the state level; identifying and seeking homelessness funding opportunities; coordinating homelessness response efforts between state agencies, state departments, and local jurisdictions; and overseeing the state's implementation of Housing First.

Staff Comments. HCFC has indicated that they will contract with a vendor to complete a landscape assessment of the state's homelessness response systems. This assessment will focus on the local level and will identify providers across the local systems of response and classify programs based on the type of intervention or service, the stakeholders involved in administration and service delivery (nonprofit, public entity, public/private), and target population (people at risk, youth, those experiencing chronic homelessness, etc.). Additionally, HCFC will conduct a state funding analysis which will collect and aggregate data summarizing state funding to local systems of response.

The May Revision proposal has merit and could further blend and braid these concepts together. The committee may want to consider the extent to which the May Revise proposal could be expanded to a state gaps and needs analysis that evaluates both the resources available to address homelessness as well as the gap in resources. This analysis could allow the state and local governments to have a targeted, data-driven response to homelessness. The May Revise proposal could be further expanded to include regional gaps and needs analysis to local data-driven solutions to homelessness. The state and local gaps and needs analysis would allow for greater accountability and evaluation of state and local investments.

Staff Recommendation: Approve as budgeted. Adopt placeholder trailer bill language.

Issue 7: Facility Relocation

Governor's Proposal. The May Revision includes $150,000 in fiscal year 2021-22 and $185,000 in 2022-23 and ongoing, with incremental adjustments to account for annual rent increases. This authority will cover one-time and ongoing facilities costs required to accommodate a mandated relocation from the current Business, Consumer Services, and Housing office.

Staff Comments. BCSH is currently located in the Jesse M. Unruh Office Building. As part of the proposed Capitol Annex project, this building is slated for renovation. As such, HCFC requires funding for temporary "swing space" during this renovation. The swing space building is anticipated to be completed in October 2021 and will be used as swing space until 2026. After that, DGS expects the building to be ready for occupancy by its new tenants in 2027 or 2028. For HCFC and other tenants, it is anticipated that they will remain in their interim locations until the swing space building is ready for their use in 2027 or 2028.

The requested resources will support BCSH during this period.

Staff Recommendation: Approve as Budgeted.

0590 State Treasurer's Office

Issue 8: Low Income Housing Tax Credits

Governor's Proposal. The budget includes $500 million in low-income housing tax credits.

Staff Comments. The 2019 and 2020 Budget Acts each authorized $500 million in one-time resources for low-income housing tax credits. To maximize the allocation of tax credits, the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee adopted regulations aimed at increasing affordable housing production, containing costs, and maximizing public subsidy and benefit of the credits. These regulations were finalized in late 2020.

The state's Low Income Housing Tax Credits have proven to be a valuable tool in addressing the state's housing crisis. As such, additional investment in the tax credits is warranted.

Staff Recommendation. Approve as Budgeted.

0650 Governor's Office of Planning and Research

Issue 9: Just Transition Roadmap

Governor's Proposal. The budget includes $406,000 General Fund in 2021-22 and ongoing to develop and implement a Just Transition Roadmap as required by Executive Order (EO) N-79-20.

Staff Comment. The requested position already exists, and is currently performing work associated with the Executive Order. The focus on equity and a resilient transition is commendable, as it recognizes the necessity of ensuring that all Californians benefit from the transition to a cleaner and more sustainable economy.

Staff Recommendation: Approve as Budgeted.

Issue 10: Youth Workforce Development Program

Governor's Proposal. The May Revision includes $200 million in one-time federal ARPA funds for grants to cities or counties to create or expand youth volunteer and job opportunities.

Staff Comment. OPR has indicated that the funding, which will be administered by California Volunteers, will be provided both directly to large cities on a per capita basis and to other cities and counties through a competitive grant process. The goal of this funding is to increase employment opportunities, such as part-time work or summer jobs, for youth to provide them an opportunity to gain valuable work experience.

While there is merit in this approach, there are concerns with the proposed structure, including the split between big cities and smaller cities, as well as questions around CalVolunteers capacity to administer the grants.

Staff Recommendation: Defer action on this proposal for later consideration.

Issue 11: Student Success Coach Grant Program

Governor's Proposal. The May Revision includes $15 million one-time to create a grant program that will establish student success coaches in communities to nurture relationships with K-12 students and collaborate with teachers to help prepare students with skills to achieve their goals.

Staff Comment. This would create a new grant program at OPR focused on service at K-12 schools. While the proposal generally has merit, it overlaps with several other actions the committee plans to take.

Staff Recommendation: Reject without prejudice.

Issue 12: Precision Medicine; Adverse Childhood Experiences (ACEs)

Governor's Proposal. The May Revision includes $12,415,000 one-time to expand ACEs research which assists in detecting toxic stress to prevent long-term health impacts of youth homelessness. It is also requested that provisional language be added to specify that the resources provided are available for encumbrance or expenditure until June 30, 2026 .

Staff Comment. Previously budgeted funding for competitive grants for ACEs research was reallocated last year from the California Initiative to Advance Precision Medicine (CIAPM) to address the anticipated state budget problem. This proposal would restore $12.4 million to support CIAPM.

Staff Recommendation: Approve as budgeted.

Issue 13: California Climate Action Corps State Service Program

Governor's Proposal. The May Revision includes $4,683,000 and 5 positions in 2021-22, decreasing to $823,000 ongoing, to create service opportunities to take on climate action such as urban greening, food waste recovery, and wildfire prevention.

Staff Comment. This proposal would provide $4.7 million General Fund for three years and then $823,000 ongoing to create service opportunities for activities related to climate change mitigation. This proposal would expand the California Climate Action Corps pilot program and establish it as an ongoing program.

While there is merit in the proposal, it should be considered as part of the state's overall response to climate change.

Staff Recommendation: Defer action on this proposal for later consideration.

Issue 14: California Volunteer's Statewide Emergency Response Framework

Governor's Proposal. The May Revision includes $1,324,000 and 7 positions ongoing to maintain an emergency response framework to prepare and train for future disaster response.

Staff Comment. This proposal would allow CalVolunteers to maintain the emergency response framework that has been established to support the state's response to the COVID-19 Pandemic. They would also allow California Volunteers to actively prepare and train for future disaster and emergency response.

Staff Recommendation: Approve as Budgeted.

Issue 15: Science, Technology, Engineering, and Mathematics (STEM) Teacher Recruitment Grants

Governor's Proposal. The May Revision includes $3 million one-time to provide grants to help recruit STEM professionals into the teaching profession by connecting them with teaching, tutoring, and speaking opportunities in K-12 schools. This request includes provisional language to specify the use of funds for these grants.

Staff Comment. OPR has indicated that these grants are intended to address the shortage of STEM teachers in California by providing learning and training opportunities for potential future teachers, especially in under-resourced communities.

While there is merit in this proposal, it overlaps with certain other actions the committee is planning on taking.

Staff Recommendation: Reject without prejudice.

0750 Office of the Lieutenant Governor

Issue 16: Lieutenant Governor Relocation Costs

Governor's Proposal. The May Revision proposes $58,000 in 2021-22, and $7,000 in 2022-23 and 2023-24 General Fund for relocation costs to move from the Capitol Annex to 1021 O Street in November 2021. Resources will cover one-time costs associated with the relocation and re-establishment of the office, and storage costs for three years.

Background. While the new Capitol Annex is scheduled to be under construction, the Legislature and the executive branch offices are required to relocate to a temporary building at 1021 O Street in Sacramento for the duration of the construction project. The requested funding will cover limited-term costs associated with relocation, re-establishment of the office, and storage fees.

Recommendation: Approve as budgeted.

Issue 17: Lieutenant Governor Support Staff

Governor's Proposal. The May Revision proposes $500,000 General Fund and three positions in 2021-22 and ongoing to support the Lieutenant Governor in fulfilling the duties and obligations of the office and best representing the constituents of California.

Background. Over the last 15 years, the Lieutenant Governor's budget and staffing levels have been significantly reduced while the duties of the office have remained the same. In 2009-10, the budget for Lieutenant Governor was reduced from $2.8 million and 30 positions to $1 million and 9 positions. Currently, the budget for the Lieutenant Governor is $2.1 million and 11 positions.

The Lieutenant Governor serves on, and rotates with the State Controller, as chair of the three member State Lands Commission, which oversees the control and leasing of millions of acres of state-owned land, including offshore oil resources, as well as use and permitting for all navigable waterways in California. The Commission also manages state land-use planning and revenues, and related interstate issues. During alternate years, when the Lieutenant Governor serves as Chairperson of the State Lands Commission, the Lieutenant Governor also serves as a member of the Ocean Protection Council and as a non-voting member of the California Coastal Commission.

The Lieutenant Governor also serves as a voting member of the Board of Regents of the University of California, the Board of Trustees of the California State University system, and the Board of Governors of the California Community Colleges system. The Lieutenant Governor is also a member of the Calbright College Board of Trustees.

Under Article V, Section 10 of the California Constitution, the Lieutenant Governor serves as the Governor when the Governor is out of the state. The Lieutenant Governor is also the President of the Senate and votes in case of a tie. The three positions requested are a Communications Aide, Policy Analyst, and External Affairs Director.

Recommendation: Approve as budgeted.

0840 State Controller's Office

Issue 18: Continuity of Operations

Request. The State Controller's Office (SCO) requests two positions and $301,000 ($229,000 General Fund and $72 Unclaimed Property Fund) in 2021-22 and $287,000 ongoing ($218,000 GF and $69,000 UPF) to support the development and expansion of SCO's Continuity of Operations Program (COOP) as the state transitions to telework and adapts to new ways of doing business.

Background. This subcommittee approved the Governor's Budget Proposal for $308,000 for two positions information security and continuity of operations. This proposal would augment the Governor's Budget request with two more positions.

Staff Recommendation. Approve as requested.

Issue 19: FI$Cal Implementation for Annual Comprehensive Financial Report and Other Annual Reports

Request. SCO requests $872,000 ($497,000 General Fund and $375,000 Central Service Cost Recovery Fund in 2021-22 and $854,000 ($487,000 GF; $367,000 CSCRF) in 2022- 23 and budget bill language to support six positions as part of the Financial Information System for California (FI$Cal) project, Special Project Report 9 (SPR9) plan to complete the Annual Comprehensive Financial Report (ACFR), Budgetary/Legal Basis Annual Report (BLBAR), and other annual reports timely and ensure financial reporting functions related to the current Legacy system are successfully transitioned to FI$Cal.

Background. In 2018, SCO, State Accounting and Reporting Division (SARD), received approval for 27.0 positions through the SCO FI$Cal Integrated Solution Budget Change Proposal (BCP). The positions were assigned to four Bureaus within SARD: 11.0 positions to create the new Bureau of FI$Cal Implementation and Transition (BFIT), 10.0 positions for the Bureau of Accounting and Consulting (BAC), 5.0 positions for the Bureau of Cash Management (BCM), and 1.0 position for the Bureau of State Government Reporting (BSGR).

All positions have been filled since approved and devoted to the specific tasks they were approved to perform, including the one position for BSGR. However, the workload for BSGR has changed materially since FI$Cal has been put into implementation. There are issues that have arisen that were unanticipated at the time that have significantly affected the development of the ACFR, which until recently was referred to as the Comprehensive Annual Financial Report (CAFR), and other year-end reports.

During 2020 (for the 2018-19 financial reporting cycle), the ACFR was delayed by seven months, specifically due to: department reporting deficiencies and errors; compliance issues with state accounting policies identified by CSA; and, because many state departments were unable to submit timely and accurate financial statements to BSGR due to difficulties with learning the FI$Cal system. As a result, SCO issued the 2018-19 Unaudited Basic Financial Statements in September 2020 to provide bond investors with information to validate the state's continued financial viability, and bond rating agencies with the underlying data needed to set rates on the state's bonds. The 2018-19 ACFR was finally issued by BSGR on October 30, 2020.

BSGR must also redesign and implement business processes for standardized and customizable GAAP entries to be entered by state departments and work flowed to BSGR in FI$Cal. Currently, this data is provided by departments via GAAP agency requests and entries are analyzed and submitted by departments to SCO via spreadsheets and manually entered into the Legacy system by BSGR. BSGR will evaluate the correct posting of these entries in FI$Cal to ensure they produce the equivalent results for GAAP reporting and the ACFR that the current Legacy system does. The resulting journal entry methodologies must be documented for CSA. Additionally, BSGR will develop a new workflow solution for FI$Cal exempt and deferred agencies to incorporate their accounting entries into FI$Cal. Lastly, BSGR will develop and implement a validation process for transaction processes that were fully automated in SCO's Legacy system, but are being addressed by a "manual" solution in FI$Cal.

Staff Recommendation. Approve as requested.

Issue 20: Golden State Stimulus I and II Administrative Costs

Request. SCO requests budget bill language that authorizes the Department of Finance to augment the SCO's budget for the administrative costs of making the Golden State Stimulus I and II tax refund payments.

The proposed budget bill language is as follows:

> *The Department of Finance may augment the amount authorized under this item for the costs associated with processing and disbursing the Golden State Stimulus I and II tax refund payments. The Controller must submit a detailed schedule of costs directly related to the activities required pursuant to Section 8150 of the Welfare and Institutions Code to the Department of Finance for review and approval. Any adjustment shall not be made sooner than 30 days after the Joint Legislative Budget Committee has been notified in writing.*

Staff Recommendation. Approve as requested.

Issue 21: Electronic Payments for Child Care and State Preschool

Summary. Provide $6 million in one-time General Fund to the SCO to coordinate with the Department of Education and Department of Social Services to set up a system of electronic payment processing and to provide direct deposit payments for child care and state preschool contracts and providers.

Staff Recommendation. Adopt this proposal.

0855 GAMBLING CONTROL COMMISSION

Issue 22: Card Room Fee Waivers

Request. The subcommittee received a request to waive fees for card rooms. The Gambling Control Fund currently has a fund reserve of $45 million, and the revenue impact due to the waivers is estimated to be at around $15 million. This proposal only requires statutory authority, with no General Fund augmentation.

Staff Recommendation. Adopt placeholder trailer bill language waiving fees for card rooms.

0890 SECRETARY OF STATE

Issue 23: SB 450 – Voters Choice Act Counties

Request. The subcommittee received a request for $5.8 million to fund outreach and voter education efforts for the 2022 Voter's Choice Act counties. The Voter's Choice Act was chaptered in 2016 and allowed counties to conduct elections under a new model that provides greater flexibility and convenience, including expanding in-person early voting, allowing voters to cast ballots at vote centers, and mailing every voter a ballot.

The requested funds will cover approximately .18 cents per registered voter, per election cycle for the existing 15 counties operating under the VCA model (approximately 11,008,459 registered voters) and the additional 14 counties currently onboarding to the VCA model, (representing another 5,568,764 registered voters) for a total of 16,577,223 registered California voters.

Staff Recommendation. Approve as requested.

0911 REDISTRICTING COMMISSION

Issue 24: Redistricting Augmentation

Request. The Redistricting Commission requests $8.5 million one-time General Fund to complete redistricting activities related to the 2020 Census.

Background. The United States Census Bureau originally planned to deliver redistricting data to all states by March 31, 2021, but announced that it will instead deliver redistricting data to all states by September 30, 2021. This delay is projected to extend the Commission's overall redistricting activities and costs by at least two months. This request will provide the Commission with additional one-time funding to complete the necessary maps and to perform related support activities to finalize redistricting activities.

Staff Recommendation. Approve this funding with placeholder budget bill language.

1111 DEPARTMENT OF CONSUMER AFFAIRS

Issue 25: Relocation

Request. The Department of Consumer Affairs requests a $74,000 increase in expenditure authority from its various special funds to reimburse the Business, Consumer Services, and Housing Agency for costs related to relocating the Agency from the Jesse Unruh Building.

There is a related issue under the Business, Consumer Services, and Housing Agency budget.

Staff Recommendation. Approve as requested.

1115 DEPARTMENT OF CANNABIS CONTROL

Issue 26: Licensing Entity Consolidation and other Proposals

Request. The Administration proposed to consolidate the three cannabis licensing entities into one standalone department, the Department of Cannabis Control, and requested resources to assume the ongoing regulatory responsibilities of the three state cannabis licensing authorities pursuant to the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) (Chapter 27, Statutes of 2017). In addition, the May Revise proposed to include a Deputy Director of Cannabis Equity and Inclusion, a Local Jurisdiction Grant program, and other technical changes. These resources are requested from the Cannabis Control Fund, which is funded by licensing fees. The Department also requests statutory changes as necessary, including language revising the provisional licensing program.

These requests were discussed at this subcommittee's hearings on February 24 and May 19.

Staff Recommendation.

1. Adopt placeholder trailer bill language.

2. Approve the funding, positions, and budget bill language for the transition until the new department is established requested by the Administration in January and in its May Revision.

3. Approve the resources for the Local Jurisdiction Grant Program, and adopt placeholder budget bill language.

4. In addition to the Administration's proposal, approve resources to include the following positions:
   - Deputy Director of Cultivation, upon Senate confirmation, that serves in the Executive Division.
   - Two additional support staff (one attorney and one Associate Governmental Program Analyst) to serve under the Deputy Director on Cannabis Equity and Inclusion.

5. Approve $20 million General Fund for the Cannabis Local Equity Grant Program, administered by Go-Biz. The California Cannabis Equity Act of 2018 established by SB 1294 created a state grant program for local jurisdictions to develop and operate local cannabis equity programs that focus on the inclusion and support of individuals in California's legal cannabis marketplace who are from communities negatively or disproportionately impacted by cannabis criminalization. Approve $30 million in

Cannabis Tax Fund to reduce barriers into entry in the legal cannabis market, including for purposes of implementing Section 26249 of Business and Professions Code.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Issue 27: Housing Equity Outreach and Enforcement

Governor's Proposal. The budget includes $2.2 million General Fund in 2021-22 and $1.7 million General Fund in 2022-23 and ongoing and eight positions to: expand the Department's multi-lingual education and training efforts to reduce discrimination in housing and employment; build a fair housing testing program and attendant enforcement capability; study housing discrimination amid COVID-19; and provide expertise on landlord-tenant issues to strengthen the state's response to the COVID-19 pandemic; enhance the state's commitment to equity; and help keep Californians housed and employed in the longterm.

Staff Comments. DFEH plays an important role in enforcing the state's fair housing laws. As California deals with widespread issues of housing affordability, this work has become even more crucial. Additionally, the impacts of COVID-19 have fallen predominantly on lower income individuals and households who are particularly vulnerable to housing discrimination. While the state recently passed an ambitious eviction protection and rental assistance measure, issues of housing discrimination and tenant protection are likely to remain significant in the coming years. Given this, it is reasonable to provide additional resources to DFEH.

Staff Recommendation: Approve as Budgeted.

Issue 28: SB 973 Cleanup

Governor's Proposal. The May Revision includes trailer bill language to clarify portions of SB 973 (Jackson), Chapter 363, Statutes of 2020.

Background. SB 973 authorizes DFEH to receive, investigate, conciliate, mediate, and prosecute complaints alleging practices unlawful under those discriminatory wage rate provisions. It requires DFEH, among other things and in coordination with the Department of Industrial Relations, to adopt procedures to ensure that the departments coordinate activities to enforce those provisions.

Staff Comments. The proposed trailer bill language would add DFEH to the list of entities permitted to use information obtained in the administration of the Unemployment Insurance Code, and would authorize the department to use the information to carry out its duties, including ensuring compliance with specified pay data reporting requirements. This is intended to make it easier for DFEH to perform its duties under SB 973.

Staff Recommendation: Approve as Proposed.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 29: Infill Infrastructure Grant Program

Governor's Proposal. The January budget included $500 million for the IIG, including $250 million in 2020-21 and $250 million in 2021-22, with trailer bill language proposed to focus the $250 million in 2021-22 on brownfields development.

An April Finance Letter requested a reappropriation of $160 million in Veterans and Affordable Housing Bond Act of 2019 (Proposition 1) funds for the IIG originally appropriated in the 2020 Budget Act to extend the encumbrance period from June 30, 2021 to June 30, 2022. The April Finance Letter includes an additional $124.1 million in Proposition 1 funds for 2021-22 for IIG with an encumbrance period through June 30, 2023 and a liquidation date of June 30, 2026. This brings the total Proposition 1 funding for the IIG program to $284 million in 2021-22.

Staff Comments. As the opportunity for early action has passed, the proposed funding for the IIG program in 2021-22 totals $534.1 million, including $284.1 million in Proposition 1 and $250 million in General Fund. The IIG program has proven valuable for incentivizing housing development in infill areas. As such, additional investment is warranted.

However, it is unclear what additional benefit the proposed focus on brownfields development creates relative to other forms of infill development. Additionally, the legislature has previously ensured that small jurisdictions could compete for funding without being crowded out by larger and better resourced jurisdictions. The Legislature may want to consider whether a set aside for small jurisdictions, or other mechanism to ensure geographic equity in funding distribution, is appropriate.

Staff Recommendation. Approve $284.1 million in Proposition 1 funding and $250 million in General Fund in 2021-22. Adopt placeholder trailer bill language.

Issue 30: Housing Law Assistance: IT Component

Governor's Proposal. The May Revision includes $360,000 General Fund in fiscal year 2021-22 and ongoing to develop and operate a case management system at the Department of Housing and Community Development (HCD) to assist local governments in complying with housing element laws.

Staff Comment. The committee previously approved $4.3 million in General Fund resources for state operations and 16 positions in 2021-22, $3.8 million in state operations for 16 positions in 2022-23 and ongoing to assist local jurisdictions in housing element and housing law compliance. These resources would be part of HCD's proposed housing law assistance unit, as proposed in the Governor's Budget, and would augment the new unit in order to plan the procurement and implementation of a Software as a System (SaaS) Case Management System.

Staff Recommendation: Approve as Budgeted.

Issue 31: One Time Deferred Maintenance Allocation

Governor's Proposal. The January budget included $10 million General Fund for the most critical repairs and maintenance at the OMS centers. This was intended to fund a portion of the $15.3 million in critical deferred maintenance needs at the OMS centers, without addressing the $14.8 million in additional repairs above and beyond critical needs.

The committee took action to fund the $15.3 million in critical deferred maintenance needs on May 5, 2021.

The May Revision included $20 million in additional funding for deferred maintenance at OMS centers. This brings the proposed total to $30 million, enough to cover the identified repairs.

Staff Recommendation: Approve the January proposal for $10 million. Replace the committee's previous action with the proposed $20 million in additional funding.

Issue 32: Housing Navigator for Foster Youth

Governor's Proposal. The May Revision includes $5 million in 2021-22 and ongoing to support housing navigators to help young adults secure and maintain housing.

Background. The Housing Navigator program allocates funding to counties for the support of housing navigators to help young adults aged 18 years and up to 21 years secure and maintain housing, with priority given to young adults in the foster care system. The program was previously suspended in the 2020 budget due to concerns about the state's fiscal condition.

Staff Comment. The Housing Navigator program plays an important role in helping a vulnerable population secure and maintain housing. Ending the suspension and funding the program will allow it to continue to play this role.

Staff Recommendation: Approve as budgeted.

Issue 33: Foster Care Transitional Housing Program

Governor's Proposal. The May Revision includes $4 million in 2022-23 and $8 million General Fund ongoing to provide funding to support county transitional housing services for young adults, with a priority on serving former foster youth between the ages of 18 to 25.

Staff Comments. The Foster Care Transitional Housing Program plays an important role in helping a vulnerable population secure and maintain housing. The requested resources will allow it to continue to play this role.

Staff Recommendation: Approve as Budgeted.

Issue 34: Mixed Income Program

Governor's Proposal. An April Finance Letter included $45 million in one-time General Fund resources to provide financing for low- and moderate-income multifamily housing projects. This will support the California Housing Finance Agency's Mixed-Income Program.

Background. The CalHFA Mixed-Income Program (MIP) provides long-term subordinate financing for new construction of multifamily housing projects which restrict units at a mix between 30% and 120% of the Area Median Income. The program was created by SB 2 (Atkins), Chapter 364, Statutes of 2017, which established an annual appropriation to CalHFA for the purpose of creating mixed income multifamily residential housing for lower to moderate income households. CalHFA receives 15% of annual SB 2 for this purpose. For 2021, the Agency has also made available funds provided through AB 101 (Committee on Budget), Chapter 159, Statutes of 2019. AB 101 directs the funding to CalHFA to be used to finance low- and moderate-income housing.

Staff Comments. The Mixed Income Program is an important tool for the development of affordable and mixed income housing. Compared to other affordable housing programs, MIP projects cost $119,000 less per unit on average, begin construction almost a year quicker, and create more units outside of areas of concentrated poverty. As such, additional resources are appropriate.

Staff Recommendation: Approve as Budgeted.

Issue 35: Accessory Dwelling Units (ADUs)

Governor's Proposal. The May Revision includes an additional $81 million one-time federal ARPA funds to expand CalHFA's ADU program to inject a total of $100 million in available financing for ADUs.

Background. Accessory Dwelling Units (ADUs) have become an increasingly popular and cost-efficient tool to create needed housing. AB 101 (Committee on Budget), Chapter 159, Statutes of 2019 provided $19 million General Fund for CalHFA to finance ADUs for low- and moderate-income households, which is anticipated to begin in July 2021.

Staff Comments. The additional $81 million one-time federal ARPA funds requested here would expand CalHFA's ADU program to inject a total of $100 million in available financing for ADUs. Because ADUs have quicker local approvals, this proposal could further expedite low-cost production and more quickly increase the housing units statewide.

The Senate Democratic caucus has previously expressed an interest in establishing financing tools for Accessory Dwelling Unit construction to produce more affordable units, provide wealth building opportunities for low and moderate-income homeowners, and benefit historically disadvantaged communities.

Staff Recommendation: Approve as Budgeted.

Issue 36: Homebuyer Assistance –Economic Impact Relief

Governor's Proposal. The May Revision includes $100 million one-time federal ARPA funds to CalHFA to expand its First Time Homebuyer Assistance Program.

Background. CalHFAs First Time Homebuyer Assistance Program helps first-time homebuyers with making a down payment, securing a loan, and paying closing costs on a home.

Staff Comments. The May Revision proposes to expand the existing program to lower-income households and expand CalHFA's lender network to help address the wealth gap, particularly in disadvantaged areas throughout the state. CalHFA has indicated that the program would aim to both expand eligibility and increase the size of individual awards, to assist lower income homeowners with the purchase of a home. This proposal aligns with the caucus' interest in expanding homeownership opportunities for lower income individuals.

Staff Recommendation: Approve as Budgeted.

7600 Department of Tax and Fee Administration

Issue 37: Diaper/Menstrual Product Sales Tax Exemption

Governor's Proposal. The May Revision proposes trailer bill language to indefinitely extend the sales and use tax exemption for the sale or, or the storage, use, or other consumption of diapers for infants, toddlers, and children and menstrual hygiene products.

Background. The sales and use tax exemption for diapers and menstrual products currently sunsets on July 1, 2023.

Recommendation: Approve placeholder trailer bill language to indefinitely extend the sales and use tax exemption for diaper and menstrual products.

7730 Franchise Tax Board (FTB)

Issue 38: Golden State Stimulus II

Governor's Proposal. The proposed budget includes $8.1 billion for an additional Golden State Stimulus (GSS) payment, including:

- $600 payments for filers earning up to $75,000 who did not already receive a GSS payment (approximately 9.4 million filers)

- An additional $500 to filers with a dependent making up to $75,000 (approximately 4.3 million filers)

- An additional $500 to Individual Taxpayer Identification Number (ITIN) filers that earn up to $75,000 and have a dependent (approximately 520,000 filers)

In addition, $3.4 million and 46.6 positions are proposed for the FTB to administer the GSS 2.0. This would bring the total investment in the GSS to $11.9 billion. The first GSS payment, which was approved by the Legislature in February 2021, included $600 payments to filers making up to $30,000, with additional $600 payments to ITIN filers making up to $75,000, families enrolled in CalWORKs, and individuals enrolled in Supplemental Security Income or Cash Assistance Program for Immigrants.

The subcommittee heard this item on May 19th.

Staff Comment. Many undocumented Californians do not currently have ITINs, which are issued at the federal level. However, there is currently a large backlog in processing those applications, and it could take months for someone to obtain an ITIN if they don't already have one.

Staff Recommendation. Approve as budgeted with placeholder trailer bill language to include adequate time for individuals to apply for and obtain an ITIN if needed.

Issue 39: Main Street Hiring Credit and Homeless Hiring Credit

Governor's Proposal. The May Revision maintains $147 million to extend the existing Main Street Hiring Credit for qualified small business employers (Chapter 41, Statutes of 2020, SB 1447). This includes $47 million leftover from the initial $100 million allocation for that credit, plus an additional $100 million allocation. The subcommittee heard this item on February 10th.

Homeless Hiring Credit. The Legislature is considering a proposal to establish a tax credit between $2,500 and $10,000, per qualified individual hired, for employers that pay at least 120 percent of the state of California's minimum wage. Each eligible employee—certified by local Continuums of Care—must work not less than a specified number of hours (depending on the size of the credit) the year for which the employer is claiming the credit. A qualified employer would be able to claim $30,000 in tax credits annually, with an allowable maximum of $30 million in credits allocated annually statewide. The subcommittee heard this item on May 19th.

Staff Recommendation. Approve placeholder trailer bill language for both the Main Street Hiring Credit and the Homeless Hiring Credit.

Issue 40: Limitations on Debt Collection

Proposal. The Senate proposes language to apply some limitations placed on private debt collectors to the FTB for certain types of court-ordered debt.

Background. Current law limits the ability of private debt collectors to collect debts from individuals who earn low wages or have low bank account balances. The intent of the proposed language is to extend certain of these limitations to FTB's collection activities.

Limitations for private debt collectors.

SB 501 (Wieckowski), Chapter 800, Statutes of 2015 limits wage garnishments by private debt collectors to the lesser of 25 percent of an individual's weekly disposable earnings or 50 percent of the amount by which the individual's disposable earnings for the week exceed 40 times the state or local minimum hourly wage.

SB 616 (Wieckowski), Chapter 522, Statutes of 2019 requires bank levies imposed by private debt collectors to exempt an amount equal to the minimum basic standard of adequate care for a family of four, among other protections.
Collection of government debts by FTB. FTB has broad authority to collect different types of government debts through various means. FTB is currently allowed to garnish up to 65 percent of wages, and levy a bank account to a negative balance. The first Golden State Stimulus payment included statutory language to protect the payments from collection for state debts.

The intent of the language proposed here is to permanently establish additional protections from garnishments and levies for very low-wage earners, by applying two restrictions from SB 501 and SB 616 to certain types of debt collected by the FTB. The language would apply to court-ordered debt, which includes court-imposed fines and restitution, among others, and to vehicle registration debt, including vehicle registration fees, parking fees, and toll fees, among others. The language would not excuse or eliminate this debt, which carries a 10 percent interest. However, it would protect debtors from having the majority of their wages garnished, or from losing access to a bank account.

Staff Recommendation. Approve placeholder trailer bill language.

Issue 41: Donated Fresh Fruits or Vegetables Credit

Budget Proposal. Trailer bill language is being consider to extend the Donated Fresh Fruit or Vegetable Credit.

Background. The Donated Fresh Fruit or Vegetables Credit is an income tax credit that allows a qualified taxpayer to receive a credit equal to 15 percent of the qualified value of the qualified donation items of fresh fruits or fresh vegetables donated to a California Food Bank. The current credit ends on January 1, 2022. Extending the credit is projected to result in revenue losses of $100,000 in 2021-22, growing to $350,000 in 2023-24.

This tax credit helps enable producers to donate food products to California food banks and get nourishing food into the hands of individuals, children, and families.

Recommendation: Adopt placeholder trailer bill language to extend the Donated Fresh Fruits or Vegetables Credit.

7760 Department of General Services

Issue 42: Deferred Maintenance

Request. The Department of General Services (DGS) Facilities Management Division (FMD) requests $30 million in one-time General Fund for fiscal year 2021-22 to address critical Fire, Life, and Safety (FLS) issues related to Fire Alarm Systems in four state buildings, and elevator deficiencies in one state building owned and operated by DGS.

Background. This request will address critical Fire, Life, and Safety (FLS) issues related to Fire Alarm Systems in four state buildings, and elevator deficiencies in one state building owned and operated by DGS (see table below). Due to the buildings' aging infrastructure, changes in building code requirements, and evolution of technology, the current FLS and conveyance systems are antiquated, prone to failing, and are comprised of obsolete parts. The requested resources will be used to bring four buildings into full compliance with Fire, Life, and Safety regulations and address urgent safety issues related to conveyance systems in one building to avoid costly emergency response situations and risk to public health and safety.

Table 1 - Proposed Statewide Fire-Life-Safety and Elevator Projects

Project Type	Location - Building Name	Amount
FLS	Oakland - Elihu Harris Building	$6,500,000
FLS	San Francisco - Ronald M. George SOC (Earl Warren Building)	$4,500,000
FLS	Sacramento - Office Building 8	$3,100,000
FLS	Sacramento - Office Building 9	$3,000,000
Elevator	Sacramento - Secretary of State Building	$12,900,000
Total		**$30,000,000**

Staff Recommendation. Approve as requested.

Issue 43: Statewide Property Inventory Modernization Project Planning

Request. The Department of General Services (DGS), Enterprise Technology Solutions (ETS) is requesting a onetime increase of $214,000 General Fund to fund the planning efforts for the State Property Inventory (SPI) modernization project.

Background. The SPI is a 30-year-old system on a legacy platform that was developed by multiple contractors over the years without adequate system documentation. Systems have changed over the 30-year duration as additional data has been required for reporting purposes and enhancements have been completed at various times by adding modules for data entry. These disjointed efforts have created difficulty in extracting information easily.

The complexity of the system is now at the point that daily use and maintenance requires many manual processes. For example, most of the reports currently required of the system must be manually created and require custom coding each time a given report is run, and then data must be exported and manipulated to achieve the desired results. Additionally, system patches or updates are increasingly difficult because the core system was written so long ago that the older, outdated features do not function correctly after the update. This necessitates individual, manual fixes often requiring technical staff to work overtime after-hours so that the entire system can be taken offline without impacting business functions. Finally, as technology platforms have evolved over the past 30 years, the development platform is no longer widely-used. This makes it extremely difficult to hire trained and experienced staff, and DGS' Enterprise Technology Solutions Office has limited staff that are skilled in developing and maintaining this platform. These critical risks to the system requires immediate re-write and modernization in order to maintain compliance with the Government Code and prevent complete system failure.

Staff Recommendation. Approve as requested.

Issue 44: Sacramento Region: Jesse Unruh Building Renovation

Request. DGS requests $122.4 million lease-revenue bond authority in 2021-22 for the design-build phase of a project to renovate the historic Jesse Unruh Building, located at 915 Capitol Mall in Sacramento.

Background. The 2018 Budget Act provided $6.3 million General Fund for the performance criteria phase of the Jesse Unruh Building renovation project, and at the time, total project costs were estimated to be $89.9 million. However, DGS states that due to construction escalation, as well as mitigation for more hazardous materials found than previously anticipated, as well as repair costs due to more severe water intrusion than previously anticipated, total project cost is estimated to be $128,727,000 ($6,335,000 for performance criteria and $122,392,000 for design-build). However, DGS states that under the traditional design-build model, escalation costs would have increased the total project cost to $130.6 million; under the progressive design-build model, escalation costs increased the total project cost to $128.7 million.

The building is located in a prominent area on Capitol Mall, adjacent to the historic Stanley Mosk Library and Courts Building, and the State Capitol. The current occupants of the building include the State Treasurer's Office, Government Operations Agency, Business, Consumer Services and Housing Agency, and the California State Transportation Agency. The proposed backfill tenant is the State Treasurer's Office.

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

The Jesse Unruh building was built in 1929 and is a historical landmark – the proposed renovation will restore the building's historical character and also address critical life safety and other code deficiencies. The proposed $122.4 million in lease-revenue bond financing would only be enough to renovate the building. To include restoration to the fountain, the total amount needed would $118.8 million, an increase of $2 million, and would also include potential modification costs to the Capitol Mall roundabout area as well.

Staff Recommendation. Approve $124.4 million in lease-revenue bond financing for the design build phase of the renovations to the Jesse M. Unruh Building and the Capitol Plaza, including the restoration of the State Capitol Fountain in accordance with the Secretary of Interior's Standards for treatment of historic properties, and adopting budget bill language that prohibits the demolition of the State Capitol Fountain.

Issue 45: Bonderson Building Swing Space

Request. The Department of General Services (DGS) requests $11,630,000 from the General Fund in 2021-22 for the design-build phase for improvements to the Paul Bonderson Building, located at 901 P Street in Sacramento. These improvements are in conjunction with the Jessie Unruh building project. Total project cost is estimated to be $11,630,000. Fire and life safety, accessibility, tenant improvements and hazardous materials removal are required to prepare the building to house the State Treasurer's Office (STO) as swing space in the near term, and to make the building suitable to house future state tenants. The STO is currently located at the Jesse Unruh Building, 915 Capitol Mall, which is scheduled to be renovated in 2021-22, and which must be fully vacated in June 2022.

Background. The Paul Bonderson Building has been identified as requiring fire and life safety and accessibility improvements as part of the Sacramento Region Facility Condition Assessments prepared in 2015 and is ranked third in Sacramento for buildings requiring replacement or improvement. The work must be accomplished within a short timeframe to coordinate with the Jesse Unruh Building Renovation project construction, and continuation of the Ten-Year Sequencing Plan.

The Paul Bonderson Building will be utilized as swing space for the State Treasurer's Office (STO) during the upcoming renovation of the Jesse Unruh Building, scheduled to start on-site construction June 2022. The STO is the primary tenant of the Jesse Unruh Building and will return as the sole tenant upon completion of renovations. Due to the STO's unique space needs, tenant improvements must be completed at the Bonderson Building prior to STO occupancy, which will then trigger additional fire and life safety and accessibility improvements. In addition, in a facility condition assessment completed in 2015, the Paul Bonderson Building was ranked

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

third in Sacramento and fourth statewide for state-owned, DGS-controlled office buildings requiring renovation or replacement. The proposed building improvements will satisfy the majority of the critical repairs identified in the FCA and will allow backfill with future state tenants upon STO returning to the Jesse Unruh Building. The FCA also identified replacement of rooftop air handlers and air distribution and control systems, which is being completed as a separate deferred maintenance project to be completed in tandem with this project. Other standard tenant improvements such as paint, carpet and modular systems furniture is also being completed using existing support funding and in concert with other repairs and improvements.

Staff Recommendation. Approve as requested.

8620 Fair Political Practices Commission

Issue 46: Lobbying Audits and Investigations

Request. The Fair Political Practices Commission requests 5 positions and $637,000 General Fund in 2021-22, and $602,000 annually thereafter, to implement the redirection of authority from the Franchise Tax Board to perform lobbying audits and field investigations on lobbying reports and statements filed with the Secretary of State pursuant Government Code section 86100. In addition, statutory changes are requested to transfer the authority to conduct the lobbying audits and investigations from the Franchise Tax Board to the Fair Political Practices Commission.

Background. The Commission was created by the Political Reform Act (Act) as an independent non-partisan agency whose objective is to prevent corruption of public officials in the governmental decisionmaking process. The Commission has primary responsibility for the impartial and effective administration and implementation of the Act. The Commission regulates and enforces actions performed by governmental officials and agencies and requires extensive disclosure reports to provide the public with access to government processes.

Existing law authorizes the FTB to perform audits and field investigations with respect to audits and investigations pursuant to Government Code Section 90000, which indicates that the reports and statements of each lobbying firm and each lobbyist employer who employs one or more lobbyists shall be subject to an audit on a random basis with these lobbying firms or lobbyist employers having a 25 percent chance of being audited. When a lobbying firm or lobbyist employer is audited, the individual lobbyists who are employed by the lobbying firm or the lobbyist employer shall also be audited.

The redirection of authority from the FTB to the Commission is to perform lobbying audits and field investigations on lobbying reports and statements filed with the SOS pursuant to Government Code section 86100.

Staff Recommendation. Redirect the resources requested in the proposal to the Franchise Tax Board to continue performing audits, and reject the trailer bill language request.

8860 - Department of Finance (DOF)

Issue 47: Office of Statewide Disaster Cost Tracking, Financial Recovery, and Reconciliation

May Revision. The May Revision proposes $3,374,000 in American Recovery Plan Act (ARPA) funds and 15 positions to create a new unit in DOF called the Office of Statewide Disaster Cost Tracking, Financial Recovery, and Reconciliation for the purpose of tracking, implementation, and oversight of federal stimulus and disaster relief funds through December 2024. Thereafter, ongoing activities of the unit will be funded by the General Fund and performed by 7 positions.

Background. Since the beginning of the COVID-19 pandemic, California has received nearly $425 billion in federal stimulus funds according to DOF. For some of the funding, like the $9.2 billion California received from the Coronavirus Relief Fund (CRF), the federal government has required states to create detailed tracking and accounting systems to ensure the expenditure of funds meet the requirements of federal law and the associated federal guidance. Existing DOF staff were redirected to manage the funding plan and establish tracking and oversight but due to the additional $27 billion the state will receive from the ARPA, the department believes it is necessary to create a new unit to ensure accountability and transparency.

The unit will also identify opportunities to standardize and streamline accounting and reporting policies and processes to improve the tracking, oversight, and recovery of federal funding, including the state's ability to recover disaster relief funds from the Federal Emergency Management Agency (FEMA).

Staff Recommendation: Approve May Revision.

8940 California Military Department

Issue 48: State Active Duty Compensation Adjustment

Request. The California Military Department requests an ongoing net increase of $16,000 (an increase of $22,000 General Fund and a decrease of $6,000 Federal Trust Fund) to align the pay of its State Active Duty employees to the pay of service members of similar grade in the United States Army, United States Air Force, and United States Navy.

Staff Recommendation. Approve as requested.

Issue 49: Deferred Maintenance

Request. The California Military Department requests a one-time General Fund appropriation of $15 million in fiscal year 2021-22 to address deferred maintenance projects. The requested funding will address deferred maintenance projects on the 2020 Backlog of Maintenance and Repair list.

Background. Below is a list of projects that the Military Department will address with this funding, which total to approximately $15 million:

Facility Location	Project Title and Description	Estimated Cost
San Bernardino , 266 East 3rd Street, Armory	Fencing	$ 250,000
San Francisco , End of Zoo Road, Armory	MVSC Roof repairs	$ 125,000
San Francisco , End of Zoo Road, Armory	Replace fence on east side	$ 300,000
San Mateo , 400 No Humboldt St., Armory	Security fencing	$ 250,000
San Mateo , 400 No Humboldt St., Armory	Replace roof on Armory.	$ 300,000
San Pedro , 891 W 13th Street, Armory	HVAC repair	$ 200,000
San Pedro, 891 W 13th Street, Armory	Sec Fence/Lighting & Paving, Landscape	$ 450,000
Santa Ana , 612 E. Warner Ave., Armory	Fence repairs and repairs	$ 250,000
Santa Ana , 612 E. Warner Ave., Armory	Upgrade HVAC	$ 125,000
Seaside 140 COL Durham Street, Armory	Repair motorpool gates	$ 125,000
Stockton , 2000 Stimson Road, AASF	Electrical upgrade	$ 230,000
Stockton , 8010 So. Airport Dr., Armory	HVAC for Assembly Hall	$ 200,000
Stockton , 8020 So. Airport Dr., CSMS	restoration and improvements fencing	$ 500,000
Van Nuys, 17330 Victory Blvd, Armory	HVAC repair	$ 300,000
Van Nuys, 17330 Victory Blvd, Armory	Fenceline repairs	$ 250,000
Ventura , 1270 Arundell Ave., Armory	Storefront Door replacement	$ 75,000
Walnut Creek , 1800 Carmel Drive, Armory	Fencing repairs on Motor pool	$ 250,000
Walnut Creek , 1800 Carmel Drive, Armory	Re-roof with Cool roof	$ 150,000
Yuba City , 310 B Street, Armory	Perimeter Fence Survey/Replacement	$ 175,000

Facility Location	Project Title and Description	Estimated Cost
Apple Valley , 17988 Hyway 18, Armory	New Drill Floor Heaters.	$ 130,000
Azusa, 1351 West Sierra Madre Ave, Armory	Motorize Side Gates (2) and wrought iron upgrade	$ 200,000
Barstow , 1601 Armory Road, Armory	Electrical upgrade	$ 150,000
Barstow, 1601 Armory Road, Armory	Sec Fence/Lighting & Paving, Landscape	$ 500,000
Chico, 2415 Tom Polk, Armory	Supply Building Roof replacement	$ 75,000
Colton , 423 East B Street, Armory	Roof Replacement	$ 500,000
Colton , 423 East B Street, Armory	Electrical upgrade	$ 100,000
Colton , 423 East B Street, Armory	HVAC	$ 150,000
El Cajon , 451 N. Pierce Street, Armory	Security fence	$ 800,000
El Centro , 310 So. 4th Street, Armory	Roof Replacement	$ 450,000
El Centro , 310 So. 4th Street, Armory	Drill Floor & Office Heaters	$ 220,000
Fresno (Hammer) 5575 E. Airways Blvd, Armory	Roof leak repair	$ 450,000
Fresno (Hammer) 5575 E. Airways Blvd, Armory	Security Fence restoration and improvements	$ 250,000
Fresno, 5140 East Dakota Ave., Armory	Roof	$ 400,000
Fresno, 5140 East Dakota Ave., Armory	Security fencing	$ 200,000
Fresno, 5140 East Dakota Ave., Armory	Swamp cooler replacements	$ 150,000
Fresno, 5565 E. Airways Blvd., TASMG Armory	Security Fencing	$ 300,000
Fullerton , 400 So. Brookhurst Rd., Armory	Security Fence	$ 400,000
Fullerton , 400 So. Brookhurst Rd., Armory	HVAC Replacement	$ 150,000
Glendale, 220 E. Colorado St., Armory,	HVAC Replacement	$ 300,000
Glendale, 220 E. Colorado St., Armory,	Roof Coating	$ 300,000
Hollister, 2302 San Felipe Rd., Armory	Security Fence & Paving	$ 550,000
Hollister, 2302 San Felipe Rd., Armory	Install MVSC Fence and Lighting	$ 100,000
Hollister, 2302 San Felipe Rd., Armory	Install workspace HVAC	$ 220,000
Inglewood , 111 Grosvenor Street, Armory	Re-Roof	$ 400,000
Long Beach , 2200 Redondo Ave., Armory	Fire Alarm Replacement	$ 200,000
Long Beach , 2200 Redondo Ave., Armory	Elevator interior repair & repairs	$ 75,000
Madera , 701 E. Yosemite Ave., Armory	Security Fencing	$ 250,000
Manhattan Beach , 3601 Bell Avenue, Armory	Fence line restoration and improvements	$ 175,000
National City , 303 Palm Avenue, Armory	Replace Roof	$ 450,000
Ontario , 950 N. Cucamonga Ave, Armory	Install new Security Fence with motorized Gate	$ 250,000
Palmdale , 38315 N. 30th Street, Armory	Security Fencing	$ 275,000
Palmdale , 38315 N. 30th Street, Armory	HVAC Replacement	$ 300,000
Pomona, 1700 E. 1st Street, Armory	Replace fencing	$ 500,000
Redding, 3025 South St., Armory	Replace fencing	$ 250,000
Richmond , 624 Carlson Blvd., Armory	Replace heating & HVAC	$ 150,000
Richmond , 624 Carlson Blvd., Armory	Fire Alarms installed.	$ 165,000
Sacramento, 8410 Okinawa St. , Armory	Install rolling gates and repair fence	$ 130,000

Staff Recommendation. Approve as requested.

Issue 50: Emergency Preparedness and Disaster Response

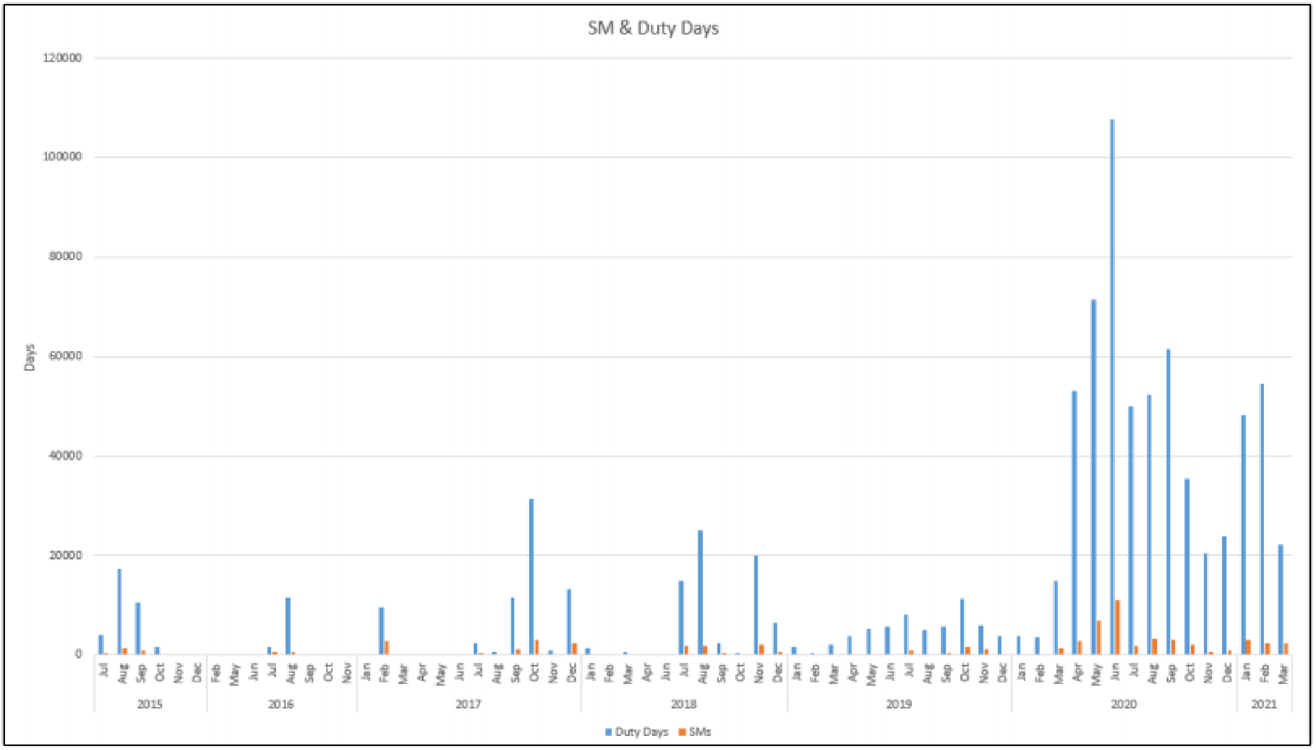
Request. The California Military Department requests 18 positions and $2.9 million General Fund in 2021-22, and $2.8 million annually thereafter, to address higher levels in the magnitude, frequency, and complexity of natural disasters and demand for National Guard support. These resources will provide the necessary operational, logistical, administrative, and fiscal support staff required to maintain the readiness of our part time force.

Background. Historically, the CMD has been activated by the state in a response role to provide aviation and ground resources to perform wildfire suppression along with high altitude and hoist capable aircraft to support search and rescue operations. Since 2015, the CMD has supported greater demands across the state for other, more diverse missions such as debris removal, first responder decontamination, commodities distribution, cyber response, emergency evacuations, labor support to food banks and non-profit institutions, along with a vast run on medical support teams to support hospitals, nursing homes, and vaccination sites in the wake of the COVID-19 Pandemic. The strain from these expanded mission demands have been further exacerbated by frequent demands to protect lives, rights, and infrastructure during periods of civil unrest that are becoming much more common.

Besides the new missions, the role and scope of CMD has expanded within traditional wildfire and search and rescue missions. For wildfires, the CMD has evolved from emergency response wildfire suppression capability to a year-round fire detection, prevention and response enterprise. For search and rescue, the CMD now routinely deploys specialized teams to assist incident commanders by equipping civilian ground search teams with military Friendly Force Tracking (FFT) technology and by providing Incident Awareness and Assessment teams to assist in developing search patterns and analyzing visual data gathered from aircraft to identify clues (clothing, objects, etc.).

CMD provides the following chart that shows the number of duty days as well as individual service members activated by month since 2015:

Figure 2 – total number of duty days and individual service members activated by month since 2015



Additionally, CMD provided a breakdown of the number of duty days and personnel activated to support each operation in 2020 and 2021:

2020	2021 (thru Mar '21)
COVID-19- 5,998 personnel / 358,545 days	**COVID-19**- 2,256 personnel / 102,258 days
WLFF- 2,994 personnel / 63,352 days	**WLFF**- N/A
TF-Rattlesnake- 126 personnel / 9,965 days	**TF-Rattlesnake**- 328 personnel / 15,750 days
Civil Unrest- 9,889 personnel / 66,024 days	**Civil Unrest**- 1,783 personnel / 22,552 days
Totals: 19,007 personnel / 497,886 days	**Totals:** 4,367 personnel / 140,560 days

Staff Comment. This request includes two full-time positions to staff the Friendly Force Tracking program, which uses military-level technology to assist in developing search patterns and analyzing visual data gathered from aircraft to identify clues on the ground. The program is used for search and rescue or search and extraction operations during wildfires or other emergencies where its technology provides critical, lifesaving support.

However, it has also been used to monitor episodes of civil unrest, like the recent protests in June 2020, demonstrations during the presidential election and inauguration, the marches after the Derek Chauvin verdict, and the University of California graduate student strikes at the end 2019 and in the beginning of 2020. CMD provided the below information of when the Friendly Force Tracking system was used during responses to civil unrest:

LOCATION	DATES (~)	AGENCY/UNIT SUPPORTED	# OF FFT PAX	# OF SHOUTS DEPLOYED	# OF GEC20 DEPLOYED
Planned Protest (Aug 2018)					
Berkeley, CA	04AUG18-06AUG18	Berkeley Police Department (BPD)	1	30	2
Planned Protest (Mar 2019)					
Santa Cruz, CA	19MAR19 - 21MAR19	University Of California Santa Cruz Police Department (UCSCPD)	1	15	1
Planned Protest (Apr 2019)					
Santa Cruz, CA	9APR19 - 11APR19	University Of California Santa Cruz Police Department (UCSCPD)	1	20	1
Santa Cruz, CA	30APR19 - 02MAY20	University Of California Santa Cruz Police Department (UCSCPD)	1	20	1
Planned Protest (May 2019)					
Santa Cruz, CA	14MAY19 - 16MAY19	University Of California Santa Cruz Police Department (UCSCPD)	1	24	1
San Francisco, CA	14MAY19 - 16MAY20	University Of California San Francisco Police Department (UCSFPD)	1	60	2
Planned Protest (Nov 2019)					
Santa Cruz, CA	12NOV19 - 14NOV19	University Of California Santa Cruz Police Department (UCSCPD)	1	25	2
Planned Protest (Jan 2020)					
Santa Cruz, CA	05JAN20 - 24JAN20	University Of California Santa Cruz Police Department (UCSCPD)	1	40	2
Planned Protest (Feb 2020)					
Santa Cruz, CA	09FEB20 - 12FEB20	University Of California Santa Cruz Police Department (UCSCPD)	1	30	2
CIVIL UNREST (May-Jun 2020)					

Los Angeles, CA	31MAY20 - 08JUN20	79 IBCT	2	120	4
Los Angeles, CA	31MAY20 - 08JUN21	Los Angeles Police Department (LAPD)	0	0	1
Sacramento, CA	02JUN20 - 08JUN20	49 MP BDE	1	100	4
PRESIDENTIAL ELECTION (Oct-Nov 21)					
Sacramento, CA	29OCT20-30OCT20	Theater Response Force (TRF)	1	12	2
Southern California	02NOV20 - 06NOV20	79 IBCT	2	100	2
Los Alamitos, CA	02NOV20 - 06NOV20	TRF SOUTH	2	6	1
Moffet AFB, CA	02NOV20 - 06NOV20	TRF NORTH	1	6	1
Fairfield, CA	02NOV20 - 06NOV20	49 MP BDE	2	100	1
Modesto, CA	02NOV20 - 06NOV20	184 IN	1	25	0
Manhattan Beach, CA	02NOV20 - 06NOV20	578 BEB	1	17	0
Richmond, CA	02NOV20 - 06NOV20	143 FA	1	13	0
INAUGURATION (Jan-Mar 21)					
Azusa, CA	15JAN21 - 23JAN21	1/18 CAV	1	0	1
Sacramento, CA	15-Jan-21	1/143 FA	1	0	1
Los Alamitos, CA to Washington D.C.	11MAR21 - 16MAR21	146 AW	1	5	0
Washington D.C.	11MAR21 - 16MAR21	223 MI	1	10	2
Sacramento, CA	15JAN21 - 23JAN21	184 IN	1	25	0
Sacramento, CA	15JAN21 - 23JAN22	270 MP	1	0	1
Sacramento, CA	15JAN21 - 23JAN23	40ID DTAC	2	0	2
Sacramento, CA	15JAN21 - 23JAN24	OVERWATCH	1	4	0
Sacramento, CA	15JAN21 - 23JAN25	578 BEB	1	17	0
Sacramento, CA	15JAN21 - 23JAN26	79 IBCT	2	100	2
Los Alamitos, CA	15JAN21 - 23JAN27	TRF SOUTH	2	6	1
Sacramento, CA	15JAN21 - 23JAN28	TRF NORTH	1	6	1
Sacramento, CA	15JAN21 - 23JAN29	49 MP BDE	4	111	2
CIVIL UNREST (APR 21)					
Sacramento, CA	20APR2021 - 21APR21	270 MP CO	4	20	1
Manhattan Beach, CA	20APR2021 - 21APR21	579 EN BN	4	20	1
Lancaster, CA	20APR2021 - 21APR21	143 MP BN	4	15	0

Staff notes that the National Guard is typically activated by the Governor and mutual aid requests and activities are coordinated by the Governor's Office of Emergency Services, so decisions to use the Friendly Force Tracking technology on civil unrest episodes could very well be made outside of CMD. The proposal requests permanent, full-time positions to manage the Friendly Force Tracking program given the significant increase in the number of duty days and personnel that have been activated in the past two years. The amount of personnel activated in 2020 for civil unrest exceeds the number of personnel activated for all the other emergencies combined, including COVID-19 and wildfire response, and the number of duty days used for civil unrest comes in second after the number of duty days used for COVID-19 response as a whole, and is more than what was used for wildfire response. It is unclear whether the Administration will continue to activate the National Guard for future events of civil unrest at the level at which it has in 2020 and 2021.

The use of the military Friendly Force Tracking technology during the Administration's response to civil unrest begs the question of (1) why, (2) whether such use of military-level tracking technology during civil unrest response is necessary and appropriate, (3) exactly what type of information or individuals are being sought, (4) why this technology is needed to find this information or these individuals, and (5) why two full-time positions are necessary to manage a program that is traditionally managed with a "partially staffed" team. Given the short time frame afforded to thoughtfully analyze and review this request, staff is recommending to defer without prejudice the resources requested for the Friendly Force Tracking program.

Staff Recommendation. Deny the two positions and associated resources for the Friendly Force Tracking program, and approve the remaining resources.

Issue 51: Headquarters Complex

Request. The California Military Department (CMD) requests a supplemental appropriation of $25,855,000 one-time General Fund for the design-build phase of the Sacramento: Consolidated Headquarters Complex project. The additional funds are necessary to secure project management, construction supervision, engineering support and inspection services through the duration of the project, and to address numerous required change orders and contractor re-mobilization activities and related costs. The additional funds will allow the project to be completed in 2021-22.

This subcommittee heard this request at its May 19 hearing.

Staff Recommendation. Approve as requested.

8955 California Department of Veterans Affairs

Issue 52: Deferred Maintenance

Request. The California Department of Veterans Affairs requests $15 million General Fund in 2021-22 to address deferred maintenance projects at the Veterans Homes of California. The proposed projects include replacing the air handling units at the Veterans Home of California-Barstow ($14.4 million) and elevator renovations at the Veterans Home of California-Yountville ($600,000).

Background. This request would fund the following projects:

Facility Location	Project Title and Description	Estimated Cost
Veterans Home of California, Barstow	Replace Air Handling Units (AHU) throughout the Home: The AHUs typically operate 24-hours per day, are over 25 years old, and are at risk of failing. The aging mechanical systems require constant, ongoing maintenance as bearings, motors, and heating and cooling coils have exceeded their life expectancy of 15 years. The AHUs need to be replaced/upgraded and aligned to increase efficiency. They need to be connected to the new control system installed by Honeywell in 2016. Due to the extreme desert temperatures, AHUs are a critical part of the infrastructure. Taking a proactive approach to address this situation before failure will ensure that the VHC-Barstow maintains its compliance with health and safety standards and that policies and procedures are in line with Title 22 and the United States Department of Veterans Affairs regulations.	$14,400,000
Veterans Home of California, Yountville	Elevator Modernization: The VHC-Yountville has 26 elevators throughout the property. Most of these elevators are very old and routinely fail. These failures have proven costly, resulting in numerous emergency contracts and repairs. In many cases, elevator parts are no longer manufactured and new parts have to be reengineered by specialty manufacturers specifically for the VHC-Yountville, dramatically extending the time before elevators return to operation and increasing the costs for repairs. More importantly, the continuous failures have proven significantly disruptive to resident services, particularly those with limited mobility. To date, only two elevators on the Yountville campus have been modernized. The $600,000 requested in this proposal will allow the VHC-Yountville to modernize one to two additional elevators.	$600,000
Total		**$15,000,000**

Staff Recommendation. Approve as requested.

Issue 53: County Veteran Service Officers – Legislative Proposal

Request. This subcommittee received a request for $5.4 million to augment the county veteran service officers (CVSO) funding in local governments. CVSOs provide direct assistance to veterans with obtaining earned Federal benefits, at no cost, for themselves and their families. They assist veterans, including those who are experiencing homelessness or are at risk of becoming homeless, with a range of services. This includes connecting veterans to the appropriate Federal Veterans Affairs (VA) services, treatment, and benefits to assist with housing and other essential needs. CVSOs are especially helpful to veterans in navigating VA benefits and completing applications for aid, which is normally a complex process.

Staff Recommendation. Adopt this proposal.

9210 LOCAL GOVERNMENT FINANCING

Issue 54: Property Tax Backfill for 2020 Wildfires

Request. The Administration requests $11 million to backfill property tax losses for the 2020 wildfires. This request would include the counties of Butte, Fresno, Lake, Lassen, Los Angeles, Madera, Monterey, Napa, Nevada, Orange, San Bernardino, San Diego, San Mateo, Santa Cruz, Siskiyou, Solano, Sonoma, Trinity, Tulare, and Yolo.

Staff Recommendation. Approve as requested.

Issue 55: Assessment Appeals Board Deadline Extension

Request. The Administration requests trailer bill language to extend the deadline to allow assessment appeals board to hear cases remotely from March 31, 2021 to December 31, 2021.

Background. The 2020 Budget extended the deadline for decisions in pending assessment appeals cases to March 31, 2021 and provided explicit statutory authority to conduct assessment appeals hearings remotely. These important provisions were intended to allow counties to safely conduct assessment appeals hearings and ensure that boards were able to finalize rulings on appeals that were nearing the statutory deadline. While in a few counties these provisions were sufficient to allow for disposition of backlogged cases, in many others, the backlog has persisted and grown substantially. An extension of the statutory deadline to December 31, 2021 is necessary to ensure the appropriate adjudication of these cases.

Staff Recommendation. Adopt placeholder trailer bill.

BUDGET CONTROL SECTION

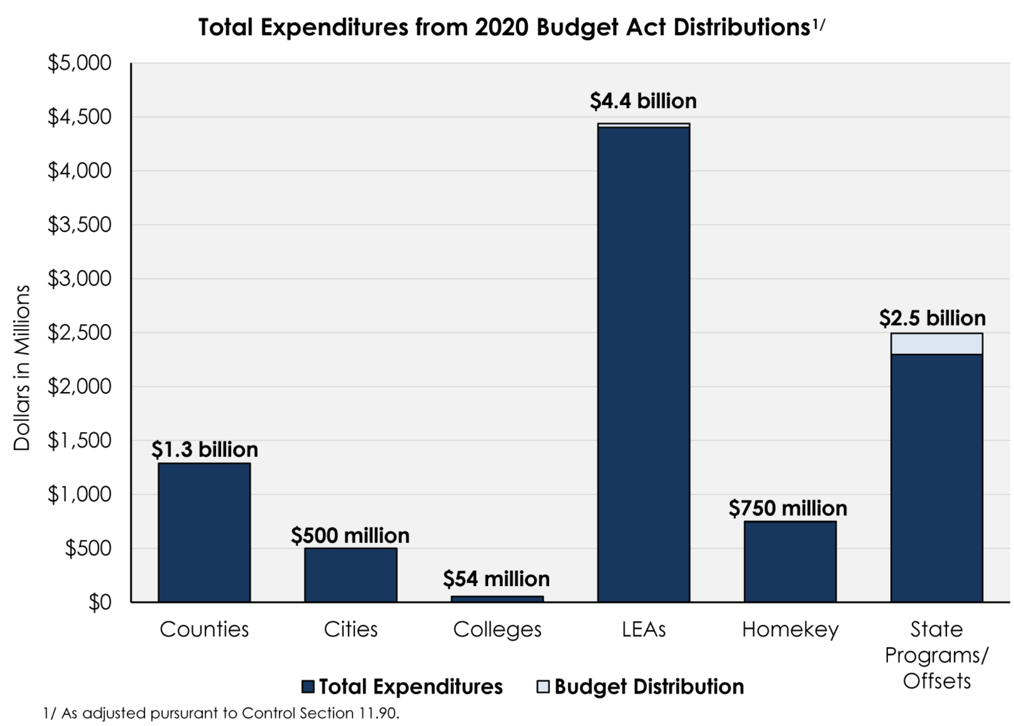
Item 56: Budget Control Section 11.90

Governor's Proposal. The May Revision proposes to include an amended Control Section 11.90 which was originally adopted as part of the Budget Act of 2020-21 for the purpose of allocating federal Coronavirus Relief Funds (CRF) which were part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136). The proposed amendments:

1) Authorize the expenditure of federal CRF funds during the 2021-22 fiscal year.

2) Extend the deadline to allow cities, counties and community colleges to expend federal CRF funds until September 1, 2021.
3) Authorize the expenditure of the interest that was accrued on CRF funds while the funds were in the state treasury.
4) Eliminate the reference to General Fund to allow the direct reimbursement of Special Funds for expenditures related to the redirection of state employees to contact tracing.
5) Reference Chapter 110, Statutes of 2020, as amended by Chapter 10, Statutes of 2021 as it relates to the expenditure of federal CRF funds by local educational agencies.

Background. The CARES Act, adopted by Congress and signed into law on March 27, 2020, included $2.2 trillion in federal stimulus for the nation. The CARES Act established the CRF and appropriated $150 billion to the Fund. California received $9,525,564,744 from the CRF for expenditures incurred by the state and local governments due to the COVID-19 public health emergency. Control Section 11.90 was added to the 2020-21 Budget Act of 2020-21 to give the Department of Finance the authority to allocate CRF funds as follows:



Of the $9.5 billion that California received, $2.5 billion was allocated to offset direct state costs that were incurred between March 1, 2020 and December 31, 2020 for specified uses and cover costs that were necessary expenditures incurred due to the public health emergency or were not accounted for in the state's adopted budget. In December 2020, Congress approved a one-year extension, allowing the state and local agencies to offset costs for COVID-19-related expenditures made before December 31, 2021. According to DOF, as of May 5, 2021, counties and community college districts reported all of their funding spent, or nearly $1.3 billion and $54 million, respectively. Cities reported almost all (99.9 percent) of their total funding spent, or nearly $499 million. Only four cities had unspent funds, a combined total of only about $30,000. Local education agencies reported over 99 percent of their funds spent or obligated, with less than $35 million of the $4.4 billion allocated to schools remaining unspent or unobligated. A total of 1,833 local education agencies reported funds as fully spent or obligated. The Department of Housing and Community Development reported expenditures totaling $747 million. As of March 31, 2021, the Administration has identified more than $2.3 billion in direct state offsets for COVID-19-related expenditures which have been paid or reimbursed with CRF monies. Approximately, $1.1 billion will offset expenditures made through the Disaster Response Emergency Operations Account (DREOA) and approximately $423 million will offset the costs associated with augmentations made through Control Section 36 in the Budget Act of 2019-20. Control Section 11.90 requires the Director of Finance to notify the Joint Legislative Budget Committee ten days prior to making any changes to the planned expenditures.

As part of the May Revision, the Administration is seeking authority to spend approximately $40 million in interest that has accrued while the CRF funds have been in the state treasury. Interest accrued can only be used for COVID-19 eligible activities as defined by the U.S. Department of Treasury under section 601(d) of the federal Social Security Act.

Staff Recommendation: Approve May Revision.