Senate Budget and Fiscal Review

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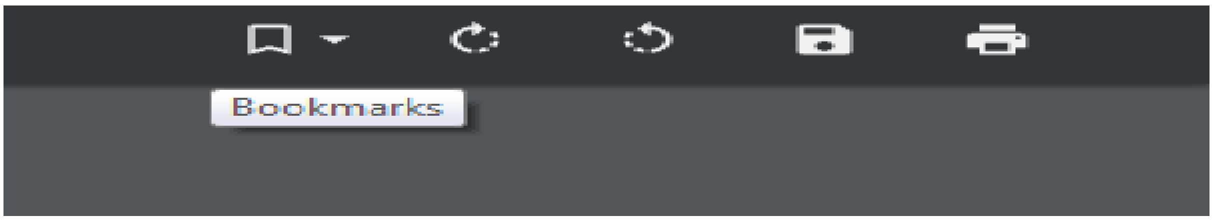

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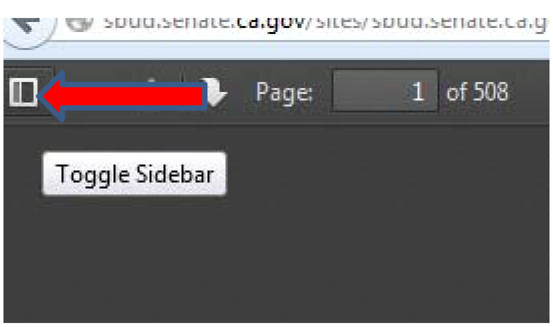

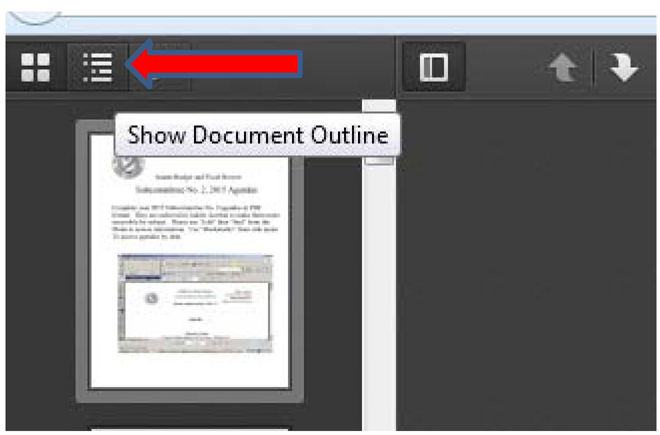

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Anna Caballero
Senator Roger W. Niello

Thursday, March 2, 2023
9:30 a.m. or upon adjournment of session
State Capitol - Room 113

Consultant: Elisa Wynne

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

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ITEMS FOR VOTE ONLY

0870 OFFICE OF TAX APPEALS

Issue 1: Additional Staffing Resources

Request. The Governor's budget requests OTA requests $435,000 ongoing General Fund and permanent position authority for two positions in the Hearings Section of the Legal Division to fulfill requirements set forth in SB 189 (Chapter 48, Statutes of 2022) and address additional workload at the Office of Tax Appeals (OTA).

Background. The OTA is responsible for hearing and deciding tax appeals arising from taxpayer disputes of actions taken by the Franchise Tax Board (FTB) and the California Department of Tax and Fee Administration (CDTFA). Panels comprised of Administrative Law Judges (ALJs) hear and decide cases brought to OTA. SB 189, approved as part of the 2022-23 Budget Act, expands eligibility for serving on appeals panels and hearing and deciding tax appeals, to include certain other tax professionals, specifically Program Specialists (Franchise Tax Board series) and Business Taxes Specialists (California Department of Tax and Fee Administration series). The requested additional positions and funding will allow OTA to fulfill the requirements of SB 189 and address a workload increase.

Staff Recommendation. Approve as budgeted

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 2: Mental Health – Crisis Hotline

Request. The Governor's budget includes $661,000 and 2.5 positions in fiscal year 2023-24, $617,000 and 2.5 positions in 2024-25 and ongoing from the new 988 State Suicide and Behavioral Health Crisis Services Fund for the CDTFA to address the workload associated with AB 988 Mental Health: 988 Suicide and Crisis Lifeline that was established in Chapter 747, of the Statutes of 2022 (AB 988) and for the ongoing administration of the 911 Surcharge Act.

Background.

The CDTFA currently administers the Prepaid Mobile Telephony (MTS) and the Emergency Telephone Users Surcharge programs. Administration of these two programs is split between the Field Operations Division and the Business Tax and Fee Division. These programs are components of the 911 Surcharge Act that funds the State Emergency Telephone Number Account (SETNA). SETNA funds are used to maintain the 911 network system in California that supports delivery of 911 calls to the state's 452 Public Safety Answering Points. California is currently facing a mental health crisis.

Mental illness and suicides have been steadily climbing nationally and currently one in six Californians live with mental illness. The National Suicide Hotline Designation Act (NSHD) of 2020 designated 988 as the new three-digit number for the national suicide prevention and mental health crisis hotline.

AB 988 implements the national 988 system in California so that people experiencing a mental health crisis can receive life-saving care. In summary, AB 988:

- Enacts the Miles Hall Lifeline and Suicide Prevention Act.
- Established the 988 State Mental Health and Crisis Services Fund.
- Creates a 988 surcharge on each access line for each month or partial month for which a service user subscribes with a service supplier.
- Sets the 988 surcharge for 2023 and 2024 calendar year at $0.08 per access line per month, and beginning January 1, 2025, at an amount no greater than $0.30 per access line per month.
- Imposes the 988 surcharge on the purchases of prepaid MTS.
- Requires the CDTFA to submit an annual report to the Office of Emergency Services (OES) regarding revenue generated by the 988 surcharge.
- Appropriates $300,000 in fiscal year 2022-23, to fund the CDTFA's administrative costs for implementing the provisions of the bill.

In conjunction with the current 911 surcharge, beginning January 1, 2023, AB 988 imposes an eight cents ($0.08) per access line per month on each landline, cell phone line, and Voice over Internet Protocol (VoIP) access line for each month or partial month for which a service user subscribes with a service supplier, and it also imposes the 988 surcharge on purchases of prepaid Mobile Telephony Services (MTS).

The Office of Emergency Services (OES) anticipates approximately $55.6 million in annual revenue from the monthly surcharge of $0.08 per access line, to be deposited into the 988 State Mental Health and Crisis Services Special Fund.

Staff Recommendation. Approve as budgeted.

7730 FRANCHISE TAX BOARD (FTB)

Issue 3: High Speed Printer Refresh

Budget. The Governor's budget includes $2,199,000 General Fund and $33,000 special funds in 2023-24 and 2024-25; $99,000 General Fund and $2,000 special funds in 2025-26, and ongoing for FTB to replace two high-speed print systems and software that FTB uses to print FTB’s notices, bills, and correspondence. The print system and software must be replaced because they will reach end of life (EOL) on December 31, 2024.

Background.

To successfully administer filing, accounts receivable, audit, and non-tax programs, FTB uses a full-service data center, which includes extensive 24x7x365 printing operations using high-speed, industrial print systems. FTB also prints notices for the collection of monies on behalf of other departments, such as FTB’s Court Ordered Debt (COD) program and the Department of Motor Vehicles (DMV) and provides emergency backup print services for the State Controller’s Office (SCO). While FTB has implemented many paperless options, FTB continues to provide printed notices, bills, and correspondence to California taxpayers and customers. These printed documents, which are subsequently mailed, help FTB deliver its products and services to California taxpayers and generate revenue for the State of California.

FTB’s Print Operations Unit prints over 20 million notices, bills, and correspondence consisting of more than 76.5 million pages annually. Recently, with the implementation of programs like Health Care Mandate (HCM) and CalSavers the number of forms printed has increased from 1,200 to over 2,700 and the number of logical pages printed has increased from 45.3 million to 76.5 million.

FTB must replace its high-speed print systems due to EOL. FTB requests funding in 2023-24 to begin the replacement process prior to EOL. This early process allows FTB to install the new print systems with minimal risks to FTB’s printing abilities for notices, (including bills and correspondence). This replacement will also protect against the negative impact of aging equipment and provide capability for increasing workloads.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 4: Centralized Revenue Opportunity System (CROS) Maintenance and Operations

Request. The Governor's budget requests $8.9 million in 2023-24 and 2024-25 from a variety of fund sources for the Centralized Revenue Opportunity System (CROS) at CDTFA. Of this, $5.3 million is for contract services for maintenance and operations (M&O), $2.75 million is for the GenTax Software License and $850,000 is for operating expenses and equipment (OE&E). The CROS Project is an information technology modernization effort that has enabled 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 CDTFA administers California's sales and use, fuel, tobacco, alcohol, and cannabis taxes, as well as a variety of other taxes and fees that fund specific state programs.

The CROS Project (Feasibility Study Report Project 0860-094) is an information technology modernization effort that has enabled 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.

CROS 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. On August 30, 2016, the CDTFA completed the CROS Project's Procurement Phase and signed an agreement with FAST Enterprises Inc. (FAST) to implement its commercial off-the-shelf software solution, GenTax, as the CROS Solution. GenTax 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 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 included all remaining the CDTFA tax programs and was implemented on November 9, 2020.

The CDTFA requests $8.9 million in 2023-24 and 2024-25 and includes funding for FAST as follows:

- $5.3 million in 2023-24 and 2024-25 for M&O contract services costs
- $2.75 million in 2023-24 and 2024-25 for the GenTax Software License Fee

The CDTFA also requests $850,000 in 2023-24 and 2024-25 for hardware, software, and training resources needed to support CROS operations. Training resources are needed to provide technical training for staff to ensure they gain key skills in new technologies to support CROS.

The current M&O contract is based on two 2-year optional periods for contract services. The first period was executed August 17, 2021, and goes through August 16, 2023, the second period will begin August 17, 2023, through August 16, 2025. Near the end of the term for the current contract, CDTFA and FAST will need to negotiate an ongoing contract to continue the M&O services.

The Software Licensing Agreement is renewed on an annual basis. The renewal cost in 2023-24 and 2024-25 will be $2.75 million per year. This Software Licensing Contract will remain ongoing at a rate anticipated to increase by 1.5 percent annually, which will be absorbed by savings or funded by future BCP requests.

Staff Recommendation. Hold Open.

Issue 5: California Health Care, Research, and Prevention Tobacco Tax Act of 2016 (Proposition 56)

Request. The Governor's budget includes ongoing funding of $2.5 million in 2023-24 and ongoing from the Department of Tax and Fee Administration Subaccount, Tobacco Law Enforcement Account, CA Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund to fund 16 permanent positions at CDTFA.

Background.

The California Health Care, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56) increased the excise tax on the distribution of cigarettes by $2.00 per pack of 20 (from $0.87 to $2.87 per pack), and indirectly increased the tobacco products tax rate. Proposition 56 also expanded the definition of taxable tobacco products to include electronic cigarettes. As a result, the CDTFA revenue from cigarette and tobacco products increased from $1.2 billion in fiscal year 2016-17 to $2 billion in 2020-21.

The 2020-21 Budget Act provided CDTFA with limited-term funding and redirection for 19 positions in the Investigations Section and the Inspections Section. These positions were requested as limited term in order to monitor the workload impact. Now that the workload is established, CDTFA has determined that ongoing funding is needed for 16 of the 19 positions originally redirected in 2020-21. The remaining 3 positions will be absorbed by the Department. The continuation of these resources will allow CDTFA to address the ongoing workload associated with cigarette and other tobacco products, and enforcement requirements specified in Proposition 56.

The 16 positions include the following:

- Investigations Section: 3 Business Taxes Specialist Is (Felony Investigators); 4 Business Taxes Specialist II (Senior Investigators); 2 Associate Tax Auditors (Assistant Investigators).
- Inspections Section: 5 Business Tax Compliance Specialist (Inspectors); 2 Business Taxes Specialist I (Lead Inspectors).

The Investigations Section and Inspections Section within the Field Operations Division of CDTFA operate under Section 34016, Division 2 of Part 14.5 of the Revenue and Taxation Code, which grants CDTFA authority to conduct inspections and seize products of evidence of non-payment of taxes and fees when discovered. The inspections section has increased its' workload to a three-year cycle, and plans to conduct approximately 11,000 inspections annually. The workload is based on approximately 30,000 retail, distributor, and wholesale cigarette and tobacco products licensed businesses.

Staff Recommendation. Hold open.

Issue 6: Lithium Extraction and Geothermal Development Excise Tax

Request. The Governor's budget includes $249,000 in fiscal year 2023-24, $145,000 in 2024-25, and $144,000 in 2025-26 and ongoing from the Lithium Extraction Excise Tax Fund for the implementation and administration of the new Lithium Extraction Excise Tax Program (LET) that was established in Chapter 63, of the Statutes of 2022 (SB 125).

Background.

Beginning January 1, 2023, the LET law imposes a lithium extraction excise tax upon each metric ton of lithium carbonate extracted from geothermal fluid or any other naturally occurring substance in this state. The LET Law requires producers to register, file tax returns, and remit tax payments to the CDTFA.

In February 2022, the County of Imperial adopted a Lithium Valley Economic Opportunity Investment Plant (Imperial County LVIP) that identifies increased efficiencies and resources needed to encourage the development of a broader clean economy across the state and nationally.

In addition, the California Alternative Energy and Advance Transportation Financing Authority's (CAEATFA) Sales and Use Tax Exclusion (STE) Program will provide incentives to manufacturers and recyclers looking to relocate or expand in California, including companies that manufacture, process, and extract lithium and other rare earth minerals. Of the total $115 million program, $15 million is reserved only for lithium-related projects, beginning in the 2023 award cycle. Currently, the first application period (of 3 during the calendar year) has closed and applications are under review.

A budget trailer bill, SB 125 (Committee on Budget and Fiscal Review), Chapter 63, Statutes of 2022, supported the development of geothermal and lithium extraction facilities in the Salton Sea area. In summary, SB 125 included:

- A Lithium Extraction Tax that will be imposed on each metric ton of lithium carbonate equivalent extracted from geothermal fluid, rock, mineral, or any other naturally occurring substance in this state.
- Reimbursement to the CDTFA for expenses incurred in the administration and collection of the taxes imposed by SB 125.
- A $5 million direct appropriation to Imperial County for the development of lithium extraction processing, production, and related manufacturing activities.
- The creation of the California Natural Resources Agency (NRA) Lithium Subaccount within the existing Salton Sea Restoration Fund.
- An expanded definition of "mining operations" by the California Department of Conservation's California Geological Survey to include the extraction of minerals from geothermal resource facilities in this state.
- A requirement for each owner or operator of a mining operation to register for a permit with the CDTFA and pay a lithium extraction excise tax between $400 to $800, depending on the producer's tax bracket, per metric ton of extracted lithium from the date the first

extracted metric ton of lithium carbonate in this state occurred. This tax shall be due and payable quarterly, on or before the last day of the month following each calendar quarter.

The CDTFA identified an initial cost of $1.4 million to implement and administer the LET Program in 2022-23, of which $1.2 million will fund a contract for software configuration design and changes to the Centralized Revenue Opportunity System (CROS). The balance of the funding provided will fund existing positions for administrative functions associated with implementing the new LET Program.

The CDTFA provided the following timeline for administration of the LET program.

Activity	Date (Approximate)
Draft detailed implementation plans, work with program to design and build new program and test all aspects.	October 2022 and ongoing
Outreach to new feepayers and public (eblasts, webpage updates, special notices).	November 2022 and ongoing
Perform registration and account maintenance as necessary.	December 2022 and ongoing
Train existing staff. Handle public inquiries.	December 2022 and ongoing
Train staff for program implementation and administration.	December 2022 and ongoing
Obtain registration information from Imperial and Riverside Counties or other agencies as needed.	Ongoing
Respond to inquiries received from feepayers and public, as a result of outreach efforts.	Ongoing
Prepare reports as necessary.	January 2023 and ongoing
First Tax Return and Payment Due.	January 2024
Perform refund (audit staff) activities as necessary.	January 2024 and ongoing
Develop and implement audit program and conduct audits.	January 2024 and ongoing
Process petitions on audit billings.	January 2024 and ongoing
Process returns and payments as necessary.	January 2024 and ongoing
Perform collection activities as necessary.	February 2024 and ongoing

ADMINISTRATION–Financial Management Division, Program Administration Branch, Data Analysis Section, eServices, and Business Taxes Committee and Training Section

The taxes from the LET program will provide revenue for the Salton Sea Restoration Fund. The maintenance of this fund requires reconciliation of payments and distribution of funds, ongoing analyses, and preparation of accounting reports. Additionally, administrative functions will include outreach and education to the public, taxpayers, and stakeholders, data reconciliation, report preparation, research, website and system design, training key staff, working with partnering agencies, and the coordination and monitoring of the regulatory process.

COMPLIANCE AND AUDIT–Registration and Licensing Unit, Return Processing Branch, Collections, Audit Examination Branch and Appeals and Data Analysis Branch

Administration of the LET program will also include the registration of approximately six geothermal and extraction facilities within the state. Staff will provide advisory services, account maintenance, collection, audit, appeal, and claim for refund activities. These are all crucial components in the administration of the LET program and will allow the CDTFA to address the increased workload in a timely and efficient manner

Staff Recommendation. Hold open.

7730 FRANCHISE TAX BOARD

Issue 7: Enterprise Data to Revenue Project 2

Budget. The Governor's budget requests $135 million General Fund and the full time equivalent of 41.0 permanent positions, and 31.0 limited-term positions for the Franchise Tax Board (FTB) for the third-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

Background.

In 2007, the staff created a 30 year three-phased modernization strategy for FTB's information technology systems. The primary objective of this strategy addresses refreshing FTB's aging legacy systems, while also taking the opportunity to further advance FTB's strategic goals using the latest technologies and industry best business practices.

- Phase 1 (EDR Project, completed December 2016) – Build the key infrastructure and foundational architecture for the three phased effort and update FTB's existing imaging, case management, return processing, and modeling processes while also developing two new applications (Taxpayer Folder – internal view for FTB staff and MyFTB – external view for taxpayers and practitioners) to consolidate taxpayer data for ease of use, increased customer service and better transparency.
- Phase 2 (EDR2 Project, projected start July 2021) - Leverages the architecture delivered and will expand case management, modeling, MyFTB, and self-service options. This project will also decommission end-of-life legacy systems for Audit, Filing Enforcement and Collections.
- Phase 3 – (projected start 2026) This Final Phase will replace FTB's end-of-life legacy accounting systems and finish addressing FTB's six key business problems.

The EDR2 project represents Phase 2 of an enterprise-wide TSM effort to align FTB's IT infrastructure with its strategic business plan. The EDR2 project will continue to significantly improve the department's ability to address the state's annual $10 billion tax gap through strategically planned TSM efforts consistent with FTB's strategic plan.

The EDR2 project is vital to FTB's operations. The technology currently supporting two of FTB's major legacy systems - Accounts Receivable Collection System (ARCS) and professional Audit Screening and Support System (PASS), which annually allow FTB to collect over $4 billion in compliance revenue, are nearing end-of-life and will no longer be supported after December 31, 2025. Implementing the EDR2 project at this time is critical. Replacing these systems before they reach end-of-life will ensure FTB business operations generating significant compliance revenue for the state will not experience any critical failures. Additionally, the EDR2 project will improve efficiency and provide a better taxpayer experience while increasing revenue.

The following table shows the systems FTB plans to replace with EDR2 and their original implementation dates and ages.

System	**Date Implemented**	**System Age in Years (as of 2022)**
ARCS	1999	23
INC	2001	21
PASS	1997	25

The EDR2 project follows the California Department of Technology's (CDT's) Project Approval Lifecycle (PAL) Process. The most recent document approved for the EDR2 project was the Stage 4 Project Readiness and Approval (S4PRA). The S4PRA was approved on April 1, 2021 and included the EDR2 vendor selection and project approval.

The EDR2 project's Request for Proposal (RFP) was released on April 30, 2019 on the Cal e-Procure website. In May 2020, FTB received the final proposals with proposed solutions from the bidders. Contract Award to the contractor was made in June 2021. The EDR2 project start date is July 1, 2021.

The EDR2 project plans to achieve the following objectives in 2023-24:

- Utilize the new data analytic tools to support the development of new work including functionality for models, treatment paths, and data visualization (reports and dashboards);
- Perform data analysis and clean-up of the PASS application data prior to the conversion of the data into the EDR2 case management platform;
- Analyze and resolve issues with collection cases that will not convert in an automated fashion prior to contractor's automated conversion from the PIT collection legacy to new system;
- Enhance the ability to successfully select best value cases for compliance efforts and complete quality cases efficiently;
- Ensure new data fields can be captured from paper returns and other stand-alone tax forms to assist with developing potential modeling strategies and business rules which will result in increased revenue;
- Develop and implement Training and Organizational Change Management activities to support FTB enterprise including the field offices who will utilize the systems impacted by the EDR2 project implementation and changes;
- Maintain the data integrity and availability in FTB's tax systems and their ability to perform critical state tax functions;
- Fully implement Automated Audit, Professional Audit and Legal Case Management solution;
- Enhance the capabilities of the previously implemented solution that is used by the Underpayment BSOW to identify available assets to levy during the Personal Income Tax involuntary collection cycle;
- Implement self-services, including allowing customers to respond to various notices without a MyFTB account and allowing Withholding Agents to file various information returns online;

- Implement the Enterprise Knowledge Library (EKL) framework to allow for the various enterprise procedure and manuals to be transitioned to this new tool and make certain reference materials available to external customers for self-service purposes; and
- Continue design and development of deliverables to be implemented in future years, including self-services and additional case management solutions

FTB notes that this request is funding for the 2023-24 fiscal year and that a BCP will be submitted each year to cover the costs of the project. According to the FTB, the total cost of EDR2 is estimated to be just over $750 million and will ensure continued collection of over $4 billion in annual revenues. After full implementation, the project is projected to bring in additional new revenues of $300 million annually.

The most recent CDT's Independent Project Oversight Report, completed in December of 2021, notes that the project is on track and performing as expected and does not identify any needed corrective actions at this point.

Staff Recommendation. Hold Open.

Issue 8: Technology Expansion for Business Entities Refundable Credit

Budget. The Governor's budget includes $4.5 million General Fund and 2 two-year limited term positions and 5.0 permanent positions in 2023-24; $1.0 million General Fund in 2024-25; $753,000 General Fund in 2025-26 and ongoing for FTB to expand the tax systems necessary to support refundable credits for Business Entities (BE).

Background.

Currently FTB's BE accounting system, filing process rules, reconciliation tasks, and forms/efile schematics only allow for a business entity to receive a refund for payments they have made, such as an estimate payment or tax payment. These payments are made directly to FTB and are recognized by the Accounting and Return Analysis (RA) systems as the only refundable credit type.

Using statistics from prior tax years, on average 70 percent of business entities pay only the minimum tax amount annually. In general, tax credits are available to business entities for a variety of reasons; however, with most business entities paying only the minimum tax, many entities cannot take advantage of these available tax credits.

FTB notes that a variety of legislative proposals have explored providing refundable tax credits to businesses to assist with various challenges businesses have faced but using the tax system to distribute those funds was not feasible or timely. FTB is seeking resources to begin modifying accounting systems to allow for business entity taxpayers to use refundable type business credits that may be enacted in later years. Approval of this request would put FTB on track to implement this function as of January 1, 2025.

FTB systems will need significant modifications to support the ability of a future refundable (BE) credit. The complexity of these changes is vast and without taking the proper time and care, the entire return processing infrastructure and recording of return filings in FTB's accounting systems could be severely compromised. To ensure the necessary stability and reduce the risk of impacting core tax return processing, FTB is seeking vendor support for the system changes. The primary system that will need modifications is written in COBOL and limited resources with the requisite skill set exist. This work must be completed by technical experts allowing ample opportunity to thoroughly design, develop and test functional changes. Resources requested will support the vendors with their work and will maintain the programming ongoing.

Of the total, $2.8 million is the vendor cost for the return analysis system changes and $569,000 is the vendor cost for accounting system changes. Staff notes that FTB indicates that the costs identified in this request would allow systems to provide refundable business credits, however the adoption of any individual tax policy change that provides these credits would necessitate an additional request to cover the cost of actual implementation.

Staff Recommendation. Hold Open.

Issue 9: Return Processing Technology Support

Budget. The Governor's budget includes $4.9 million General Fund and $96,000 special funds for 29.0 permanent positions in 2023-24; and $4.6 million General Fund and $91,000 special funds in 2024-25 and ongoing for FTB to maintain and improve its existing mission- critical applications and return-processing technology support services.

Background.

FTB is responsible for administering the income and franchise tax laws for the State of California. Staff process tax returns and payments, issue refunds to Californian's, conduct audits and filing enforcement actions, collect debts owed the state and support numerous service functions allowing for each of these compliance activities to occur. As a result of FTB's efforts, in FY 2021-22, FTB processed more than 22.5 million tax returns, over 10 million payments, responded to more than 2.9 million telephone calls, serviced over 70 million internet contacts, and collected about $190 billion in revenue, representing approximately 77 percent of California's General Fund revenue. The General Fund is used to fund necessary services for all Californians across the state, including but not limited to education, safety and welfare programs, and law enforcement.

FTB's technology underpins FTB's return-processing and downstream workloads, and many of FTB's processes are automated and rely on technology and technical staff to maintain them. For example, 87% of FTB's tax returns are processed through automation, 83% of FTB's personal income tax collection accounts are resolved through automated collections, 80% of FTB's tax return payments are electronic, and 33% of FTB's audit net assessment revenue is achieved through automated audits. The remaining work requires staff intervention, but still requires technology to facilitate resolution. Additionally, FTB's customer self-service channels also rely heavily on technology. Many of these services are available 24 hours a day, 7 days a week.

Over the past several years FTB's Technology Services Division (TSD) has consistently been asked to implement changes and adopt new workloads in support of FTB's return processing through legislative change or change requests. At the same time, FTB must provide ongoing technical maintenance activities to ensure its systems and related infrastructure are on supported versions and contain the latest security patches so that FTB can continue to safeguard taxpayer information and provide timely return-processing services to a variety of key stakeholders (e.g., taxpayers, tax preparers). These factors have contributed to FTB's TSD struggling to effectively support its return-processing workloads and accomplish all other mandated or necessary workloads, negatively impacting the public services supported by the revenue FTB generates.

As a result, FTB has begun a comprehensive review of resources, both positions and tools, which support FTB technology work for all functions. This proposal focuses on resource gaps impacting FTB's return-processing workloads. FTB requests 29 positions in the following classifications:

- 26 Information Technology Specialist I
- 3 Information Technology Specialist II

With this requested augmentation, FTB will be able to commit resources to address its struggling workloads and reduce the risk of adverse impacts to return-processing workloads, enhance FTB's ability to react to change, make return processing easier, which helps downstream compliance activities, and improves FTB's ability to deliver reliable and sustainable critical technology and customer services in support of its mission. Further, the augmentation will help FTB:

- Begin to address FTB's imbalance of maintenance and operations work to innovations and change requests.
- Allow FTB to timely and robustly address return processing and supporting workloads including: data acquisition, capture, consumption, and storage.
- Improve taxpayer compliance and employee efficiency and accuracy, and expand customer services through automation, all of which result in faster and more efficient tax administration and return processing.
- Reduce risk of security breaches, outages, work stoppages, and adverse revenue and customer impacts.

Staff Recommendation. Hold Open

Issue 10: Essential Services and Stakeholder Support Gaps

Budget. The Governor's budget includes $2.5 million ($2.4 million in General Fund and $100,000 in special funds) for 13 positions for 2023-24 and $2.4 million ($2.3 million in General Fund and $100,000 in special funds) for 13 positions in 2024-25 and ongoing to enable the FTB to engage in critical and essential services related to revenue estimating, budgeting, legislative analysis, project oversight, procurement, talent management and ensure compliance with Equal Employment Opportunity Laws.

Background. FTB has multiple support areas within FTB that supports core services for all of FTB. These business areas provide expertise and services in the areas of procurement, financial and project management, legislation, research, statistics, talent management, planning, and services related to responsibilities under the Equal Employment Opportunity statutory framework. These functions ensure FTB can optimize services provided across the department as well as provide key information and services to external stakeholders such as the Government Operations Agency, Department of Finance, Department of General Services, Department of Technology, the Legislative Analyst Office, the Legislature, and the California Department of Human Resources (CalHR).

Economic and Statistical Research Activities. Staff engaged in this business line provide services for FTB program areas, statewide policy makers, the public and other stakeholders in order to assess the historical and current impact of tax laws and policies. Bureau staff also develops California revenue impact estimates for proposed legislative changes to the personal income and corporate tax codes, and federal law changes as well as publishes annual reports and information in FTB’s Open Data Portal on significant tax expenditures.

Request: 1 Permanent Program Specialist III, and funding to cover increased costs for reclassifying an Administrator II position to a CEA B position.

Financial Management Activities. Staff engaged in this business line are responsible for the formulation, management, and execution of the department’s budget, including the accounting function. This bureau establishes budgetary principles, policies, systems, and procedures and assists senior management in managing FTB’s budget at both a workload and enterprise perspective to ensure all resources granted FTB are utilized as expected and at an optimal level. Staff ensure the accurate and systematic accounting for all revenue, expenditures, receipts, disbursements, and property of the State entrusted to and administered by the Franchise Tax Board, coordinate the development of the department’s budget and collaborates with external oversight departments soliciting additional resources through Budget Change Proposals, and ensuring FTB has sufficient resources to engage in new legislative programs implemented. Finally, staff documents enterprise workload metrics and leads efforts to understand and act upon this enterprise performance data.

Request: 2 Permanent Administrator III Specialists, 1 permanent Administrator IV, and upgrade costs for 3 Associate Operations Specialists to 2 Staff Operation Specialists and 1 Senior Operations Specialist

Legislative Services. Staff engaged in this business line provides services to ensure that legislation that affects taxpayers and the Department can be administered. Staff responsibilities include providing timely, accurate, and objective bill analyses; engaging in discussions on how operations will be or can be modified for legislative bills, developing and shepherding department legislative proposals through the legislative process; and working collaboratively with the Legislature, the Government Operations Agency, Department of Finance, Legislative Analyst Office and many other external stakeholders.

Request: 2 Permanent Program Specialist II, and 1 Permanent Administrator III Specialist

Planning, Project Oversight & Risk Management Activities. Staff engaged in this business line provides numerous diverse services to FTB and external stakeholders. Staff are responsible for strategic and planning services, functions related to ensuring the department is prepared for actions necessary to ensure continuity of operations in the event of an emergency or catastrophic event, providing project oversight of FTB information technology projects and coordinates with internal and external stakeholders to ensure project success and transparency of efforts occur, and finally, staff lead FTB's risk management program to capture, report, and address risks across the enterprise to ensure that critical program and operational risks are identified early, raised to the right decision makers, and shared timely with key stakeholders as appropriate.

Request: 1 Permanent IT Specialist II

Procurement Activities. Staff engaged in this business line provides enterprise assistance to ensure acquisition of services and products necessary to support FTB business operations. As appropriate, Procurement Bureau staff works closely with external oversight departments to ensure all rules supporting the procurement process are followed and contracts are timely completed. In fiscal year 2020-21, FTB reported spending $74.5 million for approximately 750 contract agreements annually. FTB's total reported spend has grown from approximately $35.9 million in fiscal year 2010-11 to $74.5 million in fiscal year 2020- 2021. FTB and one other department have the highest level of purchasing delegation authority (Tier 4) from Department of General Services and this level of Purchasing Authority requires a fair level of oversight, including undergoing annual audits.

Request: 1 Permanent IT Specialist I, and 1 Permanent Associate Budget Management Analyst, and funding upgrades for four staff members (2 Staff Service Analysts to Associate Budget Management Analyst and 2 IT Associate to 2 IT Specialist I positions)

Equal Employment Opportunity Office. The Equal Employment Opportunity Office manages Franchise Tax Board's equal employment opportunity programs in compliance with federal and state laws and regulations, including (but not limited to), Title VII of the Civil Rights Act of 1964, American's with Disabilities Act of 1990, Government Code sections 19700-19706, and the California Fair Employment and Housing Act. Staff also ensure that FTB complies with federal and state employment laws thereby managing and minimizing FTB's exposure and liability related to allegations of unfair employment practices.

Request: 2 Permanent Associate Personnel Analyst positions

Talent Management. Talent Management is a collaborative, enterprise-wide effort focused on our most valuable resource: FTB employees. Talent Management is the integrated process of ensuring that an organization has a continuous supply of highly productive individuals in the right job, at the right time. Talent Management champions programs and processes that recruit, develop and retain the right employees to meet FTB's business and strategic objectives. Talent Management can increase overall workforce productivity through the improved attraction, retention, and utilization of talent. This strategy is superior not just because it focuses on productivity, but also because it is forward looking and proactive, which means that the organization is continuously seeking out talent and opportunities to better utilize that talent.

Request: 1 CEA Position

FTB notes that the inability to complete key support work efforts and products could jeopardize key policy efforts of the Administration or jeopardize FTB’s ability to complete critical work in the most effective manner to ensure FTB operations are strong and allowing for optimal services levels for all Californian’s trying to comply with filing and payment obligations.

Deficient staffing levels for support functions prevents FTB from responding timely or adequately to external or internal requests for services. Insufficient level of senior staff positions or management positions also results in work being performed at the highest executive levels leading to delays in deliverables and errors or omissions being found far into the process where key gaps can be identified for the first-time causing rework and delays. These inadequately staffed functions lead to many key staff working long hours week over week which is not sustainable.

Staff Recommendation. Hold Open

Issue 11: Film and Television Tax Credits

Budget. The Governor's budget includes proposed trailer bill language to extend the authority for the California Film Commission (CFC) to allocate, and for qualified taxpayers to claim, the California Motion Picture and Television Production Credit for an additional five years, starting in 2025-26. The proposal maintains the current authorization amount of $330 million per year, and makes the credit refundable, thereby allowing taxpayers with insufficient tax liability to make use of the credit.

In addition, the Governor’s budget includes proposed trailer bill language to amend the California Soundstage Filming Tax Credit.

Background:

The CFC allocates credits to taxpayers producing a motion picture or television show in California according to a competitive process. The California Motion Picture and Television Production Credit has been re-authorized three times as noted below. While new applications are only currently accepted for Program 3.0, carryforward allowances mean that credits issued under Programs 1.0 and 2.0 may still be in the process of being claimed on tax returns. The Soundstage filming credit is a new additional credit.

- Original California Motion Picture and Television Production Credit (Program 1.0 – Credit allocation letters dated from July 1 2009 – June 30, 2016)
- New California Motion Picture and Television Production Credit (Program 2.0 - Credit allocation letters dated from July 1 2016 – June 30, 2020)
- Program 3.0 California Motion Picture and Television Production Credit (Credit allocation letters dated from July 1 2020 – June 30, 2025)
- California Soundstage Filming Tax Credit, enacted under Senate Bill 144

The California Motion Picture and Television Credit (Program 3.0) is the most recent authorization of the credit and it allows a credit against the Personal Income and Corporation Taxes for taxpayers producing qualified motion pictures, administered and allocated by the California Film Commission (CFC). Under this credit, the CFC may allocate up to $330 million in tax annually for fiscal years 2020-21 to 2024-25 for qualified motion pictures, defined as follows:

- Have 75 percent of the motion picture shooting days take place in California, or have 75 percent of the motion production budget incurred for services or the purchase or rental of property within the state;
- Commence principal photography within 180 days, and finish within 30 months from the date when the application was approved by the CFC; and
- Obtain a copyright from the United States Copyright Office.

The CFC may allocate credits to any of the following productions:

- A feature film with a minimum production budget of $1 million;
- A movie of the week or miniseries with a minimum production budget of $500,000.
- A new television series produced in California with a minimum production budget of $1 million.
- An independent film, as defined.
- A television series that relocated to California.
- A pilot for a new television series longer than 40 minutes of running time exclusive of commercials produced in California with a minimum production budget of $1 million.

The credit is generally equal to 20 percent to 25 percent of qualified expenditures for the production of a qualified motion picture, independent film, feature, or television series in California, based on certain specifications, with additional credit amounts allowed, including for amounts equal to specific qualified expenditures and qualified wages relating to original photography.

Qualified expenditures are defined as amounts paid or incurred to purchase, or lease, tangible personal property, wages, or services performed in the state, during the motion picture production in California. Qualified expenditures do not include amounts paid to writers, directors, music directors, music composers, music supervisors, producers, or performers, other than background actors.

Under current law, the credit is nonrefundable, but grants taxpayers three options if they do not have sufficient income tax liability to offset the credit:

- Taxpayers with credits for independent films may sell the credit to not more than one unrelated party, who cannot subsequently resell it, so long as the taxpayer reports the sale along with specified information to the FTB.
- Taxpayers can elect to apply credits to offset any sales and use tax liability, and obtain either a refund of previously paid taxes or an offset of future ones, according to procedures set forth in statute.
- Lastly, corporation taxpayers may assign the credit to one or more affiliates within their unitary groups if the credit exceeds their liability.

Applicants file an application to the CFC, along with specified information about the production, including anticipated qualified expenditures. If approved, the CFC issues the applicant a credit allocation letter indicating the amount of credit reserved, pending continuing eligibility and final documentation. The applicant provides final documentation to CFC necessary to verify the qualified expenditures and after verification, the CFC issues the taxpayer a credit certificate which can be applied beginning that taxable year.

California Soundstage Filming Tax Credit. SB 144 (Portantino), Chapter 114, Statutes of 2021, allowed a new additional credit allocated by CFC to taxpayers who produce qualified motion pictures and complete "certified studio construction projects," when the qualified motion picture or television series is mostly produced at the soundstage, or soundstages, constructed by the taxpayer, or a soundstage(s) where the taxpayer has a long term lease. Soundstage Filming Tax Credits became allowable as of January 2022 and will be allowable for a period of ten years, under the current program. The program has a total of $150 million to allocate, and allocations will be made on a first come, first served basis for approved applicants. The CFC allocates this credit in addition to the film and television production credit and outside the current competitive allocation process.

Diversity Changes.

As part of the Soundstage Credit, an additional component was added to include the potential of an additional 4 percent of the credit or "uplift" in credit amount for projects that submit diversity workplans that include specific goals and provide information for individuals whose wages are both included and excluded in the definition of qualified wages for the project. The diversity goals uplift will be approved for applicants that show in their diversity report that they have met or made a good-faith effort to meet the goals they set for the project in their workplan.

The proposed Program 4.0 also includes a diversity workplan component, with some structural changes from the diversity component included in the soundstage credit. Instead of an uplift on top of the credit amount, the CFC will provide applicants with a notice of total award amount, inclusive of applicants opting-in to complete new diversity provisions. Four percent of total dollar award amounts will be allocated for a diversity incentive and will be distributed based on applicants achieving their goals or making a good faith effort to meet their goals. In order to qualify for the diversity incentive, applicants must provide a diversity workplan, and interim and final diversity assessments to CFC related to individuals whose wages are included in the definition of qualified wages for a project. CFC will aggregate applicants' work and summarize findings in its annual diversity report. Independent films are exempt from the diversity provisions and their total award amount will not be impacted.

Proposed Refundability Provision

The Administration's proposal to extend the California Film and Television Tax Credit Program by five years includes a provision allowing taxpayers who receive a Program 4.0 credit to receive a refund at a 10-percent discount rate and to be claimed according to a five-year claiming schedule if certified credits exceed the taxpayer's liability for the taxable year that the credits were certified. Credits must first be applied against the taxpayer's liability, and in case of excess credits, the refundable amount that can optionally be claimed per year is set at the lesser of:

1- 18 percent (one-fifth or 20 percent of the original credit amount minus 2 percent due to the 10-percent discount rate) of the original credit amount, or

2- The remaining amount of the excess credit adjusted for the 10-percent discount rate.

In any given year, the maximum amount of refund that a taxpayer can receive is 18 percent of the original credit, and this reduces their available credits by an additional 2 percent due to the discount rate. Whenever the remaining excess credits are less than 20 percent of the original credit, the amount that is refunded to the taxpayer is equal to 90 percent of the excess credit and the remaining 10 percent is discounted and reduces available credits to zero.

Credits applied against tax liability and credits claimed as a refund must be claimed within the nine years during which the credit can be carried forward. The election to receive a refundable credit is irrevocable, and taxpayers may not receive a refund for credits purchased from another taxpayer.

Current Program Trends

According to the Department of Finance (DOF), over the lifetime of the program (1.0, 2.0 and 3.0), the CFC has allocated credits to 624 projects, including 185 that have applied as an independent production. This equates to about 30 companies per year who have received allocations. About 60 percent of all allocated credits have been certified and about 80 percent of credits certified so far have been claimed and used against income tax liability or sales tax liability.

The pace at which credits are certified has significantly slowed down over the most recent years, with just about 15 percent of credits allocated that have been certified from 2019-20 through 2022-23. The share of credits used against sales tax liability (as opposed to being used against income tax) has steadily but drastically increased over the years, from an average of 15 percent of total credit usage in the first six years of the program to an average of 60 percent in the past three years.

DOF notes that nine states offer 100 percent refundable tax credits and two additional states' have refundability with a discount of 10 percent. Other countries such as Australia, Canada, France, and the UK offer 100 percent refundable tax credits. In addition to refundability, several jurisdictions include monetization provisions, such as the ability to sell tax credits to third-parties or back to the state.

In addition, data analysis shows that the state lost 77 percent of production spending by those projects that applied for but did not receive a California tax credit; 16 out of 28 projects that did not receive a tax credits, left California to be produced out-of-state. These runaway projects accounted for $951 million in production spending outside California.

Revenue Impact

According to DOF, most of the costs associated with the 4.0 program are incurred in future years of the timing of the extension as well as the need for productions to reach their milestones before being able to generate and certify credits. DOF estimates a revenue impact of $8 million in 2025-26 and of $49 million in 2026-27 for the extension.

$ in Millions	2023-24	2024-25	2025-26	2026-27
Five-Year extension	$0.0	$0.0	$7.0	$43.0
Film tax credit refundability	$0.0	$0.0	$1.0	$6.0

Over the lifetime of the credit, DOF projects the costs associated with the extension are projected to total a little less than $1.65 billion, including about $200 million lifetime costs for refundability. These costs are spread over 12 years from 2025-26 through 2036-37.

Legislative Analyst's Office (LAO) Comments:

The LAO recently released their report, *The 2023-24 Budget: California's Film Tax Credit*, which both provides an analysis of the Governor's proposal as well as meets their requirements to produce a report on the credit under Revenue and Taxation Code Section 38.9(a). The LAO summary is provided here:

California's Film Tax Credit Created to Counteract Other States' Efforts to Attract Hollywood. During the 2000s, California policy makers became concerned that the state may be losing motion picture production to other states. In response, the Legislature in 2009 created a film tax credit to encourage motion picture productions to locate here. The Legislature since has extended and expanded the credit multiple times. It currently is scheduled to expire in 2025.

Governor Proposes Five Year Extension of Film Tax Credit. The Governor's budget proposes a five year extension of the film tax credit. The Governor also proposes to make the credit refundable—allowing production companies to claim credits in excess of the amount of taxes they owe.

Film Tax Credit Makes California's Motion Picture Industry Bigger, but Effect on Overall Economy Is Unclear. Our review of research on state film tax credits suggests that state's with film tax credits have larger motion picture industries. Whether or not this results in growth of the state's overall economy, however, is unclear. This is because revenues forgone to the film tax credit could have been spent on other activities, which would have grown other parts of the economy. Existing evidence does not allow us to be confident that film tax credits lead to more economic activity than alternative uses of funds.

Decision on Extension Should Depend on How the Legislature Prioritizes the Importance of Hollywood. We do not recommend considering the film tax credit as a reliable mechanism to grow the state's overall economy. Instead, how the Legislature assesses a potential extension should depend on how much it prioritizes the importance of maintaining Hollywood's centrality in the motion picture industry.

If Extending the Credit, Refundability Worth Considering but With Modifications. If the Legislature elects to extend the credit, refundability is worth considering but with modifications to achieve some benefits of refundability (such as improved taxpayer equity) while limiting the downsides (such as increased costs and administrative complexity). These modifications include: specifying a schedule for the credit to be claimed over a period of years, reducing the annual allocation cap, and limiting other flexibilities in production companies' use of the credit.

Staff Recommendation. Hold Open

Issue 12: Incomplete Non-Grantor Trusts

Budget. The Governor's budget includes proposed trailer bill language to include the income of an incomplete non-grantor trust in the gross income of the grantor. This would effectively close a tax loophole that allows a grantor to avoid paying California income tax on incomplete non-grantor trust set up in another state.

Background.

A trust is a fiduciary relationship in which one party, the grantor, gives a second party, the trustee, the right to hold title to property or assets for the benefit of a third party, the beneficiary. There are two broad classifications of ordinary trusts under federal tax law:

Grantor trust. If the grantor retained enough power over the property they transferred to the trust — to manage and dispose of it, even return it to themselves under some circumstances — that they should be treated as continuing to own it, the trust is likely to be classified as a grantor trust. Neither the federal government nor the states treat a grantor trust as a distinct taxable entity. Consequently, all trust income, whether or not it is distributed to beneficiaries, is reported on the grantor's individual income tax return in the year in which it is realized.

Non-grantor trust. If the grantor truly gave up control over the property when transferring it to the trust, the trust is classified as a non-grantor trust, because the grantor is no longer involved in managing the investment or distribution of the assets. Non-grantor trusts are considered separate, taxable entities under federal and state income tax laws.

In recent years, there has been increased use of an additional type of trust:

Incomplete non-grantor trusts. These trusts differ in that they allow a grantor to appoint a non-resident trustee in a non-income tax paying state to oversee the trust. The trustee has administrative power over the trust, and as a result, the trust is treated as a separate taxable entity from the person who set up the trust. Therefore the grantor does not report the income on their personal return as a California resident, but, unlike a non-grantor trust, the grantor still reserves some power over the assets, such as naming new beneficiaries or changing interests amount the beneficiaries.

Proposed Language. The proposed trailer bill language, for taxable years beginning on or after January 1, 2023, would include the income of an incomplete non-grantor trust in gross income of the grantor for state tax purposes. Preliminary cost estimates from Department of Finance assume a $30 million revenue gain in 2023-24 with revenue gains of roughly $17 million in subsequent years. This policy would likely impact 1,300 taxpayers in first year, then down to around 600 taxpayers after that, assuming behavior changes. Currently only New York has a similar law preventing incomplete non-grantor trusts. This proposal is modeled on the New York solution to address the increasingly aggressive use of incomplete non-grantor trusts to shelter wealth.

Staff Recommendation. Hold Open

Issue 13: Student Loan Forgiveness Income Tax Exemption

Budget. The Governor's budget includes proposed trailer bill language that would exclude from an individual's gross income, for taxable years beginning on or after January 1, 2022, any amount of qualified student loan debt, as defined that is discharged under the Biden-Harris administration's 2022 federal student loan debt relief plan.

Background.

To smooth the transition back to repayment and help borrowers at highest risk of delinquencies or default once payments resume, the Biden Administration put forth an Executive Order for student loan repayment. Under the Biden-Harris plan, the U.S. Department of Education would provide up to $20,000 in debt relief to Pell Grant recipients with loans held by the Department of Education and up to $10,000 in debt relief to non-Pell Grant recipients. Borrowers would be eligible for this relief if their individual income is less than $125,000 or $250,000 for households.

The Biden administration's loan repayment plan has been subject to multiple legal challenges and the federal courts have blocked the program. The Biden administration has since appealed two of these cases to the U.S. Supreme Court. If the program is allowed to continue, this legislation would ensure that recipients of federal loan repayments do not pay state taxes on the loan forgiveness.

Related Issues.

Staff notes that there are various related legislative proposals, including SB 220 and AB 35, which would include the Administration's proposal, but also more broadly include other forms of student loan relief provided during the pandemic (federal actions related to student loan forgiveness, discharges and cancellation programs). Specifically it would exclude from an individual's gross income, for taxable years beginning on or after January 1, 2021, and before January 1, 2026, the amount of certain student loans discharged, in whole or in part, after December 31, 2020, and before January 1, 2026, in conformity with federal law.

Staff notes that there are additional fee waivers for community college students that could be considered as part of a package to ensure there are no tax implications for the variety of student assistance proposals provided during the COVID-10 Pandemic.

Finally, the U.S. Department of Education is working on regulations that could drastically improve the Federal Income Driven Repayment program, allowing for affordable payments and future forgiveness for the student loans of low-income borrowers. State taxes on those forgiveness amounts could create a financial crisis for low-income borrowers. California has in the past exempted specific types of forgiveness from state taxation and may want to also consider making changes specific to this program.

Staff Recommendation. Hold Open

Issue 14: New Employment Credit Exemption for Semiconductor Companies

Budget. The Governor's budget includes proposed trailer bill language to expand the New Employment Credit for semiconductor companies. The New Employment Credit provides a tax credit for businesses that operate in high-poverty areas and provide long-term employment for specified populations. The proposed budget removes existing geographic restrictions for qualifying semiconductor manufacturing, research, and development firms.

Background.

The New Employment Credit is a credit allowed against Personal Income Tax and Corporation Tax, for taxable years beginning on or after January 1, 2014, and before January 1, 2026, for hiring qualified full-time employees, as specified in statute, within a designated census tract or economic development area in an amount equal to 35 percent of the qualified wages paid to those employees multiplied by the applicable percentage for that taxable year. A taxpayer claiming the credit must request a tentative credit reservation from the Franchise Tax Board within 30 days of complying with specified new hire reporting requirements.

Qualified employer requirements:

- Must be engaged in a trade or business in California within the designated geographic area.
- Hires qualified employees
- Obtains a tentative credit reservation for the qualified employees
- Pays qualified wages
- Is not in an excluded business
- Has a net increase in jobs

Qualified employee requirements:

- Hired on or after the employee's work location was made part of the designated geographic area
- Performs at least 50 percent of his/her services in the designated geographic area
- Receives starting wages that exceed 150 percent California minimum wage at the time of hire
- Is hired for full-time work (paid hourly wages for an average of at least 35 hours per week, or is salaried and paid for full-time work)
- Meets 1 of the following qualification categories at the time of hire:
    - Unemployed for the previous 6 months or more
        - Unemployed means not receiving wages, not self-employed, and not a full-time student
        - If the employee completed a college or similar program, the completion date must have been at least 12-months prior to date of hire
    - Veteran, separated from the U.S. Armed Forces within the previous 12 months
    - Received the federal Earned Income Credit in the previous taxable year

- Ex-offender convicted of a felony
- Current recipient of CalWORKS or county general assistance

Current Usage

The most recent FTB report, published March 1, 2021, reported that taxpayers have reported $3.6 million claimed on 2019 tax year returns, and $3.9 million claimed on 2020 tax year returns. The 2020 totals do not include all fiscal-year filers. In that report, FTB also noted that reasons for the low uptake of the credit may include the geographic limitations, restrictive eligibility, wage, and business types, among other things.

Federal CHIPS Act.

In 2022, President Biden signed into law the CHIPS and Science Act of 2022. This law provides $50 billion in investments through the U.S. Department of Commerce for a suite on investments in semiconductor research, development, and manufacturing. Most states are making state level investments that would better position semiconductor companies within their state to receive a portion of these competitive investments.

This proposal is part of the state's overall CHIPS Act strategy which aims to incentivize semiconductor companies to invest in California-based operations. In, addition to this proposal, tools have been developed through the Governor's Office of Business and Economic Development to help companies ensure they are meeting federal requirements. Semiconductor companies may also be eligible for the California Competes Tax Credit, the Research and Development Tax Credit, or workforce training programs.

Proposed Language.

For taxable years beginning on or after January 1, 2023, and before January 1, 2026, the proposed language would allow a taxpayer engaged in semiconductor manufacturing or semiconductor research and development, who apples for federal funding or related federal tax credits would be able to claim the new employment credit and for these specific taxpayers:

- Eliminates the requirement that the new employment be located within a designated census tract or economic development area.
- Allows the taxpayer to request a tentative credit reservation from the Franchise Tax Board on or before the last day of the month following the close of the taxable year for which the credit is claimed, instead of within 30 days of complying with specified new hire reporting requirements.

Self-certification and verification process

Applicants are not required to show proof of application in the first year because the timing for CHIPS Act funding being made available has not yet been announced, however competing for federal funds under the CHIPS Act requires firms to show proof of state incentives received. These proposed changes under the new employment credit are intended to help California semiconductor companies meet federal application requirements.

Specifically, a taxpayer can claim a credit for a qualified employee for up to 5 years, however, to receive the credit after the first year, the taxpayer would need to show proof that they applied, if requested by the FTB.

- To qualify, a company must fall under the North America Industry Classification System (NAICS) code 3344, which is “Semiconductor and Electronic Component Manufacturing,” and they would also be subject to the other credit requirements. The definition and requirements for a “qualified employee” are unchanged for the semiconductor industry as the purpose of this proposal is to incentivize semiconductor companies to invest in California while helping vulnerable populations find good jobs.
- Firms operating with a 3344 NAICS code would be able to operate throughout the state as opposed to within a designated geographic area or former enterprise zone, as is currently required. For tax year 2023 they would need to reserve a credit within a month of their taxable year ending as opposed to within 30 days of making a qualified hire. After tax year 2023, these taxpayers would have to make a reservation under the normal timeline.

Staff Recommendation. Hold Open

Issue 15: Tax Expenditure Report

Budget. The Governor's budget includes trailer bill language that proposes to move the due date of the Tax Expenditure Report (provided by the Department of Finance to the Legislature) from September 15th of each year, to November 1, 2024 and biennially thereafter.

Background.

Government Code Section 13305 requires a Tax Expenditure Report to be issued by the Department of Finance to the legislature by September 15 of every year. Statute requires the following:

(1) A comprehensive list of tax expenditures exceeding five million dollars ($5,000,000) in annual cost.

(2) The statutory authority for each credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law.

(3) A description of the legislative intent for each tax expenditure, if the act adding or amending the expenditure contains legislative findings and declarations of that intent, or that legislative intent is otherwise expressed or specified by that act.

(4) The sunset date of each credit, deduction, exclusion, exemption, or any other tax benefit as provided by state law, if applicable.

(5) A brief description of the beneficiaries of the credit, deduction, exclusion, exemption, or other tax benefit as provided by state law.

(6) An estimate or range of estimates for the state and local revenue loss for the current fiscal year and the two subsequent fiscal years. For sales and use tax expenditures, this would include partial year exemptions and all other tax expenditures when the State Board of Equalization has obtained that information.

(7) For personal income tax expenditures, the number of taxpayers affected and returns filed, as applicable, for the most recent tax year for which full year data is available.

(8) For corporation tax and sales and use tax expenditures, the number of returns filed or business entities affected, as applicable, for the most recent tax year for which full year data is available.

(9) A listing of any comparable federal tax benefit, if any.

(10) A description of any tax expenditure evaluation or compilation of information completed by any state agency since the last report made under this section.

The Department of Finance notes that the requested changes better align with budget workload during the year and that on an annual basis similar information is available from the FTB.

Conversations with stakeholders indicate that there may be additional changes that could be considered, including: 1) removing the $5 million reporting threshold for tax expenditures so that all tax expenditures are reported, and 2) providing details by income levels of taxpayers on how many taxpayers use each tax expenditure and the aggregate cost of each item per income group.

Staff Recommendation. Hold Open

Issue 16: Better For Families Act (Middle Class Tax Rebates) Update

Better For Families Act. Trailer bill legislation during the 2022-23 budget established the Better for Families Act, a framework to provide approximately $9.5 billion of payments to low-income and middle-income Californians in order to provide financial relief for economic disruptions resulting from the COVID-19 emergency, such as the financial burdens of inflation and increasing costs for gas, groceries, and other necessities.

As a result of the Better for Families Act, the FTB implemented the Middle Class Tax Rebates (MCTR) program beginning in the fall of 2021. Tax filers are eligible for credits of $350, $250, or $200 per individual filer (each person will get the credit if they file jointly), depending on the amount of taxable income (up to $250,000 for individuals and $500,000 for joint filers) and those with dependents are eligible for an additional credit.

The FTB has completed distributing almost all first-time payments under the MCTR program. The FTB is now predominantly working on reissuing cards that were lost, never received, or had a malfunction or fraud event occur.

Payments distributed to date:

Method	**Volume**	**Value**
Direct Deposits	7.2 million	$4,000,000,000
Debit Cards	9.6 million	$5,200,000,000
	16.8 million	**$9,200,000,000**

The FTB contracted with the Money Network to distribute the debit cards portion of the program.

Of the 9.6 million debit cards issued:

- On average across the State, 80 percent have been **activated** for a total value of $4.2 billion.
- 36 percent of activated cards have a **zero balance** and Californian's have expended $1.5 billion.

Current FTB Actions:

- Reminder letters will be mailed March – May to all those who have not yet activated their cards asking them to please activate their card.
- FTB is working on tools to assist legislative district staff staff in working with taxpayers on eligibility questions and tips on how to navigate Money Network's customer service channels.

- Awaiting guidance from the IRS as to whether they will require the filing of an amended return by taxpayers that filed prior to the IRS indicating they would not challenge the reporting of the MCTR payment on their tax return.

Fraud:
The FTB notes that the program is still performing at a fraud rate substantially less than acceptable program metrics at 1 percent. This 1 percent was identified as an industry average associated with potential debit card fraud in programs comparable to the MCTR program. Both the FTB and Money Network continue to work to assist customers that need assistance with potential fraudulent actions against their cards. To protect themselves and begin the process, individuals who suspect fraud need to file a claim with Money Network. Resolution of investigations can take between 45 – 90 days.

Assessment of Fees:
There is a network of banks and ATMs where recipients can withdraw funds without fees. While this information, was made available since the issuance of the cards, consumers experienced confusion. The FTB and Money Network worked closely with VISA and the California's Bankers Association to re-distribute instructions to banks on how to negotiate these cards without fees.

Customer Support Services:
Californian's needing assistance with their debit card can find it challenging at time to obtain assistance needed. As a result, FTB requested the following changes that were able to be implemented by their implementation partner Money Network.

- Additional staff were hired or redirected to support the MCTR call center.
- Queue size was increased from 149 to 199 individuals, allowing more people to get into the call center for assistance.
- Changes to the prioritization of calls have been changed to prioritize calls for activation issues and reports related to potential fraud.
- Sent notification to all agents to engage in refresher training to ensure consistent messaging and service levels are attained.

Staff Recommendation. Information Only

Issue 17: Earned Income Tax Credit (EITC) Implementation Update

The California EITC is a state personal income tax provision that benefits individuals and families who earn less than $30,000. The amount of the credit depends on taxpayers "earned income" (which primarily includes wages and self-employment income), filing status, and the number of qualifying dependent children. The amount of the EITC initially rises with earnings, such that the greater the filer's earnings, the larger the credit. The credit peaks at a certain income and then gradually phases out for higher levels of earnings. The tax credit is fully refundable. This means that if the amount of a taxpayer's EITC is greater than his or her liability before applying the credit, then the state pays the taxpayer that difference. The Franchise Tax Board (FTB) annually adjusts the income thresholds and credit amounts for inflation, similar to the adjustment made at the federal level (although the state uses a California-specific inflation index).

In 2015, when California created the state EITC, it was designed to supplement the federal EITC for those working individuals and families whose incomes were relatively low. As the state EITC is based on the federal EITC, it also shares certain restrictions on eligibility. Specifically, eligible filers must be a U.S. citizen or resident alien. In addition, if they do not have a qualifying child, eligible filers must be at least age 25 and younger than age 65.

2022 CalEITC Credit

Number of qualifying children	California maximum income	CalEITC (up to)	IRS EITC (up to)
None	$30,000	$275	$560
1	$30,000	$1,843	$3,733
2	$30,000	$3,037	$6,164
3 or more	$30,000	$3,417	$6,935

Source: Franchise Tax Board

California adopted the CalEITC in 2015 to build upon and amplify the impact of similar federal tax credits and increased benefits and access over multiple years as follows:

2015 Budget Act. The budget included a state EITC for the first time, which provided a refundable tax credit for wage income for households with incomes of less than $6,580 if there are no dependents, and up to $13,870 if there are three or more dependents. For tax year 2015, the program matched 85 percent of the federal credits, up to half of the federal phase-in range, and then begin to taper off relative to these maximum wage amounts. The credit was expected to benefit an estimated 825,000 families and two million individuals. The estimated average (mean) household benefit was $460 per year, with a maximum credit for a household with three or more dependents of over $2,600. The FTB was tasked with administering the EITC program. Budget bill language was adopted to allow for the 85 percent to be adjusted depending upon the state fiscal position.

2017 Budget Act. The budget expands the EITC to support more working families, including self-employed parents, in line with the federal EITC and expanded income ranges to help families working up to full-time at the newly increased minimum wage benefit from the program.

2018 Budget Act. The budget expanded the EITC to working individuals who are aged 18 to 24 or over age 65. In addition, the budget adjusts the qualifying income range for the credit so that employees working up to fulltime at the 2019 minimum wage of $12 per hour would qualify for the credit.

2019 Budget Act. The budget more than doubled the EITC by investing $1 billion in a new expanded EITC (up from $400 million). Specifically, the EITC was expanded by raising the annual income recomputation floor from 3.1 percent to 3.5 percent, revising the calculation factors to increase the credit amount for certain taxpayers, raising the maximum income to $30,000, and providing a refundable young child tax credit not to exceed $1,000 per qualified taxpayer per taxable year. These changes increase the estimated cost of the state EITC from approximately $400 million to approximately $1 billion. In 2019, California spent $1.1 billion on the state's two largest tax credits targeted to Californians with low incomes — the California Earned Income Tax Credit (CalEITC) and the Young Child Tax Credit (YCTC)

2020 Budget Act. The budget included trailer bill language to extend the EITC and Young Child Tax Credit (YCTC) eligibility to Individual Tax Identification Number (ITIN) filers. An estimated 200,000 or more families with ITINs qualify for this state EITC expansion.

2022 Budget Act. The budget expands the existing Young Child Tax Credit to zero-income filers, indexes the credit to inflation starting in the 2022 tax year, and creates a Foster Youth Tax Credit to provide a $1,000 credit to young adults who were in the foster care system.

According to the most recent data from the Franchise Tax Board, as of December 31, 2022, for the 2021 tax year, 3.6 million claims were filed, for a total credit amount of $1.05 billion ($706 million in EITC and $347 million in YCTC).

Earned Income Tax Credit (EITC) and Young Child Tax Credit (YCTC)- As of December 31, 2022		
Process Year 2022/Tax Year 2021 - Processed Returns with EITC Allowed	**Volume**	**Amount**
Total EITC/YCTC Allowed	**3,614,534**	**$1,053,079,887**
Differing Viewpoints/Subsets of Total Amounts	**Volume**	**Amount**
YTD EITC Allowed	N/A	$706,234,075
YTD ITIN EITC Allowed	241,354	$77,823,942
YTD YCTC Allowed	373,995	$346,845,812
YTD ITIN YCTC Allowed	36,485	$32,686,852
YTD Wages EITC/YCTC Allowed	2,663,405	$736,532,306
YTD Self-Employed EITC/YCTC Allowed	951,129	$316,547,581
Preparer Type	**EITC**	**YCTC**
% Returns Self Prepared	41%	35%
% Returns by Preparer	59%	65%
YTD First Time Filers	**334,322**	**22,081**
YTD Repeat Claimants (also claimed credit on 2020 tax return) – xx% of current filer universe	59%	52%
Revenue Attributable to Improper Payments/Fraud and Error Detection for Process Year 2022		
	EITC	**YCTC**
Returns with Self-Employed Income Adjusted or Denied before Refund	109,596	27,324
Returns without Self-Employed Income Adjusted or Denied before Refund	136,512	19,593
Total Returns Adjusted or Denied before Refund	**246,108**	**46,917**
Revenue Attributable to Partial or Full Denial with Self-Employed Income	63,101,080	26,542,060
Revenue Attributable to Partial or Full Denial without Self-Employed Income	41,627,816	17,099,667
Total Revenue Attributable to Partial or Full Denial	**104,728,896**	**43,641,727**

EITC Outreach

Many community-based organizations and other state and local government agencies (such as school districts and county social services offices) engage in efforts to raise awareness about the state and federal EITC. In 2016 and 2017, the state awarded $2 million in grants to these groups to help expand these education and outreach efforts. These efforts include advertising and media outreach, distribution of printed materials, and canvassing—direct contact with individuals in targeted residential neighborhoods. In 2018, the state increased the amount of grants it awarded to $10 million and allowed grant recipients to fund tax filing assistance. In addition, FTB receives $900,000 annually for additional EITC outreach activities and to fund the grant making process. State EITC grants are currently administered through an interagency agreement with the Department of Community Services and Development (CSD).

The state has continued to provide $10 million annually for state outreach grants to promote the California EITC and free tax preparation. For 2022-23 and 2023-24, this amount was increased to $20 million. Grantees will carry out statewide and local outreach efforts aimed at reaching eligible families. Despite the availability of these resources, the California EITC is not being claimed at the anticipated rate. In some cases, low-income individuals are not required to file a return because they do not need the minimum return filing income thresholds. Thus, many California household do not receive the credits for which they are eligible, limiting the effectiveness of the EITC program. Finally, additional outreach related to the CalEITC may also assist individuals in drawing down federal assistance through the federal EITC.

Report Summary. In 2022, a report required by SB 1409 (Caballero), Statutes of 2020, Chapter 114, was released to explore ways to increase EITC uptake. In preparation for the report, to effectively understand the issues or barriers that may impact or prevent taxpayers from claiming the federal EITC or CalEITC, FTB reached out to community based organizations, interested parties, peer state agencies, and reviewed prior comments raised during previous legislative hearings. FTB identified barriers for taxpayers in accessing the EITC and operational barriers that exist within FTB systems. Finally, FTB identified a variety of concepts and the pros, cons, and additional work needed for each one. Since the report, the FTB has made progress in a variety of areas as noted:

- Develop a Simplified Filing Portal
  - ✓ CalFile being modified to accept zero income tax returns.

  Pending:
  - o The recently passed federal bill - Inflation Reduction Act - requires the IRS to present to Congress by May 2023, a plan for simplified/free efile.

- Expand education and outreach to potentially eligible CalEITC taxpayers
  - ✓ FTB has been resourced to begin education and outreach in Summer of 2023 for both filers and nonfilers.

- ✓ FTB, CDSS, DHCS will continue to engage in data sharing to promote outreach by CDSS or DHCS and FTB will continue to work with CDSS data to determine how and to what extent we can identify the tax unit compared to the household unit.
- ✓ NEW: FTB has partnered with ODI to include CalEITC in the statewide Benefit Recommender pilot which provides a link to obtain more information on CalEITC benefits at the conclusion of an individual submitting an application for other public assistance benefits such as CalFresh, Unemployment Insurance etc.

Pending:

- o Proposal would require employers and public assistance programs to notify employees and participants twice a year of the federal and state anti-poverty credits and both VITA and CalFile.

- Tax Identification Number
  - ✓ Grantees continue to focus on establishing relationships with Acceptance Agents or training staff for this role with the goal of increasing ITIN assistance. For 21/22, the following was reported:

Number of ITIN Applicants Assisted	Number of IRS CAA Staff (Currently Certified)	Number of IRS CAA Staff (Certification in Process)	Number of ITIN Returns Submitted
4,235	301	378	2,591

Pending:

- o IRS have begun a modernization effort of the process to request or renew an ITIN.
  - Source: IRS website - Beginning August 15, 2022, the IRS will impose a moratorium on the Acceptance Agent Program. The moratorium will last until Summer 2023 and, when lifted, we will issue a notification of rescission. The moratorium will allow for significant modernization efforts resulting in a more efficient application process. The overall timeframe to process properly submitted applications will change from months to weeks.

- Create tax forms in multiple languages

Pending:

- o FTB continues to study tools for our website that will enhance the experience for taxpayers needing services in other than English.

- Provide ongoing funding for grant funding so outreach and return filing assistance efforts can be conducted year round
  - ✓ Funding proposed and approved as ongoing beginning in 2022-23 Budget at $10,000,000
  - ✓ Funding approved at $20,000,000 for 2022-23 and 2023-24

Pending:

- o Legislature continues to discuss how to capture data to support an effectiveness study on grant funding.

Staff Recommendation. Information Only

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Anna M. Caballero
Senator Roger W. Niello

Thursday, March 9, 2023
9:30 a.m. or upon adjournment of Session
State Capitol - Room 113

Consultant: Diego Emilio J. Lopez

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

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

ITEMS FOR VOTE ONLY

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 1: California Residential Mortgage Lending Act Examination Workload

Request. The Governor's budget requests an increase in expenditure authority of $1,839,000 Financial Protection Fund in fiscal year 2023-24 and $1,753,000 in 2024-25 and ongoing and 8.0 positions for the Department of Financial Protection and Innovation (DFPI) to address increased workload related to growth in loan volume and licensee locations, pandemic anti-foreclosure efforts and changes to federal regulations associated with carrying out the California Residential Mortgage Lending Act (CRMLA).

Background. The Department's CRMLA Program is responsible for protecting California's mortgage borrowers by monitoring the safety and soundness of mortgage lenders and servicers through regulatory oversight and on-site examinations of licensees. The CRMLA program conducts examinations to identify improper business practices that could result in fee overcharges, unnecessary foreclosures practices and to verify that borrowers did not experience any consumer harm.

As stated in California Financial Code Section 50302 (a), the CRMLA requires the Department to examine each CRMLA licensee at least once every 48 months, or as the Commissioner deems necessary and appropriate. Licensees with a history of noncompliance with CRMLA may be examined more often as a special examination. To maintain DFPI accreditation with the Conference of State Bank Supervisors (CSBS), the CRMLA Program must maintain examination review of all licensees.

The mortgage origination industry has experienced continued growth over the past few years. In 2020, at the start of the pandemic, home prices increased which provided homeowners a significant amount of equity, while the lending rates were low. This caused a record high number of refinances in the California mortgage industry market.

Between 2017-18 and 2021-22, the number of CRMLA licensees increased by 6 percent between, from 409 to 432 and the total number of branch locations has increased by 25 percent over the same time period. This growth has not been accompanied with a corresponding increase in program resources to meet rising operational needs.

Staff Recommendation. Approve as budgeted.

Issue 2: Escrow Law Examination Workload

Request. The Governor's budget requests an increase in expenditure authority of $1,127,000 Financial Protection Fund in fiscal year 2023-24 and $1,072,000 in 2024-25 and ongoing, and 5.0 positions for the Department of Financial Protection and Innovation to address growth in licensee locations and consumer funds managed, expand internet escrow services, reduce examination backlog, and assist in carrying out the statutory requirements of the California Escrow Law.

Background. The Department's Escrow Law Program is responsible for administering the Escrow Law which is contained in Division 6 commencing with California Financial Code section 17000. The regulations are contained in Subchapter 9, Title 10, California Code of Regulations commencing with Section 1700 (10 C.C.R. § 1700, et seq.) The program administers the escrow law and regulations by licensing and examining escrow licensees which are the central hub for real estate or personal property transactions. The program also provides services to the public such as guidance for businesses seeking escrow licensure in California, educating the public about escrow processes, and assisting consumers in resolving complaints against escrow licensees.

The escrow industry has experienced steady growth over the past few years. Since the COVID-19 pandemic began, a variety of factors in the real estate market, such as low interest rates and limited housing supplies in California, have created growth in the escrow industry. In 2019, the consumer funds managed by the industry were approximately $23 billion. In 2020 and 2021, the funds grew to approximately $26 billion and $36.2 billion respectively, a 57 percent increase over the last two years.

During the first half of 2022, there were signs of market adjustments in real estate due to inflation and rising interest rates. However, there are currently no signs that housing supplies will outpace demands in the very near future in California. While the refinance boom is expected to subside due to increasing mortgage interest rates, the passing of the new California Accessory Dwelling Unit (ADU) law in 2021 is expected to stimulate the construction of ADUs and create opportunities for the escrow industry to service ADU escrow transactions.

Staff Recommendation. Approve as budgeted.

Issue 3: Information Technology System Development Workload

Request. The Governor's budget requests an increase in expenditure authority of $1.7 million in fiscal year 2023-24 and $1.6 million in 2024-25 and ongoing from a variety of fund sources and 9.0 positions to augment information technology (IT) staff to meet the department's increased system development workload and to align the Information Technology Office's (ITO) project methodology with the state's recommendations.

Background. The Department of Financial Protection and Innovation provides protection to consumers and services to businesses engaged in financial transactions in the State of California. The Department regulates a variety of financial services, products, and professionals consisting of over 400,000 licensees.

Between 2013-14 and 2022-23, along with a continually expanding role in regulating the state's financial sector, the Department's size increased from 582 employees to 804 employees, a 38% increase. This expansion started on July 1, 2013, as part of the Governor's Reorganization Plan 2 (GRP2), when the Department of Business Oversight (DBO) was created by merging two existing departments into a single entity. In 2020-21, due to AB 1864 (Limon), Chapter 157, Statutes of 2020, the California Consumer Financial Protection Law (CCFPL), the DBO became Department of Financial Protection and Innovation. The CCFPL, along with SB 908 (Wieckowski), Chapter 163, Statutes of 2020, the Debt Collection Act (DCA), further expanded the Department's mission to include a new Consumer Financial Protection division, with two new programs (Debt Collectors and New Covered Persons); a new Financial Technology Innovation Office; and new Market Monitoring, Consumer Research, Insight and Analytics Office.

As the Department's role has expanded, existing ITO resources have been unable to meet the demand for systems to support the Department's mission.

Staff Recommendation. Approve as budgeted.

7910 OFFICE OF ADMINISTRATIVE LAW

Issue 4: Early Intervention Assistance

Request. The Governor's budget requests $573,000 ($344,000 General Fund and $229,000 Central Service Cost Recovery Fund) in fiscal year 2023-24 and ongoing and 3.0 positions for the Office of Administrative Law to provide early intervention assistance for executive branch state agencies conducting rulemaking actions pursuant to the Administrative Procedure Act (APA) and to conduct trainings and outreach regarding legislation.

Background. The Office of Administrative Law (OAL) is responsible for reviewing administrative regulations proposed by over 200 state regulatory agencies for compliance with standards set forth in California's Administrative Procedure Act, transmitting these regulations to the Secretary of State, for publishing regulations in the California Code of Regulations, and posting links on its website to other state agency websites where the public may find regulations that have been recently filed with the Secretary of State, but have not yet gone into effect.

OAL currently has 23 positions – 12 reviewing attorney positions, 4 analyst positions, 4 support staff positions, and 3 management positions. OAL has one program, Regulatory Oversight, which is comprised of three main activities:

1. Review and approval/disapproval of proposed regulations promulgated by over 200 state agencies for compliance with the substantive and procedural requirements of the APA (Gov. Code, sec. 11340 et seq.).
2. Publication, maintenance, and posting on the Internet (to ensure free access to the public) and in hardcopy of the California Code of Regulations (CCR) and the weekly California Regulatory Notice Register (Notice Register) (Gov. Code, secs. 11344 and 11344.1).
3. Review of and determinations on petitions that allege a state agency is using an "underground regulation."

Early Intervention Assistance. For a completed regular rulemaking action, the OAL's thirty working day review period begins after a rulemaking agency has drafted the proposed regulatory text, prepared the complete rulemaking record in support of the proposed regulatory change, published a Notice of Proposed Action in the Notice Register, and conducted all applicable public comment periods.

As a result, any issues that are fatal to the success of the regulatory action are often not identified by OAL until the end of the rulemaking period. Depending upon the severity of the substantive or procedural deficiencies identified, disapproval of the regulatory action may be required, which often results in the delayed implementation of a program or set of regulations. Failure to identify these deficiencies prior to the publication of the Notice of Proposed Action may also mean rulemaking record documents that are not legally compliant are noticed to the public, potentially stifling meaningful public participation in the rulemaking process.

OAL has seen an increase in filings over the last several years. Delegating early intervention services to the requested 3.0 positions will allow the remainder of OAL's attorneys to concentrate on the review of rulemaking files, underground regulations petitions, and other APA-related training opportunities.

OAL requests 2.0 Attorney III positions and 1.0 Associate Governmental Program Analyst position to provide early intervention assistance services to state agencies engaging in the rulemaking process and to conduct trainings and outreach regarding legislation.

Staff Recommendation. Approve as budgeted.

8620 FAIR POLITICAL PRACTICES COMMISSION

Issue 5: Advertisement Disclosures (SB 1360)

Request. The Governor's budget requests $170,000 General Fund in fiscal year 2023-24, and $163,000 in 2024-25 and ongoing, and 1.0 position for the Fair Political Practices Commission (FPPC) to implement, interpret, and enforce workload associated with the provisions of SB 1360 (Umberg), Chapter 887, Statutes of 2022.

Background. SB 1360 changes the text and formatting of required disclosures on petitions and electronic media and video campaign advertisements. This bill also requires disclosures on electronic media advertisements about top contributors funding the advertisement. SB 1360 changes existing rules and creates exacting standards for what is required for proper advertisement disclosures.

The FPPC anticipates an increased number of complaints and compliance activities to ensure campaign committees comply with political advertisement requirements in the legislation. This proposal would add one permanent Commission Counsel in the Enforcement Division to perform all functions necessary to review compliance of political advertisement obligations under this new state-mandate. These functions include, but are not limited to, processing complaints through the regular complaint system as well as the quick response system, FPPC ADWatch. Since 2017, the Enforcement Division has received 766 complaints regarding campaign advertisement rules and 279 through the FPPC ADWatch system. That workload is anticipated to rise with the new statutory requirements of SB 1360.

Staff Recommendation. Approve as budgeted.

Issue 6: Business Communications (SB 746)

Request. The Governor's budget requests $298,000 General Fund in fiscal year 2023-24, and $284,000 in 2024-25 and ongoing, and 2.0 positions for the Fair Political Practices Commission to implement, interpret, conduct outreach and education, and enforce the new law and the workload associated with the provisions of SB 746 (Skinner), Chapter 876, Statutes of 2022.

Background. SB 746 requires a business entity to submit a report to the Secretary of State following any calendar year in which the business entity uses its products or services to alter online search results to emphasize or deemphasize materials containing express advocacy or to target online advertisements without full and adequate consideration and for political purposes. The bill specifies the contents of the report and requires business entities subject to these requirements to maintain detailed accounts and records necessary to prepare the report. The bill specifies certain exceptions.

The FPPC anticipates an increased amount of advice inquiries, and education, training, and compliance activities to ensure new reporting information is provided by business entities in compliance with the requirements in the legislation. This proposal would add two permanent positions: one Political Reform Consultant in the Legal Division and one Commission Counsel in the Enforcement Division to perform all functions necessary to advise business entities on their obligations under this new state-mandate and enforce the new rules.

Staff Recommendation. Approve as budgeted.

Issue 7: Contributions to Local Agency Officers (SB 1439)

Request. The Governor's budget requests $468,000 General Fund in fiscal year 2023-24, and $447,000 in 2024-25 and ongoing, and 3.0 positions for the Fair Political Practices Commission (FPPC) to implement, interpret, educate, and enforce the increased workload associated with the provisions of SB 1439 (Glazer), Chapter 848, Statutes of 2022.

Background. Existing law under the Political Reform Act of 1974 (Act) prohibits an officer of an agency from accepting, soliciting, or directing a contribution of more than $250 from any party, participant, or a party or participant's agent, while a proceeding involving a license, permit, or other entitlement for use is pending before the agency and for three months following the date a final decision is rendered in the proceeding, if the officer knows or has reasons to know that the participant has financial interest, as defined. The Act also prohibits a party, participant, or participant's agent from making a contribution of more than $250 to an officer of the agency during the proceeding and three months following the date of the final decision. The Act exempts certain entities from these requirements, including local government agencies whose members are directly elected by the voters.

SB 1439 applies the existing campaign contribution prohibition for state and local agencies to local elected agencies, such as city councils and boards of supervisors, and expands the timeframe prohibiting specific contributions following an official's action from three months to 12 months. FPPC anticipates an increased amount of advice inquiries, and education, training, and compliance activities to ensure state and local agencies comply with requirements in the legislation.

This proposal would add 3.0 permanent positions—one Commission Counsel in the Legal Division, and one Commission Counsel and one Political Reform Consultant in the Enforcement Division—to perform all functions necessary to advise and educate the public and ensure compliance of campaign contribution obligations under the statutory requirements of SB 1439.

Staff Recommendation. Approve as budgeted.

Issue 8: Lobbying Transparency (SB 459)

Request. The Governor's budget requests $425,000 General Fund in fiscal year 2023-24, and $404,000 in 2024-25 and ongoing, and 3.0 positions for the Fair Political Practices Commission to implement, interpret, and perform outreach and education on workload associated with the provisions of SB 459 (Allen), Chapter 873, Statutes of 2022.

Background. SB 459, beginning one year after the SOS certifies for public use an online filing and disclosure system for lobbying information, or beginning January 1, 2023, whichever is later, requires lobbyists, lobbying firms, and lobbyist employers to include information in the periodic reports that identifies each bill or administrative action subject to lobbying activity during that period. For certain activities involving issue lobbying advertisements, the bill requires disclosure of the position on the bill or administrative action advocated by the advertisement. This bill requires a new report be filed and additional disclosures for lobbying activity during the 60-day period before the Legislature is scheduled to adjourn for interim recess or final recess and requires certain persons to file reports following a calendar quarter in which that person incurs cumulative costs equal to or exceeding $5,000 for issue lobbying advertisements. The bill authorizes entities filing related reports in paper with the SOS to verify those filings by electronic signature.

This proposal adds 3.0 positions: one Commission Counsel and one Political Reform Consultant in the Enforcement Division and one Political Reform Consultant position in the Legal Division to perform all functions necessary to advise local agencies on their obligations and provide enforcement per the statutory requirements of SB 459.

Staff Recommendation. Approve as budgeted.

Issue 9: Paper filings with SOS (AB 2172)

Request. The Governor's budget requests $127,000 General Fund in 2023-24, and $120,000 in 2024-25 and ongoing, and 1.0 position for the Fair Political Practices Commission to implement the provisions of AB 2172 (Cervantes), Chapter 328, Statutes of 2022.

Background. AB 2172 authorizes a person required to file a report or statement with the SOS in a paper format to file the report or statement by email or other digital means prescribed by the SOS instead, subject to specified requirements. This bill provides that a report or statement filed by email in accordance with these provisions is the original for audit and other legal purposes. The bill would eliminate the requirement that a person file a copy of the report or statement with the original when filing on paper.

The FPPC anticipates an increased amount of advice inquiries from statewide elected officials, elected members of specified entities, candidates for elective office, political committees, campaign treasurers, lobbying firms, lobbying coalitions, and individual lobbyists, among others, on changes of the new report and statement requirements. This proposal adds one permanent Political Reform Consultant position in the education and outreach unit to perform all functions necessary to advise filers on their obligations under the statutory requirements of AB 2172.

Staff Recommendation. Approve as budgeted.

0855 GAMBLING CONTROL COMMISSION

Issue 10: Tribal Vendor Reimbursements

Request. The Governor's budget requests a one-time transfer from the Gambling Control Fund (GCF) to the Indian Gaming Special Distribution Fund (SDF) of $6,005,000 to reimburse the SDF for the fees and deposits previously collected and deposited into the GCF from Gaming Resource Suppliers (Tribal Vendors). The Gambling Control Commission (Commission) also requests provisional language to authorize the one-time transfer from the GCF to the SDF.

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

The Bureau of Gambling Control (Bureau), within the Department of Justice (DOJ) works cooperatively with the Commission to develop and implement a means of regulating the gambling industry in California. The primary functions of this regulation include the following:

- Conduct comprehensive investigations into the qualifications of individuals and business entities who apply to the Commission for state gambling licenses or findings of suitability.
- Conduct ongoing compliance inspections of gambling operations and establishments throughout the state.
- Review and approve the rules of games and gaming activities in all California cardrooms prior to them being offered for play.
- Register non-profit organizations and suppliers of gambling equipment and/or services to conduct charity fundraising events using controlled games.

The Governors Reorganization Plan No. 2 (GRP2) submitted to the Legislature on May 3, 2012, and effective on July 3, 2012, pursuant to Government Code section 12080.5, and substantively operative on July 1, 2013, eliminated duplicative administrative, investigative, and enforcement roles from the Commission and consolidated these activities to the Bureau within DOJ, Division of Law Enforcement. All licensing applications, fees, and deposits, are submitted to the Bureau for processing.

One of the fees that the Bureau collects is the background deposit fees related to Tribal Vendors with their applications for findings of suitability. The application fees paid by Tribal Vendor applicants are intended to reimburse the Bureau and Commission for the cost of processing their applications.

Prior to the GRP2, all fees related to Tribal Vendors were deposited the SDF which at the time served as the sole funding source for the Commissions' and the Bureau's legislative appropriations for the costs of their respective tribal workloads. Once the Bureau assumed responsibility for the intake of all applications and fees in fiscal year 2013-14, the fees were then deposited into the GCF, which was/is administered by the Bureau. The Commission remained the administrator of the SDF.

Concurrently, there was a continued appropriation of funds from the SDF for the Commission and Bureau’s cost of processing the Tribal Vendor applications while deposits were made to the GCF. Tribal Vendor fees total $5,436,090.47 from FY 2013-14 through FY 2021-22 and fee deposits for current fiscal year through November 30, 2022 are $525,075 along with the $43,424.03 in accrued interest. The total one-time transfer request is for all fees from FY 2013-14 through November 30, 2022 including interest to be deposited into the SDF. This request is intended to reestablish the alignment in funding and revenue deposits for the Tribal Vendor fees to the SDF.

Staff Recommendation. Approve as budgeted.

8955 DEPARTMENT OF VETERANS AFFAIRS

Issue 11: Administrative Support

Request. The Governor's budget requests $1,426,000 General Fund in fiscal year 2023-24, and $1,368,000 in 2024-25 and ongoing, and 10.0 positions for the Department of Veterans Affairs (CalVet) for purposes of administrative support in the areas of accounting, budgets, and human resources.

Background. CalVet's mission is to serve and honor all California veterans by connecting them and their families with their earned benefits through education, advocacy, and direct services. To carry out that mission, CalVet employs more than 3,500 staff located throughout the state at eight Veterans Homes of California (Homes), three satellite Veterans Services Division (VSD) District Offices (DOs), three cemeteries, and headquarters (HQ) in Sacramento.

These programs are supported by administrative staff within CalVet HQ in the Accounting, Budgets, Communications, Human Resources, Procurement, and Telework Offices. The growth of these programs has outpaced the growth of administrative staffing. Often, program staff have been added with no accompanying administrative support. The administrative team is unable to provide the necessary support to the programs. This causes long delays in: hiring and managing program staff; acquiring goods and services necessary for the program operations; processing invoices for both accounts payable and receivable; producing budgetary information; and threatens emergency communications and the reputation of the CalVet.

The Accounting Office requests one Senior Accounting Officer (Accounts Payable), one Associate Accounting Analyst (Cashiers/Travel), one Accounting Administrator I (Financial Accounting and System Support Unit), and one Associate Account Analyst I (General Ledger) to meet growth in transactions volume in FI$Cal and increased workload linked to the CalVet's Home Loan Program resulting from inclusion of new channels of financing.

The Budget Office requests one Staff Services Manager II and one Associate Budget Analyst to meet the workload needs of the California Central Coast Veterans Cemetery, the Redding and Fresno Veterans Homes of California, and additional Veterans Services Division programs.

The Human Resources Branch requests, one Associate Personnel Analyst (Payroll Unit), one Associate Personnel Analyst (Classification and Pay Unit), and two Associate Personnel Analysts (Exam Unit) to fulfill unmet workload needs in each unit.

Staff Recommendation. Approve as budgeted.

Issue 12: California Central Coast Veterans Cemetery Operations

Request. The Governor's budget requests $95,000 General Fund in fiscal year 2023-24 and $89,000 General Fund in 2024-25 and ongoing and 1.0 positions for the Department of Veterans Affairs (CalVet), to support operational requirements at the California Central Coast Veterans Cemetery (CCCVC).

Background. California's state veterans cemeteries support the Department's mission of providing veterans and their families with direct services. The cemeteries provide a final resting place of honor for veterans, their spouses, and eligible dependents. These cemeteries also provide a gathering place to commemorate, celebrate, and honor veterans on Memorial Day, Veterans Day, and other special events.

CCCVC is located in Seaside, California on a 78-acre site. Phase I of CCCVC was completed in October 2016 and opened for columbaria interments only. Phase II, completed in May 2021, provides two more interment options: in-ground urn burials and casket burials.

CalVet requests one Office Technician (OT) to support the operations of the CCCVC. The positions responsibilities will include:

- Process eligibility applications in a timely manner.
- Arrange, coordinate, and schedule services and interments within two hours of application receipt, if a death certificate is included in the application packet.
- Answer phone calls and return voicemails within two hours.
- Maintain a complete and complex paper and electronic filing system.
- Maintain a physical presence at CCCVC's reception desk to greet visitors, when the other OT is out of the office on vacation, sick leave, breaks, and lunches.
- Track inventory of office and industrial supplies.

Staff Recommendation. Approve as budgeted.

Issue 13: Clinical and Operational Workload

Request. The Governor's budget requests $3,030,000 General Fund in fiscal year 2023-24, and $2,953,000 in 2024-25 and ongoing, and 15.5 positions for the Department of Veterans Affairs (CalVet) to improve oversight and coordination of clinical and operational initiatives in the Veterans Homes of California.

Background. CalVet offers four levels of care for veteran residents and their spouses, including: Domiciliary, Residential Care Facility for the Elderly (RCFE), Intermediate Care Facility (ICF), and Skilled Nursing Facility (SNF). Today, the eight Homes provide long-term care for up to 2,319 veterans and their spouses. The facilities range in size from 60 beds on a 10-acre site to nearly 900 beds on 615 acres.

CalVet requests 2.0 Registered Nurses (RN) and 6.5 Supervising Registered Nurses (SRN) to address the uneven distribution of nighttime SRNs throughout the CalVet system. The Homes have a ranging number of licensed beds (which includes RCFE, ICF, and SNF) for which nighttime nursing services are required. However, nighttime SRNs staffing levels are disproportionate with bed counts and the size and complexity of each Home adds to the SRN workload. Nighttime SRNs can resolve personnel issues that would otherwise not be solved until morning, provide subject-matter expertise, and play critical roles in CalVet's emergency response that can happen during night shifts. The Lancaster and Ventura Homes are 60-bed RCFE facilities, with a single SRN serving as the director of nursing and overseeing the nursing program. An additional SRN does not align with the staffing structure at these two Homes, as it would conflict with the nursing director position. Therefore, CalVet requests 1.0 RN for the Lancaster Home and 1.0 RN for the Ventura Home to ensure clinical expertise is available overnight.

CalVet requests 3.0 RNs and 2.0 Staff Services Analyst (SSA) positions to reach a baseline of 1.0 RN for infection prevention for all Veterans Homes, with additional staffing as needed to reflect programmatic size and complexity. The RN positions would be distributed between four Homes, with 1.0 in VHC-Chula Vista, 1.0 in VHC-Fresno, 0.5 in VHC-Lancaster, and 0.5 in VHC-Ventura. The SSA positions at the West Los Angeles and Yountville Homes would provide clerical and analytical support in a variety of areas, including tracking individual staff compliance, managing resident care records, and preparing and submitting internal and external compliance reports.

CalVet requests 1 Direct Construction Supervisor (DCS) II and 1 DCS I to improve construction oversight and project management at the Yountville Home. The Yountville Home campus is aging. With each passing year, the facilities experience more challenges. The Yountville Home has an estimated $40 million in identified deferred maintenance needs. Many structures and equipment exceed their life expectancy, and the Depression-era and post-World War II utility infrastructure is stretched to its maximum. Regulatory requirements from control agencies steadily increase over time, adding further complexity to the Yountville Home's operations.

Staff Recommendation. Approve as budgeted.

Issue 14: Minority Veterans Unit Workload

Request. The Governor's budget requests $156,000 General Fund in fiscal year 2023-24 and $150,000 in 2024-25 and ongoing, and 1.0 position for the Department of Veterans Affairs to meet the unmet needs of the approximately 760,000 minority veterans and their family members in California.

Background. The Minority and Underrepresented Veterans Division (Division) was created in 2011. The Division advocates for approximately 47 percent of the total state veteran population who identify as ethnic minorities, and of that, over 136,000 identify as Lesbian, Gay, Bisexual, Transgender, Queer (LGBTQ) veterans. In the last 11 years, the Division was unable to carry out sufficient projects or programs that addressed the changing unique needs of minority veterans.

Minority veterans historically access their veteran benefits at a lower rate than their non-minority counterparts. Similarly, veterans of non-white ethnicities experience service-related challenges at disproportionately higher rates. For example, Native American and Alaskan Indian veterans have higher unemployment than any other ethnicity that served in the military, and yet, they serve at a higher percentage than any other ethnic group. They also make up a higher percentage of disabled veterans and often disproportionately lack health insurance.

CalVet requests one Staff Services Manager I (SSM I) to allow the Deputy Secretary to establish a readily available and updated set of reports and statistics regarding each identified minority and allow for further expanded research as new studies are conducted. Since its inception in 2011, the Division lacks the support of a manager-level staff position. The SSM I would manage the day-to-day functions of the Division as the Deputy Secretary attends outreach and networking events and meetings throughout the state and nation that further expand program policies and legislation that positively impacts the minority veteran community.

Staff Recommendation. Approve as budgeted.

Issue 15: Veterans Services Division District Office Support

Request. The Governor's budget requests $1,332,000 General Fund in fiscal year 2023-24, and $1,282,000 General Fund in 2024-25 and ongoing, and 9.0 positions for the Department of Veterans Affairs to provide for staffing at the Veterans Services Division three District Offices (DO).

Background. The Veterans Services Division (VSD) connects California veterans and their families with the benefits and services earned through their sacrifice and service to our country. To support this critical mission, the VSD provides advocacy, education, and service assistance to veterans as they attempt to access their state and federal benefits. The DOs assist veterans and their families by reviewing incoming claims submitted by County Veterans Services Offices, the filing of additional claims through avenues such as walk-ins and veteran who are incarcerated, providing decision review requests, the filing of appeals, and the representation of veterans and their survivors in front of the United States Department of Veterans Affairs (USDVA) Board of Veterans Appeals (BVA).

CalVet requests 9.0 positions for staffing at the Veterans Services Division (VSD) three District Offices (DO). The funding will help ensure that California's veterans and their families receive proper federal claims representation as well as receive their federal benefit awards in a timely manner. Additionally, the funding will enable the CalVet to provide increased oversight and accountability of the county veterans service officers (CVSO) throughout the state who receive state support through the County Subvention and Medi-Cal Cost Avoidance Programs.

The requested positions are:

- Oakland DO: 1 Staff Services Manager II (SSM II), 1 Staff Services Manager I (SSM I), and 1 Associate Government Program Analyst (AGPA)
- Los Angeles DO: 1 SSM I and 3 AGPAs
- San Diego DO: 1 SSM I and 1 AGPA

Staff Recommendation. Approve as budgeted.

Issue 16: Website Development to Enhance Digital Communications

Request. The Governor's budget requests one-time funding of $1 million General Fund in fiscal year 2023-24 for the Department of Veterans Affairs to procure contractor services to enhance digital communications in support of providing services and benefits to veterans of California through a content management system website.

Background. In 2014, CalVet implemented a new public website on the SharePoint platform that is primarily managed by the Information Systems Division (ISD). The website was custom-built to tailor to veterans' needs by providing services to veterans through a Content Management System (CMS). The CMS includes features such as a robust search and indexing capability, registration forms with log in functionality to see custom benefits, custom web parts, and development designed for automation and application integration.

Over time, the website has gone through multiple SharePoint platform upgrades, new state template designs, and a large increase of embedded applications and expanded functionality. However, the SharePoint platform has increasingly failed to meet the changing web-based needs of CalVet, resulting in an inability to meet program requests or easily maintain compliance with the state template, federal and state laws, regulations and best practices. Furthermore, the platform does not allow application development staff to implement changes easily or quickly, wasting staff time and resources.

The SharePoint platform is reaching its end of life support. As of September 1, 2024, mainstream support will end. This will result in support calls costing additional resources, incident reporting no longer being included in any licensing program, and there will be no ability to request non-security patches. Due to these factors, the public website is not sustainable on the current SharePoint platform and a new website is needed to better serve veterans and their families. For these reasons, CalVet requests funding for contractor services to architect, design, develop, deploy, and maintain a new CalVet.ca.gov website.

Staff Recommendation. Approve as budgeted.

Issue 17: Women Veterans Unit Workload

Request. The Governor's budget requests $156,000 General Fund in fiscal year 2023-24 and $150,000 in 2024-25 and ongoing and 1.0 position for the Department of Veterans Affairs to meet the unmet needs of the 163,000 women veterans, and approximately 30,000 servicewomen and their family members in California.

Background. In 2013, the Division for Women Veterans Affairs (Division) was staffed with 1 full-time Deputy Secretary, 1 full-time analyst, and 1 shared employee totaling 2.5 employees. The Division is currently staffed with 1 full-time Deputy Secretary, 2 full-time analysts, and 1 Staff Services Analyst. Given the low staffing level of the Division, CalVet is still not able to fully meet its strategic goals of ensuring equal and equitable access to benefits and services for military women, veterans, and their families through robust outreach, education, and awareness.

The Division requests one Staff Services Manager I to serve as the day-to supervisor of the Division and evaluate Division programs and data to make program and policy recommendations. The SSM I will develop new strategies and initiatives to meet the outreach needs of rural veterans and be responsible for the ongoing development of Division programs (online and in person), including but not limited to, Women Veterans Annual Reception, statewide webinars, rural military women veteran inclusion forums, and military sexual trauma/intimate partner violence training calendar. The SSM1 will also assist the Deputy Secretary with ensuring the strategic implementation of the organizational-wide strategy and road map to embed diversity, equity, inclusion, and belonging into every aspect of CalVet's mission, work, and culture. The SSM I will also establish a community outreach plan with internal and external stakeholders to raise awareness of the Deputy Secretary's initiatives.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 18: Franchise Application and Complaint Workload (AB 676)

Request. The Governor's budget requests an increase in expenditure authority of $1.3 million Financial Protection Fund in fiscal year 2023-24 and $1.2 million in 2024-25 and ongoing and 5.0 positions for the Department of Financial Protection and Innovation (DFPI) to implement the provisions of AB 676 (Holden), Chapter 728, Statutes of 2022.

Background. California was the first state to regulate franchises in 1971. It is the largest of the 14 states that require registration before a franchise is offered or sold. The Federal Trade Commission (FTC) has concurrent jurisdiction with the registration states but does not pre-empt them. The FTC Franchise Rule sets the minimum disclosure requirements and allows individual states to enact more investor protections.

Franchising is a method of conducting business that consists of a franchisor—who establishes a brand's trademark and business system—that is paid by a franchisee who does business under the franchisor's trademark using the system after entering into a franchise agreement. For example, a franchisor might establish a restaurant's trademark and business system (such as the menu and food preparation methods). After entering into a franchise agreement with the franchisor, a franchisee would pay the franchisor for the right to operate one or more such restaurants.

The state has enacted two major laws governing the franchisor-franchisee relationship. The Franchise Investment Law (FIL) provides ground rules for the marketing of franchise opportunities and the formation of the franchise relationship (offer and sale of a franchise). The Franchise Relations Act (FRA) governs the ongoing relationship between the franchisor and the franchisee to prevent unfair practices in the renewal, transfer, or termination of a franchise domiciled or operated in California.

Among other changes, AB 676:

- Closes a loophole that franchisors used to avoid requirements to register with DFPI.
- Prohibits franchisors from interfering with the sale of existing franchise businesses.
- Adds criteria upon which DFPI can issue a stop order or deny or revoke a registration, such as a franchise agreement that contains a provision that is contrary to state law.

The Enforcement Division requests 3.0 positions (Attorney IV, Senior Financial Institutions Examiner (Examiner), and Investigator) and the Franchise Unit requests 2.0 positions (Attorney III and Senior Legal Analyst) to meet the anticipated increase of franchise registrations, complaints, and investigations resulting from the implementation of AB 676.

Staff Recommendation. Hold Open.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Issue 19: Administrative Support for Evolving Program Operations

Request. The Governor's budget requests an increase in expenditure authority of $2.8 million Alcohol Beverage Control Fund in fiscal year 2023-24 and $3.2 million in 2024-25 and ongoing and 16.0 positions in 2023-24 – increasing to 19.0 positions in 2024-25 – for the Department of Alcoholic Beverage Control (ABC) to provide increased administrative support to its licensing, enforcement, and education programs as they undergo changes; most notably, operational modernization and shifting to a remote work environment.

The proposal also requests to transfer $48.5 million General Fund to the Alcoholic Beverage Control Fund (ABC Fund) over three years ($20.5 million in fiscal year 2023-24, $16 million in 2024-25, and $12 million in 2025-26), comprising the remaining balance of funds appropriated for the COVID-19 License Renewal Fee Waiver Program, which concluded in February 2023.

Background. The 19.0 positions requested by ABC to provide increased administrative support to its licensing, enforcement, and education programs are as follows:

- An Office of Equity with one Equity Officer to evaluate ABC laws, policies, and practices to identify and address any instances in which ABC's programs are creating disparate outcomes.
- One Deputy Director of Public Affairs to support external and internal communication, media and press relations, social media, the ABC website, public outreach, and education.
- One Senior Personnel Specialist to alleviate workload from existing staff and create capacity in ABC's Human Resources Branch.
- One Accountant Trainee to address increased workload from manager and server online registrations and new online payment options.
- Twelve information technology (IT) and information security personnel in 2023-24 (increasing to fifteen beginning in 2024-25). The IT personnel would provide IT support in areas where ABC has yet to modernize or has needs as a result of recent changes, including the introduction of telework, the modernization of public-facing services, and the proposed Office of Equity, among others. The information security personnel would address a variety of information security issues from ABC's introduction and expansion of its public-facing services and automation tools due to teleworking, among other things.

Currently, ABC has about 95,000 licensees across the state, including businesses such as winegrowers, liquor stores, and restaurants. ABC is supported primarily by its special fund, the ABC Fund, which receives revenue almost entirely from fees charged to these licensees. Licensing fees generally fall into two categories: (1) annual renewal fees (the most significant source of revenue) and (2) application fees for new licenses, license transfers, daily licenses for events, caterer's permits, and other miscellaneous fees.

The COVID-19 pandemic negatively impacted many ABC licensees and resulted in a decrease in licensing revenue. In order to provide licensees relief, the state temporarily waived license fees through February 2023 for restaurants, bars, and other specified ABC licensees impacted by health and safety restrictions imposed in response to the pandemic. The state also backfilled the resulting loss in revenue to the ABC Fund. Specifically, the 2020-21 budget package made available up to $93 million from the General Fund through 2022-23 to backfill the ABC Fund.

The $93 million appropriation was provided based on the assumption that all eligible licensees would apply for the renewal waiver; however, a substantial number did not. ABC estimates that $48.5 million will remain unspent from the appropriation, which will revert to the General Fund at the end of the 2022-23 budget year under current law. The department surveyed a sample of licensees to inquire on why they did not apply for the waiver and they reported various reasons, including not being aware of the waiver, not wanting to take the extra step to self-certify that they were eligible, or that they did not need the relief because their businesses were doing well.

ABC Increased License Fees in 2023 and Plans Further Fee Increases in 2024. Under current law, ABC has the authority to administratively increase fees each year, up to the growth in the Consumer Price Index (CPI) occurring seventeen months prior to the effective date of the increase. Because ABC has already used its authority in the current year, the department will not be able to adjust fees further until next year, which ABC recently notified the Legislature of its intent to do. This adjustment will increase licensing fees by 7.5 percent, effective January 1, 2024, reflective of the CPI growth between August 2021 and August 2022.

LAO Comments and Recommendations.

Proposed Positions Have Merit, but Do Not Fill Critical Need and Exacerbate Potential ABC Fund Insolvency. The additional positions proposed by the Governor would support various activities that generally appear worthwhile to implement. However, the ABC Fund is currently structurally imbalanced—that is, the expenditures out of the fund exceed the revenues deposited into the fund. The Governor's proposed increase in expenditures would likely result in the ABC Fund being insolvent in 2023-24, as shown in the figure below. As such, increasing expenditures from the ABC Fund should be reserved for positions and activities that seek to fill a critical, immediate need at this time to maintain existing service and program levels. We find that the proposed positions do not meet this criteria.

Proposed Expenditures Would Exacerbate Potential ABC Fund Insolvency[a]

(In Millions)

	2022-23	2023-24	2024-25	2025-26
Total revenues and transfers	$91.0	$97.4	$104.3	$109.5
Total expenditures	97.3	104.5	107.6	105.4
Projected End-of-Year Balance	**$5.0**	**-$2.1**	**-$5.4**	**-$1.3**

[a]These are projections that include certain assumptions around revenue growth, including annual Consumer Price Index increases and employee compensation increases.

ABC = Department of Alcoholic Beverage Control.

Not Approving Proposed Positions and Transfer Might Still Result in ABC Fund Needing Some Assistance, but Remains Uncertain. Even if the Legislature does not approve additional positions, it is possible the fund will barely remain solvent over the next year. Specifically, assuming (1) existing service levels remain unchanged, including the reduced funding level of $1.5 million for the Alcohol Policing Partnership grant program; (2) licensing fee revenues continue to increase after the pandemic with CPI growth as planned by ABC; and (3) other expenses—in particular employee compensation—do not increase significantly, the ABC fund balance would be $2.3 million in 2023-24, which would represent 2.3 percent of the ABC Fund's projected annual expenditures. However, beginning in 2024-25, the fund could emerge from its structural imbalance as revenues would exceed expenditures under this scenario.

Reject Proposed Positions. The LAO recommends that the Legislature reject the proposed positions because they do not fill an immediate or critical need to maintain existing service or program levels. Doing so would keep expenditures from the ABC Fund lower as revenues recover and annual increases to licensing fees can potentially bring the fund into balance. To the extent the ABC Fund stabilizes in the future, as is currently projected, the department could submit a proposal for the additional positions to the Legislature at that time.

Reject Proposed General Fund Transfer. The LAO recommends that the Legislature reject the proposed General Fund transfer, given their above recommendation to reject the proposed positions. Moreover, given the state's budget problem, the proposed transfer would come at the expense of previously identified General Fund priorities.

Adopt Provisional Language Authorizing Loan to Keep Fund Solvent if Need Arises. As discussed by the LAO, under a certain set of assumptions, the ABC Fund remains solvent in 2023-24. However, if employee compensation increases are higher or if revenues are lower than projected, the ABC Fund could become insolvent. In recognition of this possibility, they recommend that the Legislature adopt provisional language that would allow the Department of Finance—with 30-day notification to the Joint Legislative Budget Committee—to authorize a loan up to a certain amount to keep the ABC Fund solvent if revenues are lower than projected or costs to maintain existing service and program levels exceed estimated amounts. The Legislature could direct ABC to report at budget hearings on its estimates for a loan size that would be sufficient to maintain its existing service levels in 2023-24 and cover any uncertainty in revenue or employee compensation increases. In the event that the ABC Fund continues to face insolvency in 2024-25, the administration can return to the Legislature with a proposal to address it that can be considered through the budget process next year.

Staff Comments. Staff notes the need to address the structural imbalances in the ABC Fund and the Governor's proposal represents one potential solution. The Legislature may wish to examine a variety of options to address the ABC Fund's structural imbalances in the 2023-24 fiscal year.

Staff Recommendation. Hold Open.

8620 FAIR POLITICAL PRACTICES COMMISSION

Issue 20: Political Reform Education Program (PREP)

Request. The Governor's budget requests $455,000 General Fund in fiscal year 2023-24, and $421,000 in 2024-25 and ongoing, and 3.0 positions for the Fair Political Practices Commission (FPPC) to continue to develop, administer and expand the new Political Reform Education Program (PREP).

Background. The Political Reform Act of 1974 (Act) provides for the comprehensive regulation of campaign financing, including requiring the reporting of campaign contributions and expenditures and imposing other reporting and recordkeeping requirements on campaign committees. Existing law makes a knowing or willful violation of the Political Reform Act of 1974 a misdemeanor and subject offenders to criminal penalties. Existing Regulation 18360.1., directs the FPPC to develop a program as soon as feasible, to allow for the education of a person who commits a minor violation of the act, as specified.

The Political Reform Education Program ("PREP") is the new pilot educational program created by the FPPC in response to the mandate in Regulation 18360.1. The purpose of the PREP is to allow for education of respondents who have little or no experience with the Act and commit minor violations, in lieu of monetary penalties.

The general requirements to be eligible to take this course are as follows:

- Violations committed by the respondent appear to be the result of low level of experience and sophistication of the party.
- Violations committed by the respondent resulted in minimal public harm.
- The respondent has not paid a penalty to the FPPC for the same type of violation occurring within the last five years.

Criteria for exclusion from the program includes:

- Any evidence of an intent to conceal or violate the Act or regulations relating to the Act.
- Presented the FPPC false or altered evidence.
- Made false statements to the FPPC regarding material facts.
- Evidence of intentional interference with a witness in the FPPC matter.
- Has other violations under review for prosecution that do not qualify for a streamline penalty.
- The same respondent does not qualify for a streamline penalty based on specific exclusions listed in Regulation 18360.1 or 18360.3.
- The same respondent completed PREP for the same type of violation occurring within the last five years.

The FPPC requests one Political Reform Consultant, one Staff Services Manager I, and one Staff Services Analyst to continue to develop, administer and expand the Political Reform Education Program (PREP).

Staff Recommendation. Approve as budgeted.

1703 PRIVACY PROTECTION AGENCY

Issue 21: Consumer Privacy Implementation

Request. The Governor's budget is requesting 7.0 positions in fiscal year 2023-24 and ongoing for the Privacy Protection Agency (Agency) to begin enforcement activities and continue to fulfill its statutory responsibilities. The Agency is responsible for the implementation and administrative enforcement of the nation's first comprehensive consumer privacy law. This proposal will utilize the agencies existing, ongoing $10 million General Fund appropriation.

Background. In November of 2020, voters approved Proposition 24, The California Privacy Rights Act of 2020 (CPRA). The CPRA extends the California Consumer Privacy Act of 2018 (CCPA), the first comprehensive consumer privacy law in the United States. The new law is intended to "protect consumers' rights, including the constitutional right of privacy." To this end, it gives consumers certain rights regarding their personal information and imposes on businesses subject to the law several responsibilities.

To implement the law, the CPRA established the Agency, governed by a five-member board (Board) (Civil Code, § 1798.199.10(a)), and overseen by an Executive Director. (Civil Code, § 1798.199.30.) The CPRA directly appropriated $5 million General Fund in 2020-21 and $10 million per fiscal year thereafter to support the operations of the Agency. (Civil Code, § 1798.199.95(a).)

The Agency is the first data protection authority in the United States. The Agency's responsibilities include, but are not limited to, engaging in rulemaking, investigating violations, assessing penalties, cooperating with other jurisdictions, and promoting public awareness, including providing guidance to consumers and businesses on complex matters relating to online privacy, cybersecurity, and automated decision making. The Agency and the Office of the Attorney General will share enforcement powers under the law, (Civil Code, §§ 1798.199.45–90) beginning as early as July 1, 2023 (Civil Code, § 1798.185 (d)).

The Enforcement Division requests 5.0 positions for 2023 and ongoing (three Attorney IVs, one Attorney III, and one Attorney) to fulfill the division's responsibilities of handling the administrative actions associated with enforcing the provisions of California's consumer privacy laws that fall under the jurisdiction of the Agency.

The IT Division requests 2.0 positions (one Information Technology Specialist and one Information Technology Associate) to provide support to the Agency for complaints and expanded IT needs. The Agency does not currently have in-house IT staff.

Staff Recommendation. Approve as budgeted.

8955 DEPARTMENT OF VETERANS AFFAIRS

Issue 22: Yountville Roof Replacements

Request. The Governor's budget requests $15,857,000 General Fund in fiscal year 2023-24 for the Department of Veterans Affairs (CalVet) to replace five roofs at Veterans Home of California (VHC)-Yountville. The request includes construction costs and DGS project management costs and associated fees.

Background. CalVet offers four levels of care for veteran residents and their spouses, including: Domiciliary (Dom), Residential Care Facility for the Elderly, Intermediate Care Facility, and Skilled Nursing Facility. Today, the eight Veterans Homes provide long-term care for up to 2,319 veterans and their spouses. The facilities range in size across the state; while the smallest Veterans Home has 60 beds on a 10-acre site, VHC-Yountville hosts 876 budgeted beds on an expansive campus with more than 100 buildings.

The three oldest Veterans Homes are rapidly aging. With a 615-acre campus and at almost 140 years old, VHC-Yountville is the largest and oldest continuously operating Veterans Home in the country. Of the more than 100 buildings on the campus, few were built after the 1950s, and many critical structures date back to the 1920s and 1930s. As a result, VHC-Yountville has far more deferred maintenance needs than any of the other seven California Veterans Homes, and has experienced more frequent infrastructure issues, placing continued pressure on the facility's operating expenses and equipment budget.

Even with recent repairs and upgrades, significant needs remain at VHC-Yountville. Virtually every major structure on the campus was built prior to 1960, including many that originated in the Great Depression. In many respects, the basic infrastructure of these buildings has far exceeded its expected lifespan. In particular, the roofs on many of the buildings – including those housing residents – are failing, which could create a potential health and safety hazard while also potentially jeopardizing other structural components.

Staff Recommendation. Hold Open.

Issue 23: CalVet Electronic Health Record Project: Additional Activities and Scope Increase

Request. The Governor's budget requests one-time funding of $2,548,000 General Fund in fiscal year 2023-24 for the fourth year of implementation of a new long-term care electronic health record system in the Veterans Homes of California (Homes) 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 (EHR) 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. The 2021-22 budget provided $10 million General Fund for the second year of implementation, and was used to enhance the system at the initial four Homes, and implementing the system at the remaining Homes in Fresno, Redding, West Los Angeles, and Yountville. At the time, the project was scheduled to be completed in December 2021.

However, due to the COVID-19 pandemic, subject matter experts were not available for the project for extended periods, leading to project delays. This triggered a Special Project Report to the CDT. While the scope of the project did not change, adjustments were made to project timelines and order of implementation, as well as applications. The project timeline expanded by 20 months. The 2022-23 budget provided for $433,000 General Fund for the third year of implementation. The project was then scheduled to be completed in September 2023.

Due to further project delays resulting from statutory requirements of implementing e-prescription functionality by January 2022, truncated financial requirements in contracts, and a need for additional testing time, a second Special Project Report (SPR #2) to the CDT was triggered. The schedule, cost, and scope impacts reported in SPR #2 expanded the project timeline by 13 months.

Completing Phase 3 of the Electronic Health Record Project will provide CalVet with a modern EHR and enable the Homes to maintain all health records and PHI within the EHR. Additionally, finishing Phase 3 will eliminate the need for paper records. Furthermore, the digitization of all active health records will provide CalVet with the ability to track and report, have complete and comprehensive audit logs, and maximize the technical safeguards as they pertain to HIPAA compliance, which boosts confidence in information security.

Activity	Start Date	End Date
Phase 3 – Remaining Homes Implementation + Enhancements		
Chula Vista	11/1/2023	12/19/2023
Barstow	1/1/2024	2/14/2024
Yountville	3/1/2024	4/12/2024
Redding	5/1/2024	6/17/2024
Fresno	7/1/2024	8/15/2024
Project Completion (completion of Delivery)	10/8/2024	

Staff Recommendation. Approve as budgeted.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Anna M. Caballero
Senator Roger W. Niello

Thursday, March 16, 2023
9:30 a.m. or upon adjournment of Session
1021 O Street - Room 2100

Consultants: Elisa Wynne & Diego Emilio J. Lopez

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

0650 OFFICE OF PLANNING AND RESEARCH

Issue 1: California Climate Adaptation Strategy (AB 1384)

Request. The Governor's budget include $188,000 General Fund and 1.0 position in 2023-24 and ongoing for the Office of Planning and Research (OPR) to develop and report on implementation progress of the California Climate Adaptation Strategy (Strategy) pursuant to AB 1384 (Gabriel), Chapter 338, Statutes of 2022.

Background. The Integrated Climate Adaptation and Resiliency Program (ICARP) within OPR was established to provide a comprehensive and coordinated response to climate impacts, with consideration for impacts to vulnerable populations, through coordination across state and local entities.

AB 1384 requires the California Natural Resources Agency (NRA) to coordinate with the Office of Planning and Research and identify, among other things, vulnerabilities to climate change for vulnerable communities, an operational definition of "climate resilience" for each sector and for vulnerable communities, special protections of vulnerable communities and industries that are disproportionately impacted by climate change, and timetables and specific metrics to measure the state's progress in implementing the plan.

Proposal. According to the BCP, ICARP requires 1.0 Senior Intergovernmental Program Analyst to support OPR's responsibilities to coordinate on the development of the State Adaptation Strategy. In the years the Strategy is not under development, this position would support promotion and public communication of the Strategy's implementation, the interagency coordination required to evaluate implementation progress, and support the development of the annual implementation report specified in statute.

Staff Recommendation. Approve as budgeted.

Issue 2: Programmer Position to Maintain and Redesign the CEQA System

Request. The Governor's budget requests $283,000 General Fund and 1.0 position in fiscal year 2023-24 and ongoing for OPR to be the technical lead in maintaining the current California Environmental Quality Act document online processing system, provide planning resources for a system redesign, and maintaining the new system.

Background. The California Environmental Quality Act (CEQA) (Public Resources Code Division 13, Sections 21000 – 21189.57), was enacted in 1970 to supplement the National Environmental Policy Act (NEPA), which was passed in 1969 to address instances of government-approved projects causing harmful environmental impacts. CEQA requires review of an activity undertaken by a public or private entity if 1) the activity will cause a direct physical change in the environment or a reasonably foreseeable indirect change in the environment, and 2) if the activity is subject to discretionary approval by a government entity.

The current process requires lead and public agencies to send in their CEQA notices and environmental documents, and NEPA environmental documents to OPR. OPR is required to distribute and make CEQA environmental documents available to reviewing state agencies and departments throughout the state through the CEQA database.

The current system allows for lead agencies and consulting firms working on behalf of a lead agency, to transcribe information and upload documents on the proposed and approve projects of the actual "notices", which allows for OPR staff to further process and post these "notices" into the system to be available on CEQAnet. The current process also involves OPR to email a weekly notice to state reviewing agencies of projects that require state agency review on the OPR web-site (www.ceqanet.ca.gov). Database maintenances and issues can delay the information being submitted by registered users into the database of documents received in a given time period and then posted to the internet. As part of the current process, OPR responds to inquiries regarding EO 12372 via phone and email.

OPR requests one Assistant to the Governor to assist OPR to maintain and operate the current CEQA system with the continued surge of new submitters and processing of the CEQA and other environmental documents and noticing. The position will lead and assist in developing and building a new system after the PAL process is complete, advise in the continuance of the on-going infrastructure to maintain, upgrade and streamline the new CEQA system while adding value to the OPR.

Staff Recommendation. Approve as budgeted.

Issue 3: Statewide Extreme Heat Ranking System (AB 2238)

Request. The Governor's budget requests $944,000 General Fund in fiscal year 2023-24 and $564,000 in 2024-25 and 2025-26 and 3.0 positions for OPR to support the development and implementation of a statewide heat ranking system pursuant to AB 2238 (Luz Rivas), Chapter 264, Statutes of 2022.

Background. AB 2238 requires the California Environmental Protection Agency (CalEPA), in coordination with the OPR's Integrated Climate Adaptation and Resiliency Program (ICARP), the California Department of Public Health, and the California Department of Insurance, to develop a statewide extreme heat ranking system and a series of accompanying public awareness and planning resources. AB 2238 requires ICARP to:

1. Develop a public communications plan for the raking system with a focus on strategies that target communications to populations that are most at risk of public health and emergency.
2. Develop statewide guidance for local and tribal governments in the preparation and planning for extreme heat events and recommend applicable partnerships, and;
3. Recommend locally relevant heat adaptation, preparedness and resilience measures that could be linked to the system.

OPR requests two Senior Intergovernmental Program Analysts and one Associate Intergovernmental Program Analyst to support the development of the extreme heat ranking system, and, once it is complete, (1) lead the development of the public communications plan and (2) support local and tribal government implementation of the ranking system through partnerships and tailored policy recommendations.

Staff Recommendation. Approve as budgeted.

Issue 4: Tribal Liaison

Request. The Governor's budget requests $284,000 General Fund in fiscal year 2023-24 and ongoing for OPR to provide for 1.0 Tribal Liaison position. OPR must advise local governments on General Plans and Environmental Justice Elements, as described in Government Code 65302(h). Additionally, OPR should be coordinating with other State Government Agencies and Federal Agencies to better align State policies and funding programs, as described by Government Code 65040.12.

Background. OPR must provide General Plan guidance, including service of disadvantaged communities, civic engagement, public health planning, and other environmental justice goals (Government Code 65302(h)). General plan incorporation of environmental justice and integration of equity is required by law. OPR has minimal capacity to advise on planning to local governments, including multiple daily phone calls, and particularly through any updates to the General Plan Guidelines, which were last updated in 2017. OPR only retains two Associate Planners and one Senior Planner not tied to program implementation duties in the planning and policy unit.

OPR requires expertise in tribal land use, planning and governance to successfully provide funding to tribal entities. OPR issues funding to tribal entities through the Community Economic Resilience Fund (CERF), Regional Early Action Planning Grants 2.0, and Integrated Climate Adaptation and Resiliency Grants while the Strategic Growth Council operates the Affordable Housing and Sustainable Communities (AHSC) Program with a tribal set-aside. In total, these programs value at over one billion dollars currently allocated yet lack a tribal advisor to consult with. OPR's ICARP is directly engaging with California Native American tribes with an attempt to partner on the Fifth Climate Change Assessment, California's Adaptation Strategy, and other state-wide climate planning efforts. A Tribal Liaison would consult on OPR and SGC programs to enable their access to funding resources and bring them in as partners in our planning efforts. Additionally, the position would provide land use expertise for tribal governments on CEQA issues and land use interactions with State and local uses.

OPR lacks capacity to generate a tribal engagement strategy aligned with Executive Order B10-11, N-15-19, and Governor Newsom's directive to embed equity into actions, policies, programs, and procedures. EO B-10-11 directs OPR to communicate and consult with California Indian Tribes and gather meaningful input into the development of legislation, regulation, rules, and policies on matters that may affect tribal communities. Tribal engagement is an ongoing need at OPR in order to comply with both the EO and directive.

OPR requests one Tribal Liaison to develop a tribal engagement activity to direct OPR staff engagement with these sovereign governments while maintaining sensitive relationships and assisting with direct outreach.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

0511 GOVERNMENT OPERATIONS SECRETARY

Issue 5: Office of the Cradle-to-Career Data System Right-Sizing

Request. The Governor's budget includes increases to the Government Operations Agency (GovOps), Office of the Cradle-to-Career (C2C) Data System, of 10.0 new positions, reclassification of 4.0 existing positions, and $4.9 million General Fund in fiscal year 2023-24 and ongoing to fund and manage ongoing workload related to the Cradle to Career Data System.

Background.

AB 132 (Committee on Budget), Chapter 144, Statutes of 2021, established the C2C to provide expansive public access to one of the most comprehensive data systems in the nation, linking existing public and private education data, as well as workforce, financial aid, and social service information to address disparities in opportunities and improve outcomes for all communities throughout California. A 21-person Governing Board overseeing the office and two 16-person Advisory Boards with public members provide implementation recommendations for the C2C.

Funding. Approximately $10.2 million in ongoing funding and one-time start-up funds of approximately $15 million were provided for initial implementation of C2C. In 2022-23, C2C has approximately $13.3 million in rolled-over start-up funding available. C2C is a newly established state entity, and the requested increase in funding is intended as an initial true-up to ensure C2C has the staff bandwidth and resources to fulfill the full scope of its statutory requirements. According to the department, the increased ongoing resources are intended to enable C2C to manage the drop in funding from approximately $23.5 million in current year funding to what would be only $10.2 million in ongoing funding for 2023-24.

Resource History
(Dollars in thousands)

Program Budget	FY 2020-21	FY 2021-22[2]	FY 2022-23
Authorized Expenditures	$93	$3,016	$23,560
Actual Expenditures	$0	$2,317	TBD
Revenues[1]	$0	$0	$0
Authorized Positions	0.0	12.0	16.0
Filled Positions	0.0	6.0[3]	16.0[4]
Vacancies	0.0	6.0	0.0

[1] Cradle to Career does not currently collect revenue.
[2] Actual Expenditures are based on FY 2021-22 data as of July 30, 2022.
[3] As of June 2022.
[4] C2C has filled 9 positions as of August 2022 and expects to fill 16 in the CY.

Source: Department of Finance

The Office has signed legal agreements permitting data sharing with 15 other entities including departments, agencies, constitutionally independent departments, and a non-state entity:

- Association of Independent California Colleges and Universities,
- Bureau for Private Postsecondary Education,
- California Community Colleges Chancellor's Office on behalf of the California Community Colleges Board of Governors,
- California Department of Education,
- California Health and Human Services Agency,
- California State University Board of Trustees,
- California School Information Services,
- California Student Aid Commission,
- California Labor and Workforce Development Agency,
- Division of Apprenticeship Standards of the Department of Industrial Relations,
- Commission on Teacher Credentialing,
- Department of Health Care Services, Department of Social Services,
- Employment Development Department, and
- The University of California.

The system must be implemented with the latest security and privacy standards to prevent a breach of a data system that will include millions of data points from residents across the state. The data system has been envisioned to be the most inclusive data system of its kind in the country and is required by statute to prioritize accessibility via user-centered design and in-depth community engagement with the many end users of the data system across California. C2C's works focuses on the following three pillars:

The Cradle-to-Career Analytical Dataset. The analytical data set is bringing together existing data on education and job outcomes from more than a dozen state entities and will make it broadly available through public tools and a data request process.

Tools to support College Planning and Transition. One of the requirements of the legislation is that Cradle-to-Career is to scale operational tools to better serve educators, students, and families. The two operational tools detailed in the legislation are the California College Guidance Initiative (CCGI), which provides college planning and application tools via californiacolleges.edu, and eTranscript California, which is an existing statewide electronic transcript exchange. The Office of Cradle-to-Career is working closely with state agencies to develop linkages to CCGI/CaliforniaColleges.edu, an existing state program that will provide tools for students to plan for college and career, and to streamline the process of applying to college and for financial aid. While the office is working on updating data infrastructure with state agencies, CCGI is working to onboard additional districts so they can use these free resources effectively.

Community engagement, outreach, and capacity building. The Office of Cradle-to-Career has seated the two advisory boards identified in AB 132: the Data and Tools Advisory Board and the Community Engagement Advisory Board.

Proposal: The BCP notes that this is C2C's third year in existence, and C2C's budget needs to be reviewed and right-sized to ensure C2C has the proper amount of operating expenses and levels and quantity of staff to execute the critical tasks for which they are mandated to perform in the education code. The internal review has determined that C2C needs 10 new staff positions to round out its team and funding for the reclassification of four existing positions to a higher classification level, and funding for a modest increase in operating expenses and equipment. The total amount being requested is $4.9 million General Fund ongoing. This requested amount will allow C2C to achieve its statutorily required objectives. The funding provided will allow C2C to be successful in the following critical operational areas:

- **Technology:** C2C has completed the Department of Technology's Project Approval Lifecycle (PAL) process for the C2C System Integrator as of November 18, 2022 and have executed a contract with the selected vendor.
- **Data:** Staff needed to support the 15 entities that have signed legal agreements with C2C to prepare and transfer data, and funding needed to secure data sharing from the National Student Clearinghouse.
- **Tools for Students and Families:** Continued investments in college and career planning tools through californiacolleges.edu and eTranscript California.
- **Governance, system design, and staffing needs:** Staff support for the inclusive governance structure, support for a required annual student experience audit, and right-sizing of staff within the office.

Staff Recommendation. Hold Open.

0650 OFFICE OF PLANNING AND RESEARCH

Issue 6: General Plan Guidelines Updates and Technical Assistance

Request. The Governor's budget requests $2,289,000 General Fund in fiscal year 2023-24 and $714,000 in 2024-25 and 2025-26 and 3.0 positions for the Office of Planning and Research (OPR) to support comprehensive update of General Plan Guidelines as a result of 150 enacted laws since 2017 and alignment with the State Housing, Equity and Climate priorities.

Background. A general plan is a local government's blueprint for meeting the community's long-term vision for the future. The General Plan Guidelines (GPG) serve as a resource to help jurisdictions draft and update their general plans. Technical advisory documents provide supplemental information about general plan topics in response to local needs around the state or changes in State law. OPR is statutorily required by Government Code Section 65040.2 to adopt and periodically revise state guidelines for the preparation and content of local general plans for all cities and counties in California.

The current version of OPR's General Plan Guidelines was updated in 2017 and took four years to develop. These guidelines address eight mandatory elements of land use, conservation, noise, safety, open space, circulation, air quality, housing, and environmental justice and other optional topics, including equitable and resilient communities, healthy communities, economic development and climate change.

General plan elements are generally composed of background and technical information, goal and policies, and implementation programs describing action items for the future. The 2017 GPG was informed by years of research, interagency input, statewide workshops, comment letters, and engagement with various stakeholders. The GPG serves as the "how to" document for cities and counties that are drafting or updating their general plans. While the GPG is not a legally binding document, it pulls together statutory language from planning law and provides guidance on methods of compliance. The GPG is a resource, to help planners, community members, and local decision makers achieve their goals for how their community develops and grows.

Since 2017, over 150 State bills have been signed into law. The current version of OPR GPG does not align to these laws. Many local governments, especially the ones with limited resources rely on the GPG on OPR website to update their General Plans or receive answer on how to review a development project. The existing outdated GPG on OPR's website is misleading to the jurisdictions that refer to OPR's guidelines.

OPR requests three Senior Projects Analysts that will allow OPR to do the following:

- Hire consultants and direct their work to facilitate stakeholders' engagement.
- Draft a comprehensive Stakeholder Engagement Plan that includes engaging all relevant State agencies, local and regional governments, non-profit-organizations, universities, and community members in all regions in California.
- Establish and manage Technical and Community Advisory Groups.
- Oversee implementation of Stakeholder Engagement Plan.

- Review the technical analysis and seek feedback from other State agencies.
- Analyze interconnection of different elements of the Guidelines.
- Implement Governor Newsom's Executive Order N-16-22 and embed equity in all aspects of GPG, through community engagement, General Plan policies, and measuring metrics of the outcome.
- Conducts stakeholders' engagement meetings for all regions in California in the forms of workshops, surveys, interviews, webinars, and informational brochures.

General Plan Guidelines include multiple technical sections (such as noise and safety elements) that OPR doesn't have in-house expertise to conduct an analysis on. In addition, OPR does not have any ongoing need for this type of expertise therefore hiring a group of consultants would better address the needs. The requested $1.5 million, one-time contracting will support OPR in accomplishing the goals listed below:

- Update all elements of GPG at the same time to embed equity, climate change, housing affordability and public health perspective in all aspects of the general plan.
- Assess the correlation between GPG and other State plans and priorities, including the Scoping Plan and Statewide Housing Plan, etc.
- Create and maintain Technical and Community Advisory Groups that guide the process of the GPG.
- Assist OPR staff in facilitating stakeholders' engagement meetings for all regions in California in the forms of workshops, surveys, interviews, webinars, informational brochures, open house materials.
- Provide technical analysis in response to over 150 State laws and over 20 State priorities and plans that were approved after 2017.
- Create an interactive website to make the Guidelines accessible and user-friendly to all Californians.
- Update GPG mapping and data technologies, including General Plan Data Mapping Tools.
- Create mechanisms to update the GPG in a way that is easy to maintain regularly and keep up to date with future bills.

Staff Recommendation. Hold Open

Issue 7: Legislative and Legal Staffing

Request. The Governor's budget requests $1,433,000 General Fund in fiscal year 2023-24 and ongoing and 5.0 positions for OPR's growing legal and legislative workload.

Background. There are several statutory obligations and budget programs at OPR that the legal and legislative team supports. The core OPR budget programs include OPR's Planning and Policy team, Strategic Growth Council (SGC), and California Volunteers. Although SGC has two attorneys dedicated to its own programs, OPR is the umbrella agency and thus its attorneys remain involved in actively overseeing the work of SGC's attorneys and coordinating legal responses with them. Additionally, OPR expects that it will provide some level of legal services to the newly created Office of Community Partnerships and Strategic Communications.

In recent years, multiple new statutory obligations and funding programs have expanded OPR's responsibilities and expertise, including the Integrated Climate Adaptation and Resiliency Program (2015), Federal Grants Administrator (2016), Precision Medicine (2016), the Online Learning Lab (2018), Commission on Catastrophic Wildfire Cost and Recovery (2018), Cradle-to-Career (2019), the Higher Education Innovation program (2019), the Just Transition Roadmap (2020), the Community Economic Resilience Fund (2021), Regional Early Action Planning grants (2021), as well as additional funding to California Volunteers for Emergency Preparedness Grants and new and expanded grant programs at SGC.

Additionally, over the past four years, California Volunteers has seen an increase in state investment to support critical community programs. From AmeriCorps program grants to volunteer infrastructure and disaster preparedness grants, this increase in funding has also led to significant growth in workload for procurement and contracting, and have led to the need for expedient, in-depth advice in complex legal areas such as agile procurements, increased proactive programmatic client services such as training of legal issues to staff, and strategic legal advice for meeting programmatic goals. Prior to 2019, California Volunteers received legal support directly from the Governor's Office. Legal support shifted to OPR in 2019, but no additional resources to assist California Volunteers.

OPR also notes that the position of chief counsel is presently in a borrowed position funded by the Department of Fish and Wildlife; the legislative director is presently in a borrowed position funded by the California Department of Corrections and Rehabilitation.

OPR requests the following positions:

- One Senior Assistant to the Governor would permanently fund the position of OPR's Chief Counsel.
- One Assistant to the Governor would be used to permanently fund the position for OPR's Legislative Director.
- One Assistant to the Governor would be used to fund an Attorney III level attorney to provide legal services to California Volunteers, an entity within OPR of approximately 60-65 employees with no dedicated legal support.
- One Assistant to the Governor would be used to fund an Attorney III level attorney to provide legal services to OPR.

- One Associate Intergovernmental Program Analyst would be used to fund an administrative assistant to support the Legal and Legislative Team. At present, approximately 10-20 percent of each attorney's time and 20 percent of the Legislative Director's time is being used to fulfill administrative duties, including meeting coordination and document production.

OPR's Legal and Legislative team serves an important role at OPR by ensuring legal issues are appropriately resolved, and that OPR's concerns about proposed legislation are raised to the Governor's Office and addressed with bill authors and sponsors. OPR's legislative staff additionally engages with legislative offices to support the Administration's budget priorities.

Staff Recommendation. Hold Open.

Issue 8: Racial Equity Commission and Youth Empowerment Commission Transfer

Request. The Governor's budget requests $3,789,000 General Fund in fiscal year 2023-24, and $3,112,000 from 2024-25 through 2029-30 and 12.0 positions for OPR to support the new Racial Equity Commission as required by Executive Order N-16-22 and the Youth Empowerment Commission to meet statutory requirements enacted in AB 46 (Luz Rivas), Chapter 660, Statutes of 2021.

Of the total amount, $1,500,000 General Fund is a net-zero transfer from the Youth Empowerment Commission to the Office of Planning and Research. This request also includes trailer bill language to effectuate the transfer of the Youth Empowerment Commission to OPR.

Background. Executive Order N-16-22 (EO) establishes the state's first Racial Equity Commission (Commission). The Commission will produce a Racial Equity Framework consisting of resources and tools to promote racial equity and address structural racism. The EO places the Commission within OPR. The Commission consist of eleven members who are California residents. Upon request from state agencies, the Commission will provide technical assistance on implementing strategies for racial equity consistent with the Racial Equity Framework. Additionally, the Commission will hold quarterly stakeholder meetings to seek input on the commission's work. These quarterly meeting will also allow the Commission to engage in activities to support and encourage the formation of and implementation of racial equity initiatives by local government.

AB 46 created the California Youth Empowerment Commission and was budgeted for $1.5 million to staff the commission. This proposal recommends placing the Youth Empowerment Commission at OPR to help administer the requirements of the commission as described in AB 46. The California Youth Empowerment Commission consists of thirteen voting commissioners between 14 and 25 years of age and meeting specified requirements, with eleven members appointed by the Governor, one at-large member appointed by the Senate Committee on Rules, and one at-large member appointed by the Speaker of the Assembly, along with several ex-officio, nonvoting members from various geographic regions of the state. The Commission is advisory in nature, for the main purpose of providing meaningful opportunities for civic engagement to improve the quality of life for California's disconnected and disadvantaged youth.

OPR requests the following positions to support the required functions of the Racial Equity and Youth Empowerment Commissions:

- One OPR Deputy Director to serve the OPR Director in managing and coordinating the two commissions and cross programmatic equity activities in support of the Commissions and the OPR Director.
- One Racial Equity Commission (REC) Executive Director to manage the REC, coordinate with the Governor's Office, state agencies, and stakeholders on REC implementation and deliverables, and advise commissioners and staff on implementation of Executive Order mandates.
- One Youth Empowerment Commission (YEC) Executive Director to manage the YEC, coordinate with the Governor's Office, state agencies, and stakeholders on YEC

implementation and deliverables, and advise commissioners and staff on implementation of AB 46 mandates.

- One Legal Counsel to provide support to both commissions for Bagley-Keene Act meeting and notice requirements and satisfying subdivision (3)(f)(1) to hold hearings, make and sign agreements, and to perform acts necessary to carry out the purposes of the commissions, provide legal advice to commissioners and commission staff on commission activities, legal review off all commission materials and publications and compliance with state and federal laws, initiatives and constitutions.
- Six Senior Intergovernmental Program Analysts to provide support to one or both commissions in the areas of budgeting, accounting, grants, data analysis, outreach and stakeholder engagement, technical assistance for state and local governments, and cross programmatic work.
- Two Associate Intergovernmental Program Analysts to provide administrative support to the Deputy Director and Executive Directors, provide scheduling support for the Commission's meetings, and other administrative support to the Commission's members.

Staff Recommendation. Hold Open.

Issue 9: Office of Community Partnerships and Strategic Communications Update

Background: The Office of Community Partnerships and Strategic Communications (OCPSC) is intended to build upon successful community engagement and public awareness models developed through the Census 2020 and COVID-19 vaccination efforts, to manage the State's highest priority community engagement and public awareness campaigns. This will entail consolidating existing public awareness efforts currently being conducted by other state agencies. Additionally, many state departments fund community outreach programs that would benefit from the expertise of a state entity that can facilitate statewide coordinated outreach efforts. The office will support intentional collaborations for developing statewide outreach initiatives by sharing data and leveraging resources where there are cross-cutting policy opportunities. This office will also advance OPR's statutory responsibilities on land use planning and climate resilience by providing strategic outreach support on these cross-cutting and interdisciplinary policy issues.

Item	Description
Outreach and Public Awareness Initiatives	Provide grants to support a year-round network of CBOs and partner organizations, including youth-based and youth focused organizations; help coordinate regional and statewide CBO and partner efforts; support canvassing and phone baking efforts. Develop targeted statewide public awareness initiatives
Data Tool	Manage data tools to enable planning, collaboration, and real-time strategy adjustment
Community Collateral	Development of information and collateral, limited printing, and distribution of select educational material
Research	Formative research to support primary campaigns (tracking study, focus groups)
Learning, Monitoring, and Evaluation	Independent program review to understand best practices that can be scaled
Trust & Safety	Mis/dis/mal-information monitoring system and tools
Capacity Building	Provide training and consultation to CBOs to support them in accessing state contracts and grants for outreach, education, and other state programs. Feedback loop to the State to help continually improve access to State resources.
Administration of Office and Programs	Executive team and staffing, office space, program implementation, project management, grants and contracts management.

Funding: In the 2022-23 budget, the office received $230 million in California Emergency Relief Funds for the Office of Community Partnerships and Strategic Communications to continue support for COVID-19 vaccine-related public education and outreach campaigns.

The 2022-23 Budget Act established the office permanently and provided $65 million ongoing General Fund ($15 million for state operations and $50 million for local assistance) for other outreach, with provisional language requesting Individual Taxpayer Identification Number (ITIN) outreach as a priority in the budget year.

Current Operations:

Since the office's official inception in July 2022, OCPSC has been building its infrastructure. In the first six months, this included transitioning the Vaccinate ALL 58 campaign to OPR, assuming responsibility for the Save Our Water Campaign and beginning to build an Extreme Heat campaign. OCPSC has also developed systems to ensure accountability. These include a results-based management system to track progress and a platform for data-informed decisions. The office is also setting up a strong organizational learning culture to increase effectiveness and sustainability of the work they are mandated to do.

Specifically, the OCPSC will work directly with respective state departments that will serve as subject matter experts to develop priority public awareness and community outreach initiatives; facilitate coordination and collaboration across state departments to maximized impact to community; provide grant funding to CBOs and other partner organizations; share community insights with relevant state departments; and collaborate with the Strategic Growth Council member agencies and California Volunteers to share resources with CBOs and other partners about resources the state has to offer and explore other opportunities for capacity building and technical assistance. The OCPSC will work with state partners to identify opportunities to reduce the administrative burdens for CBOs of government partnerships without reducing outcomes.

OCPSC has five workstreams including administration, campaign services, community engagement, partnerships and public education. As of January 2023, the office has filled 85 percent of available positions (29 new hires), and is actively interviewing for the remaining 15 percent (5 open positions).

OCPSC notes that they are using the $50 million local assistance budget to assist communities with receiving timely and culturally sensitive information and connecting with state resources where applicable. Since the inception of the office, OCPSC has been working side-by-side with the Department of General Services to run an expedited, complex procurement process - a Master Service Agreement (MSA) - to build a permanent infrastructure for the state's trusted messenger network. This has included procurement planning, public workshops with community-based organizations, and working with other state departments to gather input and drive a successful, innovative procurement model. DGS should have the MSA established by April, allowing OCPSC to begin direct contracts for the office's trusted messengers to engage on additional projects moving forwards. These are on track to establish awards in May 2023. The goal is to establish a new trusted messenger network to be available for rapid response during anticipated heat periods in late summer 2023.

Staff Recommendation: Information Only

Issue 10: California Volunteers: California Climate Action Corps

Request. The Governor's budget includes $4.7 million General Fund annually from 2023-24 through 2025-26, and $9.3 million General Fund in 2026-27 and ongoing for the California Volunteers, within the Office of Planning and Research. These funds would be used to expand the California Climate Action Corps program and make this limited-term program ongoing.

In addition to the funding request, CalVolunteers is also requesting provisional language to allow funding to be distributed as advance payments (not reimbursement-based), in alignment with State Contracting Manual 7.32.

Background. The California Climate Action Corps program was established in 2020, and funded starting in 2021-22 as a three-year pilot program. The program was designed to engage individuals in activities and service interventions focused specifically on addressing climate change in local communities.

Funding. California Volunteers received $4.7 million General Fund annually for the California Climate Action Corps in the 2021-22 budget act (of the total, $3.9 million is limited-term for three years and $823,000 is for state operations and was funded on an ongoing basis.) This funding is paired with $3 million annually in federal AmeriCorps funding that CalVolunteers administers. In the 2022-23 budget act, the state's portion of the program was extended for an additional 2 years through 2025-26 and state funding was extended through this date.

Funding Current Program Year

	CCAC Grantee
State General Fund Local Assistance (Grantee receives competitively awarded)	$3,860,000
Federal AmeriCorps Funds (Grantee receives through California Volunteers via federal government)	$3,033,000
State General Fund State Operations (California Volunteers Staffing)	$823,000
Total	**$7,716,000**

Program Model. CalVolunteers releases an annual competitive Request for Application (RFA) process for the California Climate Action Corps program and awards local assistance resources to grantees statewide. All grantees will be awarded based on a competitive process that ranks grantees on their ability to deliver on the metrics and deliverables outlined in the RFA. Grantees who are chosen will be required, as identified through the RFA and the subsequent contract, to report on all metrics and deliverables associated with the project.

The grantee provides funding for partners, including cities, universities, tribes, and community-based organizations, to hire individuals ages 18 and over to serve as fellows for either an 11-month full-time or a two-month summer term of service. These fellows organize opportunities for community members to volunteer in activities related to mitigating and responding to climate change. Such volunteer activities might include planting trees, clearing vegetation to reduce wildfire risk, and recovering and redistributing edible food to divert it from landfills. The funding provides the fellows with a stipend, educational benefits to attend school or repay existing student loans, and training and professional development. In 2022-23, the program provided grants to 45 host partners which in turn engaged two to three fellows each. CA Volunteers indicates that applications for funding significantly exceeded available funds

According to the BCP, to date, the program has accomplished the following:

Fellowship Outcome Data. Fellowship Outcomes (pilot, summer, 2021-22, and 2022-23 terms combined through November 2022) are as follows:

- 139,286 trees planted, maintained, or given away
- 1,256,922 pounds of food or organic waste diverted from landfills
- 746,315 pounds of recovered food distributed to people in need (new data point)
- 36 homes/structures treated for wildfire risk
- 147 restoration, wildfire, or sustainable gardening events, 159 acres treated for wildfire resiliency or restoration
- 16,705 volunteers engaged for 109,337 hours of climate action
- 47,925 people engaged through climate-related outreach and education

Legislative Analyst Office (LAO) Comments:

In their recent report, *The 2023-24 Budget: California Volunteers Proposed Program Expansions*, the LAO reviews the proposal to increase funding for an expansion of the California Climate Action Corps. The LAO notes that the proposed program expansion is premature, given that data is not yet available to determine the effectiveness of the current pilot program or compare the program to other local volunteer efforts. In addition, the LAO notes that the program is currently funded with state funds through 2025-26 and with ongoing federal AmeriCorps funds, allowing the program to continue current activities while a review of the pilot program is completed. Finally, the LAO notes that given the current budget situation, any proposed increase is a trade-off with funding other programs, and that this new spending does not appear justified in comparison to other choices for reducing climate change.

The LAO's recommendation is as follows:

Reject Governor's Proposal to Expand and Extend the Climate Action Corps Program. The LAO recommends the Legislature reject the Governor's proposal to double the funding for the Climate Action Corps in 2023-24, and also to reject the proposal to make the program ongoing beginning in 2026-27. The LAO finds augmenting support and committing permanent funding for this program is premature before the state has evidence that this volunteer-based approach is more effective than other programs at yielding meaningful results in the state's efforts to mitigate the causes and impacts of climate change. Because the program currently is scheduled to receive state funding through 2025-26, along with existing federal funds, program services would continue even without the proposed augmentation, allowing the state time to collect additional information. Moreover, given the state's current budget shortfall, the LAO does not find a compelling rationale for prioritizing this program at the expense of existing state commitments. The Legislature could consider requiring CA Volunteers to collect and submit detailed data on program outcomes—and how they compare to other climate-focused programs—to help inform future funding decisions.

Staff Comments: Staff notes that California Volunteers submitted a BCP for consideration in the 2022-23 budget act that requested an additional $3.86 million ongoing General Fund. After legislative hearings, discussion, and final negotiations, the 2022-23 Budget Act included $3.86 million General Fund in 2024-25 through 2025-26 to support statewide cohorts of fellows dedicated to addressing climate change through direct service and community outreach in local communities across California. This action was taken with an understanding that additional years of implementation would allow for data collection and consideration of the impacts of the program before the Legislature considered ongoing funding.

Staff Recommendation. Hold Open

Issue 11: California Volunteers: Youth Jobs Corps

Request. The Governor's budget requests $78.1 million ongoing General Fund to expand, and make ongoing, the CaliforniansForAll Youth Jobs Corps program in California Volunteers, within the Office of Planning and Research. Of this total, four percent is for state operations and the remainder would be used for local assistance grants. This request includes repurposing $25 million provided in the 2022-23 Budget Act to supplement the existing program during the summer of 2023.

Background. In 2021-22, California Volunteers received $185 million in one-time federal COVID-19 relief funds to invest in youth engagement and employment. Funds were provided to cities and other jurisdictions to employee and support underserved youth during 2022, 2023, and into 2024. California Volunteers provided 80 percent of funds to the 13 largest cities in the state, using a population based formula, provided 19 percent of funds on a competitive bases to 14 other cities and counties, and used the remaining $2 million for administration costs.

Program Model. The program has three stated goals: (1) to increase employment for underserved youth across California; (2) to develop meaningful public service career pathways; and (3) to enhance the capacity of local governments to address challenges in the key areas of food insecurity, climate action, and COVID-19 recovery. Funding is provided directly to cities and other jurisdictions. Grantees have discretion for design of local programs and may hire youth directly or contract with community based organizations. Of the total no more than 10 percent of funds may be used for administrative costs, up to 40 percent may be used for wraparound or support services such as childcare, healthcare, transportation etc., and youth must be paid at least $15.50 per hour.

Grantees develop recruitment plans at the city and county level. Participants must be between 16 and 30 years of age, though grantees have the flexibility to target a narrower age range if they determine there is a need. CaliforniaVolunteers requires that at least 75 percent of youth meet two of the following criteria: identify as low-income, are in or transitioning from foster care, are engaged with the mental health or substance abuse system, are justice involved, have not participated in an AmeriCorps service program.

If the proposal is adopted, the program model would be substantially similar to the current model, with a planned expansion to include undocumented youth with work authorizations. Cal Volunteers provides the following implementation plan for new funding:

- July 2024 – August 2024: Outreach to cities and counties to promote the program; coordinate grant process and identify most pressing issues facing California for which to employ youth.
- August 2024 – Release Request for Applications (RFA)
- September 2024 – Review Applications and Select Grantees, Contracting
- October 2024 – Programs Launch
- October 2024 – September 2025 – Program begins, and youth employed across the state; Quarterly Reports submitted and assessed for program success and to identify any challenges for intervention; Yearly evaluation and lessons learned to ensure success of ongoing program.

- July 2025 – New program year and procurement process begins.

Outcome Data. According to OPR, to date, there are approximately 2,000 youth aged 16-30 are currently enrolled or have completed the program. Youth have served a collective 259,000 hours since the program launch. While most cohorts have yet to finish their first term of service; 75 percent of participants to date identify as low-income, justice involved, involved in the mental health or substance abuse system, or are in or transitioning from foster care or some combination thereof.

Legislative Analyst Office (LAO) Comments:

In their recent report, *The 2023-24 Budget: California Volunteers Proposed Program Expansions*, the LAO reviews the proposal to increase funding for the Youth Jobs Corps. The LAO notes that while the program has value, supporting locally based youth employment programs is not a core state responsibility, and cities and counties can continue supporting these programs with local funds if they choose to do so.

The LAO also notes that there are a variety of similar programs, that have similar goals and provide similar opportunities, as follows, and many local governments also operate their own programs.

- The federal Workforce Innovation and Opportunity Act Youth Program, (California received $142 million in 2022-23 that was distributed via formula to local workforce development boards). Federal law requires that 75 percent of these funds go to programs targeting out-of-school youth ages 16- to 24-years old— including individuals who have dropped out of school, who have been justice-involved, who are or have been in the foster care system, or who are homeless—and that 20 percent be used specifically to support work experience, such as for stipends, paid internships, and wages.
- The federal AmeriCorps program (which is supported in California by about $80 million annually in combined public and private funding);
- The state California Conservation Corps program (proposed to receive $174 million in 2023-24);
- The CA Volunteers' College Corps program (for which the 2021-22 budget provided $146 million on a one-time basis, mostly from federal funds, for a pilot program to last through 2023-24, scheduled to continue with $73 million from the General Fund annually thereafter); and
- The Dreamer Service Incentive Grant ($7.5 million annually) and Learning-Aligned Employment Program ($500 million in one-time funds to be spent between 2021-22 and 2030-31), both run by the California Student Aid Commission for students attending college.

The LAO points out that the Youth Jobs Corps is still in its first year of operation and lacks comprehensive data on achieving program outcomes and in comparison to outcomes of similar-type programs. Finally, the LAO notes that given the current budget situation, any proposed increase is a trade-off with funding other programs, and that this new spending does not appear justified in comparison to other choices for state expenditures.

The LAO's recommendation is as follows:

Recommendation Reject Governor's Proposal to Provide $78 Million Ongoing General Fund to Continue Youth Job Corps Program. The LAO recommends the Legislature reject the Governor's proposed ongoing augmentation to make the Youth Jobs Corps a permanent, state-funded program. Supporting youth employment by municipalities is not a core state responsibility and other programs to support similar objectives already exist. Even if the Legislature did want to invest more state funds towards youth workforce development, funding this program on an ongoing basis before data are available about its effectiveness is premature. Given the state's current budget shortfall, the LAO also does not find a compelling rationale for prioritizing this program at the expense of existing state commitments.

Adopt Governor's Proposed $25 Million Reduction. The LAO recommends the Legislature adopt the Governor's proposal to revert $25 million in General Fund. This will result in fewer services being offered by the Youth Jobs Corps program in summer 2023. However, given the state budget shortfall, existing funding that grantees still have remaining from their original allocations of federal funds for the Youth Jobs Corps, and other existing available youth workforce development programs, we find this proposal to have merit.

Staff Recommendation. Hold Open

8940 MILITARY DEPARTMENT

Issue 12: CHQC Maintenance Resources – Phase 2

Request. The Governor's budget requests $448,000 General Fund in fiscal year 2023-24, and $441,000 in 2024-25 and ongoing, and 3.0 positions for the Military Department (CMD) to perform work order clerk duties and to oversee the sustainability objectives of the new Consolidated Headquarters Complex (CHQC) building, such as Zero Net Energy (ZNE) and Leadership in Energy and Environmental Design (LEED).

Background. Construction of the CHQC began in 2018 and is expected to be completed by March 2023. This building complex will become the CMD's main headquarters, where the organization will command and manage its four pillars: the California Army National Guard, the California Air National Guard, the California State Military Reserve, and the California Youth and Community Programs.

The CHQC is one of the first large scale ZNE projects geared at implementing former Governor Jerry Brown's Executive Order B-18-12 to reduce greenhouse gas emissions and improve energy efficiency in California. The project is targeting LEED Gold certification from the U.S. Green Building Council and will be constructed to achieve a variety of sustainable goals to reduce environmental impact, optimize performance, lower energy and operating costs, conserve resources, and increase occupant satisfaction and productivity. On-site renewable energy is generated by a photovoltaic array that will serve a dual purpose as parking shade structures.

Since 1993, the CMD has leased a building as the headquarters for the Military Department and the California National Guard. As part of the lease agreement, the CMD has had a dedicated building manager coordinating all maintenance work, janitorial work, and grounds /landscaping work. Once the CMD officially begins moving into its newly constructed CHQC in the early part of 2023, it will no longer have the benefit of not needing to be responsible for maintenance, repair, and grounds keeping.

CMD requests one O-4 State Active Duty position, which will be responsible for overseeing the ZNE, LEED, and sustainability projects related to the CHQC campus. This includes energy and waste stream management to ensure the CMD achieves its environmental sustainability objectives. The position will also provide educational training and communication to bridge the gap between design and operation, financial stewardship on warrantees, commissioning, incentive programs, utility rebates, and other funding sources related to ZNE and sustainability. They will also develop strategic plans, policies, budgets, and reports to meet both short-term and long-term sustainability goals. This position will supervise one Research Data Analyst II position.

CMD requests one Research Data Analyst II to be responsible for the collection and analysis of data related to ZNE, LEED, and sustainability projects. This includes the analysis of daily energy usage to detect any anomalies, deviations, or to assist in the investigation of issues, analysis of other ZNE and sustainability projects to utilize as a comparison or recommendation, provide administrative support related to ZNE and sustainability activities, and to assist with educational training and strategic messaging for the CMD's managers and the building occupants.

CMD requests one Work Order Clerk to help maintain a LEED Gold state-of-the-art complex. While many of the early issues will be repaired through the CHQC warranty, there will be a need to track and manage those requests.

Staff Recommendation. Hold Open.

Issue 13: Grizzly Youth ChalleNGe Program

Request. The Governor's budget requests $2 million ($1.5 million Federal Trust Fund authority and $500,000 General Fund) in fiscal year 2023-24 and ongoing and 12.0 positions for CMD to administer the Youth ChalleNGe Program expansion at the Grizzly Youth Academy in Camp San Luis Obispo.

Background. The CMD Youth ChalleNGe Program provides an alternative educational opportunity set in a quasi-military environment for students (ages 16-18) who have dropped out of school or are not progressing towards graduation. In partnership with the San Luis Obispo County Office of Education, the program consists of two phases—a 5.5-month residential phase, followed by a 12 month post-residential phase involving screened and trained mentors. The residential phase is focused on increasing education and life skills crucial for personal, professional, and civic growth, and emphasizes eight core components: Academic Excellence, Life Coping Skills, Job Skills, Health and Hygiene, Responsible Citizenship, Service to Community, Leadership/Followership and Physical Fitness.

This proposal will allow the CMD to initially increase its number of students (an additional 100 in 2023-24) served by 38 percent over 2022-23 with an increase in budgetary expenditure of only 23 percent. By 2025-26 the CMD will be able to increase its number of students by 50 percent (600 total students) with no increase in annual General Fund provided by this proposal. The federal government has invested more than $4.0 million over the last four years to renovate and upgrade facilities at Grizzly Youth Challenge Academy for the expressed purpose of expanding enrollment. Approving this proposal will allow the CMD to ultimately serve 200 additional at-risk youth annually.

Staff Recommendation. Hold Open.

Issue 14: STARBASE Porterville and Camp San Luis Obispo

Request. The Governor's budget requests an increase in expenditure authority of $1.3 million Federal Trust Fund authority in fiscal year 2023-24, and $1.5 million in 2024-25 and ongoing, for CMD to establish and operate STARBASE programs at Porterville Military Academy and Camp San Luis Obispo.

Background. STARBASE is a 100-percent federally reimbursed educational program, sponsored by the Office of the Assistant Secretary of Defense for Manpower and Reserve Affairs. At STARBASE students participate in challenging "hands-on, minds-on" activities in Science, Technology, Engineering, and Math (STEM) activities. They interact with military personnel to explore careers and observe STEM applications in the "real world." The program provides students with 25 hours of stimulating experiences at National Guard, Marine, Air Force Reserve, Army, and Air Force bases across the nation.

STARBASE's primary focus is the program for fifth graders. The goal is to motivate them to explore STEM opportunities as they continue their education. The academies serve students that are historically underrepresented in STEM. Students who live in inner cities or rural locations, those who are socio-economically disadvantaged, low in academic performance, or have a disability are in the target group. The program encourages students to set goals and achieve them.

The Department of Defense believes that California can support two additional STARBASE programs at the Porterville Military Academy and Camp San Luis Obispo, and it has obligated resources to establish the new programs upon approval of this proposal.

Staff Recommendation. Hold Open.

Issue 15: State Active Duty Pay Adjustment

Request. The Governor's budget requests $2,244,000 ($1,021,000 General Fund, $1,047,000 Federal Trust Fund authority, $57,000 Mental Health Services Fund, and $119,000 reimbursement authority) for CMD to align the pay of its State Active Duty (SAD) employees to the pay of service members of similar grade in the federal armed forces.

Background. Military and Veterans Code (MVC), sections 320 and 321 require that the CMD must pay its SAD employees at the same rate as service members of similar grade in the federal armed forces.

Compensation for service members in the federal armed forces is set forth annually by the federal government in the National Defense Authorization Act (NDAA). As of this writing, the NDAA has yet to be ratified by Congress and signed into law. The current version of the NDAA under consideration in Congress proposes a 4.6 percent pay increase for all service members, an average of 4.3 percent increase for the Basic Allowance for Housing (BAH) across all localities across the United States, and a 3.4 percent increase for the Basic Allowance for Subsistence (BAS). However, the final approved salary, BAS, BAH, and any allocated Cost –of-Living Adjustment (COLA) will not be available until the NDAA is signed into law and formally published by the Defense Finance and Accounting Services in January 2023.

The CMD will revise this proposal during the Spring Process to reflect the approved increases/decreases in salary and BAS, as well as the approved BAH rates by locality that are authorized in the NDAA.

Staff Recommendation. Hold Open.

Issue 16: State Comptroller Workload

Request. The Governor's budget requests $1,483,000 General Fund in fiscal year 2023-24, and $1,464,000 annually thereafter and 9.0 positions for CMD to support administrative services within the department's accounting and budget areas.

Background. The CMD has grown 58.9 percent in total budget appropriation, 24.8 percent in position authority, and 14 percent in federal trust fund authority over the last five years. The CMD's total expenditure authority has increased from $171.4 million in 2017-18 to $272.3 million in 2022-23. The department's total number of authorized positions has also increased from 798.0 employees in 2017-18 to 995.8 in 2022-23.

The additional funding, federal trust fund authority, and employees have resulted in an increased workload for the J8 accounting, budgets, and purchasing and contracting teams. The CMD, sought, in part, to address these requirements with a 2021-22 proposal which granted the CMD a total of 16.0 positions, eight of which were allocated to the J8 office. While invaluable to the ongoing operations of the CMD, these positions focused on the emergency financing and the purchasing and contracting sections, with only one position to support accounting and one position to support budgeting.

The Comptroller's Office requests one Career Executive Assignment, Level A (CEA-A) to serve as the Deputy Comptroller. This position will manage all sections within the Comptroller's office, including Accounting, Budgeting, Purchase and Contracting and Emergency Finance. The CEA-A Deputy will also serve as the chief policymaker for the Comptroller's Office.

The Cash Management Unit requests one Accounting Administrator III to serve as the Department's Chief Accounting Officer which will plan, organize, lead and direct the operations of the Accounting Branch, which includes the Accounting Section, consisting of General Ledger and Cash Management units, and an Accounts Payable Section consisting of two Accounts Payable units.

The Cash Management Unit requests one Accounting Administrator I to address the growth in Federal Programs that has exceeded the capacity of the current Cash Management unit to perform cash management tasks for both state and federal programs. This position will lead the Cash Management (Federal) unit which will focus solely on the federal reimbursement process.

The Cash Management Unit requests one Associate Analyst to process Payroll Accounts Receivable and purchase order and contract approvals. Currently such duties are performed by supervisors.

The Accounts Payable Unit requests one Accounting Administrator to plan, organize and provide supervision and daily direction to the Accounts Payable Section, which includes two Accounts Payable units and nine employees.

The Accounts Payable Unit requests one Accounting Administrator I to be responsible for the overall management of the new Accounts Payable Unit. The incumbent will supervise accounts payable staff and will handle the most complex accounts payable questions and issues, invoice and claim schedules review, and voucher approvals.

The Budget Office requests one Staff Services Manager II to serve as the department's Budget Officer and will provide oversight and direction to the Resources Unit to ensure that all allocated resources are budgeted and monitored so that department does not over expend its appropriation. The incumbent will provide oversight and direction to the newly created Drill and Reporting Unit to ensure that the Department accurately compiles and prepares its portion of the Governor's budget.

The Budget Office requests one Staff Services Manager I to be responsible for the preparation and completion of the various annual budget drills that comprise the Department's portion of the Governor's budget, monitoring position control, and periodic and ad-hoc reporting on the Department's fiscal status. By having a dedicated Drill and Reporting Unit, the CMD will be able to standardize processes and develop expertise through focused effort to eliminate the issues that the Department has had in providing timely and accurate responses to some budget drills.

The Budget Office requests one Associate Governmental Program Analyst which, together with an existing analyst, will comprise the Drill and Reporting Unit. These analysts will be dedicated to developing a standardized program for completing the various budget drills needed for the Department's portions of the Governor's budget while gaining focused experience that will allow the CMD to respond with more timely and accurate information.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Anna M. Caballero
Senator Roger W. Niello

Thursday, March 23, 2023
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultants: Diego Emilio J. Lopez

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

ITEMS FOR VOTE ONLY

0650 OFFICE OF PLANNING AND RESEARCH

Issue 1: California Climate Adaptation Strategy (AB 1384)

Request. The Governor's budget include $188,000 General Fund and 1.0 position in 2023-24 and ongoing for the Office of Planning and Research (OPR) to develop and report on implementation progress of the California Climate Adaptation Strategy (Strategy) pursuant to AB 1384 (Gabriel), Chapter 338, Statutes of 2022.

Background. The Integrated Climate Adaptation and Resiliency Program (ICARP) within OPR was established to provide a comprehensive and coordinated response to climate impacts, with consideration for impacts to vulnerable populations, through coordination across state and local entities.

AB 1384 requires the California Natural Resources Agency (NRA) to coordinate with the Office of Planning and Research and identify, among other things, vulnerabilities to climate change for vulnerable communities, an operational definition of "climate resilience" for each sector and for vulnerable communities, special protections of vulnerable communities and industries that are disproportionately impacted by climate change, and timetables and specific metrics to measure the state's progress in implementing the plan.

Proposal. According to the BCP, ICARP requires 1.0 Senior Intergovernmental Program Analyst to support OPR's responsibilities to coordinate on the development of the State Adaptation Strategy. In the years the Strategy is not under development, this position would support promotion and public communication of the Strategy's implementation, the interagency coordination required to evaluate implementation progress, and support the development of the annual implementation report specified in statute.

Staff Recommendation. Approve as budgeted.

Issue 2: Programmer Position to Maintain and Redesign the CEQA System

Request. The Governor's budget requests $283,000 General Fund and 1.0 position in fiscal year 2023-24 and ongoing for OPR to be the technical lead in maintaining the current California Environmental Quality Act document online processing system, provide planning resources for a system redesign, and maintaining the new system.

Background. The California Environmental Quality Act (CEQA) (Public Resources Code Division 13, Sections 21000 – 21189.57), was enacted in 1970 to supplement the National Environmental Policy Act (NEPA), which was passed in 1969 to address instances of government-approved projects causing harmful environmental impacts. CEQA requires review of an activity undertaken by a public or private entity if 1) the activity will cause a direct physical change in the environment or a reasonably foreseeable indirect change in the environment, and 2) if the activity is subject to discretionary approval by a government entity.

The current process requires lead and public agencies to send in their CEQA notices and environmental documents, and NEPA environmental documents to OPR. OPR is required to distribute and make CEQA environmental documents available to reviewing state agencies and departments throughout the state through the CEQA database.

The current system allows for lead agencies and consulting firms working on behalf of a lead agency, to transcribe information and upload documents on the proposed and approve projects of the actual "notices", which allows for OPR staff to further process and post these "notices" into the system to be available on CEQAnet. The current process also involves OPR to email a weekly notice to state reviewing agencies of projects that require state agency review on the OPR web-site (www.ceqanet.ca.gov). Database maintenances and issues can delay the information being submitted by registered users into the database of documents received in a given time period and then posted to the internet. As part of the current process, OPR responds to inquiries regarding EO 12372 via phone and email.

OPR requests one Assistant to the Governor to assist OPR to maintain and operate the current CEQA system with the continued surge of new submitters and processing of the CEQA and other environmental documents and noticing. The position will lead and assist in developing and building a new system after the PAL process is complete, advise in the continuance of the on-going infrastructure to maintain, upgrade and streamline the new CEQA system while adding value to the OPR.

Staff Recommendation. Approve as budgeted.

Issue 3: Statewide Extreme Heat Ranking System (AB 2238)

Request. The Governor's budget requests $944,000 General Fund in fiscal year 2023-24 and $564,000 in 2024-25 and 2025-26 and 3.0 positions for OPR to support the development and implementation of a statewide heat ranking system pursuant to AB 2238 (Luz Rivas), Chapter 264, Statutes of 2022.

Background. AB 2238 requires the California Environmental Protection Agency (CalEPA), in coordination with the OPR's Integrated Climate Adaptation and Resiliency Program (ICARP), the California Department of Public Health, and the California Department of Insurance, to develop a statewide extreme heat ranking system and a series of accompanying public awareness and planning resources. AB 2238 requires ICARP to:

1. Develop a public communications plan for the raking system with a focus on strategies that target communications to populations that are most at risk of public health and emergency.
2. Develop statewide guidance for local and tribal governments in the preparation and planning for extreme heat events and recommend applicable partnerships, and;
3. Recommend locally relevant heat adaptation, preparedness and resilience measures that could be linked to the system.

OPR requests two Senior Intergovernmental Program Analysts and one Associate Intergovernmental Program Analyst to support the development of the extreme heat ranking system, and, once it is complete, (1) lead the development of the public communications plan and (2) support local and tribal government implementation of the ranking system through partnerships and tailored policy recommendations.

Staff Recommendation. Approve as budgeted.

Issue 4: Tribal Liaison

Request. The Governor's budget requests $284,000 General Fund in fiscal year 2023-24 and ongoing for OPR to provide for 1.0 Tribal Liaison position. OPR must advise local governments on General Plans and Environmental Justice Elements, as described in Government Code 65302(h). Additionally, OPR should be coordinating with other State Government Agencies and Federal Agencies to better align State policies and funding programs, as described by Government Code 65040.12.

Background. OPR must provide General Plan guidance, including service of disadvantaged communities, civic engagement, public health planning, and other environmental justice goals (Government Code 65302(h)). General plan incorporation of environmental justice and integration of equity is required by law. OPR has minimal capacity to advise on planning to local governments, including multiple daily phone calls, and particularly through any updates to the General Plan Guidelines, which were last updated in 2017. OPR only retains two Associate Planners and one Senior Planner not tied to program implementation duties in the planning and policy unit.

OPR requires expertise in tribal land use, planning and governance to successfully provide funding to tribal entities. OPR issues funding to tribal entities through the Community Economic Resilience Fund (CERF), Regional Early Action Planning Grants 2.0, and Integrated Climate Adaptation and Resiliency Grants while the Strategic Growth Council operates the Affordable Housing and Sustainable Communities (AHSC) Program with a tribal set-aside. In total, these programs value at over one billion dollars currently allocated yet lack a tribal advisor to consult with. OPR's ICARP is directly engaging with California Native American tribes with an attempt to partner on the Fifth Climate Change Assessment, California's Adaptation Strategy, and other state-wide climate planning efforts. A Tribal Liaison would consult on OPR and SGC programs to enable their access to funding resources and bring them in as partners in our planning efforts. Additionally, the position would provide land use expertise for tribal governments on CEQA issues and land use interactions with State and local uses.

OPR lacks capacity to generate a tribal engagement strategy aligned with Executive Order B10-11, N-15-19, and Governor Newsom's directive to embed equity into actions, policies, programs, and procedures. EO B-10-11 directs OPR to communicate and consult with California Indian Tribes and gather meaningful input into the development of legislation, regulation, rules, and policies on matters that may affect tribal communities. Tribal engagement is an ongoing need at OPR in order to comply with both the EO and directive.

OPR requests one Tribal Liaison to develop a tribal engagement activity to direct OPR staff engagement with these sovereign governments while maintaining sensitive relationships and assisting with direct outreach.

Staff Recommendation. Approve as budgeted.

7502 DEPARTMENT OF TECHNOLOGY

Issue 5: Broadband Communication Report (SB 717)

Request. The Governor's budget requests $840,000 General Fund in 2023-24 and $660,000 in 2024-25 for the California Department of Technology (CDT) to support the implementation of SB 717 (Dodd), Chapter 813, Statutes of 2022. This request is to provide funding for professional and consulting services contracts that will be utilized to establish the Broadband Access Point Investment Acceleration Study Act of 2022.

Background. SB 717 created the Broadband Access Point Investment Acceleration Study Act of 2022. This statute mandates a report that generates the information needed to provide a crucial statewide benefit by enhancing internet access for both unserved and underserved California communities.

If this request is approved, the report will be submitted to the Legislature by May 1, 2024 and the report's findings will be utilized to provide recommendations on how California's government could accelerate the deployment of broadband access points to disadvantaged or underserved communities. Below are some of the factors that will be studied as potential barriers in providing broadband internet to potentially underprivileged communities.

- The processes for and cost of obtaining electric service to broadband access points.
- Processes for obtaining state, county, or local permits to deploy broadband access points.
- Regulatory and legal obstacles in deploying fiber to transport broadband traffic from broadband access points.
- The lack of legal limitations on the price for leasing private or public property to deploy broadband access points on public and private property and buildings.
- The cost of leasing access to middle-mile broadband networks.
- California Coastal Commission permitting policies.
- Local coastal plans that use California Coastal Commission policies.
- The permitting policies and processes to deploy on property governed by port authorities.
- Air quality management district permitting requirements.
- Noise abatement regulations that result in delay or block investment in and deployment of broadband access points.
- The income of households in the area and the economic feasibility for internet service providers to deploy in areas.

Staff Recommendation. Approve as budgeted.

Issue 6: Information Security (AB 2135)

Request. The Governor's budget requests $1.495 million General Fund in 2023-24 and ongoing, and 7.0 positions for CDT to support the workload implementation of AB 2135 (Irwin), Chapter 773, Statutes of 2022.

Background. Existing law establishes the Office of Information Security within the CDT for the purpose of ensuring the confidentiality, integrity, and availability of state systems and applications and to promote and protect privacy as part of the development and operations of state systems and applications to ensure the trust of the residents of this state. The law requires an entity within the executive branch that is under the direct authority of the Governor to implement the policies and procedures issued by the office. The law additionally authorizes the office to conduct, or require to be conducted, an independent security assessment of every state agency, department, or office, as specified. The law authorizes the California Military Department (CMD) to perform an independent security assessment of any state agency, department, or office.

AB 2135 would require state agencies not under CDT's information security purview to:

- Adopt and implement information and security and privacy policies, standards, and procedures based on National Institute of Standards and Technology and Federal Information Processing Standards;
- Require those agencies to perform comprehensive independent security assessments every two years;
- Allow those agencies to contract with CMD for those assessments; require the agencies to certify annually by February 1 to the Senate Pro Tempore and Assembly Speaker their compliance and needed corrective actions;
- And make such certification confidential except to members of the Legislature and legislative employees at the discretion of the Senate Pro Tempore and Assembly Speaker.

CDT requests the following positions to prepare for the influx of entity security assessments, and resulting pre-audit and post-audit support that CDT may be requested to provide to entities who are new to the audit process:

- 5.0 IT Manager Is - To reside within Audit Program, Security Risk Governance, and Assessments teams and fulfill the workload surrounding the additional audits/ assessments being requested.
- 2.0 Associate Governmental Program Analysts – To reside within the administrative support team for the increased workload around scheduling, communications, information sharing and the collection and storage of documentation pre and post audit.

Staff Recommendation. Approve as budgeted.

Issue 7: OIS Intrusion Detection Prevention

Request. The Governor's budget requests $2.96 million General Fund in 2023-24 for CDT to upgrade the State's Intrusion Detection (IDS) and Intrusion Prevention Systems (IPS). This proposal also includes a request for $1.93 million General Fund in 2024-25 and ongoing to maintain these systems.

Background. Intrusion detection is a critical component for safeguarding the State of California's data and IT infrastructure. CDT has historically deployed security technologies to support the protection requirements of the California Government Enterprise Network (CGEN) and the state entities that comprise its membership. IDS systems were first deployed by the Department in 2001 and IPS systems in 2004.

These systems serve as a frontline defense against malicious actors, as they are standard tools, widely used for securing large networks. IPS/IDS systems block and detect millions of malicious actions targeting the state's network hourly. These devices were used in detecting and then protecting from attacks on the DMV Motor Voter website, to block Russia and China from launching attacks from their home networks and to control or limit access via selected high-risk protocols such as Remote Desktop Protocol, Secure Shell, File Transfer protocol and more.

Using IPS and IDS devices prevents breaches, loss of reputation, and more. Typical breaches cost tens of millions of dollars. In 2010, the IPS was used to detect and stop a breach of the Interim Statewide Automated Welfare System (ISAWS) program, which would have exposed 680,000 state of California constituents. Cost of notification per user at that time was $100 per user, thus in 2010 the IPS saved the state $68,000,000. The cost of such a breach today would be three to four times higher. New upgrades to the equipment could potentially be viable for at least five years.

If this proposal is approved, CDT will continue validating devices, replacing those devices which have reached end of life, and will work through the procurement processes for the purchase of both Hardware and Software, to continue the maintenance needed to successfully utilize these IDS/ IPS devices for many years to come.

Staff Recommendation. Approve as budgeted.

Issue 8: OIS Supply Chain and Third Party Risk

Request. The Governor's budget requests $250,000 General Fund in 2023-24 and ongoing for CDT to enhance the state's supply chain security and 3rd party risk validation methodology. This will enable CDT's Office of Information Security (OIS) to implement a Software as a Service (SaaS) security solution that will be available to all State Chief Information Security Officers (CISO), their staffs, and statewide security operations teams.

Background. The state's information security community is collectively charged with protecting the technology and information assets that are essential in providing critical services to the residents of California. This includes assessing risks related to the information technology products, services procured from companies and vendors doing business with California. At present, state entities currently must attempt to perform their own manual risk assessments utilizing information found on the internet or through information obtained from the external companies themselves. This methodology has not produced acceptable security results and, as a consequence, has continued to leave state entities vulnerable to potential supply chain risks from 3rd party vendors.

To remediate this potential risk to the state's software supply chain from 3rd party vendors, OIS is proposing to implement a Software as a Service (SaaS) solution on a statewide basis. CDT currently provides a specific module of the SaaS solution that compiles various security vulnerability and posture data about all executive branch entities within California through scanning, sink-holing, and various other techniques. Each entity is given access to its own information so that they can see their security posture from an external perspective and mitigate or remediate flaws in their externally facing infrastructure and other system issues detected by the solution. The solution continuously monitors and reports on detections and information regarding Botnet infections, hosted malware servers, file sharing, exposed credentials, Sender Policy Framework (SPF) and DomainKeys Identified Mail (DKIM) records, Secure Socket Layer (SSL)/ Transport Layer Security (TLS) certificates and configurations, open port, and several other areas.

Currently only utilized by CDT, this proposed SaaS would be made available to all state Chief Information Security Officers, their staffs, and security operations teams. The information obtained by this program and similar solutions is public information obtained through Internet traffic analysis and passive scanning. This service would also allow OIS and their departmental partners to monitor and manage risk associated with the external security posture of systems. This SaaS solution will also offer a component that with help assess and continuously monitor the security posture and risk of companies that provide hardware and software products and services to the State of California.

If approved, this service will be offered separate from the current licensing utilized by CDT and priced according to the number of companies/ organizations that the SaaS provider already collects data on. The intent would be to monitor existing information technology companies that the state does business with, and to assess and monitor new companies with which departments would like to contract.

Staff Recommendation. Approve as budgeted.

0890 SECRETARY OF STATE

Issue 9: Ballot Label Workload Impact (AB 1416)

Request. The Governor's budget requests $69,000 General Fund in 2023-24 and ongoing for the Secretary of State (SOS) to meet the statutory obligations of AB 1416 (Santiago), Chapter 751, Statutes of 2022.

Background. AB 1416 requires the ballot label for a statewide ballot measure, and the ballot label for a local ballot measure if the county chooses, to include the following after the condensed ballot title and summary:

- After the text "Supporters:", a listing of nonprofit organizations, businesses, or individuals taken from the signers or from the text of the argument in favor of the ballot measure printed in the state or county voter information guide. It prohibits the list of supporters from exceeding 125 characters in length and requires each supporter to be separated by a semicolon. It also prohibits a nonprofit organization, business, or individual from being listed unless they support the ballot measure.

- After the text "Opponents:", a listing of nonprofit organizations, businesses, or individuals taken from the signers or the text of the argument against the ballot measure printed in the state or county voter information guide. It prohibits the list of opponents from exceeding 125 characters in length and requires each opponent to be separated by a semicolon. It also prohibits a nonprofit organization, business, or individual from being listed unless they oppose the ballot measure.

This bill further requires the proponents and opponents for ballot measures to enable the relevant elections official to determine whether supporters or opponents are eligible to be included as part of the ballot label pursuant to this bill, to submit documentation specified in the bill. It further requires the SOS to confirm that a submission listing supporters or opponents includes the documentation required by the bill and requires the SOS to ask the proponents or opponents to resubmit a list if the requirements are not met, as specified.

The requested funds will cover testing and certification of voting systems due to additional text, overtime for Office of Voting System Technology Assessment staff for additional ballot printing certification workload, additional workload to confirm that a submission listing supporters or opponents includes the necessary documentation and otherwise meets the requirements and to request resubmissions if requirements are not met.

Staff Recommendation. Approve as budgeted.

Issue 10: Campaign Disclosures – Electronic Filing of Local Statements (AB 2528)

Request. The Governor's budget requests $399,000 General Fund in 2023-24 and $384,000 in 2024-25 and annually thereafter, and 3.0 positions for SOS to plan for, develop and implement the changes, and subsequently support the increased filing activity required by AB 2528 (Bigelow) Chapter 500, Statutes of 2022.

Background. AB 2528, as enacted, amends the California's Political Reform Act of 1974 (Act) to require any candidate or elected officer whose obligation is to file original reports or statements locally (i.e., City Council Members, School Board Members, etc.) to file a copy of those reports or statements online or electronically with the SOS if they have received campaign contributions to support their candidacy for office in an upcoming election that equal or exceed $15,000.

This bill requires the SOS, in consultation with the Fair Political Practices Commission (FPPC) and CDT, to report to the Legislature specifying the changes to the CAL-ACCESS Replacement System, if any, that are required to accommodate the filings required by this bill and to specify the date that these changes can be accommodated.

SOS estimates a substantial increase in the volume of online or electronic filings received by the Political Reform Division. The requested funds will cover 3.0 Associate Governmental Program Analysts to ensure the requirements of this legislation are developed as a part of CARS, and to provide filer education, outreach, and support for this group of new users who are unfamiliar with filing online or electronically with the State of California.

Staff Recommendation. Approve as budgeted.

Issue 11: Disqualification from Voting (AB 2841)

Request. The Governor's budget requests $3,076,000 General Fund in 2023-24, and $1,776,000 annually thereafter, and 11.0 positions for SOS to implement the provisions of AB 2841 (Low), Chapter 807, Statutes of 2022.

Background. AB 2841 requires SOS to post data showing the number of conservatorship voting rights disqualifications and restorations by county, and to provide training to court and county staff related to conservatorship voting rights to ensure compliance with existing law. Requires a county elections official, before canceling a voter's registration, to notify the voter and provide the voter with an opportunity to correct an erroneous cancellation, as specified.

The SOS will primarily incur costs for 11 staff to implement the requirements of AB 2841. Additional costs include modifying the voter registration system (VoteCal), procuring an Axway license to develop a mechanism for courts to electronically transfer conservatorship files to the SOS, and engaging and seeking an interagency agreement with California Department of Human Resources (CalHR) to host web-based learning and management training classes on CalLearns, CalHR's Learning Management System.

The SOS requests 11 positions divided between the Elections Division and the Information Technology Division (ITD) to implement AB 2841.

The Elections Divisions requests the following positions:

- 4.0 – Associate Governmental Program Analyst
- 2.0 – Program Technician II
- 1.0 – Staff Services Manager I

The Information Technology Division requests the following positions:

- 1.0 – Information Technology Specialist (ITS) III
- 2.0 – ITS II
- 1.0 – Information Technology Associate

Staff Recommendation. Approve as budgeted.

Issue 12: Elections Staff Enhancement

Request. The Governor's budget requests $1.59 million General Fund in 2023-24 and $1.535 million General Fund in 2024-25 and annually thereafter and 11.0 positions for SOS to support elections in California.

Background. According to SOS, this request will fund 11 mission critical positions needed to support the state operations workload required by statute and will support the workload anticipated for the 2024 elections and beyond.

The Elections Division requests 2.0 Staff Services Manager (SSM) IIs to fulfill the roles of Division Managers. Programs within the Elections Division often run on competing statutory deadlines. Management plays a critical role in in the strategic development, project implementation, and often engage in overtime and increased workload. Due to the sensitive nature of the work that is performed, management review is completed on all external documentation. This includes official guidance to county elections officials through memos, printed publications and reports including the Report of Registration, Statement of Vote, and Supplement to the Statement of Vote. Currently the Elections Division has one SSM II and five SSM Is. The proposal maintains two additional SSM IIs are needed to allow for a more manageable workload to avoid burnout, improve productivity, and ensure timely compliance with laws, processes, and procedures.

The Elections Division requests 2.0 SSM I to serve as Program Area Managers. Currently there are five SSM I position in the Elections Division. Due to timelines and costs associated with administering elections, there is little room for error which means the managers are very hands-on. Because many deadlines within the Division fall around the same time, the managers are often faced with excessive overtime to ensure responsibilities are met. Additionally, staff turnover has meant that managers are spending more and more time ensuring new staff are properly trained and managed. This has led to manager burnout.

The Elections Division requests 1.0 Supervising Program Technician III to fulfill the role of Front Office Supervisor. There is currently one Management Services Technician and three Program Technician IIs that provide Division support including answering phone calls, responding to voice messages, and other clerical/technical support functions. This position will supervise, and coordinate duties and responsibilities held by the front office and student assistants to ensure accurate and timely distribution of information to the public. This includes responsibilities related to the operation of the confidential toll-free Voter Hotline to report the denial of voting rights as outlined in the Voter Bill of Rights, report election fraud or misconduct, and to report the misuse of voter registration information.

SOS requests 1.0 Associate Governmental Program Analyst (AGPA) to fulfill the role of Candidate Statements and Political Party Qualifications Analyst. Government Code section 85601 allows statewide candidates to purchase space in the state voter information guide to place a statement if certain qualifications are met. Position responsibilities will include review to ensure the candidate is eligible to purchase a statement to be printed, that the statement and photo meet guidelines to be printed in the voter information guide, and that an accurate billing for statements are completed. This position will also be responsible for coordinating the process for a political body to become a qualified political party in California as required under Division 5 of the California Elections Code. This responsibility is currently being completed by another analyst who must work excessive overtime hours to maintain workload.

SOS requests 1.0 SSM I (Specialist) to fulfill the role of Accessibility Coordinator. The SOS is required to ensure that elections remain accessible to voters. Elections Code sections 2053 and 2700 require SOS to establish a Voting Accessibility Advisory Committee (VAAC) and a Native American Voting Accessibility Advisory Committee (NAAC), respectively. These committees serve in an advisory capacity to SOS and related workload includes holding public meetings, providing feedback, and conducting research for committee inquires, reviewing recommendations, and ultimately implementing appropriate recommendations. This role has recently been filled by the Division's Language Access Analyst who recently left the SOS due to the overwhelming workload and excessive overtime required.

SOS requests 1.0 SSM I (Specialist) and 1.0 AGPA to support the Candidate Filing and Election Night Reporting team. This team is currently comprised four AGPAs and managed by one SSM I and is responsible for statewide and special elections. Each election requires the team to develop calendars, communicate with state and local agencies, coordinate candidate filing including the collection of the Declaration of Candidacy and filling fees, review of Ballot Designations (Elections Code section 13107.3), nomination papers, and tax returns required under Elections Code sections 8902-8903 to certify candidates to appear on the ballot. They are also responsible for the set up and testing of election systems, election night reporting, compilation and publication of the Statement of the Vote and the Supplement to the Statement of the Vote to certify and publicize election results.

SOS requests 2.0 AGPAs to support the VoteCal team. VoteCal is California's official statewide voter registration database. The daily operations of this database are managed by one SSM I and six AGPAs. Voter registration has increased significantly in the last few years. According to the SOS's May 23, 2022, 15-day Report of Registration, there are 21,941,212 registered voters of the 26,911,669 eligible voters in California, compared to 19,023,417 in May of 2018. To maintain the statewide roster of registered voters, the SOS must work closely with county elections officials and state agencies to ensure accurate and updated information, and remain in compliance with the Help America Vote Act, the National Voter Registration Act, and state laws.

Staff Recommendation. Approve as budgeted.

Issue 13: Help America Vote Act - Election Security Federal Grant Award

Request. The SOS received a grant award from the U.S. Election Assistance Commission authorized under the Consolidated Appropriations Act of 2022 to improve the administration of elections for Federal office, including to enhance election technology and make election security improvements. To adhere to all federal applicable requirements, the Secretary of State requests $6,993,000 in 2023-24 ($5,827,000 Federal Trust Fund authority to accept and expend the grant award, and $1,166,000 General Fund to meet the 20 percent state match requirement). This request will enable the Secretary of State to continue implementation of the statewide mandates of the Help America Vote Act (HAVA) of 2002.

Background. HAVA Election Security Funds were appropriated in 2018, 2020, and 2022, to provide states with additional resources to secure and improve elections systems, including to enhance election technology and make election security improvements, as authorized under Sections 101, 103, and 104 of HAVA. The U.S. Election Assistance Commission distributed funds as part of the Consolidated Budget Act of 2022 to support activities that are underway and longer-term activities leading up to the 2024 Election and beyond, such as security enhancements for VoteCal, and local support including accessibility training, election cyber and security safeguards.

For 2023-24, the SOS proposes to expend $6,993,000. Of that amount, $431,000 is for the support of security enhancements to the Statewide Voter Registration Database (VoteCal) and state election infrastructure to ensure the statewide voter registration database and election infrastructure remain secure among an ever-changing landscape of potential vulnerabilities and changing technology and requirements. In addition, $5,396,000 in federal funding and the 20 percent state match of $1,166,000 are to support county implementation of election security safeguards and infrastructure against physical and cyber risks and vulnerabilities and polling place accessibility through county training on accessibility requirements and mitigations, and providing funding to counties to improve accessibility of polling places.

Staff Recommendation. Approve as budgeted.

Issue 14: Help America Vote Act - VoteCal

Request. The Governor's budget requests $10.593 million Federal Trust Fund authority in 2023-24 for SOS to cover the maintenance and operations vendor, data analysis, security assessment, Election Management Systems support and verification, data lines, security enhancements, and off-premises cloud costs for the VoteCal statewide voter registration system.

Background. The SOS is responsible for overseeing the administration of California elections. The statewide voter registration system, VoteCal, supports the registration of voters in California, administered by the SOS. The SOS ensures that state and federal elections laws are fairly and uniformly administered, that every eligible voter can participate in the electoral process, and that the process remains open and free from fraud. California's voter registration program is fundamental to that effort. Maintaining accurate records of all legally registered voters is critical to ensuring the integrity of all elections conducted in this state. To fulfill the purposes of the voter registration program, the state distributes voter registration cards through many channels, including local advocacy groups, other state and local agencies, and provides online access to registration materials.

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

To ensure the ongoing success of California's statewide voter registration database, the SOS requests $10.6 million Federal Trust Fund authority to support the VoteCal maintenance and operations vendor; data analysis, security assessment, and Election Management systems support and verification contracts to analyze and support the VoteCal system for vulnerabilities and performance enhancements; increased connectivity costs with counties; and the maintenance of the VoteCal system on a CDT off-premise cloud environment. In addition to the core technological structure, VoteCal, as a near real-time centralized database, requires the SOS to work closely with county election officials and their staff, the county EMS vendors, and state interface partners (DMV, CDPH, CDCR, and EDD) to maintain and administer the VoteCal system.

Staff Recommendation. Approve as budgeted.

Issue 15: Help America Vote Act Spending Plan

Request. The Governor's budget requests one-time Federal Trust Fund expenditure authority of $3.421 million in 2023-24 for SOS to continue implementation of the statewide mandates of HAVA. This request does not include funding for maintenance and operating costs for VoteCal, the statewide voter registration database, which is requested in a separate budget change proposal.

Background. For 2023-24, the SOS proposes to expend $3.421 million for voter education and training programs for election officials and poll workers, development, and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, county assistance for improving voting systems, ensuring election assistance for individuals with disabilities, election auditing, and improving the secure administration of elections.

The enactment of HAVA created several new mandates for California with respect to conducting federal elections. California met many of these requirements for the March 2, 2004, federal election, as required by HAVA; however, most of the HAVA requirements had an implementation date of January 1, 2006, or, in some cases, no later than the first federal election after January 1, 2006. California met the deadlines for implementing most of the new mandates but was successful in negotiating additional time for creating and implementing the required statewide voter registration database (VoteCal), which was deployed in August 2016. The mandates of HAVA have continued to expand to support the improvement of the administration of elections, including to enhance election technology and make election security improvements for Federal office.

This proposal is not intended to address existing state workload or improve state business workflow. Rather, it is a spending plan created by the SOS to utilize and/or distribute federal grant funds to underwrite the implementation of HAVA. As the chief election official for the state of California, the SOS is required to ensure that counties meet the requirements of HAVA for improving accessibility to the polling place and to the voting process, for creating and maintaining a statewide voter registration database, for improving the administration of elections through the training of elections officials, including poll workers, and for voter education.

Staff Recommendation. Approve as budgeted.

Issue 16: Internal Audit Office (IAO) Staffing Needs

Request. The Governor's budget $692,000 ($223,000 General Fund and $469,000 Business Fees Fund) in 2023-24 and $672,000 ($216,0000 General Fund and $456,000 Business Fees Fund) in 2024-25 and ongoing and 4.0 positions for SOS to support increased workload in the Internal Audit Office.

Background. The SOS is a constitutionally established office, responsible for critical functions with impacts to the citizens of California. As chief elections officer, the Secretary is responsible for the administration and enforcement of election laws, administering and enforcing laws pertaining to filing documents associated with corporations, limited liability companies, and various types of partnerships, and enforces notary laws. In addition, the SOS is the filing officer for lobbying and campaign registration and disclosure documents filed under the Political Reform Act. The SOS also operates the Safe at Home program, maintains the Domestic Partners and Advance Health Care Directives registries, provides support functions for the Voting Modernization Board, and is home to the California State Archives and California Museum for Women, History, and the Arts.

While the SOS maintained an informal audit function prior to 2007, the current IAO was formally established on January 26, 2007, when the Internal Audit Charter was signed. The Charter, which includes the purpose, authority, general responsibilities, independent reporting relationship, resources, and requirements to conform with the Institute of Internal Auditors standards, has been adopted by subsequent administrations. However, it has not been updated since its inception and requires revisions to reflect challenges posed by the current environment such as cybersecurity, election security, and the transition to FI$Cal, among others.

The IAO, which has always reported directly to the Chief Deputy Secretary of State pursuant to Government Code Section 13887, was originally established with one position with an expectation that the scope, capacity, and budget of the IAO would expand to meet the mandate of Government Code Section 13885. As the number of programs within the agency has grown, the SOS recognizes the need to form a robust IAO consisting of multiple positions with the capacity to address the myriad of risks posed by the size and complexity of these programs and to expand the scope of the audit function throughout the SOS to ensure effective operation of internal controls, quality assurance, and compliance with all applicable laws, regulations, policies, and standards.

To address the risks posed by the size and complexity of SOS operations, expand the scope of the audit function throughout the SOS, and ensure an effective operation of internal controls and compliance with all applicable laws, regulations, policies, and standards, the SOS is requesting funding for four permanent positions: one Supervising Management Auditor, one Staff Management Auditor, one Associate Management Auditor, and one Staff Services Management Auditor in 2023-24 to support the IAO.

Staff Recommendation. Approve as budgeted.

Issue 17: Public Entity Employees and Contractors Access to Safe at Home (SB 1131)

Request. The Governor's budget requests $1,493,000 General Fund in 2023-24 and $861,000 in 2024-25 and annually thereafter and 6.0 positions for SOS to implement the provisions of SB 1131 (Newman) Chapter 554, Statutes of 2022, which expands the Safe at Home (SAH) program eligibility to individuals who face threats of violence or violence or harassment from the public because of their work for a public entity.

Background. Pursuant to California Government Code Sections 6205-6210 and 6215-6216, SAH is California's address confidentiality program for victims of domestic violence, stalking, sexual assault, human trafficking, and elder/dependent adult abuse, as well as their household members, and reproductive healthcare facility employees, providers, patients, and volunteers. When used in conjunction with an overall personal safety plan, the address confidentiality program provides a way for those victimized by certain crimes to protect their addresses from those who may use this information to harm them.

SB 1131 extends the SAH program eligibility to individuals who face threats of violence or violence or harassment from the public because of their work for a public entity. This change is projected to increase the workload of the SOS SAH program. SOS requests an increase in staff and non-staff resources to effectively implement the SB 1131 mandate and corresponding increase in workload.

Staff Recommendation. Approve as budgeted.

Issue 18: Vote Centers Continued Position Funding for SB 450 (2016)

Request. The Governor's budget requests $515,000 Voting Systems, Security Measures, and Elections Administration Special Deposit Fund in 2023-24 and 2024-25 for SOS to provide for staff needed to continue to implement and administer the provisions set forth in SB 450 (Allen) Chapter 832, Statutes of 2016.

Background. SB 450 created a new election model, the Voter's Choice Act (VCA), which has increased civic participation and made our democracy stronger by modernizing California elections. Under the VCA model, a county is authorized to conduct any election as an all-mailed ballot election if certain conditions are satisfied, including conditions related to ballot drop-off locations, vote centers, and plans for the administration of all-mailed ballot elections. A vote center is an alternative to traditional polling places where voters can vote in person at fewer voting locations, but up to 10 days before the election. SB 450 has the potential to be fully deployed statewide. Currently 28 counties have opted into the VCA model. This represents over 16 million registered California voters and 75 percent of the state's electorate.

The requested resources will fund three existing positions: 1 Career Executive Appointment (CEA), 1 Associate Governmental Program (AGPA), and 1 Information Technology Specialist I (ITS I).

Staff Recommendation. Approve as budgeted.

0840 STATE CONTROLLER

Issue 19: Broadcom Computer Associates (CA) Integrated Database Management System (IDMS) Software Licensing

Request. The Governor's budget requests $4,877,000 ($2,610,000 General Fund, $1,571,000 Central Service Cost Recovery Fund, and $696,000 from various special funds) in 2023-24 and through 2027-28 for the State Controller's Office (SCO). The funding is expected to fully support the contracted costs for Broadcom Computer Associates (CA) Integrated Database Management System (IDMS) software, including licensing fees, annual maintenance fees, Central Processing Unit (CPU) upgrade fees, associated with the product and any applicable administrative fees related to maintaining the software.

Background. The IDMS is a database management system for mainframes developed in the latter half of the twentieth century. The IDMS software is still currently used by SCO's mission critical applications running on the mainframe at the California Department of Technology (CDT). This technology has long been the primary engine driving SCO's large-scale, complex mission critical business systems due to its highly secure, scalable and reliable technology platform characteristics.

SCO is entirely dependent on this IDMS system to conduct its mission-critical fiduciary activities, including personnel administration, payroll, audits, and various fiscal functions. SCO currently has fourteen core systems, and many related sub-systems, completely reliant on the IDMS for providing vital services and benefits to the entire state.

The requested funding is expected to fully support the contracted costs for Broadcom Computer Associates (CA) Integrated Database Management System (IDMS) software, including licensing fees, annual maintenance fees, Central Processing Unit (CPU) upgrade fees, associated with the product and any applicable administrative fees related to maintaining the software.

Staff Recommendation. Approve as budgeted.

Issue 20: Unclaimed Property Voluntary Compliance Program (VCP) – AB 2280

Request. The Governor's budget requests an increase in expenditure authority of $318,000 Unclaimed Property Fund in 2023-24 and $295,000 in 2024-25 and ongoing for SCO to support 3.0 permanent positions for the implementation and operation of a Voluntary Compliance Program (VCP) pursuant to AB 2280 (Reyes), Chapter 282, Statutes of 2022.

Background. Under the Unclaimed Property Law (UPL), Code of Civil Procedure (CCP) section 1500 et. seq., business entities that hold property belonging to another owner must review their books and records annually for unclaimed or abandoned property; that is, property where the owner has neither initiated any transactions nor indicated any interest in the property for a period, generally three years. Those businesses that discover they are holding unclaimed or abandoned property must report the existence of such property to SCO as unclaimed property, and remit the property to SCO if the property remains unclaimed by the owner within seven to seven and a half months after the time it was due to be reported to SCO's unclaimed property operation. In accordance with CCP section 1577, SCO assesses interest to holders at 12 percent per annum on properties that holders fail to return to owners, report, or remit to SCO in accordance with the prescribed timeframes mandated by the UPL.

AB 2280 established the VCP, which is expected to incentivize qualifying participants to do a better job of partnering with SCO to report all unclaimed property, including past-due unclaimed property, by absolving the non-compliant holders of the obligation to pay the interest assessment. As a result of implementation of the VCP, SCO expects holders to increase overall participation in the unclaimed property program and consequently remit to SCO an estimated $218 million dollars in additional unclaimed property annually.

SCO requests the following positions:

- 2.0 – Program Technician IIs -review and process holder enrollment applications and track holder enrollment and participation in the VCP.

- 1.0 – Associate Governmental Program Analyst to plan, organize, and provide outreach and education via educational materials and webinars to potential enrollees, research and identify business populations for outreach and education, correspond with unclaimed property auditors regarding requests for enrollment, review and resolve complex enrollment requests, correspond with businesses with deficient enrollment packages or businesses whose enrollment is not approved, develop and update forms and requirements for applications for holders to enroll in the program, and develop and revise policies and procedures for the review and approval of received applications.

Staff Recommendation. Approve as budgeted.

1111 Department of Consumer Affairs

Issue 21: Board of Accountancy - Regulatory Analyst for Rulemaking Process

Request. The Governor's budget requests $162,000 Accountancy Fund, Professions and Vocations Fund in 2023-24 and $154,000 in 2024-25 and ongoing to support 1.0 Associate Governmental Program Analyst (AGPA) for the California Board of Accountancy to initiate, complete, and promulgate regulatory packages.

Background. The Board's mission is to, "protect consumers by ensuring only qualified licensees practice public accountancy in accordance with established professional standards." The Board can only meet this mission if the statutes and regulations that it enforces are current and relevant.

The Board requires a dedicated regulatory analyst position to both complete and coordinate the workload necessary to promulgate its regulations. The Board's current regulations process is inefficient and unsustainable because it requires executive-level staff to complete each step in the process. Requiring executive-level staff to draft and complete rulemaking packages could take time away from their managerial duties, which could lead to licenses not being issued timely or disciplinary action not being taken against a licensee in violation of law in a timely manner, thus potentially leading to a lack of consumer protection.

Staff Recommendation. Approve as budgeted.

Issue 22: Cemetery and Funeral Bureau - Clerical Support

Request. The Governor's budget requests an increase in expenditure authority of $119,000 Cemetery and Funeral Fund in 2023-24 and $111,000 in 2024-25 and ongoing and 1.0 position for the Cemetery and Funeral Bureau (Bureau) to meet ongoing permanent support workload in the Bureau's Field and Audit units.

Background. The Bureau has regulatory and fiduciary oversight of the death care industry. This includes 14 different license categories, totaling approximately 13,100 licensees. The categories include embalmers; cemetery brokers and salespersons; cremated remains disposers; the businesses of crematories, hydrolysis facilities, funeral establishments, private, nonreligious cemeteries; and the designated managers. The Bureau's fiduciary oversight is to perform audits and reviews of the approximately 2.9 billion dollars of consumer funds held in cemetery endowment care and funeral preneed trust funds.

The Bureau requests 1.0 Office Technician (OT) Typing to provide adequate staffing to meet permanent workload increases in its Field and Audit units. The OT would provide clerical support to both units, allowing the auditors who perform reviews and audits, and field representatives who perform investigations and inspections, to focus on performing their essential duties.

Staff Recommendation. Approve as budgeted.

Issue 23: DCA Business Services Office – Cashier Courier Workload

Request. The Governor's budget requests $219,000 from various fund sources in 2023-24 and ongoing and 2.0 positions for the Department of Consumer Affairs, Business Services Office to address staff deficiencies in its mailroom.

Background. Two permanent, full-time positions are requested to allow BSO to improve processing times, and workload levels for the Mailroom, record imaging services (RIS), and facilities management unit (FMU) by eliminating the need to redirect staff from other areas (RIS, FMU) to cover the courier shifts. This will also allow RIS to focus on the assigned workload that is increasing with the addition of two new clients without effecting service levels. The two courier positions will be included in the rotation with other couriers within the BSO mailroom, allowing for cross-training and increasing efficiencies in the mail deliveries. This will also address the Department's long-term needs for the permanent workload.

Staff Recommendation. Approve as budgeted.

Issue 24: Legislative Workload

Request. The Governor's budget requests $1.2 million from various fund sources and 8.0 positions in 2023-24 and $1.1 million in 2024-25 and ongoing for DCA to address licensing and enforcement-related workload associated with provisions passed during the 2021-22 legislative session across numerous Boards and Bureaus.

Background. DCA requests resources to address increased licensing and enforcement workload for the following legislation passed during the 2021-22 legislative session:

AB 2515 (Holden), Chapter 287, Statutes of 2022 – Bureau of Security and Investigative Services: Revises requirements for obtaining a baton permit and carrying a baton, and requires a person registered as a proprietary private security employer to deliver a written report to the DCA describing the circumstances surrounding any physical altercation with a member of the public by a registered proprietary private security officer (PSO) while on duty and while acting within the course and scope of their employment within seven business days after the qualifying incident. AB 2515 exempts incidents when hospital staff request a PSO for restraint for medical or mental health purposes.

AB 2685 (Committee on Business and Professions), Chapter 414, Statutes of 2022 – California Board of Naturopathic Medicine: Changes the name and location of the Naturopathic Medicine Committee within the Osteopathic Medical Board of California to the California Board of Naturopathic Medicine within the DCA and extends the sunset date for the Board to January 1, 2027.

SB 1433 (Roth), Chapter 544, Statutes of 2022 – Bureau of Private Postsecondary Education: Extends the sunset date for the Bureau of Private Postsecondary Education (Bureau). Among other things, SB 1433 defines physical presence for institutions, provides an exemption for out-of-state institutions that provide distance education to California from registration requirements, creates a pathway for institutions that lose accreditation, allows the Bureau to deny applications for known violators of the law, adds five new prohibited business practices for institutions, allows for regulation of out-of-state public institutions, and extends the sunset date to January 1, 2017.

SB 1428 (Archuleta), Chapter 622, Statutes of 2022 – Board of Psychology: Requires, by January 1, 2024, an individual performing psychological or neuropsychological tests to register as a psychological testing technician with the Board. SB 1428 requires information technology updates for a onetime cost to the Board.

SB 1346 (Becker), Chapter 886, Statutes of 2022 – California Board of Pharmacy: Expands the authority for county prescription drug redistribution programs, requirements on how donated medication must be package, and whether donated medication can be co-mingled with other medication. SB 1346 requires the Board to submit to the Legislature an evaluation regarding the Drug Repository and Distribution Program on January 1, 2028. SB 1346 also establishes a regional pilot program in the counties of Santa Clara, San Mateo, and the city and county of San Francisco, which will run until January 1, 2030.

Staff Recommendation. Approve as budgeted.

Issue 25: Medical Board of California - Augmentation and Continuation of Resources for the Licensed Physicians from Mexico Pilot Program

Request. The Governor's budget requests an increase in expenditure authority of $223,000 Special Deposit Fund in 2023-24 and $299,000 in 2024-25 for the Medical Board of California to support the ongoing evaluation of the Licensed Physicians and Dentists from Mexico Pilot Program required under Business and Professions Code section 853, established by AB 1045 (Firebaugh), Chapter 1157, Statutes of 2002.

Background. AB 1045 established the Program and authorizes up to 30 licensed physicians from Mexico specializing in family practice, internal medicine, pediatrics, and obstetrics and gynecology to practice medicine in California, upon approval and under specific restrictions, for a period not to exceed three years. The Board is responsible for overseeing the implementation and evaluation of the Program.

Currently, there are 20 physicians licensed in the Program. The Board issued 17 physician licenses in 2021-22 and three in 2022-23 for the Program and anticipates issuing 10 more in 2022-23, as 30 physician licenses are authorized under BPC section 853. Three of the physicians awaiting licensure meet all requirements, but have requested the Board to delay the issuance of their license until they are ready to submit their visa application. The community health clinics are in the process of selecting the remaining seven physicians for the Program. As authorized under BPC section 853, the Board approved a fifth community health clinic located in a fifth distinct county. To include these remaining physicians and the fifth clinic in the Program evaluation, UC Davis will need to extend the evaluation out an additional year into 2024-25 and add personnel and other expenses to cover the new project scope.

Staff Recommendation. Approve as budgeted.

Issue 26: Office of Administrative Hearings – Budget Augmentation

Request. The Governor's budget requests $3.7 million from various fund sources in 2023-24 and ongoing for various boards and bureaus to address increased costs for the Department of Consumer Affairs, Office of Administrative Hearings (OAH).

Background. The Department oversees 36 licensing and regulatory programs (boards and bureaus or programs) that license and regulate over 100 business types, 250 professions and occupations, and 3.4 million licensees in the state. DCA boards and bureaus protect the public by providing licensure and registration and enforcement oversight to various professions.

The OAH is a quasi-judicial tribunal that hears administrative disputes. Established by the California Legislature in 1945, OAH provides independent Administrative Law Judges (ALJs) to preside as neutral judicial officers at hearings, mediations, arbitrations, and settlement conferences.

OAH conducts hearings, mediations, and settlement conferences for DCA boards and bureaus. ALJs are trained legal professionals with experience in deciding cases involving complex issues and act independently from the state agency involved in hearings, mediations, or other administrative matters. ALJs act as a neutral factfinder, are required to have practiced law for at least five years before being appointed, and typically have over ten years of experience. ALJs preside over hearings in a manner similar to civil court trials and hearings are generally open to the public. Each party is given an opportunity to make an opening statement, call witnesses, and offer other relevant evidence.

DCA programs have experienced significant increases in OAH costs in recent years without receiving commensurate augmentations to their budget. OAH hourly rates have increased each year as follows:

Office of Administrative Hearings
Hourly Rate

2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
$229	$260	$280	$300	$318	$343	$351

The requested funds will provide funding to various DCA boards and bureaus based on their six-year historical billable hourly usage for ALJ services.

Staff Recommendation. Approve as budgeted.

Issue 27: Organizational Improvement Office Permanent Funding

Request. The Governor's budget requests $1.15 million from various fund sources in 2023-24 and ongoing to permanently fund 7.0 positions for DCA to continue conducting business analytics and organizational change management activities for its 36 business and professional licensing entities and its centralized service divisions. In addition, the funded positions will continue to support the Department's Executive Office with special projects and improvement activities as needed.

Background. DCA established an Organizational Change Management (OCM) Unit with Release 2 of BreEZe in 2015. The need for this unit came as a recommendation from the California State Auditor that future information technology projects at DCA must include a process for planning and implementing effective organizational change management. The OCM Unit supported eight Boards in Release 2 through process mapping, transition labs, job aid development, training, pre/post project go-live support, and readiness assessments. Release 2 was significantly more successful than Release 1, due in large part to the addition of the OCM Unit and its services.

Since its inception, the Office of organizational Improvement (OIO) has worked with 32 boards and bureaus and performed seven special projects. OIO's services help boards and bureaus improve their respective services' efficiency and effectiveness. OIO assistance contributes to the overall improved timeline and completeness of licensing processes and enhanced enforcement activities that support DCA's mission of consumer protection. OIO's provision of Organizational Change Management and training has assisted board and bureau staff with managing the effect of adopting new business processes, changes in organizational structure, and acceptance of new IT systems.

Staff Recommendation. Approve as budgeted.

Issue 28: Physical Therapy Board – Military and Endorsement Application Workload

Request. The Governor's budget requests $267,000 Physical Therapy Fund in 2023-24 and $251,000 in 2024-25 and ongoing and 2.0 positions for the Physical Therapy Board to help expedite processing license applications.

Background. The Board was established in 1953 and receives its authority to regulate the practice of physical therapy in California from the Physical Therapy Practice Act (Chapter 5.7 of the Business and Profession Code (BPC)). The Board has the primary responsibility of licensing and regulating California's Physical Therapists (PT) and Physical Therapy Assistants (PTA).

The Board supports a license population of approximately 45,000 and is authorized 27.1 positions to carry out it mandates. The Board is comprised of six units: 1) Executive; 2) Administrative; 3) Application; 4) Licensing; 5) Continuing Competency; and 6) Consumer Protection.

The Application Unit is a core function of the Board in meeting its consumer protection mandate. Through the application process, the Board determines whether an applicant is competent and safe to practice, or assist in the provision of, physical therapy in California. The application process primarily includes education verification, background checks via fingerprinting, and testing minimum competency through the National Physical Therapy Examination (NPTE) and California Law Examination (CLE), among other requirements that may apply based on the qualification method being used to apply for initial licensure.

The Applications Unit is responsible for processing an average of 2,798 new applications for licensure each year, with an increase of approximately five percent in new applications each year. In 2021-22, the Board received 2,827 applications for licensure and 956 applications were received by way of Military (50) and Endorsement (906). The Military and Endorsement applications account for approximately 35 percent of the total applications received in 2021-22.

Staff Recommendation. Approve as budgeted.

Issue 29: Regulations Unit Permanent Funding

Request. The Governor's budget requests an increase in expenditure authority of $1.8 million from various fund sources in fiscal year 2023-24 and ongoing to continue support of 8.0 existing positions (6.0 Attorney IIIs, 1.0 Senior Legal Analyst, and 1.0 Research Data Specialist II) in the DCA's Regulations Unit.

Background. The Department provides oversight and administrative support to 36 licensing and regulatory entities (collectively, the "boards and bureaus"), which regulate and license more than 100 business types, over 300 professional categories, and over 3.4 million licensees in the state. The boards and bureaus fill an important role in state government and protect Californians by making sure licensees adhere to established professional standards and educational requirements. The Department's staff of legal, technical, and administrative professionals support the boards and bureaus and provide them with legal and fiscal management support services. The boards and bureaus are authorized to promulgate regulations to implement the statutes, which enables them to fill in the gaps in statutory law and effectively regulate their respective industries.

The 2019-20 budget appropriated DCA two-year limited-term funding and permanent position authority to establish and support a dedicated Regulations Unit. The purpose for establishing the Unit was to:

- Improve the quality of regulatory packages.
- Address the backlog of regulation packages from boards and bureaus, thereby preparing more regulations to be submitted to BCSHA, the Department of Finance, and OAL.
- Provide efficiencies and minimize review time of regulatory packages.
- Allow non-regulations attorneys and budget staff to focus on increased non-regulatory workload, like Public Records Act requests, subpoenas, and administrative disciplinary decisions.
- Respond to the demand of regulation packages under current review and any increase of regulation packages resulting from new legislation.
- Enhance the level of regulation training provided to boards and bureaus to improve the quality of packages submitted for review.
- Implement a new regulations management system to allow boards and bureaus to submit rulemaking packages electronically and to track the workflow process of each submission through DCA and BCSHA.

Staff Recommendation. Approve as budgeted.

Issue 30: Speech-Language Board Licensing and Examination Workload

Request. The Governor's budget requests $252,000 Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board Fund in 2023-24 and $236,000 in 2024-25 and ongoing for 2.0 positions for the Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board to address its increasing licensing and examination workload and unfulfilled continuing education (CE) audit workload.

Background. Prior to January 2010, the Hearing Aid Dispensers Bureau and the Speech-Language Pathology and Audiology Board were two separate organizations. The merging of the two organizations resulted in the joining of three professions (speech-language pathology, audiology, and hearing aid dispensers) providing regulation to 13 license types. In addition, the Board is responsible for approving speech-language pathology assistant training programs, hearing aid dispensing CE courses, and continuing professional development providers.

The Board is requesting 1.0 OT position to assist with the administrative support duties of the Board's Licensing Unit and 1.0 Staff Services Analyst to be solely dedicated to performing CE audits, audit remediation, and citation and fine workload.

Staff Recommendation. Approve as budgeted.

Issue 31: Veterinary Medical Board – Enforcement Workload

Request. The Governor's budget requests $1.1 million Veterinary Medical Board Contingent Fund in fiscal year 2023-24 and ongoing for the Veterinary Medical Board to provide for permanent funding of 6.0 Associate Governmental Program Analysts (AGPA) and 1.0 Staff Services Manager I (SSM I) position in the Enforcement Unit.

Background. The Board regulates veterinarians, registered veterinary facilities, registered veterinary technicians (RVTs), and veterinary assistant-controlled substance permit holders. Enforcement, or the regulatory function and actions of a Board enforce the requirements of the Veterinary Medicine Practice Act, promote professional standards, and protect consumers.

The Board has seen a significant increase in annual complaints received. The annual complaints have increased by 153 percent from 2012-13 to 2021-22. Due to the ease of filing complaints online provided by the BreEZe system, the Board now receives around 50 percent more complaints than it did prior to the implementation of the BreEZe database.

The 2020-21 and 2021-22 budgets authorized permanent position authority for 6.0 AGPAs and 1.0 SSM I and limited-term funding through June 30, 2023.

The Veterinary Medical Board requests ongoing funding for 6.0 AGPAs and 1.0 SSM I position in the Enforcement Unit to meet increased workload associated with an increase in complaints.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

7502 DEPARTMENT OF TECHNOLOGY

Issue 32: CA.Gov Resource Renewal

Request. The Governor's budget requests $1,316,000 in General Fund in 2023-24 and ongoing and permanent renewal of 5.0 positions for the Department of Technology to continue focusing on the development and evolution of digital transformation initiatives, including the CA Design System, incorporating UX disciplines into digital efforts, and re-imagining the CA.gov web portal.

Background. In 2019, CDT partnered with the Office of Data and Innovation (ODI) to envision and prototype a new CA.gov web portal. This "Alpha" site served 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. This effort was paused due to shifting priorities related to the COVID-19 pandemic. Recently, the Office of Digital Services (ODS) and ODI have 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.

The 2021-22 budget approved 10.0 positions and $2,252,000 General Fund for the continued development of a new 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 enterprise platform.

Over the past year, ODS has made strides in furthering digital transformation and improving the overall digital experience for California residents, including:

- **California Web Design System** – In partnership with the ODI, ODS designed, planned and launched a beta release of the new CA Design System, an open source initiative to help digital teams across the state to deliver consistent web experiences, through reusable components, patterns and best practices for their websites. This effort is a precursor of the work to come to revamp and re-imagine the CA.gov web portal.
- **State Web Template** – ODS continued maintenance and enhancement to the State Web Template, used by numerous state websites. With the launch of the CA Design System, current efforts on the State Web Template are focusing on aligning elements of the CA Design System to help increase the overall standardization and consistency of state web properties.
- **CA.gov Web Portal** – The efforts of developing and launching the CA Design System were the first step towards the planned overhaul of the CA.gov web portal. With those efforts underway, CDT plans to initiate a focused effort to re-imagine the purpose, functionality, and overall experience of CA.gov Web Portal.
- **Delivering modern websites** – ODS was engaged to develop and launch several high-profile websites over the past year, including Broadband-For-All portal, next-generation Open Data Portal, and a revamped website for Government Operations Agency (GovOps).

All of these sites were intentionally developed to take full advantage of the CA Design System.

- **Incorporating UX Best Practices** – With the expanded position authority granted by the Budget Act of 2022, ODS' Web Services unit has been able to incorporate new disciplines including user experience, user research and content design to elevate the overall user experience.
- **CAWeb Expansion** – Since the 2022 budget, ODS' CAWeb managed website service offering has increased from 56 managed sites to 66 (with three more in the evaluation phase). CAWeb helps the state reduce costs and duplicative services and staff by way of a centralized, managed website hosting and infrastructure offering.

CDT requests the renewal of the following five positions to continue focusing on the CA.gov website and associated efforts:

- 1 Product Manager/Lead (IT Specialist III)
- 2 User Experience Designers (IT Specialist II, IT Specialist I)
- 1 User Researchers (IT Specialist II)
- 1 Content Strategist/Designer (IT Specialist II)

Staff Recommendation. Hold Open.

Issue 33: Centralized Services Renewal & OTech Reduction of Services

Requests:

Centralized Services Renewal. The Governor's budget requests a conversion of $42.3 million from the Technology Services Revolving Fund (TSRF) to the General Fund in 2023-24 for CDT to support critical statewide services, mandatory/oversight services, and internal indirect and administrative costs.

CDT additionally requests new General Fund augmentation of $3 million for the statewide strategic initiative's positions. According to the Administration, this proposal, which includes transitioning 216.5 positions to the General Fund, will allow CDT to significantly reduce its rates to reflect only expenses required for the delivery of the service and make CDT more competitive and stem the flow of customers migrating off the state's IT infrastructure to cut costs.

OTech Reduction of Services. The Governor's budget requests $8.2 million General Fund in 2023-24 and $4.9 million in 2024-25 for CDT to supplement an under collection because of the loss of revenue due to customers migrating to vendor cloud-based services.

Background. The CDT delivers IT Services (Infrastructure and Platform) to state and local government customers in support of mission critical services. Most of the CDT's expenditure authority resides within the Technology Services Revolving Fund (TSRF) and must be cost recovered from CDT's customers by charging for services. The TSRF is the mechanism by which CDT sustains operations, billing, and recouping the cost of expenditures. CDT is a shared service model. Until all customers depart the service, CDT must fund the hardware, software, and personnel expenses needed to deliver the statewide service. In a service with a diminishing customer base, the rates would need to continue to rise to offset the total cost of the service. CDT remains responsible for all expenses associated with the systems designed and installed (software licenses, hardware maintenance, financed payments, etc.) to ensure remaining customers receive the same level of service.

The TSRF model was created at a time when IT service options within the state were limited. With the new managed services available customers now have more options and state entities have begun migrating off of the state's IT infrastructure to cut costs. The net impact to CDT of the Department of Child Support Services and the Department of Motor Vehicles and other customers leaving CDT services is an overall under collection of $10.5 million. Significant revenue losses due to migrations include:

- **Department of Child Support Services:** The Child Support Enforcement System, which was hosted in CDT's managed services environment, has migrated to Microsoft's Azure Government Cloud. The known annual impact on CDT is approximately $15.7 million in lost revenue.
- **Department of Motor Vehicles (DMV):** DMV has migrated out of CDT's CGEN services and some of their CDT hosted Identity Management components. The known annual impact to CDT is approximately $5 million in lost revenue. Additionally, DMV has identified several other systems that it plans to migrate from CDT's managed services

environment in the near future. With each system departure, CDT revenue will continue to drop.

- **Department of State Hospitals (DSH):** DSH has decommissioned its Windows servers and discontinued its Virtual Desktop Service. The known annual impact on CDT is approximately $500,000 in lost revenue.
- **Department of Tax & Fee Administration (CDTFA):** CDTFA is finalizing its migration of the Central Revenue Opportunity System (CROS) from TMS to AWS. The known annual impact on CDT is approximately $500,000 in lost revenue.

The rate-setting process for CDT's IT services requires a balance of objective cost analysis and forecasting customer demand. As the primary source of funding for CDT, service rates are a key component of CDT's financial management. The process for rate setting must be transparent and documented so stakeholders have a clear understanding of their IT costs. The Department of Finance (DOF) approves CDT's rate proposals based on the reasonableness of the rates and any significant impact on departmental budgets.

The 2022-23 budget appropriated $54.6 million one-time General Fund to shift $41.1 million in expenditures and 205 positions at CDT from the Technology Service Revolving Fund to reduce State Data Center IT services rates by an estimated 10 percent; provide $3.1 million to cover external consulting costs and internal positions to work on statewide strategic initiatives; and to cover $10.5 million in revenue losses from state entities migrating portions of their business applications and IT services to private vendors.

The Legislature also adopted related legislation — SB 189 (Committee on Budget and Fiscal Review), Chapter 48, Statutes of 2022 — to outline the State Data Center rate reassessment process. Over the three fiscal years of the rate reassessment process, the intent of this funding is to retain State Data Center customers by lowering IT service rates. Once the process is completed, CDT expects IT service rates will be lower on an ongoing basis with no additional funding necessary to cover the shifted positions or revenue losses. Annual legislative reporting on the progress of the rate reassessment process also is required, with the first report expected no later than April 1, 2023.

Legislative Analyst's Office (LAO) Comments.

Budget Problem in 2023-24 Necessitates Reevaluation of General Fund Augmentations. In the LAO's report—The 2023-24 Budget: Overview of the Governor's Budget—they evaluate the multi-billion dollar budget problem in 2023-24 identified by the Administration and the LAO and recommend the Legislature plan for a larger budget problem by considering and reducing recent and/or proposed one-time and temporary spending. According to the LAO, these two proposals from CDT are examples of one-time spending that the LAO recommends the Legislature reevaluate using specified criteria in light of the budget problem.

Absence of Rate Reassessment Process Report Makes Reevaluation Difficult. According to the LAO, the absence of the first report on the rate reassessment process, however, makes it difficult for the Legislature to reevaluate these proposals using the criteria specified in our overview report. For example, a criterion the LAO recommends that the Legislature use to assess recent and/or proposed one-time and temporary spending is whether that spending meets the Administration's and the Legislature's goals for that spending. A report from CDT, in consultation with the Department of Finance, that explains how a new State Data Center rate structure is being developed and what effect the new structure might have on state IT services would help the Legislature reevaluate the one-time spending in these proposals.

Recommend Withholding Action on BCPs Until Rate Reassessment Process Report Allows Legislature to Reevaluate Proposals. Therefore, based on the above, the LAO recommends the Legislature withhold action on both of the proposals until the first rate reassessment process report is submitted by April 1, 2023. Once CDT submits the report to the Legislature, the LAO recommends the Legislature evaluate the report using the criteria specified in their overview report to determine whether the General Fund augmentations in these proposals address, for example, legislative goals and priorities. The LAO will provide an update to our assessment and recommendations for these proposals once CDT submits, and they review, the rate reassessment process report.

Staff Comments. Staff notes the pending report on CDT's progress on the rate reassessment process. The Legislature may wish to examine these proposals in the context of that progress report once it is submitted to the Legislature.

Staff Recommendation. Hold Open.

Issue 34: Digital Identification Continuation

Request. The Governor's budget requests $1.2 million General Fund in 2023-24 and 2024-25 and an extension of 2.0 positions for CDT to continue efforts of implementing the Digital Identification (ID) system.

Background. The 2021-22 budget approved $1.1 million General Fund and 2.0 limited-term positions through 2022-23 for CDT to deploy a Digital ID ecosystem for an initial subset of state services that would provide consistent, secure, privacy-enabled, reliable, and consent-based method to authenticate and verify the identity of California residents when they access the digital state services.

Since 2021, CDT's Digital ID program has engaged a set of pilot partners, evaluated, and selected a vendor platform, and launched the first pilot integration into a production environment. Below are project milestones to date:

- **Selected Pilot Partner for initial proof of concept launch.** CDT selected the Department of Transportation (Caltrans) as the program's first partner to move into active development. Specifically, this initial pilot is in partnership with the California Integrated Travel Project (Cal-ITP), a Caltrans program tasked with designing a modern and consistent experience for transportation throughout the State. This service is compliant with Provision 3 of the 2021-22 Budget Act which requires CDT not to work with departments or agencies that knowingly hold personal information on minors, students, or health data.
- **Executed Contract with Login.gov.** CDT executed a contract with the US General Services Administration's (GSA) Technology & Transformation Services (TTS) group to procure identity authentication and verification services through Login.gov. This allows CDT to provide authorization services necessary for accessing state services, whether they be lightweight, consistent authentication solutions for simple actions, or eligibility-based services such as discounted transit fares for seniors and students, geographical or membership-based benefits, or any other potential category defined by state or agency policy.
- **Developed technical architecture for a flexible, privacy-preserving authentication system.** Created service-agnostic authentication system that limits storage of personal information by default, requires proactive user permission, and maintains separation of individual agency systems.
- **Developed and launched initial proof of concept**. CDT developed a functional proof of concept to provide identity verification and authorization to senior transit riders for discounted fares in select regions throughout California. This proof of concept soft launched into production at the end of June 2022 to one municipal transit agency. This proof of concept will be made available to other transit agencies upon ensuring key performance indicators are met.
- **Launched stakeholder engagement effort**. The Digital Identity team initiated a Market Sounding as a method to receive insights from leaders in the digital identification, payments, and government benefits delivery spaces, with the goal of informing the CDT's direction in modernizing identification systems for state and local agency benefits delivery. A summary report of this effort was published in November 2022.

Privacy and Security Considerations. With regards 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:

- 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.
- Resident information required for authentication will be program specific and obtained incrementally on an as-needed basis.
- Resident information will be provided to departments for designated purposes only.
- Law enforcement will be required to obtain a subpoena, search warrant or other legal process to access the information in the system.
- Information collected from residents will be customized to the program requirements for authentication.
- Resident information uploaded for authentication purposes will be deleted after their identity has been confirmed.
- Security controls will be implemented to match the Impact Level of the information collected. Data will be further protected through encryption and tokenization."

CDT requests the following positions for 2023-24 and 2024-25:

- **One Career Executive Assignment – Level C (CEA) to fulfill the position of Digital ID Deputy Director.** The CEA will develop and champion product vision, strategy, and roadmaps for multiple complex Digital ID ecosystem product lines, in support of business goals and objectives. They will also present and clearly articulate the Digital ID strategy and roadmaps to State leadership. From the highest strategic view, the CEA will plan and execute effective new product opportunities and service enhancement(s).
- **One Information Technology Specialist II (ITS II) to fulfill the position of Engineering Lead.** The Engineering Lead will serve as the primary engineer for the Digital ID program. This highly skilled position serves as the technical builder and support for the Deputy Director, Digital ID, inclusive of designing, developing, and operating the Digital ID ecosystem. Additionally, the Engineering Lead will be responsible for the security, reliability, and implementation of Digital ID technology statewide. The Engineering Lead provides data insights and recommendations on potential solutions involving complex technological challenges, requiring a depth of understanding across a variety of technologies. This position was accounted for in the budget proposal approved for fiscal year 2021-22 as a business relationship manager (ITS II).

Staff Recommendation. Hold Open.

Issue 35: State Digital Equity Plan (AB 2750)

Request. The Governor's budget requests $2.5 million General Fund, including $1 million for consulting, in fiscal year 2023-24 and ongoing and 9.0 positions for CDT, in support of AB 2750 (Mia Bonta), Chapter 597, Statutes of 2022, to develop a state digital equity plan and obtain anticipated federal funding to develop, oversee and monitor the implementation of the State Digital Equity Plan (SDEP).

Background. AB 2750 requires, by January 1, 2024, CDT in consultation with the California Public Utilities Commission (CPUC) and the California Broadband Council to develop a state digital equity plan and seek all available federal funding to develop and implement a digital equity plan. The bill also requires that the plan include, among other things, an identification of the barriers to digital equity faced by specified populations.

The SDEP will build on the state's Broadband for All programs and will identify the digital equity barriers for eight covered populations:

- Individuals who live in covered households (as defined by Infrastructure Investment and Jobs Act)
- Aging individuals
- Incarcerated individuals other than individuals who are incarcerated in a Federal correctional facility
- Veterans
- Individuals with disabilities
- Individuals with a language barrier
- Individuals who are members of a racial or ethnic minority group
- Individuals who primarily reside in a rural area

The SDEP will also identify the state's plan to address outcomes in key priority areas, including education, healthcare, digital equity and inclusion, economic and workforce development, and civic participation and access to essential services.

Contracted resources will be secured to support the SDEP process through June 2023. Afterward, additional funds are needed to build capacity within CDT's Office of Broadband and Digital Literacy to ensure the plan is consistent with federal and state policies. Additional funding would also support: (1) overseeing the SDEP implementation; (2) monitoring additional grant programs identified and established during the plan development; (3) continuing ongoing stakeholder and community engagement; (4) reporting and complying with federal requirements; and (5) securing additional NTIA funding through the Capacity Grant Program and the Competitive Grant Program. CDT requests the following personnel:

- 3.0 – Staff Services Manager I
- 5.0 – Associate Governmental Program Analyst
- 1.0 – Staff Services Manager III

Staff Recommendation. Hold Open.

0890 Secretary of State

Issue 36: Notary Automation Program Replacement Project (NAP 2.0)

Request. The Governor's budget requests $3.607 million in 2023-2024 and 2.0 positions for SOS to provide for planning resources for the Notary Automation Program (NAP) system replacement.

Background. The SOS is responsible for the appointment of California notaries public. Prior to appointment, a notary public applicant must complete an education course and pass both a notary public examination and a background investigation from both the California Department of Justice and the Federal Bureau of Investigation.

The SOS currently utilizes a legacy NAP system to store and maintain notary public commission data. In addition, the NAP system is used to process apostille requests. An apostille is an authentication of public officials' signatures on documents for use outside the United States. The NAP system is approximately 30 years old. The NAP system was developed utilizing the PowerBuilder application which makes it very difficult to update and to find qualified information technology (IT) staff or vendors to support the application. Current technology has evolved significantly since the NAP system was created, thus integration of the legacy NAP system with current and future technology, and possibly third-party systems, will be challenging. Creating a new system – NAP 2.0 -will allow the SOS to streamline business processes and offer more efficient online services to notaries and the public. In addition, updating the system will allow for easier amendments in the future should the Notary laws change.

This proposal is intended to provide planning resources for building a new system which supports all the functionalities of the legacy NAP and incorporates online application and commission management, a searchable public database, and electronic apostille/authentication. According to the Administration, leveraging online technologies to modernize these functions will provide significant improvements in efficiency and convenience to the public, government partners, and California notaries public, and will allow for future enhancements should the law require.

The proposed funding will cover the initial project planning phase, 2.0 positions, and DGS contract review surcharges, and costs for student assistants. The initial planning phase will include outside contractors, including CDT, which will be used for project management, advisory, oversight, and specialized IT related skills, such as data clean up, to ensure proper project planning activities take place. In general, the contracted resources will be engaged to help the SOS immediately begin working and managing the project planning activities.

The requested positions will include 1.0 Information Technology Manager for the Project Management Office (PMO) and 1.0 Information Technology Manager I for the Information Technology Division (ITD).

Staff Recommendation. Hold Open.

0840 State Controller

Issue 37: SCO Annual Comprehensive Financial Report (ACFR) and Other Annual Reports

Request. The Governor's budget requests $924,000 ($545,000 General Fund and $379,000 Central Service Cost Recovery Fund) in 2023-24 and ongoing to make permanent 6.0 expiring limited-term positions currently working to ensure that all of SCO's financial reporting functions related to the Legacy system are successfully transitioned to FI$Cal, including handling of departmental accounting information and processes while using FI$Cal to produce annually and on-time the ACFR, the Budgetary/Legal Basis Annual Report (BLBAR), and other reports.

Background. The 2021-22 budget approved two-year funding to support 6.0 positions to help ensure financial accounting and reporting functions related to the Legacy system are successfully transitioned to FI$Cal. SCO's reporting process involves processing thousands of journal entries necessary to first compile the BLBAR, and then converting the BLBAR information from the modified accrual basis of accounting used in production of the BLBAR, to the full accrual, Generally Accepted Accounting Principles (GAAP) basis of accounting used in production of the ACFR via a process that involves creating thousands of ("GAAP-adjustment") journal entries to be made, and the two systems reconciled.

SCO is requesting permanent funding for 6.0 positions, set to expire June 30, 2023, to accommodate ongoing workload during and following the statewide transition to FI$Cal; to facilitate and support the handling of departmental financial reporting issues in FI$Cal; to develop a consolidated timeline to produce the California ACFR, BLBAR, and other annual reports; and to ensure applicable financial reporting functions related to the current Legacy system are successfully transitioned to FI$Cal.

Staff Recommendation. Hold Open.

Issue 38: SCO FI$Cal Integrated Solution Maintenance and Operations Support

Request. The Governor's budget requests $3,255,000 ($1,920,000 General Fund and $1,335,000 Central Cost Recovery Fund (CSCRF)) in 2023-24, $3,240,000 ($1,912,000 General Fund and $1,328,000 CSCRF) in 2024-25 and 2025-26, and $950,000 ($561,000 General Fund and $389,000 CSCRF) in 2026-27 and ongoing for the SCO to support the continuation of 6.0 existing positions on a permanent basis and for contract resources to support the maintenance and operations of the FI$Cal Integrated Solution (IS) including providing support to the FI$Cal departments.

Background. The 2018-19 budget provided limited-term resources to fund critical support for transitioning the State's accounting Book of Record (BOR) to FI$Cal, and to provide support to FI$Cal departments during the transition. SCO's State Accounting and Reporting Division's (SARD) limited term funding for six (6.0) positions ends June 30, 2023. Making these positions permanent is essential to maintain daily accounting and assist consultants with planned system enhancements.

Staff Recommendation. Hold Open.

1111 DEPARTMENT OF CONSUMER AFFAIRS

Issue 39: Business Modernization Cohort 1 and 2

Request. The Governor's budget requests an increase in expenditure authority of $6.0 million from various special funds in 2023-24 to allow continued implementation of the Business Modernization Cohort (BMC) 1 and 2 programs and $2.5 million in 2024-25 and ongoing for the Department of Consumers Affairs (DCA) to support maintenance and operations of the Business Modernization Cohort 1 programs.

Background. The Department of Consumer Affairs and its 36 boards and bureaus (programs) provide oversight, enforcement, and licensure of more than 250 professions and occupations. The BMC 1 and 2 programs address business and technology needs that will increase efficiency and accuracy of work activities for programs that currently rely on legacy technology solutions.

DCA, including the programs in this request, historically use multiple outdated and inadequate information technology (IT) systems to meet statutory requirements and respective business needs. Because the IT systems are antiquated and disjointed, excessive turnaround times for licensing and enforcement activities have impeded these programs from meeting their goals and objectives. The systems these programs used also lacked an intuitive online public-facing portal that licensees and consumers can use to submit complaints, applications, and license renewals.

The BMC 1 and 2 software solution delivers business improvements and meets the programs' goals and objectives within the planned project budget. The requested funding for the BMC 1 and 2 programs will pay for the software and staffing costs necessary to continue providing the current improved services during its maintenance phase and the transition of maintenance of the system to state IT staff.

The proposal also includes funding for payment of credit card processing fees on behalf of credit card payees. The requested amounts assume that 80 percent of all applicable revenue will be collected via online payments and assumes an average convenience fee of two percent per transaction.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Anna M. Caballero
Senator Roger W. Niello

Thursday, April 13, 2023
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultant: Diego Emilio J. Lopez

ITEMS FOR DISCUSSION

Public Comment

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

ITEMS FOR DISCUSSION

1115 DEPARTMENT OF CANNABIS CONTROL (DCC)

Issue 1: Update on Cannabis Grant Programs (Local Jurisdiction Assistance & Retail Access Programs)

Background.

Local Jurisdiction Assistance Grant Program. The Budget Act of 2021, established the Local Jurisdiction Assistance Grant Program, which provided $100 million to assist local governments with the greatest needs to transition provisional licensees to annual licenses. Additional funding was allocated to those local jurisdictions that have received grant funding from the state to support an already established local equity program.

Allowable uses of the program are intended to encourage local jurisdictions to administer grant funds in ways that assist in the transition of provisional licenses to annual licenses more expeditiously and prioritizes addressing CEQA licensing requirements.

DCC reported the following grant awards:

Jurisdiction	Total Grant Award	Total Spent as of August 12, 2022	Transitions from Provisional to Annual Licensure (January 1, 2022 – December 31, 2022)
County of Monterey	$1,737,035	$0.00	11
County of Nevada	$1,221,188	$0.00	49
County of Sonoma	$1,158,023	$52,178	5
County of Lake	$2,101,143	$123,747	53
City of Oakland	$9,905,020	$1,408,467	32
County of Humboldt	$18,635,137	$15,437	244
County of Trinity	$3,293,867	$600,000	3
City of Long Beach	$3,934,773	$0.00	4
City of Santa Rosa	$775,841	$0.00	7
City of Sacramento	$5,786,617	$10,789	62
City of Commerce	$416,320	$79,626	1
City of Adelanto	$972,696	$0.00	6
City of Desert Hot Springs	$822,160	$0.00	3
City of San Diego	$764,261	$6,291	8
City of Los Angeles	$22,312,360	$0.00	1
City and County of San Francisco	$3,075,769	$6,026	13
County of Mendocino	$17,586,4067	$3,100,959	4

Local Jurisdiction Retail Access Grant Program. The Budget Act of 2022, established the Local Jurisdiction Retail Access Grant Program, which provides $20 million in funding to be distributed in two phases. This grant program supports local governments in establishing cannabis retail licensing programs and seeks to reduce the size of the illicit market and establish sufficient cannabis retail stores statewide to meet existing consumer demand.

A local jurisdiction, such as a city or county, would be eligible for funding if does not currently have a cannabis retail licensing program under its jurisdiction but has a plan to develop one. Funding would be able to be used to support equity applicants and licensees, environmental reviews, permitting expenses, and personnel costs.

The grant program will provide $20 million in funding, distributed in two phases:

- Phase I: Funding to develop and implement a local cannabis retailer licensing program (up to $10 million total funding; awarded by June 20, 2023)
- Phase II: Funding awarded based on the number of cannabis retail permits issued (at least $10 million total funding, maximum $2 million per jurisdiction; awarded on or after June 30, 2023)

Staff Recommendation. Informational Item.

Issue 2: Continuation of Implementation of the Department of Cannabis Control

Request. The Governor's budget requests $4 million Cannabis Control Fund in 2023-24, $2.3 million in 2024-25, $2.4 million in 2025-26 and ongoing and 11.0 positions for DCC to support its Information Technology (IT) operations and to establish a central California district office in Fresno to increase its statewide enforcement capacity.

Additionally, this proposal requests provisional language authorizing DCC to request resources to support the enhanced implementation of the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) (Chapter 27, Statutes of 2017), particularly in the areas of enforcement, licensing, and compliance.

Background.

IT Services Division. Currently, DCC receives various information technology services through interagency agreements with legacy departments. Funding for the interagency agreements was received through 2023-24. According to the Administration, this request is necessary to 1) transition the workload that was conducted by legacy departments to DCC, 2) establish positions necessary for DCC to become independent, 3) establish a minimum level of infrastructure for DCC to administer its programs, 4) have necessary IT security, and 5) to meets its regulatory mandates, including maintenance of the track and trace and licensing systems.

The IT Services Division requests the following positions:

Business Integration and Enterprise Testing Unit:
- Two Information Technology Specialist I's

Cloud and Server Administration Unit:
- Two Information Technology Specialist I's

Enterprise Services Office:
- One Information Technology Manager I
- One Information Technology Specialist I
- Two Information Technology Associate(s)

Network and Security Unit:
- One Information Technology Specialist III
- One Information Technology Specialist II

Project Management Business Integration:
- One Information Technology Specialist II

Central Region Enforcement Office. This proposal also includes establishment of a Central District field office for the Enforcement Division. Currently, the Fresno Enforcement team is operating out of temporary offices. Prior to the formation of the Fresno Enforcement team, staff had to travel from Northern and Southern California (Sacramento and Burbank Enforcement Offices), averaging four hours in travel time each way.

This permanent office will include an evidence room, briefing room, and computer forensic lab to support the law enforcement team in the central region. To transition the team from temporary offices to a more stable operational environment, DCC is requesting one-time funding of $1.576 million in 2023-24 for build out and $335,000 in 2023-24, increasing by 4 percent in each year thereafter for leasing costs for a permanent facility.

Provisional Authority. According to the Administration, DCC continues to assess its operational, programmatic, and administrative needs by division, post-consolidation. As such, this proposal includes a request for provisional language providing authority for the Department of Finance to augment this item by an amount not to exceed available Cannabis Control Fund when DCC determines it requires additional resources for the implementation of MAUCRSA, and its mandates. The provisional language also requires that the augmentation shall be authorized no sooner than 30 days after notification to the Joint Legislative Budget Committee (JLBC).

Legislative Analyst's Office (LAO) Comments. *Provisional Language Limits Legislative Oversight.* While the provisional language includes a notification to the JLBC, the notification process allows for less legislative oversight than the traditional budget process, which includes public hearings that enable the Legislature to ask questions, vote to make changes to spending proposals, and hear from the public and other stakeholders about the potential impacts of those decisions. In addition, the notification process does not require the same level of information that would normally be required for a budget change proposal. For example, a budget change proposal typically includes a narrative describing the justification for the proposal, expected outcomes, and an evaluation of other alternatives. This type of information is not a required part of the notification, but would be valuable to assist the Legislature in determining the merit of the Administration's proposals.

Cannabis Control Fund Balance Has Significantly Declined Since 2021-22. The Cannabis Control Fund is structurally imbalanced in 2022-23 and 2023-24, meaning that its expenditures exceed its revenues. As a result, the fund balance has declined from $169.1 million in 2021-22 to a projected $71.2 million in 2023-24—a decrease of 58 percent. Accordingly, it will be important for the Legislature to closely monitor the Cannabis Control Fund's revenues and expenditures going forward to ensure it maintains a healthy fund balance.

Staff Recommendation. Hold Open.

0509 GOVERNOR'S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT

Issue 3: Update on Cannabis Equity Grants Program for Local Jurisdictions

Background.

Cannabis Equity Grants Program for Local Jurisdictions. The California Governor's Office of Business and Economic Development (GO-Biz) administers the Cannabis Equity Grants Program for Local Jurisdictions to aid local equity program efforts to support their equity applicants and equity licensees.

The program aims to support local jurisdictions in developing and implementing cannabis equity programs, and ensuring that persons most harmed and economically disadvantaged by cannabis criminalization are offered assistance, and priority licensing when possible, to enter the multibillion-dollar cannabis industry as entrepreneurs. Generally, the program is funded from the Cannabis Tax Fund.

This grant program offers two funding types:

- Type 1 - Assistance for Cannabis Equity Assessment/Program Development: Provides assistance for the creation of a cannabis equity assessment and/or assistance for the development of a local equity program. Examples of funding uses include hiring staff or consultants to conduct a local equity assessment, and to develop and implement a local equity program if one was not already operational.
- Type 2 - Assistance for Cannabis Equity Program Applicants and Licensees: Provides assistance for cannabis equity program applicants and licensees to gain entry to, and to successfully operate in, the state's regulated cannabis marketplace. Examples of funding uses include grants, no-interest loans, or low-interest loans to the jurisdiction's local equity applicants and/or local equity licensees to assist with startup and ongoing costs, or provide direct technical assistance to the jurisdiction's local equity applicants and/or local equity licensees.

Program Funding History:

- A total $30,600,000 was available in 2019-2020. ($15.6 million Cannabis Tax Fund and $15 million General Fund for Go-Biz)
- A total of $15,500,000 was made available for fiscal year 2020-2021
- For fiscal year 2021-2022, $15,500,000 from the Cannabis Tax Fund, and $20,000,000 from the General Fund as a one-time allocation, for a total of $35,500,000 for the Cannabis Local Equity Grant Program, administered by GO-Biz, to assist local equity applicants and licensees.
- A total of $15,500,000 was available for 2022-23.

GO-Biz awarded $15 million in grants to 16 jurisdictions in 2022-23, as noted in the figure below.

Cannabis Equity Grants Program for Local Jurisdictions

2022-23 Grant Amounts

Jurisdiction	Award Amount
City of Oakland	$1,996,487.50
City of Los Angeles	1,984,947.11
City of Sacramento	1,563,722.87
City and County of San Francisco	1,511,791.11
City of Long Beach	1,454,089.16
County of Humboldt	1,234,821.75
City of San Diego	882,839.85
County of Lake	836,678.29
City of Watsonville	767,435.95
County of Nevada	755,895.55
County of Sonoma	687,561.00
City of Coachella	500,000.00
City of Modesto	350,000.00
County of San Diego	350,000.00
City of Vista	75,000.00
City of Nevada City	48,729.86
Total	**$15,000,000.00**

Staff Recommendation. Informational Item.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 4: Adaptive Reuse of Underutilized State Buildings (AB 2592)

Request. The Governor's budget requests $1 million General Fund in 2023-24 for the DGS, Real Estate Services Division/Asset Manage Branch to implement AB 2592 (McCarty), Chapter 439, Statutes of 2022.

Background. AB 2592 requires DGS, for the purposes of expanding affordable housing development and adaptive reuse opportunities, to prepare a streamlined plan to transition underutilized multistory state buildings into all types of housing, including, but not limited to, rental or ownership housing opportunities, and report this plan to the Legislature by January 1, 2024.

Adaptive reuse refers to the process of reusing an existing building for a purpose other than which it was originally designed for. It can be an effective tool for housing development if a given site meets necessary conditions. The most critical conditions are that the existing building must utilize the site to its development potential, and the dimensions of the building floorplates must fall within prescribed ranges that are suitable for housing conversion. DGS has conceptually evaluated sites for adaptive reuse options and have found very few to be suitable.

Executive Order N-06-19. Executive Order N-06-19 required DGS to review all state-owned property, identify excess properties that could be made available for affordable housing, develop an online inventory of excess sites and issue requests for proposals for long-term ground leases for affordable housing development.

Based on a visual review of each property, DGS identified approximately 500 sites that (1) appeared potentially suitable for housing, and (2) did not appear to be fully utilized by the departments having jurisdiction. After working with those departments to identify current uses, planned future uses, legal restrictions that would preclude redevelopment, and potential hazards, DGS was left with approximately 100 sites, which were declared excess pursuant to the executive order. (The number of excess sites in the program fluctuates as sites are eliminated or awarded and as departments declare additional properties to be excess.)

In accordance with the executive order, DGS publishes all solicitations for housing projects on its website, and all solicitations are sent out via listserv derived from Housing and Community Development's listing of developers and statewide affordable housing developer associations.

Adaptive Reuse Assessment Tool. DGS is finalizing an assessment tool to conceptually evaluate a building's suitability for adaptive reuse as housing. The tool leverages lessons learned from a recent DGS-commissioned consultant study of a state office building for adaptive reuse. It would consider technical factors such as building systems, status of repairs, configuration of the building core, and size of the floor plate, as well as factors such as adjacency to transit and amenities and the suitability of the surrounding neighborhood.

DGS is already pursuing the adaptive reuse of multistory state buildings, including in downtown Sacramento. The requested resources will be used to complete the report required by AB 2592. This would advance the state's efforts to leverage telework into housing solutions such as adaptive reuse.

Staff Recommendation. Hold Open.

Issue 5: Direct Digital Control Upgrades

Request. The Governor's budget requests $11.8 million limited-term authority from the General Fund for three years beginning in 2023-24, and $972,000 limited-term authority from the Service Revolving Fund and 4.0 limited-term positions for three years for the DGS, Facilities Management Division to upgrade the Direct Digital Control (DDC) systems in buildings managed by DGS to improve operations and energy efficiency.

Background. DDC systems offer control for building mechanical and electrical systems, and modern DDC systems have the capability to offer trends of data points on HVAC (Heating, Ventilation, and Air Conditioning) electrical equipment. An assessment of existing systems found that numerous DDC systems were obsolete and in need of upgrade or replacement as they could no longer fully communicate with the myriad of additional sensor and enunciation devices (alarms, strobes, etc.) that now interface with the Fire and Life Safety panel for code compliance. According to DGs, this communication is essential to minimizing the spread of fire and smoke during a fire event.

When a sensor is activated, communication is sent to the DDC system to close dampers, reduce or stop certain airflows, or engage the stairwell pressurization system to provide positive air pressure in the exit stairwells that prevents smoke intrusion. The absence of this communication could allow a small fire to spread and/or risk the possibility of the exit stairwells filling with smoke. As smoke inhalation is the major cause of loss of life in a fire event, having a reliable path that ensures occupants can be protected from this hazard is essential.

The requested $11.8 million annually from the General Fund for three years – a total of $35.4 million, would be used to complete the following projects:

DDC System Projects

Fiscal Year	Location	Building Name	Square Feet	Cost/ ft^2	Estimated Cost
2023-24	Oakland	Elihu Harris	747,000	$15.00	$11,205,000
2024-25	San Diego	Mission Valley	250,000	$15.00	$3,750,000
2024-25	Van Nuys	Van Nuys State Building	153,698	$15.00	$2,155,470
2024-25	Marysville	CalTrans D3	208,000	$15.00	$3,120,000
2024-25	Sacramento	Rehabilitation (OB #10)	145,800	$15.00	$2,187,000
2025-26	San Diego	CalTrans D11	301,000	$15.00	$4,515,000
2025-26	Sacramento	OB #8	307,555	$15.00	$6,613,325
2025-26	Sacramento	Agriculture	127,010	$15.00	$1,905,150
Totals					**$33,450,945**

According to the Administration, in order to capitalize on energy savings projects and identify potential energy saving opportunities across the portfolio, FMD needs a Statewide Energy Management Program (SEMP) for building management and controls. To that end, DGS requests the following positions:

One Supervising Electrical Engineer to act as Statewide Energy Management Program (SEMP) manager perform field activities and site assessments, project planning and document review, and develop various types of reports. This position would oversee all aspects of energy use to maximize efficiency and serve as a single point of accountability for developing energy-saving goals and guide energy projects. The SEMP manager will also provide oversight of sustainable energy projects and contract management from development through closeout.

One Supervising Landscape Architect to act as an International Society of Arboriculture-certified tree arborist and a subject matter expert of tree health, hazard, and risk assessments. The incumbent will consult with Landscape Architects and Grounds Operations Managers to review landscape drawings and provide recommendations regarding tree placement to maximize building energy efficiency as well as provide specific tree species based on water conservation and local climates. The position will also be responsible for building energy conservation assessments and recommendations.

One Associate Governmental Program Analyst to provide administrative support including fiscal, contracting, procurement, and general administrative needs, including but not limited to analyzing and developing building energy reports, maintaining accurate records of contract needs and executed contracted services, and preparing monthly, quarterly, and annual reports.

Additionally, to further support FMD's building efficiency efforts, OS requests the following position:

One Staff Services Manager II (Specialist) (SSM II) to optimize the use of Building Management Systems at state-owned facilities. Buildings can realize 20 percent energy savings simply by optimizing the programming of existing building management systems. Facilities can earn revenue by using these systems to participate effectively in demand response programs. The SSMII will oversee a contract with a Demand Response Aggregator, perform outreach and enrollment of state facilities in the Demand Response Aggregator Program, and will assist departments in programming BMS systems for energy efficient operations and readiness to respond to energy emergencies.

LAO Comments. *Recommend Withholding Action on Proposal for Direct Digital Control Upgrades and Directing DGS to Report on Prioritization.* The Governor's budget proposes $11.8 million annually from the General Fund for three years—a total of $35.4 million—to upgrade direct digital control systems in eight buildings to improve operations and energy efficiency. Of the eight projects, a private firm assessed four as low priority. Accordingly, it is unclear if these systems need replacement. Additionally, the Governor's budget proposes to revert $92.5 million General Fund for deferred maintenance and direct digital control projects provided in past budgets, including for direct digital control projects assessed as high priority. This calls into question DGS' prioritization methodology. Given this, the LAO recommends the Legislature withhold action on the proposed funding for direct digital control projects and the reversion of funding related to high-priority direct digital control projects and require DGS to report at spring budget hearings on its prioritization methodology.

Staff Recommendation. Hold Open.

Issue 6: Facilities Management Division Fire Alarm System Deferred Maintenance

Request. The Governor's budget requests $20.4 million one-time General Fund in 2023-24 for DGS, Facilities Management Division (FMD) to address critical fire, life, and safety (FLS) issues relating to fire alarm systems.

Background. FMD requests $20.4 million one-time General Fund in 2023-24 to address critical FLS issues relating to fire alarm systems. According to the Administration, due to the buildings' aging infrastructure, changes in building code requirements, and evolution of technology, the current fire alarm systems are antiquated, prone to failing, and are comprised of obsolete parts. The requested resources will be used to bring eight buildings into full compliance with FLS regulations to avoid costly emergency response situations and risks to public health and safety.

Fire Alarm Systems. Early fire detection plays a significant role in protecting the safety of emergency response personnel as well as staff working in the building. Most alarm systems provide information to emergency responders on the location of the fire, speeding up the fire control process. Fire alarm and detection systems are designed and installed to detect and warn the occupants of a building during the incipient stage of the fire. These systems include fire alarm control panels (FACP), accessible pull stations, smoke detection systems, and accessible audio-visual announcement devices.

The table below shows the fire alarm system projects that this proposal would address:

Building Name	Address	Year Built	Number of Stories	Projected Cost
Agriculture Building	1220 N Street Sacramento	1936	4	1,105,000
East End Block (Building 225)	1430 N Street Sacramento	2002	6	4,340,000
East End Block (Building 171)	1501 Capitol Mall Sacramento	2003	6	3,984,000
East End Block (Building 172)	1500 Capitol Mall Sacramento	2003	6	1,626,000
East End Block (Building 173)	1615 Capitol Mall Sacramento	2003	7	2,005,000
East End Block (Building 174)	1616 Capitol Mall Sacramento	2003	7	2,267,000
Santa Rosa State Building	50 D Street Santa Rosa	1983	4	847,000
Junipero Serra Building	320 W. 4th Street Los Angeles	1914	10	4,245,000
Total				**20,419,000**

LAO Comments. *Reversion of $92.5 Million General Fund From Deferred Maintenance and Direct Digital Control Projects Approved in Prior Budgets.* The Governor's 2023-24 budget proposes to revert $92.5 million General Fund for deferred maintenance and direct digital control projects included in the 2021-22 and 2022-23 budgets. (The LAO notes this is about 61 percent of the total funding provided in those years.) DGS indicated that the department reduced spending on these projects given the deterioration in the state's budget condition.

Staff Recommendation. Hold Open.

Issue 7: Facilities Management Division New Buildings Operations and Support

Request. The Governor's budget requests $22.4 million in 2023-24 from the Service Revolving Fund and 149.0 positions with $29.867 million in ongoing authority from the Service Revolving Fund and 199.0 permanent positions beginning in 2024-25 for the DGS, Facilities Management Division (FMD) to manage, operate, and maintain the new Richards Boulevard Office Complex (RBOC) and the Joe Serna Jr. California Environmental Protection Agency (CalEPA) building, both located in Sacramento.

Background. The RBOC new office campus is comprised of approximately one million net usable square feet (1.3 million gross square feet) on state property at the corner of Richards Boulevard and North Seventh Street. The complex features four high performance, interconnected office buildings and a unique landscaping program. The project is designed to achieve zero net energy and zero net carbon for the entire site through state-purchased carbon-free green power. Construction of the RBOC began in Fall 2020 and is projected to be complete in March 2024, with anticipated tenant move in to begin in April 2024. Proposed tenants include the Department of Tax and Fee Administration and various Business, Consumer Services and Housing Agency departments.

The CalEPA Building is a tiered, 25-story structure on a 2.5-acre site, containing approximately 950,000 gross square feet with 776,000 net usable square feet. The building is LEED-EB (Leadership in Energy and Environmental Design for Existing Buildings) Platinum certified. DGS does not currently operate or maintain the CalEPA building; however, jurisdiction of the building is expected to transfer to DGS in May 2023.

The requested funds will provide DGS with resources to manage and operate the new RBOC and CalEPA buildings.

Staff Recommendation. Hold Open.

Issue 8: Sacramento Region: New Richards Boulevard Office Complex

Request. The Governor's budget requests $402,000,000 General Fund to pay a portion of expenditures for the design-build phase of the Sacramento Region: New Richards Boulevard Office Complex project.

Background. The Richards Boulevard Office Complex project includes construction of a new office campus of approximately 1,250,000 square feet, comprised of four buildings between 11 and 7 stories, on land where the former State Printing Plant once stood. The project will be completed April 2024, with bonds for the project scheduled to be sold Spring 2024. Proposed tenants for this space include the Department of Tax and Fee Administration, Department of Healthcare Access and Information, Commission on Teacher Credentialing, and various departments in the Business, Consumer Services, and Housing Agency.

The project was authorized for total design-build funding in the amount of $1,014,598,000 through the Public Buildings Construction Fund (lease revenue bond financing) in the Budget Act of 2019. To finance projects funded by the Public Buildings Construction Fund, the State Public Works Board typically provides interim financing for the construction or design-build phases of a project, then issues tax-exempt lease revenue bonds as permanent project financing. Federal tax code for the issuance of tax-exempt bonds requires, among other things, that the bonds must be issued within three years of initial project expenditures. According to DGS, due to the nearly four-year construction schedule initially established for this project, a portion of expenditures fall outside of this three-year window and therefore those project expenditures no longer qualify for tax-exempt financing.

LAO Comments. *Governor's Budget Would Use a Combination of Cash and Lease Revenue Bonds for Capital Outlay Projects.* The Governor estimates that the state now faces a $22 billion General Fund budget problem. As a result, the Governor's 2023-24 budget proposes to switch financing for many capital outlay projects from cash to lease revenue bonds. (The Governor proposes other changes related to capital outlay projects—such as for the University of California and California State University—that the LAO analyzes in other budget reports.) The only projects that would use cash are three courthouses (Redding, El Centro, and Sacramento) and the Department of General Services' Richards Boulevard project. For these projects, a total of $491 million General Fund 2023-24 would be allocated to fund a portion of the cost. These projects would otherwise need to use taxable bonds to finance these costs because they exceed the three-year window required for tax-exempt bonds.

Staff Recommendation. Hold Open.

Issue 9: Office of State Publishing New Warehouse Operation

Request. The Governor's budget requests ongoing expenditure authority of $1.3 million from the Service Revolving Fund beginning in 2023-24 for the DGS, Office of State Publishing (OSP) to lease and operate a new warehouse facility located in West Sacramento and accommodate an increased supply level critical for print production operations.

Background. OSP is responsible for completing state printing jobs. OSP currently provides services to state, federal, county, and city agencies by providing printing, communication and document management solutions through specialized knowledge, statewide perspective and coordinated public and private partnership. Printing services include storage, mailing, and strategic marketing solutions. OSP also performs document remediation to ensure accessibility compliance with state and federal standards.

According to DGS, to maintain minimum inventory levels to avoid disruptions, OSP has leased approximately 80,000 square feet of additional warehouse space to store necessary paper and related commodities. The lease began July 1, 2022, and OSP requires the budgetary authority necessary to support these costs. This will allow OSP to respond swiftly to changing customer requirements, meet critical print jobs, and continuously provide good service delivery. The requested will be used to lease and operate a new warehouse facility in West Sacramento.

Staff Recommendation. Hold Open.

Issue 10: Office of Sustainability Electric Vehicle Service Equipment Infrastructure Assessment and Facility Development

Request. The Governor's budget requests a one-time budget augmentation of $35 million authority from the General Fund over three years for DGS, Office of Sustainability to support the DGS Five-Year Zero Emission Vehicles Infrastructure Investment Plan (2023-24 through 2027-28) to continue performing installations of electric vehicle service equipment (EVSE) at state-owned and leased facilities to meet California's clean transportation and greenhouse gas goals.

Background. EVSEs are classified as Level 1, Level 2, and Level 3. The amount of power an EVSE can supply to a vehicle increases with each level, which is significant because the amount of power supplied to an EV determines how long it takes to fully charge the vehicle. In general, a Level 1 EVSE can charge one vehicle per workday, while a Level 2 EVSE can charge two vehicles in the same amount of time. Therefore, the type of EVSE determines the number of vehicles it can charge in a single day. The goal of the program funded by this proposal is to service the vehicle charging needs of Fleet EVs as well as encouraging widespread EV adoption by employees by building capacity to make charging as available as possible.

Based on each department's historical purchasing practices, fleet makeup, vehicle miles traveled, and the new purchasing mandates, DGS has projected that approximately 4,250 fleet charging ports and 4,922 workplace charging ports are needed to meet the directives outlined and all fleet and workplace charging needs through 2027-28. Since 2017, DGS has built a small but expert team that has made significant progress in meeting the charging infrastructure goals. At the end of 2021-22, 2,473 charging ports were installed and by the end of 2022-23, an additional 1,480 port installations are expected to be completed, for a total of 3,953 anticipated completed installations by the end of 2022-23.

DGS anticipates a need to serve a combination of light-duty, medium-duty, and heavy-duty ZEVs with charging infrastructure. The department's five-year plan includes:

- DGS expects to perform an estimated 5,627 EV charging station installation assessments over the next four years at a cost of $7.5 million.
- To meet the workplace and fleet charging needs for light-duty vehicles over the next five years DGS anticipates installing 5,644 L2 chargers at a cost of $165.6 million and anticipates installing 50 Level 1 charging ports at a cost of $562,000.
- To meet remote and other special circumstances where hardwired chargers are not appropriate, we anticipate purchasing 50 mobile, solar-powered Level 2 EV chargers of "EV Arcs" at a cost of $3 million.
- To meet the fleet charging needs for MD/HD vehicles over the next five years, DGS anticipates installing a combination of High-powered L2 and L3 DC fast charging to support 1,238 MD/HD vehicles at a cost of $90.5 million.
- The total five-year budget is $267.2 million.

LAO Comments. *Consider Funding Electric Vehicle Service Equipment Infrastructure Through Zero-Emissions Vehicle (ZEV) Package.* The Governor proposes $35 million from the General Fund to perform installations of electric vehicle service equipment infrastructure at state facilities in order to help the state transition its fleet to ZEVs. Separately, the previous two budgets committed significant funding across five years for a ZEV package to promote the purchase and use of ZEVs more broadly, such as by paying for privately owned vehicles and charging stations. While the intent of the Governor's proposal has merit, it would commit the state to new discretionary General Fund spending. Given the General Fund condition and the fact that overseeing the state fleet is a core state responsibility, the Legislature may want to consider prioritizing funding for electric vehicle service equipment infrastructure at state facilities within the ZEV package over proposals to pay for activities that are not core responsibilities, such as for paying for privately owned vehicles and charging stations.

Staff Recommendation. Hold Open.

Issue 11: Procurement Division E-Marketplace Implementation

Request. The Governor's budget requests ongoing expenditure authority of $2.4 million ($2.2 million from the Service Revolving Fund and $224,000 in Reimbursements) and 2.0 permanent positions in 2023-24 for the DGS, Procurement Division (PD) to implement, maintain, and operate the statewide eMarketplace solution.

Background. FI$Cal is a statewide implemented system used by state departments and involving thousands of state businesses in its procurement functions. As the Business Manager for the State, part of PD's business management responsibility is to match vendors that provide goods and services at the best price for the state's business needs, which are best determined by what the State contracts for. To attract the appropriate suppliers to work with the State and to ensure that California can effectively leverage its purchasing power, suppliers need a way to know what the State is contracting for.

According to DGS, the proposed eMarketplace solution will be a cost-friendly and modernized system that will require vendors to submit electronic catalogs for viewing online. State agencies will have the ability to acquire the best goods and services available to serve customers along with a simplified selection of items for purchase orders and requisitions. Features of the system would also include reporting functionality, which will help DGS provide state agencies with sustainability information and assistance regarding environmentally preferable purchasing (EPP). The tool will provide a solution for buyers to identify and track information on environmental and social impacts, such as greenhouse gas emissions, global warming, energy and water consumption, life-cycle costs, and human health concerns related to goods and services procured. Having a searchable items catalog will also give state buyers more accessibility to products and broader searching capabilities for Small Business and Disabled Veterans Enterprises (SB/DVBE) certified suppliers.

As part of this proposal, DGS requests the following positions:

- One Information Technology Specialist II
- One Information Technology Specialist II (under and Interagency Agreement with FI$Cal)

Staff Recommendation. Hold Open.

Issue 12: Procurement Division Permanent Support for the California Pharmaceutical Collaborative

Request. The Governor's budget requests ongoing expenditure authority of $842,000 from the Service Revolving Fund beginning in 2023-24, as an extension of one-time funding provided in 7760-017-BCP-2020-GB, for the DGS, Procurement Division (PD) to continue funding 4.0 positions supporting ongoing workload of the Statewide Pharmaceutical Program's California Pharmaceutical Collaborative.

Background. The Statewide Pharmaceutical Program was established in 2002, and allows state and local governmental entities to access negotiated contracts that can provide substantial savings through bulk purchasing of pharmaceutical products and services.

The Governor issued Executive Order (EO) N-01-19 to create the largest single purchaser for prescription drugs and allow private employers to join the State in negotiating drug prices. Specifically, the EO required PD, in consultation with the CPC, to complete the following reports:

1. In March 2019, a list of prescription drugs was developed that could appropriately be prioritized for future purchasing initiatives or reexamined for potential renegotiation with the manufacturer.
2. In April 2019, the prioritized list was utilized to develop and implement purchasing arrangements for high-priority drugs and provide pro-active outreach to local governments to encourage participation in these arrangements.
3. In June 2019, a framework was developed for enabling private purchasers, including small businesses, health plans, and the self-insured, to opt into a state purchasing program to benefit from the State's pharmaceutical purchasing program.

DGS-PD provides manufacturer-pricing agreements to five counties and continues to work with additional counties to leverage state purchasing power to lower cost on prescription medications for participating counties. The existing positions carry out the required tasks and reporting requirements of the EO, while developing research, analyses, outreach, change management, relationship management, and pharmacoeconomic strategies to achieve savings on escalating prescription drug spending.

Table 1. Prescription Medication Contracts and Resulting Savings (to State)

Medication	Wholesale Acquisition Cost (WAC)[1]	Actual Invoice Cost[2]	Savings ($)
Epclusa	$284,411,960	$59,678,431	$224,733,529
Genvoya	$3,714,136	$2,716,755	$997,381
Harvoni	$1,512,000	$406,403	$1,105,597
Invega Sustenna	$16,551,287	$14,980,480	$1,570,807
Lantus	$13,686,874	$5,080,283	$8,606,591
Semglee	$98,240	$68,017	$30,223
Total	**$319,974,497**	**$82,930,369**	**$237,044,128**

[1] WAC is the wholesale reference price
[2] Invoice cost is how much participating pharmacies paid

Staff Recommendation. Hold Open.

Issue 13: Procurement Division Support for Small Business & Disabled Veterans Business Enterprises Program Compliance

Request. The Governor's budget requests ongoing expenditure authority of $320,000 from the Service Revolving Fund and 2.0 permanent positions beginning in 2023-24 for the DGS, Procurement Division (PD) to effectively staff the Small Business and Disabled Veteran Business Enterprise program to support training, communication, compliance, enforcement, and program abuse functions, for implementation of the 2018-114 State Audit recommendations and recently passed legislation.

Background. According to the California State Auditor's Report No. 2018-114 (Audit), released February 2019, "The Department of General Services has not adequately overseen the DVBE program, hindering its success. Specifically, this audit contained several recommendations to improve the DVBE compliance and program abuse effectiveness which equally apply to the State's SB/DVBE program." To minimize the occurrence of program abuse and ensure that program abuse cases are handled appropriately and consistently, the Audit recommended OSDS (1) conduct comprehensive statewide trainings and (2) develop procedures to help awarding departments identify whether a complaint constitutes program abuse, learn how to effectively track all complaints, and take the appropriate steps when investigating program abuse complaints. This audit also recommended that OSDS strengthen the enforcement of DVBE laws, regulations, and guidelines, and track complaints by including the type of program abuse, how it was reported or discovered, and the dates specific actions are taken on the case.

The requested staffing resources are intended to address compliance, enforcement, and program abuse activities:

- Investigate complaints regarding SB/DVBE certification status or eligibility and make recommendations to the Program Abuse/Compliance Manager for the appropriate course of action.
- Review certification denials to ensure consistent application of the statutes and regulations.
- Process appeals of certification decisions and preparing case or discovery materials for use in OAH hearings, as necessary.
- Investigate and research complaints of SB/DVBE program abuse and make recommendations to the Program Audit/Compliance Manager.
- Process sanctions, as necessary, for enforcement of the SB/DVBE program.
- Act as a statewide subject matter expert in OAH hearings for SB/DVBE program compliance and requirements pertaining to program abuse.
- Provide statewide training and support for state department SB/DVBE advocates and procurement staff regarding the SB/DVBE program requirements.
- Review, approve/deny, all DVBE subcontractor substitution requests on State contracts.
- Perform quality certification file reviews on internal OSDS processes to ensure consistency, accuracy, and compliance with program statutes and regulations.

- Perform quality certification file reviews on certifications that were approved online to ensure eligibility requirements are met and accurate supporting documents were submitted.

Staff Recommendation. Hold Open.

Issue 14: Ongoing Support for Diversity and Inclusiveness in State Contracting

Request. The Governor's budget requests ongoing expenditure authority of $3.51 million from the Service Revolving Fund and 21.0 permanent positions beginning in 2023-24 for the DGS, Procurement Division and the Office of Small Business and Disabled Veteran Business Enterprise Services and the Statewide Supplier Diversity Program (SSDP) to continue increasing diversity and inclusiveness in state contracting programs across all state departments, as well as acquire Learning Management Systems licenses for the Office of the Small Business. This request is an extension of an approved onetime General Fund appropriation in fiscal year 2022-23 (7760-115-BCP-2022-MR).

Background. According to DGS, the requested funds will help the state be successful in ensuring increased diversity in its pool of vendors and resulting contract awards including certified Small Business/Disabled Veteran Business Enterprises through the following:

- Train and provide direct one-on-one technical assistance to SB/DVBEs on bidding and participating in state contracting.
- Develop and carry out targeted outreach strategies in addition to its general ongoing outreach efforts.
- Adequately staff SSDP to ensure statewide polices and processes are developed and implemented related to supplier diversity.
- Support the statewide SB/DVBE Advocate network with the necessary training, education, and resources to help them carry out their duties and help departments not only meet their SB/DVBE participation goals, but also increase diversity and inclusiveness in their contracting programs.

Staff Recommendation. Hold Open.

Issue 15: Real Estate Services Division Affordable Housing Development Program Funding

Request. The Governor's budget requests $1.1 million in ongoing authority from the Property Acquisition Law Money Account beginning in 2023-24 for the DGS, Real Estate Services Division/Asset Management Branch. Additionally, DGS requests approval to create a multi-year operating reserve in the account retaining revenue from the sale of surplus state-owned real estate and from the lease of state-owned property. The reserve would support DGS' ongoing efforts to implement Executive Order N-06-19, which requires DGS to lease excess state property to affordable housing developers for the development of affordable housing.

Background. According to DGS, developing housing on state-owned property is a complicated process. Sites must be selected, real estate due diligence (title checks, environmental assessments, utility evaluations, housing feasibility analyses, etc.) needs to be conducted, solicitations need to be conducted (which generally require consultant support in evaluating proposals), and the complicated real estate transaction (multiple agreements, including Exclusive Negotiating Agreements, Lease Options, Ground Leases, and Regulatory Agreements) need to be drafted, executed, and enforced. Additionally, exchanging of parcels and receipt of gifts of real property from local governments are becoming increasingly common. These activities for the sites currently in the DGS portfolio have required an annual operating expense of approximately $700,000.

At present, the sale of state properties (not suitable for housing) and revenue from the lease of state properties are generally directed to either the Special Fund for Economic Uncertainties, the Property Acquisition Law Money Account, or the General Fund, less administrative costs incurred by DGS. Leveraging this revenue to fund affordable housing projects on excess properties would be efficient, leverage existing administrative procedures, and would avoid General Fund subsidies to keep the program operational.

Trailer Bill Language. Complementary to this request, DGS requests trailer bill language that would provide DGS with the authority to deposit net proceeds of any real property disposition, including the sale, lease, exchange, or other means, into the Proposition Acquisition Law Money Account for the purposes of maintaining an operating reserve sufficient to continue redeveloping excess state properties as affordable housing. The language defines a sufficient operating reserve as an amount not to exceed three years of operating costs. According to DGS, this would amount to a $4.5 million-dollar operating reserve, which in turn would provide funding for Asset Management Branch staff, including: two positions that were approved in 2022-23 through trailer bill; internal and external consultant support; environmental assessments and remediation; and ongoing expenses.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard D. Roth, Chair
Senator Anna M. Caballero
Senator Roger W. Niello

Thursday, April 20, 2023
9:30 a.m. or Upon Adjournment of Session
1020 N. Street - Room 100

Consultants: Timothy Griffiths and Diego Emilio J. Lopez

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

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

ITEMS FOR VOTE ONLY

0515 BUSINESS, CONSUMER SERVICES, AND HOUSING SECRETARY

Issue 1: Information Security Resources

Governor's Budget Proposal. The Governor's budget requests $731,000 in 2023-24 and $223,000 in 2024-25 and ongoing from various funding sources and 1.0 position for the Business, Consumer Services and Housing Agency (Agency) to address the current and anticipated ongoing workload stemming from an increase in oversight and strategic coordination required to support existing Agency programs along with significant growth in the data-and cyber-security domain.

Background. According to the Agency, the requested resources will include the establishment of a permanent Agency Information Security Officer (AISO) as well as one-time contractor assistance to create the Agency Security Framework. The Agency Security Framework will establish a specific model, or set of guidelines, for the departmental implementation of each component of Cal Secure.

Cal-Secure Mandated Capabilities				
Phase 1 (FY21-22)	Phase 2 (FY22-23)	Phase 3 (FY23-24)	Phase 4 (FY24-25)	Phase 5 (FY25-26)
• Anti-Malware Protection • Anti-Phishing Program • Multi-Factor Authentication • Continuous Vulnerability Management	• Asset Management • Incident Response • Continuous Patch Management • Privileged Access Management • Security and Privacy Awareness Training • Security Continuous Monitoring 24x7 • Cloud Security Monitoring	• Data Loss Prevention • Log Management • Network Threat Detection • Network Threat Protection • Threat Intelligence Program • Application Security • Operational Technology Security	• Disaster Recovery • Enterprise Sign-on • Mobile Device Management • Application Development Security • Application Whitelisting • Software Supply Chain Management	• Identity Lifecycle Management • Insider Threat Detection • Network Access Control • Enterprise Encryption • Mobile Threat Defense

Staff Recommendation. Approve as budgeted.

Issue 2: Implementation of the Homeless Equity for Left Behind Populations Act

Governor's Budget Proposal. The California Interagency Council on Homelessness (Council), within the Agency requests authorization for two positions and $339,000 General Fund in 2023-24, two positions and $323,000 General Fund in 2024-25 and ongoing to implement SB 914 (Rubio), Chapter 665, Statutes of 2022.

Background. SB 914, the Homeless Equity for Left Behind Populations (HELP) Act, requires the Council, by January 1, 2025, to establish initial goals to prevent and end homelessness among domestic violence survivors, their children, and unaccompanied women, and then to evaluate those goals at least every two years thereafter to determine whether updates are needed.

Comparison to Senate Appropriations Estimate: The requested amount is roughly consistent with the cost estimates considered by the Senate Appropriations Committee, which were: "approximately $328,000 in the first year and $312,000 annually thereafter, for 2.0 personnel years (PY) of staff."

Staff Recommendation. Approve as budgeted.

1700 CIVIL RIGHTS DEPARTMENT

Issue 3: Pilot Fair and Welcoming Business Environment Certification Program

Governor's Budget Proposal. The Civil Rights Department (CRD) requests one position, $245,000 General Fund in 2023-24, and $243,000 in General Fund annually through 2027-28 to implement the provisions of AB 2448 (Ting), Chapter 515, Statutes of 2022.

Background. CRD enforces the state's primary anti-discrimination laws including, of particular relevance to this request, the Unruh Civil Rights Act, which prohibits business establishments of any kind whatsoever from subjecting their customers to arbitrary discrimination.

In response to reports of increasing incidents of unlawful harassment and discrimination taking place at California businesses, AB 2448 directed CRD to establish a pilot program that recognizes California businesses for taking measures to create safe and welcoming environments free from discrimination and harassment of customers. Under the program, CRD is to provide a certificate to businesses that meet specified criteria. These businesses may then prominently display this certificate. The bill also directs CRD to maintain a database of businesses receiving the certificate and to publish the database on its website. Under the terms of the bill, CRD is to evaluate the effectiveness of the program by January 1, 2028. Unless the Legislature elects to renew it, the program will sunset as of that date. CRD's request seeks the necessary staffing and resources, including IT services, to implement the pilot program and conduct the evaluation.

Comparison to Senate Appropriations Estimate: The requested amount is somewhat higher than what was anticipated by the Senate Appropriations Committee. That Committee estimated that the cost to CRD of implementing the pilot would be "in the high tens of thousands through 2027-2028."

Staff Comments: AB 2448 underwent significant revisions late in the legislative process. CRD reasonably explains that while it made good faith estimate of costs at the time, subsequent implementation planning has made it clear that somewhat greater costs will be involved.

Staff Recommendation. Approve as budgeted.

Issue 4: Enforcement of Employment Discrimination Law Related to Cannabis Use

Governor's Budget Proposal. CRD requests $1.7 million General Fund in 2023-24, 2024-25, and 2025-26 to implement the provisions of AB 2188 (Quirk), Chapter 392, Statutes 2022.

Background. CRD enforces the state's primary anti-discrimination laws including, of particular relevance to this request, the Fair Employment and Housing Act (FEHA). As its name suggests, the FEHA prohibits employment discrimination on the basis of disability, race, ethnicity, religion, gender, and sexual orientation, among other enumerated characteristics. CRD is statutorily mandated to receive complaints of employment discrimination. CRD proceeds to investigate those complaints unless the complainant elects to bypass administrative enforcement and proceed directly to court by requesting a right-to-sue letter from CRD. Where CRD investigates and determines that discrimination has taken place, it has the authority to seek redress in court on behalf of the complainant and the public interest. CRD can also bring employment discrimination cases on its own initiative.

AB 2188 made it unlawful for an employer to discriminate against a person in hiring or any term or condition of employment based upon: the person's use of cannabis off the job and away from the workplace or the result of a drug screening test required by the employer that finds the person to have non-psychoactive cannabis metabolites in their hair, blood, urine, or other bodily fluids. Because AB 2188's provisions are nested within the FEHA, CRD has responsibility for enforcing them.

Based on its experience enforcing the FEHA, CRD estimates that AB 2188 will result in 200 to 300 additional intakes needing investigation each year. This budget request reflects the additional resources CRD believes it will need to handle this anticipated increase in caseload.

Comparison to Senate Appropriations Estimate: The requested amount is considerably less than what was anticipated by the Senate Appropriations Committee, which was "ongoing costs of $3.1 million in Fiscal Year (FY) 2023-24 and annually thereafter."

Staff Comment: CRD reasonably explains that it is difficult to predict how many complaints it will receive under this new statute. The amount requested reflects a good faith estimate, but revision may be appropriate in out years if that estimate turns out to have been either too high or too low.

Staff Recommendation. Approve as budgeted.

Issue 5: Housing Voucher Discrimination Prevention Caseload Increase

Governor's Budget Proposal. CRD requests $602,000 General Fund and four permanent positions in 2023-2024, as well as $595,000 General Fund in 2024-25 and ongoing for the purpose of processing additional housing source of income discrimination complaints associated with SB 329, (Mitchell), Chapter 600, Statutes of 2019.

Background. CRD enforces the state's primary anti-discrimination laws including, of particular relevance to this request, the Fair Employment and Housing Act (FEHA.) As its name suggest, the FEHA prohibits housing discrimination on the basis of disability, race, ethnicity, religion, gender, sexual orientation, among other enumerated characteristics. CRD is statutorily mandated to receive and investigate complaints of housing discrimination. Where CRD determines that discrimination has taken place, it has the authority to seek redress in court on behalf of the complainant and the public interest. CRD can also bring housing discrimination cases on its own initiative.

The FEHA also prohibits rental housing discrimination on the basis of source of income, as defined in the statute. SB 329 changed the definition of source-of-income. As explained by CRD: "[t]he previous definition of "source of income" (SOI) did not include government housing subsidies paid to a housing owner or landlord on behalf of a tenant. [SB 329] removed the exception that allowed landlords to turn away tenants who hold government housing assistance vouchers. In practice, SB 329 requires landlords to accept otherwise-qualified applicants who use such vouchers to pay rent and participate in housing voucher programs." SB 329 is intended to reduce instances in which low-income households obtain a housing subsidy voucher, but are unable to use it to secure housing because of landlords who categorically refuse to consider voucher-holders as tenants.

Because CRD is charged with enforcing the FEHA, SB 329 created a new class of housing discrimination complaints that CRD must investigate. When it determines that discrimination has taken place, CRD must also mediate or litigate the matter. According to CRD, the resulting caseload has been higher than it initially expected:

> CRD originally estimated that SB 329 would yield approximately 163 additional annual complaints. The estimated increase in complaints only focused on Section 8; SB 329 also covers other public assistance programs such as the Housing Opportunity for People with AIDS and Veterans Affairs Supportive Housing Program vouchers. Between 2020 and 2021, CRD actually saw an increase of 309 complaints that alleged SOI as a basis for discrimination and/or harassment. So far in 2022, CRD is on track to receive approximately 188 additional SOI-related complaints. SOI-related complaints have more than doubled in the past two years, from 484 in 2020 to 981 in 2022.

This request is intended to enable CRD to handle the increased caseload.

Staff Recommendation. Approve as budgeted.

Issue 6: Enforcement of Recently Enacted Leave from Work Laws

Governor's Budget Proposal. The Civil Rights Department (CRD) requests $1.2 million General Fund in 2023-24, 2024-25, 2025-26 to implement the provisions of AB 1041 (Wicks), Chapter 748, Statutes of 2022, and AB 1949 (Lowe), Chapter 767, Statutes of 2022.

Background. CRD enforces the state's primary civil rights laws including, of particular relevance to this request, the Fair Employment and Housing Act (FEHA). The FEHA includes some of California's workplace leave laws. Two pieces of 2022 legislation – AB 1041 (Wicks), Chapter 748, Statutes of 2022, and AB 1949 (Lowe), Chapter 767, Statutes of 2022 – added to those workplace leave laws. CRD is requesting resources to be able to respond to complaints alleging violations of these new workplace leave provisions.

AB 1041 expanded the California Family Rights Act (CFRA) which, as explained by CRD, provides eligible employees with up to 12 weeks of job protected leave to care for their own serious health condition or that of a family member or to bond with a new child. Prior to AB 1041, an eligible employee could take CFRA leave to care for a child, spouse, domestic partner, parent (including a parent-in-law), sibling, grandparent, or grandchild. AB 1041 expanded the people for whom an employee can take CFRA leave to include at least one "designated person" who is related to the employee by blood or whose association with the employee is the equivalent of a family relationship. Based on its experience with existing CFRA provisions and on extrapolations from New Jersey data, where a similar was recently enacted, CRD estimates that it will receive 150 additional intakes related to AB 1041.

AB 1949 adds a new section to the FEHA which provides eligible employees with up to five days of job-protected leave when a family member dies. Based on its experience with CFRA and taking into account that a majority of employers already provide some form of bereavement leave, CRD estimates that it will receive 100 additional intakes in relation to AB 1949.

The leave expansions under AB 1041 and AB 1949 are both subject to CRD's mandatory mediation program for small employers (those with 5 to 19 employees), if the small employer requests it.

Comparison to Senate Appropriations Estimate: The requested amount is roughly consistent with cost estimates considered by the Senate Appropriations Committee, which were "likely […] in the hundreds of thousands of dollars annually" for AB 1041 and "first-year General Fund costs of $470,000, and $464,000 annually thereafter" in the case of AB 1949.

Staff Recommendation. Approve as budgeted.

Issue 7: Staff Increase to Implement Pay Data Reporting Expansion

Governor's Budget Proposal. CRD requests two positions, $494,000 General Fund in 2023-24, and $492,000 General Fund in 2024-25 and ongoing to implement the provisions of SB 1162 (Limón), Chapter 559, Statutes of 2022.

Background. CRD enforces the state's primary anti-discrimination laws including, of particular relevance to this request, the Fair Employment and Housing Act (FEHA). As its name suggests, the FEHA prohibits employment discrimination on the basis of disability, race, ethnicity, religion, gender, and sexual orientation, among other enumerated characteristics.

SB 973 (Jackson), Chapter 363, Statutes of 2020, established a pay data reporting program in California within the FEHA. Under the program, private employers with 100 or more employees must submit annual reports to CRD on the pay, hours worked, job category, race/ethnicity, and sex of their employees. CRD reports that it has successfully run this data collection since 2021 and is already preparing for the third cycle in 2023. As explained by CRD: "California created this system to encourage employers to self-assess pay disparities along gendered, racial, and ethnic lines in their workforce, as well as to promote voluntary compliance with equal pay and anti-discrimination laws. Employers' pay data reports also allow CRD to more efficiently identify wage patterns and allow for effective enforcement of equal pay and antidiscrimination laws when appropriate."

SB 1162 (Limón), Chapter 559, Statutes of 2022, modified the pay data reporting program in two ways that impact CRD's costs for running it. First, SB 1162 increased the number of reports that CRD receives because SB 1162 now requires employers to file a report regardless of whether the employer files a related federal report (the EEOC-1) and because SB 1162 now requires employers to report pay data on employees hired through contract labor if they hired 100 or more employees this way within the prior calendar year. Second, SB 1162 expands the kind of data CRD will receive in each report because SB 1162 requires all employers submitting pay data reports to include median and mean hourly rates of employee groupings by job category, race/ethnicity, and sex.

This budget request responds to CRD's corresponding increase in workload.

Comparison to Senate Appropriations Estimate: The requested amount is roughly consistent with the estimate considered by the Senate Appropriations Committee, which was "costs of approximately $477,000 in fiscal year (FY) 2023-24, $548,000 in FY 2024-25 and $473,000 in FY 2025-26 and ongoing."

Staff Recommendation. Approve as budgeted.

Issue 8: Workload and Administrative Resources

Governor's Budget Proposal. CRD requests two positions and $441,000 General Fund ongoing to assist with the department's administrative workload, including internal audits, and diversity and equity efforts.

Background. According to CRD, in recent years, it has grown in budget, staff, and responsibilities. As a result of this growth, CRD has identified two issues that this request is intended to address.

First, CRD points out that California law recommends an independent an internal auditor position to conduct objective, impartial assessments when aggregate spending exceeds $50 million annually and that CRD's budget surpassed this threshold in 2022-23. More generally, CRD states that "as CRD and its responsibilities have steadily grown in recent years, and attendant systems, programs, and activities have been built, CRD believes it would benefit from a dedicated staff member to evaluate and provide recommendations to improve CRD's operations."

Second, "CRD experienced a higher than average vacancy rate in 2021-22, reaching a high of 28 percent. In response, the department has implemented and increased efforts to fill vacancies, such as continuous filings. Still, the need remains to establish a proactive recruitment position that can identify, solicit, and build relationships with viable candidates in order to recruit highly talented team members across multiple platforms, and to address aspects of hiring which CRD has not previously been able to address - diversity and equity, employee recognition and retention, upward mobility and succession and workforce planning."

With approval of this request, CRD expects to

- appoint an internal auditor to independently analyze CRD's programs to ensure integrity and adequate internal control, assess and manage risk, and reduce opportunities for fraud and abuse; and

- appoint a dedicated HR Recruiter and Diversity and Equity Officer who will enable CRD to reduce its vacancy rate with high-quality and diverse talent.

Staff Recommendation. Hold open.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 9: Workload Resources for Implementation of Various Legislation

Governor's Budget Proposal. The Governor's budget requests allocations and hiring authority for the purpose of HCD's implementation of recently enacted legislation as follows:

A) A General Fund augmentation of $612,000 in 2023-24 and $462,000 annually starting in 2024-25 through 2026-27 for a consulting contract to implement AB 1654, R. Rivas, Ch. 638, Stats. 2022. AB 1654 requires HCD to commission a statewide study of farmworker housing conditions, needs, and solutions. The study must include a demographic survey and analysis of farmworker households, analysis of housing conditions and unmet housing needs, and the identification of governmental and nongovernmental barriers to the production of farmworker housing. AB 1654 also requires HCD to use the findings and recommendations from the study to develop a comprehensive strategy for meeting the housing needs of the state's farmworker households. HCD states that it currently "has no positions to carry out the requirements of AB 1654. To efficiently implement AB 1654, HCD will enter a consulting contract to complete the statewide study of farmworker housing conditions, needs, and solutions (including necessary translation services)."

The request is roughly consistent with General Fund costs projected during consideration of AB 1654 by the Senate Appropriations Committee, which were "one-time contract costs of approximately $400,000 to conduct a specified statewide study of farmworker conditions, needs, and solutions, and assist in the development of a comprehensive strategy, […] an additional $250,000 in contract every five years thereafter to update the study and strategy, […] ongoing costs of approximately $194,000 annually for 1.0 PY of staff to hire and oversee the consultant contract, develop the report, incorporate strategies into the Statewide Housing Plan, ensure recommendations are implemented across various programs, and update the study, strategy, and report every five years."

B) A General Fund augmentation of $405,000 annually in 2023-24 and 2024-25 for a consulting contract to implement AB 1738, Boerner-Horvath, Ch. 687, Stats. 2022. AB 1738 required HCD and the California Building Standards Commission (CBSC) to research and develop building standards for the installation of electric vehicle (EV) charging stations in existing structures during certain retrofits and authorizes them to propose the standards for adoption. The Governor's January Budget originally proposed to allocate $405,000 General Fund in 2023-24 and $205,000 General Fund in 2024-25 for AB 1738 implementation. The Governor's April 1 Finance Letter for the Housing and Community Development Department (HCD) requests a $200,000 increase in one-time funding for this purpose in fiscal year 2024-25 for a consulting contract. Thus, Governor's revised budget request for implementation of AB 1738 is $405,000 General Fund in 2023-24 and $405,000 General Fund in 2024-25.

The amount requested is roughly consistent with projections during consideration of AB 1654 by the Senate Appropriations Committee, which were: (1) annual costs of approximately $198,000 and 1.0 PY of staff for fiscal years 2023-24 and 2024-25 to research, develop, and propose for adoption building standards and associated regulatory documents for EV charging in existing multifamily dwellings, hotels, and motels, including engagement with stakeholders and coordination with other state agencies; and (2) one-time contracting costs of approximately $200,000 to conduct a study of the existing conditions related to EV charging and determine whether existing infrastructure can support the increased demand."

C) Hiring authority for two positions in 2023-24 and ongoing to implement and support AB 1978, Ward, Ch. 644, Stats. 2022. AB 1978 directed HCD to establish a tracking system for all funding programs that, at a minimum, includes the deadlines for each step of a program application and required the tracking system to be on the HCD's internet website.

The amount requested is consistent with roughly consistent with projections during consideration of AB 1654 by the Senate Appropriations Committee, which were: "ongoing costs of approximately $371,000 annually for 2.0 PY of staff to regularly update guidelines for specified federal programs, provide additional technical assistance to funding applicants, update databases, and make tracking systems publicly accessible."

D) A General Fund augmentation of $422,000 annually starting in 2023-24 through 2026-27 for a consulting contract to implement AB 2011, Wicks, Ch. 647, Stats. 2022. AB 2011 authorized specified housing development projects to be a use by right on specified sites zoned for retail, office, or parking, as specified.

The Governor's January budget proposed to allocate $1.1 million in 2024-25 and $422,000 in 2025-26 and 2026-27 for HCD's implementation of AB 2011, Wicks, Ch. 647, Stats. 2022, also known as the Affordable Housing and High Road Jobs Act. Through an April 1 Letter, the Governor now requests to revise those allocations with a $648,000 decrease in 2024-25 and a $2,000 increase in 2025-26 and 2026-27. Thus, the Governor's revised budget proposal for HCD's implementation of AB 2011 is $452,000 in 2024-25 and $424,000 in 2025-26 and 2026-27.

After the proposed revisions, the amount requested is slightly, but not significantly, higher than projections during consideration of AB 2011 by the Senate Appropriations Committee, which were: (1) ongoing costs of $204,000 annually for 1.0 PY of staff to coordinate with local governments, provide guidance and technical assistance, and manage enforcement activities associated with AB 2011; and (2) additional costs of $102,000 in contract costs each year in 2023-24 and 2025-25 to develop and revise guidelines for developers and local jurisdictions related to the new streamlining and ministerial approval provisions.

E) A General Fund augmentation of $187,000 for one position in 2023-24 and ongoing to implement AB 2234, R. Rivas, Ch. 651, Stats. 2022. AB 2234 established time limits for approval of post-entitlement permits, as defined, and required post-entitlement permitting procedures to be available online.

The amount requested is roughly consistent with projections during consideration of AB 2234 by the Senate Appropriations Committee, which were: General Fund costs of $179,000 annually for 1.0 PY of staff to provide technical assistance to local governments, respond to inquiries from local agencies and developers, and investigation and enforcement activities.

F) Hiring authority for three positions in 2023-24 and ongoing to implement AB 2483, Maienschein, Ch. 655, Stats. 2022. HCD currently fund six multi-family housing programs – Multifamily Housing Program (MHP); Housing for a Healthy California (HHC); Infill Incentive Grant Program of 2007; Joe Serna, Jr. Farmworker Grant Program (Serna or FWHG); Transit Oriented Development (TOD) Implementation Program; and the Veterans Housing and Homelessness Prevention Program (VHHP) – through a single, streamlined Notice of Funds Availability known as the Multi-Family Finance SuperNOFA or MFSN. AB 2483 requires HCD to provide incentives in the MFSN to applicants that agree to set aside at least 20 percent of a project's units for individuals that are experiencing homelessness, as defined, who are also eligible to receive qualifying services under specified MediCal Waiver programs.

The authority requested is somewhat lower than projections during consideration of AB 2483 by the Senate Appropriations Committee, which were: (1) costs of $727,000 and 4.0 PY of staff in the first two years and $534,000 annually ongoing to plan coordination with DHCS, assist with data collection and program evaluation review, and ongoing implementation activities; and (2) one-time consulting costs of approximately $300,000 for an independent evaluator to collect and analyze data that HCD can use to assess tenant outcomes.

G) A General Fund augmentation of $382,000 for two positions in 2023-24 and ongoing, and a one-time $367,000 consulting contract in 2023-2024 to implement AB 2563, Santiago, Ch. 657, Stats. 2022. AB 2653 authorized HCD to reject the housing element portion of a planning agency's annual progress report (APR), as specified, and to report specified housing element reporting violations to the Attorney General.

The amount requested is higher than projections during consideration of AB 2483 by the Senate Appropriations Committee, which were: costs of approximately $367,000 annually for 2.0 PY of staff to perform a quantitative audit evaluating APRs, identify those with errors, note corrective actions, provide written findings, and provide technical assistance to cities and counties. The differential appears to come mostly from the proposed consulting contract, which HCD describes as being for "proactive outreach to jurisdictions to communicate APR reporting requirements, review APR criteria, and assist in completion of APR forms."

H) A General Fund augmentation of $212,000 for 2 positions, annually starting in 2023-24 and ongoing to implement SB 6, Caballero, Ch. 659, Stats. 2022. SB 6, the Middle Class Housing Act, established housing as an allowable use on any parcel zoned for office or retail uses. The Act sunsets in 2033. Through an April 1 Letter, the Governor requests to decrease this authorization by one position. Thus, the Governor's Budget Proposal for is now for one position at HCD for implementation of SB 6.

The revised proposal is roughly consistent with the staffing requirements for SB 6 that HCD projected during consideration of the bill before the Senate Appropriations Committee. That projection was: one staff position to provide ongoing technical assistance to local jurisdictions for rezoning required by the bill, and to undertake necessary enforcement activities."

I) A General Fund augmentation of $1,190,000 for seven positions in 2023-24 and 2024-25, and $881,000 in 2023-24 and $131,000 in 2024-25 for consulting contracts. Additionally, HCD

requests a Mobilehome and Recreational Vehicle Park Training Fund (Fund 3419) augmentation of $1,190,000 for seven positions annually in 2025-26 and ongoing, and $131,000 annually in 2025-26 and ongoing to establish and operate new systems and to administer a new program established by SB 869, Leyva, Ch. 662, Stats. 2022. SB 869 requires managers and assistant managers of mobilehome and recreational vehicle (RV) parks to complete an online training and renew the training every year. To implement this requirement, HCD must adopt regulations and create the training program. SB 869 authorizes HCD to establish fees for the application, training, and certification process, based on staffing, enforcement, and program needs, to cover costs of administering the training program and to permit qualifying third parties to provide training.

The requested amounts are roughly consistent with projections during consideration of SB 869 by the Senate Appropriations Committee, which were: (1) ongoing administrative costs of approximately $1.16 million annually for seven additional staff to carry out duties including development and adoption of program regulations, including a fee schedule, managing certifications and renewals, tracking permits to operate invoicing functions, conducting complaint inspections and onsite enforcement, and managing and supervising program staff; (2) one-time automation costs of $650,000 to make necessary changes to the Codes and Standards Automated Systems (CASAS) to aid in the planning and implementation of the management training program, as well as ongoing CASAS operation and maintenance costs of approximately $80,000 annually; and (3) one-time automation costs of approximately $100,000 to make necessary changes to the Learning Management System for training course and examination development, as well as ongoing maintenance costs of approximately $50,000 annually.

J) Hiring authority for one position and $611,000 annually ongoing from the Pooled Transition Reserve Fund starting in 2023-24 to implement SB 948, Becker, Ch. 667, Stats. 2022. SB 948 replaced individual project transition reserves for the development of affordable housing to a pooled reserve model, as specified.

The requested amounts are roughly consistent with projections during consideration of SB 948 by the Senate Appropriations Committee, which were: General Fund costs of $587,000 in the first two years, and $179,000 in subsequent years.

K) A one-time Mobilehome-Manufactured Home Revolving Fund (Fund 0648) augmentation of $50,000 in 2023-24 for a consulting contract with a translation service to implement SB 1307, Rubio, Ch. 669, Stats. 2022. SB 1307 required HCD to post on its website and send an annual notice to local jurisdictions on how a local jurisdiction can assume responsibility for enforcement of health and safety standards at mobilehome parks and RV parks (also known as special occupancy parks).

The Governor’s January Budget Proposal inadvertently proposed to pay for this $50,000 in 2023-24 from an erroneous fund source. Through an April 1 Letter, the Governor has now requested to pay for that $50,000 allocation out of the Mobilehome Parks and Special Occupancy Parks Revolving Fund.

The requested amounts are roughly consistent with projections during consideration of SB 1307 by the Senate Appropriations Committee, which were: administrative and contract costs in the range of $25,000 to $50,000 from the Mobilehome Parks and Special Occupancy Parks Revolving Fund to develop and translate into Spanish a fact sheet, web posting, information bulletin, and electronic mail notice."

L) A General Fund augmentation of $812,000 for 6 positions in 2023-24 and ongoing to support ongoing business needs due to the passage of various bills. The acceptance of the requests for resources for the various enacted legislation presented in (A) through (L), above, will result in an additional 25 positions for the program areas of HCD in 2023-24 and 2024-25, and 23 positions in 2025-26 and ongoing. In order for HCD to maintain adequate administrative support of the additional positions, HCD's administration and management division is requesting 6 positions. This administrative support ratio of 6:1 for 2023-24 and 2024-25, and 5:1 for 2025-26 and ongoing ensures adequate administrative resources are available to administer HCD's various housing initiatives and programs.

Staff Recommendation. Approve the Governor's January Budget Proposals for all items (A) through (L), above, as modified by the spring Finance Letter. Staff recommends holding open the item in HCD's BCP related to implementation of SB 649 (Cortese, 2022), as discussed in Issue 20 of this agenda.

Issue 10: Monitoring of Factory-Built Housing

Governor's Budget Proposal. The Department of Housing and Community Development (HCD) requests authorization to hire one District Representative I in 2023-24 and ongoing to complete statutorily required in-plant inspections of Factory-Built Housing (FBH) manufacturers.

Background. As explained by HCD, "FBH is a factory constructed version of site-built resident structure. FBH are buildings, dwelling units, or building components or systems manufactured in which all concealed parts or processes of the manufacture cannot be inspected before installation at the building site without disassembly. FBH is installed on-site, much like a standard site-built home with on-site inspections by local building departments and are designed and constructed in accordance with the California Building Standards Code." Under the right conditions, FBH holds the potential to reduce the cost and environmental impact of housing production, while increasing its speed.

HCD's FBH Program is charged with inspecting the manufacture of FBH units and components designed for use in California to ensure they meet California building standards. FBH is also responsible for certifying third-party agencies who perform as a Design Approval Agency (DAA) and/or a Quality Assurance Agency (QAA). These third party agencies distribute the HCD insignias which denote that the FBH components and buildings in question meet California's requirements.

HCD reports that there are approximately 215 FBH manufacturers that design and produce FBH for use in the state of California today. As justification for the additional hire requested by this BCP, HCD asserts that "[t]he current level of program staffing is inadequate to provide FBH inspections as mandated by [statute], which requires HCD to perform in-plant inspections of FBH manufacturing plants."

Accordingly, this budget change proposal seeks authorization for HCD to hire one additional inspector for the program.

Staff Recommendation. Approve as budgeted.

Issue 11: Registration and Titling Program Staff Increase

Governor's Budget Proposal. HCD requests authority to hire 4 new staff in 2023-24 and ongoing for its Registration and Titling Program.

Background. HCD is mandated by statute to provide an orderly and economical transfer of registrations and titles for manufactured homes, mobilehomes, and commercial modulars. HCD's Registration and Titling Program performs this function.

According to HCD, lack of proper registration and titling of a mobilehome can cause a variety of problems. Improper title places the ownership interest in doubt, potentially leading to issues of fraud, financial hardship, or, in extreme cases, homelessness.

Over the years, HCD's Registration and Titling Program has come under criticism for slow processing times and lengthy backlogs. Partially in response to legislative oversight, the Program has come to think of a 30-60 day turnaround as its goal. HCD reports that the actual turnaround time was as high as four to five months as recently as 2018, though the current average time is just 90 days.

HCD seeks the additional staffing in this budget change proposal in order to bring its registration and titling turnaround time down to into the 30-60 day range as well as to conduct additional registration and titling outreach to "those in need, such as low-income manufactured home and mobilehome homeowners, who have little to no resources available to assist them with the titling process."

Staff Recommendation. Approve as budgeted.

Issue 12: Housing Program Reporting Requirement Shift

Governor's Budget Proposal. The Governor proposes to change who has the duty to post online which competitive funding programs provide favorable treatment to jurisdictions that have achieved a "pro-housing" designation and which grant programs require the applicant to have a legally compliant housing element in order to be eligible. That duty currently rests with the Department of Finance (DOF). The proposed trailer bill language would transfer it to HCD.

Background. California law establishes the Regional Housing Needs Assessment (RHNA) process which requires local jurisdictions to plan for the location of sufficient housing for people of all income levels and to update this plan at regular intervals. HCD certifies whether these housing elements, as they are known, comply with the legal requirement. Eligibility for funding from state programs can be made contingent on having a legally compliant housing element.

Separately, HCD recently established a program through which HCD will designate local jurisdictions as officially "pro-housing" if the local jurisdiction meets specified criteria. Then, when these pro-housing jurisdictions proceed to apply for certain competitive funding programs, they receive extra points.

Existing law requires DoF to maintain and post on its website a list of which funding programs require a legally compliant housing element for eligibility, as well as a list of those competitive funding programs that award extra points to designated pro-housing jurisdictions. Posting this information on DoF's website is not ideal, however, since many of the relevant funding programs are administered by HCD. Accordingly, applicants looking over the program rules are more likely to seek them out on HCD's website, not DoF's.

The proposed trailer bill language addresses this issue by shifting the responsibility for posting these lists from DoF to HCD.

Staff Recommendation. Approve as proposed.

Issue 13: Affordable Housing and High Roads Job Act Technical Cleanup

Governor's Budget Request. The Governor's January budget proposes to allocate $1.1 million in 2024-25 and $422,000 in 2025-26 and 2026-27 for HCD's implementation of AB 2011, Wicks, Ch. 647, Stats. 2022, also known as the Affordable Housing and High Road Jobs Act. Through an April 1 Letter, the Governor now requests to revise those allocations with a $648,000 decrease in 2024-25 and a $2,000 increase in 2025-26 and 2026-27. Thus, the Governor's revised budget proposal for HCD's implementation of AB 2011 is $452,000 in 2024-25 and $424,000 in 2025-26 and 2026-27.

Background. AB 2011, Wicks, Ch. 647, Stats. 2022, authorized specified housing development projects to be a use by-right on specified sites zoned for retail, office, or parking, as specified.

According to the Senate Appropriations Committee analysis of AB 2011, HCD estimated "ongoing costs of $204,000 annually for 1.0 PY of staff to coordinate with local governments, provide guidance and technical assistance, and manage enforcement activities" associated with AB 2011. HCD also anticipated "additional costs of $102,000 in contract costs each year in 2023-24 and 2025-25 to develop and revise guidelines for developers and local jurisdictions related to the new streamlining and ministerial approval provisions."

Comparison to Senate Appropriations Estimate: After the proposed revisions in the Governor's April 1 Letter, the proposed allocation for implementation of AB 2011 is slightly, but not significantly, higher that the costs anticipated during consideration of the bill in the Senate Appropriations Committee.

Staff Recommendation. Approve as proposed.

Issue 14: Housing for Individuals Experiencing Homelessness

Governor's Budget Proposal. The Governor's January Budget proposed to authorize the HCD to hire for four positions in 2023-24 and 2024-25, and three positions ongoing beginning in 2025-26 for the purpose of implementing AB 2483, Maienschein, Ch.655, Stats. 2022. Through an April 1 Letter, the Governor now requests to revise that proposal by decreasing the number of positions sought in 2023-24 and 2024-25 by one to address a technical error. Thus, the Governor's revised budget proposal for implementation of AB 2483 is three positions in 2023-24 and ongoing.

Background. AB 2483 required HCD to provide incentives in the Multi-family Housing Program (MHP) for developments that set aside a percentage of units for people experiencing homelessness who are receiving specified Medi-Cal services.

Comparison to Senate Appropriations Estimate: After the revision made pursuant to the April 1 Letter, the hiring authority requested is roughly consistent with projected staffing needs considered by the Senate Appropriations Committee. There, HCD estimated "costs of $727,000 and 4.0 PY of staff in the first two years and $534,000 annually ongoing to plan coordination with DHCS, assist with data collection and program evaluation review, and ongoing implementation activities. Specific duties include research and outreach related to modifications of the Multifamily guidelines, forms, and notice of funding availability (NOFA), developer training, technical assistance, and monitoring and enforcement activities. There may be additional staffing needs in future years, depending on the number of projects that opt-into waiver program usage or qualify for Supportive Services reserve funds."

Staff Recommendation. Approve as proposed.

Issue 15: Technical Budget Bill Changes

Governor's Budget Proposal. Through an April 1 Letter, the Governor requests to make the following revisions to the Governor's January Budget Proposal.

First, the Governor requests to correct an erroneous cross-reference so that HCD correctly allocates $38.75 million to fund capital improvement projects for small jurisdictions as part of the Infill Infrastructure Grant Program of 2019.

Second, the Governor requests to extend the deadline for encumbrance of funding for the Veterans Housing and Homelessness Prevention Program from June 30, 2027 to June 30, 2028. This aligns the encumbrance availability with funding providing in the 2022 Budget Act.

Finally, the Governor requests to strike out budget bill language related to receipt of American Rescue Plan Act funding in 2021 that is no longer relevant.

Staff Recommendation. Approve as requested.

Issue 16: Changes to the Excess Sites Local Government Matching Grants Program

Governor's Budget Proposal. Through proposed trailer bill language, the Governor requests to make the following changes to the Excess Sites Local Government Matching Grants Program:

- Change the date that the Department of General Services (DGS) must update the online excess state sites inventory. Currently, the statute requires DGS to update the inventory at the same time that it is surveying sites. The proposed change reflects a more logical chronology: survey sites, then compile inventory, and then publish online.

- Require annual updates of the online inventory starting in January of 2025. Current law only requires an update every four years.

- Extend the requirement that grantees submit annual reports on their use of the money they received and the resulting impact.

- Remove the June 2024 expenditure deadline.

Background.

In 2019, as part of the broader effort to address the state's housing shortage, Governor Newsom ordered HCD and DGS to identify excess, state-owned properties that are suitable for development as affordable housing. (Executive Order No. N-06-19.) The resulting inventory can be found here:

https://www.dgs.ca.gov/RESD/Projects/Page-Content/Projects-List-Folder/Executive-Order-N-06-19-Affordable-Housing-Development

The proposed trailer bill language clarifies that updates to the inventory should be made after the survey is conducted and increases how often the digitized inventory must be updated from every four years to annually.

The Excess Sites Local Government Matching Grants Program provides grant funding for predevelopment and development of affordable housing on sites identified in the inventory. HCD explains that: [d]uring the development of the Excess Sites Local Government Matching Grants (LGMG) program, the funding source was changed from Federal ARPA funds to General Fund. Despite this change, the expenditure date required by the ARPA funds (June 30, 2024) was codified in statute. This proposal would allow the program to be continuously appropriating, subject to allocation of funds by the legislature as opposed to remaining bound by the ARPA expenditure deadline that no longer applies." In light of the fact that program activities will extend beyond the dates originally listed in the statute, the proposed trailer bill extends both the expenditure and reporting deadlines to match."

Staff Recommendation. Approve as amended.

Issue 17: Technical Changes to the Infill Infrastructure Grant Program of 2019

Governor's Budget Proposal. Through proposed trailer bill language, the Governor seeks to clarify that the Infill Infrastructure Grant Program of 2019 does not fund qualifying infill projects through the part of the program targeted to large jurisdictions.

Background. As explained by the Department of Housing and Community Development (HCD), the Infill Infrastructure Grant Program is intended to promote infill housing development by providing financial assistance for Capital Improvement Projects that are an integral part of, or necessary to facilitate the development of affordable and mixed income housing. Among other things, the grants can be used for the creation, development, or rehabilitation of Parks or Open Space, water, sewer or other utility service improvements, streets, roads, or transit linkages or facilities, facilities that support pedestrian or bicycle transit, traffic mitigation, sidewalk or streetscape improvements, Factory-Built Housing components, Adaptive Reuse, or site preparation or demolition.

There are set-asides and subcategories within the Infill Infrastructure Grant Program based upon jurisdiction size (large or small), location (urban or rural), and whether the funding is sought for a specific infill housing project (QIP) or preparation of the broader infill area within which affordable housing will be constructed (QIA). The existing statute sometimes refers to these set-asides and sub-categories in ways that complicate HCD's administration of the grants. HCD explains that the proposed trailer bill corrects two errors left over from modifications made to the Infill Infrastructure Grant Program in 2019. The first correction removes references to QIPs in a subdivision that is meant to relate only to QIAs, thus addressing a conflict in scoring criteria. The second correction removes references to QIP in a part of the statute that does not apply to QIPs.

Staff Recommendation. Approve as proposed.

ITEMS FOR DISCUSSION

0515 BUSINESS, CONSUMER SERVICES, AND HOUSING SECRETARY

Issue 18: Homeless Housing, Assistance, and Prevention (HHAP) Grants & Accountability for State Homelessness Spending Generally

Governor's Budget Proposal. The Business, Consumer Services, and Housing Agency proposes budget trailer bill language that:

(1) Authorizes the Inter-Agency Council on Homelessness (Cal-ICH) to administer a fifth round of Homeless Housing, Assistance, and Prevention (HHAP) grants in the amount of $1 billion.

(2) Specifies details of the program including, among others:
  a) the grant allocation ratio between big cities, counties, continuums of care, and tribal entities;
  b) mechanisms for setting outcome goals, rewarding the achievement of those goals with bonus funding, and discouraging failure to meet those goals with, as a last resort, transfer of HHAP resources to an alternative entity.

(3) Expresses an intention to incorporate further accountability measures meant to ensure that HHAP and other state homelessness reduction and prevention resources are being used effectively.

(4) Expresses an intention to incorporate language making the submission of a legally compliant housing element a prerequisite for eligibility to receive state homelessness reduction and prevention resources.

(5) Narrows the type of projects and activities that recipients can use HHAP funds for, to focus more on sustaining and supporting prior investments, such as maintenance and services at Project Homekey sites, support for Care Court participants, and assistance for transition out of encampments.

Background

Origins of the Call for Accountability

Historically, California largely treated homelessness as a local matter. That changed in 2018, when state government began to invest significant resources into combatting the problem. According to Cal-ICH's February 2023 Statewide Homelessness Assessment, between Fiscal Years 2018–19 and 2020–21, California increased its state investment in homelessness-focused programs by more than $1.5 billion; between Fiscal Years 2018–19 and 2020–21, the state directed $9.6 billion to homelessness-focused programs. Spending on homelessness reduction and prevention has only increased in the last two state budgets.

There are some indications that these investments have had some success. Youth homelessness, for example, has fallen by 21 percent in this period. There is also evidence that the rate at which homeless is increasing has fallen. Yet, the bottom line remains that the additional resources have not achieved a reduction in homelessness overall. According to data from Point in Time (PIT) counts, California's overall homeless population has risen 6.2 percent since 2020.

Given this dynamic, there are increasing demands from the public, the Governor, and the Legislature for greater transparency about how state homelessness reduction and prevention dollars get spent, better information about what the resulting outcomes are, and the establishment of a system of rewards and/or consequences tied to those results.

In short, everyone wants more accountability.

Timing considerations and data collection challenges

Since widespread homelessness is a humanitarian crisis, the need for an effective response is pressing. Given that, calls for accountability have an urgency as well. Still, accountability measures need to factor in timing and data collection challenges.

The timing challenges stem from the fact that many of the state's most major investments have really only just been made. Long term solutions to homelessness – as opposed to crowding people into temporary shelters or pushing encampments from one street corner to another – take time to yield results. The significant investments that California has made in longer term solutions in the past several years may ultimately work to bring down rates of homelessness. Or they may prove ineffective in the end. As much as we desire to know now, the reality is that it is probably still too early to tell.

Data collection challenges should also be kept in mind. Data about homelessness is notoriously difficult to come by, and not for lack of effort. Almost by definition, the homeless population is scattered and transient, making longitudinal studies close to impossible. At the same time, while there is strong evidence that the high cost of housing is the main reason that people become homeless to begin with, an enormous number of factors influence whether and how quickly they are able to obtain housing again, as well as how long they can keep that housing. In that context, isolating the efficacy of any one particular policy or intervention is genuinely fraught.

A Brief History of HHAP and Its Accountability Evolution

The intent language in the proposed trailer bill makes it clear that the Governor would like to see an accountability regime for homelessness reduction and prevention spending that goes beyond just the HHAP program. Nonetheless, because HHAP has been a key focus of recent discussions around accountability and because the proposed trailer bill language already includes some specific elements related to accountability in the fifth round of HHAP grants, it makes sense to begin with HHAP.

HEAP

HHAP has its origins in the Homeless Emergency Aid Program (HEAP). Established by SB 850, Committee on Budget and Fiscal Review, Ch. 48, Stats. 2018, HEAP provided a one-time $500 million block grant funding to continuums of care and large cities with a shelter crisis declaration. Recipients were authorized to use HEAP money for emergency assistance in the form of homelessness prevention, criminal justice diversion, at-risk youth services, and aid to people experiencing or at risk of homelessness.

HEAP's enabling statute obligated recipients to submit to a final report about expenditures under the contract, the number of homeless individuals served by program funds, and progress toward state and local homelessness goals. It also gave the agency administering HEAP authority to "ensure compliance with program requirements," including the power to "request the repayment of funds from an administrative entity, or pursue any other remedies available to it by law for failure to comply with program requirements." (Health & Saf. Code § 50215.)

HHAP Rounds 1 & 2

HHAP replaced HEAP the following year, 2019, and four "rounds" of HHAP grant funding have followed, each providing an additional one-year, one-time allocation of grant-based funding. The Governor's proposed budget and the trailer bill underlying this agenda item provide for $1 billion in one-time funding, included in the 2022-23 Budget agreement, to support Round 5 of HHAP.

HHAP Round 1 consisted of $650 million in grants distributed to continuums of care, big cities, and counties by Cal-ICH. (AB 101, Committee on Budget, Ch. 159, Stats. 2019.) Recipients could use the funds "to support regional coordination and expand or develop local capacity to address their immediate homelessness challenges informed by a best-practices framework focused on moving homeless individuals and families into permanent housing and supporting the efforts of those individuals and families to maintain their permanent housing." (Health & Saf. Code § 50217.)

In terms of accountability, HHAP Round 1, like HEAP before it, required grant recipients to submit reports, but HHAP Round 1 demanded annual reports in addition to a final report, and HHAP Round 1 reports had to contain a bit more detail. Specifically, the HHAP Round 1 enabling statute required the reports to include:

(1) An ongoing tracking of the specific uses and expenditures of any program funds broken out by eligible uses listed, including the current status of those funds.

(2) The number of homeless individuals served by the program funds in that year, and a total number served in all years of the program, as well the homeless population served.

(3) The types of housing assistance provided, broken out by the number of individuals.

(4) Outcome data for an individual served through program funds, including the type of housing that an individual exited to, the percent of successful housing exits, and exit types for unsuccessful housing exits. (Health & Saf. Code § 50221.)

Unlike the HEAP, HHAP Round 1 also required the reports to be posted online.

As in the case of HEAP, the HHAP Round 1 enabling statute gave the agency granting the funds discretion to monitor the expenditures and activities to ensure compliance with program requirements. Also like HEAP, HHAP Round 1 empowered the granting agency "to request the repayment of funds from an applicant, or pursue any other remedies available to it by law for failure to comply with program requirements." (Health & Saf. Code § 50220.)

HHAP Round 2 provided $300 million in grant-based funding that provides support to local jurisdictions to continue to build on regional collaboration developed through previous rounds of Cal-ICH funding and to develop a unified regional response to homelessness. (AB 83 (Committee on Budget, Chapter 15, Statutes of 2020.)

HHAP Round 2 built upon the accountability mechanisms in HHAP Round 1 in two ways. First, recipients of Round 2 HHAP grants were mandated to provide data elements to what was then a new statewide data collection tool, the Homeless Management Information System (HMIS). Second, HHAP Round 2 further expanded the information that recipients had to include in their annual reports, including reporting on Round 1 expenditures. The enabling statute for Round 2 required Cal-ICH to establish the following "data collection, reporting, performance monitoring, and accountability framework":

(1) Data collection shall include, but not be limited to, information regarding individuals and families served, including demographic information, information regarding partnerships among entities or lack thereof, and participant and regional outcomes.

(2) The performance monitoring and accountability framework shall include clear metrics, which may include, but are not limited to, the following:
(A) The number of individual exits to permanent housing, as defined by the United States Department of Housing and Urban Development, from unsheltered environments and interim housing resulting from this funding.
(B) Racial equity, as defined by the council in consultation with representatives of state and local agencies, service providers, the Legislature, and other stakeholders.
(C) Any other metrics deemed appropriate by the council and developed in coordination with representatives of state and local agencies, advocates, service providers, and the Legislature.

(3) Data collection and reporting requirements shall support the efficient and effective administration of the program and enable the monitoring of jurisdiction performance and program outcomes. (Health & Saf. Code § 50222.)

HHAP Rounds 3 & 4

HHAP Rounds 3 and 4 were authorized simultaneously. (AB 140 (Committee on Budget, Chapter 111, Statutes of 2021.) Both rounds involved one-year, one-time allocations of $1 billion in flexible funding to continue efforts to end and prevent homelessness. As in the previous rounds, big cities, continuums of care, and counties were eligible to apply, but Rounds 3 and 4 also opened up a small percentage of the grant funding to federally-recognized tribal governments.

HHAP Rounds 3 and 4 diverged most dramatically from the prior HHAP rounds with regard to accountability. The changes consist of three inter-related components. First, Rounds 3 and 4 once again expanded the information that HHAP recipients have to report. In addition to all the information required for Rounds 1 and 2, for Rounds 3 and 4 recipients are also expected to report accountability metrics based on the United States Department of Housing and Urban Development's system performance measures and local homelessness action plan. Specifically, these include:

1) the number of persons experiencing homelessness;

2) the number of persons who become homeless for the first time;

3) the number of people exiting homelessness into permanent housing;

4) the length of time people remain homeless;

5) the number of people who return to homelessness after exiting homelessness to permanent housing; and

6) the number of successful placements from street outreach.

Recipients must also report data on how underserved populations and overrepresented populations disproportionately impacted by homelessness fare in relation to the outcomes listed above. (Health & Saf. Code 50220.7.)

Second, Rounds 3 and 4 placed a greater emphasis on goal-setting. Applicants were expected to set specific targets in relation to the outcomes they will eventually have to report. Specifically, for Rounds 3 and 4, applicants had to submit a Local Action Plan that includes outcome goals that prevent and reduce homelessness over a three-year period, informed by the findings from the local landscape analysis and the jurisdiction's base system performance measure from 2020 calendar year data in the Homeless Data Integration System. The outcome goals included metrics, based on the United States Department of Housing and Urban Development's system performance measures integrated into the HHAP funding application process, as follows:

- Each applicant must determine its outcome goals in consultation with Cal-ICH, and shall not submit its final outcome goals before consulting with the Cal-ICH.

- Cal-ICH must to assess the outcome goals and decide whether the outcome goals adequately further the objectives of reducing and preventing homelessness.

- Initial outcome goals must be met by specified deadlines.

- Outcome goals must be updated regularly, as funding continues.

Finally, HHAP Rounds 3 and 4 added a reward tying the goal-setting to the outcomes: recipients whose outcomes meet or exceed their goals are eligible for bonus funding. The bonus money is not actually additional HHAP funding. Rather, the statute governing HHAP directs Cal-ICH to withhold up to18 percent of the HHAP allocation from the initial grants and reserve this money to serve as the pool from which the bonuses will be rewarded later. (Health & Saf. Code §§ 50218.6(a)(2) and 50218.7(a)(2).)

Apart from not getting this bonus, there is no financial punishment in HHAP Rounds 3 and 4 for failure to meet the goals, but the enabling statute does provide that: "[a]pplicants that do not demonstrate significant progress towards meeting outcome goals shall accept technical assistance from the council and may also be required to limit the allowable uses of these program funds, as determined by the council." (Health & Saf. Code § 50223.)

The Round 3 and 4 innovation of tying outcome goals to bonus funding has not been without complication. In particular, because the applicants themselves set the goals against which their performance will be measured (albeit in consultation with Cal-ICH), there is an incentive to set low goals that are relatively easy to meet, thus increasing the applicant's chances of obtaining the bonus funding. This dynamic played out in the fall of 2022, when the Governor convened local leaders to reassess their HHAP local action plans because collectively the plans only resulted in a two percent reduction in street homelessness.

As this brief review of the evolution of the program illustrates, the search for the right accountability mechanisms for the HHAP program is not new. Provisions for collecting data and reporting on outcomes have been part of HHAP from the beginning and have evolved considerably over the years to become more detailed and complex. In particular, the law governing HHAP Rounds 3 and 4 took a major new step toward accountability by tying the achievement of outcome goals to obtaining additional funding. Because the homelessness crisis persists in the face of HHAP and other state investments, however, demands for even better and stronger accountability mechanisms persist as well.

New HHAP Accountability Mechanisms Included in the Governor's Proposed Trailer Bill

The Governor's 2022-23 Budget agreement included another one-time $1 billion in General Fund for Round 5 of HHAP funding. The Governor's Budget upholds the agreement from last year by including the funding, in addition proposes new trailer bill language to govern administration of the money. Among other things, that language includes proposals for enhanced accountability mechanisms. As previously indicated, the most prominent of those proposed measures are currently in the form of two pieces of intent language that would apply to HHAP, but also to other sources of state homelessness reduction and prevention spending. Considerations associated with that broader accountability intent language are discussed in the "Beyond HHAP" section below.

As to HHAP accountability specifically, the proposed trailer bill language proposes to:

- Maintain the withholding of 18 percent of HHAP funds to serve as a bonus pool for recipients that are meeting their outcome goals. Also maintain the system in which recipients who are not meeting their goals are ineligible for the bonus funding pool, must accept technical assistance from Cal-ICH staff, and may have the eligible uses for their HHAP funding restricted.

- Require recipients to report data to the Homeless Data Integration System (HDIS), instead of just the Homeless Management Information System (HMIS). According to Cal-ICH, HDIS compiles and processes data from all 44 California Continuums of Care (CoC)—regional homelessness service coordination and planning bodies—into a statewide data warehouse. HMIS, by contrast, refers to local homeless data collection systems.

- Require applicants with overlapping geographic jurisdictions to apply for funding jointly or, if they do not, to submit an explanation for applying separately and plans for collaboration.

- Specify that applicants' new Round 5 outcome goals for preventing and reducing homelessness over a three-year period must be "specific, ambitious, achievable, and quantifiable."

- State that the intent of Round 5 HHAP funding is to "sustain existing federal, state, and local investments towards long term sustainability of housing and supportive services," though other uses are possible upon approval from Cal-ICH.

Other Proposals to Modify HHAP

In addition to the Governor's proposed trailer bill language, there are at least two other proposals related to HHAP making their way through the Legislature: AB 1413 by Assemblymember Ting, and AB 799 by Assemblymember Luz Rivas.

In its present form, AB 1413 (Ting) consists primarily of two components:

- Shifts responsibility for administering HHAP grants from Cal-ICH to HCD. As expressed in the bill's findings and declarations section, the idea is that such a change would take advantage of HCD's experience administering grants and enable Cal-ICH to focus more exclusively on its function of coordinating between homelessness reduction and prevention programs.

- Eliminates the component of HHAP Rounds 3, 4, and 5 that holds back part of the HHAP funding to be issued later as bonus funding to recipients who are meeting their outcome goals. The bill's findings and declarations explain that HHAP resources are needed urgently in the field.

AB 799 (L. Rivas) offers a slightly different set of proposed changes to HHAP, though it should be noted that Assemblymember Luz Rivas is also a lead author on AB 1413. Key accountability-related elements of AB 799 can be summarized as follows:

- Makes an ongoing commitment to HHAP funding instead of the annual, one-time allocations that have characterized HEAP and the rounds of HHAP to date.

- Directs the state, through Cal-ICH, to set goals for homelessness reduction and prevention. To date, HHAP has largely consigned goal-setting to the recipients of the funding.

- Maintains the bonus funding concept, but splits off a portion of the bonus funding to reward regional collaboration.

- Adds a financial punishment for recipients who do not meet their outcome goals. Specifically, recipients who have not achieved their outcome goals after three years are put on a one year "corrective action plan" with improvement benchmarks. If these benchmarks are not met, then any remaining grant money for that recipient is reallocated to another recipient with overlapping geographic jurisdiction. The recipient that failed to meet the benchmark is also ineligible for subsequent HHAP funding cycles until specified requirements are met.

Stakeholders have also weighed in on the HHAP changes they would like to see. Some of the most common recommendations include:

- *Make HHAP funding ongoing, rather than just one-time.* Thus far, each round of HHAP funding has been for just one year. This makes it harder for local jurisdictions to commit to longer-term solutions to homelessness that involve ongoing costs.

- *Give recipients spending flexibility.* Although the high cost of housing predominates, the primary drivers of homelessness vary somewhat from place to place throughout the state. The needs and the existing infrastructure are also different. Understandably, therefore, many HHAP recipients generally want maximum flexibility to tailor how they spend their HHAP dollars to their local circumstances.

- *But not too much flexibility.* Some stakeholders fear that, without tighter parameters on how HHAP money can be spent, some recipients will be too tempted to spend the funding on short-term, stop-gap responses to visible homelessness, such as shelter beds, without investing sufficiently in more permanent housing solutions.

- *Avoid using funding as the primary reward or punishment for meeting HHAP goals.* There is an appeal to awarding a bonus to recipients that are achieving their HHAP goals and taking money away from recipients that are not. That approach bears closer consideration, however. First, it encourages recipients to set low expectations that they are more certain to meet. Evidence of this dynamic surfaced during when Cal-ICH received the initial applications for HHAP Round 3 funding, as mentioned earlier. Second, tying funding to outcome goals may misdirect resources. After all, recipients that are achieving their goals with their initial allocation have shown that they do not need more money to succeed. Conversely, taking money away from recipients that are not meeting their goals may only make it harder to make progress on homelessness in the affected jurisdiction. Even if the funding is reallocated to another entity operating in the same jurisdiction, there is no guarantee that the new entity will perform better and service disruptions are likely. In other words, punishing HHAP recipients with loss of funding could result in significant harm to the homeless individuals HHAP is intended to help. Finally, tying funding to outcomes creates financial pressure on recipients to game the system by fudging outcomes or using tactics that move people experiencing homelessness into other jurisdictions rather than solving the underlying issue. On the other hand, an obvious counterpoint is: if further funding is not the carrot and stick for meeting HHAP goals, then what would work instead?

The Audit Path

Frustrated by the perceived lack of progress, at least some legislators have recently sought accountability for the use of state homelessness reduction and prevention funding through a slightly different path: the State Auditor's Office. Led by Senator Cortese, a bipartisan group of members from both houses of the Legislature submitted a formal request to the Joint Legislative Audit Committee (JLAC) to have the State Auditor evaluate the City of San Jose's approach to homelessness spending and its efficacy in helping move unhoused people into shelter, housing, and supportive services. In addition to San Jose, the request directs the State Auditor to select a second city to undergo a comparable evaluation. JLAC approved the request on March 22, 2023. The results of the audit are expected back this fall.

Beyond HHAP

As stated at the outset, the intent language included in the proposed trailer bill language makes clear that the Governor would like to see enhanced accountability not just for HHAP but also for the state's investments in homelessness reduction and prevention overall.

Currently, the state funds or administers 35 separate programs aimed at expanding access to housing, health, and social services for people experiencing or at risk of homelessness. These 35 programs are run by nine different state agencies and departments, including the Department of Housing and Community Development, the Department of Social Services, the Department of Health Care Services, the Governor's Office of Emergency Services, California Community Colleges, and the Department of Corrections and Rehabilitation.

The Governor's intent language describes two ways in which these programs might be held to greater accountability. The first is general. For now, the language simply states that eventual legislation should "enhance accountability and further the state's goals of preventing and ending homelessness, utilizing all resources available to local governments […]." The second is more specific and states that, as part of overall enhanced accountability, the eventual legislation should require cities and counties, as an express condition of receiving state homelessness funding, to have submitted a compliant housing element […].” In both cases, the Administration has indicated that the intent language is intended to invite a conversation with the Legislature about what, more precisely, these enhanced accountability systems might look like.

The appeal of this sort of enhanced accountability is obvious given the breadth of state homelessness reduction and prevention programming and that it has not, at least to date, turned the overall tide of homelessness. Trying to envision such a broader system of accountability raises many practical and policy questions, however. In thinking about broader systems of accountability in this space, the Committee may wish to consider and ask about the following:

- Should the system of accountability try to integrate all of the programs? If so, how would the system integrate the differing roles, jurisdictions, and outcome data involved?

- Where state control over sources of spending is limited (as in the case of federally funded entitlement programs, for example), what ability does the state have to attach consequences to whether the program is achieving homelessness reduction and prevention goals?

- What is the right system level for broader accountability? Should accountability attach to the entities receiving the funding? Should it attach to cities? Counties? Regions? What degree of coordination between these various entities should be required? How could broader systems of accountability work at regional levels where homelessness reduction and prevention spending goes directly to sub-regional actors?

- Should accountability measures include funding bonuses for meeting outcome goals? If so, how can this be done without discouraging ambitious goal-setting?

- Should accountability measures include funding penalties when outcome goals are not met? If so, how can this be done in ways that avoid disruption of services to people in need? Is there a danger that outcomes will just get worse?

- If the state stays away from using financial consequences, what other “carrots and sticks” could the state use for enforcing accountability?

- Since the accuracy of data related to homelessness is notoriously difficult to ascertain, is there a danger that pressing for greater accountability based on data will result in situations where recipients alter, exaggerate, or inflate outcomes in order to appear more successful?

Staff Recommendation. Hold open.

1700 Civil Rights Department

Issue 19: Transfer Funding and Spending Authority for Contract Legal Services

Request. CRD requests to streamline and create operational efficiencies by permanently transferring funding and spending authority from Program 1500 - Department of Justice Legal Services to Program 1490 - Administration of Civil Rights Law. This would enable CRD to access these funds for legal representation by entities other than Department of Justice (DOJ), when necessary.

Background. CRD enforces the state's primary anti-discrimination laws including, of particular relevance to this request, the Fair Employment and Housing Act (FEHA). As its name suggests, the FEHA prohibits employment discrimination on the basis of disability, race, ethnicity, religion, gender, and sexual orientation, among other enumerated characteristics. CRD is statutorily mandated to receive complaints of employment discrimination. CRD proceeds to investigate those complaints unless the complainant elects to bypass administrative enforcement and proceed directly to court by requesting a right-to-sue letter from CRD. Where CRD investigates and determines that discrimination has taken place, it has the authority to seek redress in court on behalf of the complainant and the public interest. CRD can also bring employment discrimination cases on its own initiative.

CRD explains that it generally litigates cases in trial court through its own in-house attorneys while relying on the DOJ for appellate work. However, according to CRD, it was recently "forced to depart from its usual practice and contract with two outside law firms to litigate certain cases due to one actual and one threatened conflict of interest that could have derailed CRD's ability to prosecute these important civil-rights enforcement actions" as statutorily mandated. In one situation, DOJ has a conflict of interest that prevented it from representing CRD. In the other instance, CRD had to hire outside counsel "to eliminate the risk that an alleged conflict of interest and related motions would prejudice its legal objectives." CRD emphasizes that it obtained authorization from the DOJ for both contracts to hire outside counsel.

CRD goes on to explain that "Program 1500 funds are solely dedicated to reimbursing [DOJ]. Anytime CRD must seek outside counsel, the funding for those legal services must instead come from CRD's Program 1490- Administration of Civil Rights law, while dedicated funds in Program 1500 can remain unspent. Approval of this BCP request means that CRD will continue the same process of using [DOJ] as the primary source for legal services related to appeals and writs while seeking [DOJ] approval for exemptions to obtain outside counsel when necessary. By eliminating Program 1500 and instead placing the funds in Program 1490, CRD would have more flexibility to use the funds to pay either [DOJ] or outside counsel or appropriate legal experts when needed."

Staff Recommendation. Hold open.

1700 CIVIL RIGHTS DEPARTMENT
2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 20: Implementation and Enforcement of Local Tenant Preference Legislation

Governor's Budget Proposal. The Civil Rights Department (CRD) requests $1,123,000 General Fund in 2023-24 and $1,222,000 in 2024-25 and 2025-26 to implement the provisions of SB 649, Cortese, Ch. 660, Stats. 2022.

The Department of Housing and Community Development (HCD) requests a General Fund augmentation of $445,000 annually starting in 2023-24 through 2025-26 for a consulting contract to implement SB 649, Cortese, Ch. 660, Stats. 2022.

Background. When government subsidies are used to create affordable housing, local governments sometimes try to restrict the eligibility to live in that housing to local residents. Such local tenant preference ordinances have the benefit of reducing displacement from the community, especially in jurisdictions experiencing rapid gentrification. The ordinances also have the allure of ensuring that any local contributions to the creation of the affordable housing inure to the benefit of local residents. On the other hand, local tenant preference ordinances carry significant risk of reinforcing housing segregation. Where a local jurisdiction has predominantly white residents, for example, local tenant preferences can result in a *de facto* preference for white tenants.

SB 649 (Cortese, Ch. 660, Stats. 2022) explicitly authorized local governments to enact local tenant preferences in relation to affordable housing created using subsidies from specific government funding sources. At the same time, SB 649 expressly mandated that any such local tenant preference ordinance comply with the FEHA and other laws prohibiting housing discrimination. This includes FEHA's requirement that local governments take affirmative steps to further fair housing.

Both HCD and CRD request funding and/or staff positions related to the implementation of SB 649.

CRD enforces the state's primary anti-discrimination laws including, of particular relevance to this request, the Fair Employment and Housing Act (FEHA). As its name suggests, the FEHA prohibits housing discrimination on the basis of disability, race, ethnicity, religion, gender, and sexual orientation, among other enumerated characteristics. CRD is statutorily mandated to receive and investigate complaints of housing discrimination. Where CRD determines that discrimination has taken place, it has the authority to seek redress in court on behalf of the complainant and the public interest. CRD can also bring housing discrimination cases on its own initiative. As the state entity charged with these housing discrimination laws, CRD anticipates that the enactment of SB 649 will result in an increase in its workload, as it receives complaints and/or initiates investigations of new or existing local tenant preferences that may not comport with those housing discrimination laws. Moreover, CRD expects such cases to be costly to undertake. Its request states that:

> Such investigations and civil actions will be complex and resource-intensive, involving, for example, substantial investigative discovery, such

> as interrogatories, requests for production, and document review; research, data collection, and data analysis to determine whether a particular local tenant preference is having an unlawful disparate impact; and substantial legal briefing. Such investigations and lawsuits generally require outside experts and take several years to resolve.

For its part, HCD indicates that "SB 649 requires HCD to post a list of jurisdictions with a local tenant preference on HCD's website" and that "SB 649 will likely result in additional preference requests for HCD to analyze to ensure compliance with applicable fair housing requirements." Like CRD, HCD notes that "[t]enant preference policies are legally and factually complex."

Comparison to Senate Appropriations Analyses: The amount requested by CRD is on the lower end of the estimate considered by the Senate Appropriations Committee, which was "a likely cost of $1 million (GF) to $2 million (GF) annually."

The amount requested by HCD is significantly lower than projections during consideration of SB 649 by the Senate Appropriations Committee, which were: (1) costs of $1.1 million annually for five staff positions, including one attorney position, to analyze and ensure preference requests comply with applicable fair housing requirements; and (2) the possible need to contract with an external statistician at an yet-to-be-determined cost for consulting on any disparate impact fair housing analyses HCD would conduct upon receiving a request to approve a housing preference.

Staff Comment. Staff notes there may at least be the possibility of duplicated work here. Both HCD and CRD state that they will be doing the complex work of reviewing local tenant preference ordinances for compliance with civil rights laws. It appears that the trigger for the review will be different: HCD will review upon receiving a request from a local jurisdiction whereas CRD will review in response to a complaint. That may also raise the possibility of differing conclusions. For example, could CRD rule that a local tenant preference ordinance violates FEHA after HCD staff concluded it did not? The Subcommittee may wish to ask about how the respective Departments are thinking about these issues and whether collaboration is possible to achieve efficiencies and avoid conflicting outcomes.

Staff Recommendation. Hold open.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 21: CalHome Reduction (with Restoration Trigger)

Governor's Budget Proposal. The 2022 Budget Act included $350 million one-time General Fund ($250 million in the 2022 Budget Act and $100 million committed for 2023-24) for the Department of Housing and Community Development (HCD)'s CalHome program. The Governor's Budget proposes to remove $100 million one-time General Fund in 2023-24, to be restored if the revenue outlook improves and there is sufficient General Fund in January 2024.

Background. The CalHome program provides grants to local agencies and nonprofits to assist low- and very-low-income first-time homebuyers with housing assistance, counseling and technical assistance. Specifically, the local agencies and non-profits are authorized to use CalHome grant funding for the following purposes:

- to assist individual first-time homebuyers through deferred-payment loans for downpayment assistance, home rehabilitation, including manufactured homes not on permanent foundations, acquisition and rehabilitation, homebuyer counseling, self-help mortgage assistance, or technical assistance for self-help homeownership;

- direct, forgivable loans to assist development projects involving multiple ownership units, including single-family subdivisions; and

- loans for real property acquisition, site development, predevelopment, construction period expenses of homeownership development projects, or permanent financing for mutual housing and cooperative developments.

The Governor's proposed cut would eliminate all of the funding previously authorized for CalHome in 2023-24. Due to limited outcome data specific to the CalHome program, it is difficult to say exactly what impact the funding reduction would have. Presumably, at least some Californians will not access homeownership who otherwise might have.

LAO Comments. As an initial matter, the LAO indicates that it anticipates the budget problem will be "roughly $7 billion larger than anticipated in January," and accordingly, the LAO does not anticipate that any funding subject to the proposed trigger language will be restored midway through the fiscal year.

As to this particular reduction proposal, the LAO reports that the administration's stated rationale for focusing reductions in these programs is "related to the currently high interest rates and cost of construction—increasing the cost of homeownership (without increases to assistance levels)." The LAO considers that "[t]his rationale may be reasonable given the increased cost may dampen interest in the program."

At the same time, the LAO urges legislative consideration of alternatives:

> The Governor's budget reflects one approach to addressing the state's budget constraints. However, the Legislature could consider other options. For example, the Legislature could identify other housing and homelessness funds to reduce or delay, or adjust the magnitude of housing and homelessness budget solutions. If the Legislature were to reduce the magnitude of housing and homelessness-related budget solutions, it would have to identify savings in other areas of the budget in a like amount.

Staff Recommendation. Hold open.

Issue 22: Employee Housing Regulation Fund Establishment and Increase in Inspectors

Governor's Budget Proposal. Through proposed trailer bill language, the Governor's budget requests the establishment of the Employee Housing Regulation Fund in HCD. Through a related budget change proposal, the Governor's budget also requests authority to use money in that Fund for HCD to hire 10 additional staff in 2023-24 and ongoing to address critical health and safety conditions within Mobilehome Parks, Special Occupancy Parks, Employee Housing (EH) facilities, and for mobilehome and manufactured housing occupants statewide.

Background. In order to attract the labor they need to operate, some California businesses provide housing to their employees. This kind of housing is particularly prevalent in the agricultural sector and is a mandatory part of the H2-A visa program, under which agricultural employers can bring foreign laborers to the United States to work on a temporary basis. Employee housing is also sometimes found in other seasonal or remote work contexts like summer camps and ski lodges.

In order to provide employee housing, employers must pass a health and safety inspection and obtain a permit to operate (PTO). By statute, HCD has the responsibility to carry out these inspections and issue the corresponding PTOs. HCD reports that there are currently 1,079 permitted employee housing facilities under HCD enforcement, housing approximately 35,000 employees.

The same statute also empowers HCD to charge fees for its inspection and permitting services. Those fees are as follows:

- $200 Permit to Operate Issuance Fee (Includes Initial Inspection Fee)
- $27 Per Employee Fee
- $27 Per Lot or Site Fee
- $178 Reinspection Fee (1 hour)
- $82 Each additional Hour (Reinspection or Initial Inspection)
- $42 Each additional Half Hour (Reinspection or Initial Inspection)

Proposed Trailer Bill Language. The Governor's proposed trailer bill language makes two adjustments related to these fees. First, the existing statute only allows HCD to increase these fees. The Governor's proposed trailer bill language gives HCD the discretion to reduce the fees as well. Second, HCD currently deposits the Employee Housing fees it collects into the General Fund. The Governor's proposed trailer bill establishes a separate Fund, the Employee Housing Regulation Fund, where HCD would deposit all the Employee Housing fees it generates going forward. To be clear, the establishment of the new fund neither imposes new fees nor generates new revenue. It simply changes the accounting in a way that should make the Employee Housing program's revenues and expenditures easier to track and more transparent.

Budget Change Proposal. Relatedly, HCD also requests hiring authority for the addition of 10 positions to its staff that conduct and process health and safety inspections statewide, including, but not limited to employee housing inspections. Specifically, HCD seeks:

- 2 Positions - Codes and Standards Administrator I: Will provide guidance, direction, and mentoring to junior team members, and regularly meet with local governing bodies and industry professionals. Positions will balance existing administrative and leadership responsibilities, ensure employee accountability, and monitor/control workloads of DR and Program Technicians.

- 4 Positions - District Representative II: Will perform a wide range of inspections/investigations each working day within a large geographical area of the state. Lead DR IIs conduct MPM inspections, complex complaint investigations, complex construction inspections, and assist the entry level DR Is with the full range of DR-related responsibilities including conducting inspections for MPMs, MH alterations, MP construction (e.g., new construction, utility upgrades, health and safety permitted repairs, etc.), EH, and complaint investigations.

- 4 Positions - Program Technician II: Will provide in-person support ranging from counter services, responding to constituent phone calls and emails, and processing construction permit applications and complaint investigation requests.

HCD asserts that the additional staffing is needed to respond to increased workload and to shortcomings identified in a 2019 California State Auditor (CSA) evaluation of HCD's mobilehome inspection programs. As described by HCD, that audit found "statewide deficiencies in complaint processing, a lack of regular park field monitoring, and failure to provide timely health and safety inspections within parks." Accordingly, HCD states: "[a]dditional staffing is needed to address the Auditor's findings, the increased workload demand, and to better serve HCD stakeholders by completing timely health and safety inspections and investigations."

As this justification and the job descriptions above make clear, although HCD proposes to pay for some of the additional staffing in this request out of the Employee Housing Regulation Fund, the additional staffs' work would not be confined to inspecting employee housing. Rather, the additional staff would also conduct inspections and enforce health and safety standards at mobilehome parks and RV parks (also known as "Special Occupancy Parks" or SOPs). HCD reports that there are approximately 5,188 such parks located throughout the state (4,472 mobilehome parks and 716 RV parks). Thus, HCD concludes that, if this proposal is approved, "[o]wners and residents occupying manufactured homes or mobilehomes located in HCD MPs and SOPs or installed on private property statewide, as well as employees residing in EH facilities, will benefit from increased staffing and HCD's enhanced response time to construction inspection requests, health and safety complaint investigations, and EH preoccupancy inspections."

Staff Comments. Staff notes that an increase in the number of code inspectors examining conditions at mobilehome parks, RV parks, and employee housing facilities may be warranted. In light of the state's fiscal condition, the fact that some of the positions will be paid for through fee generation and therefore do not add as much pressure on the General Fund is welcome. However, the Subcommittee may wish to evaluate the proposal within the broader context of HCD's other mobilehome park inspection programs. In particular, some of the statutory authority for the Mobilehome Park Maintenance (MPM) inspection program is scheduled to expire at the end of this year and Subcommittee staff is unaware of any currently pending legislation which would extend it. MPM is funded through annual fees of $4 per space assessed against the parks, of which the parks may pass on half as a charge to homeowners. HCD reports having conducted 197 mobilehome park inspections between January 1, 2022, and December 31, 2022, representing 5.35 percent of mobilehome parks overall and including 29,011 mobilehome park lots.

Staff Recommendation. Hold open.

Issue 23: Community Development Block Grant—Disaster Recovery

Governor's Budget Proposal. The Governor's Budget requests the incorporation of $231.2 million in 2023-24 in federal Community Development Block Grant – Disaster Recovery funding into HCD's budget. HCD also seeks the authority to hire 20 additional staff to enable the department to allocate these funds to communities impacted by the 2020 wildfires. The Governor also requests that provisional language be added to provide an extended encumbrance period and to allow the transfer of funding for state operations.

Background. The 2020 wildfire season was the largest and most destructive in California's recorded modern history, HCD reports, citing the California Department of Forestry and Fire Protection (CalFire). In response, the President of the United States issued two major disaster declarations, the first in August of 2020 and another in October of the same year.

These federal disaster declarations triggered the distribution of immediate aid and assistance to California. They also set the stage for California to receive the longer-term disaster recovery funding that is the subject of this request. The United State Department of Housing and Urban Development (HUD) allocated this longer-term disaster recovery funding to California in February of 2022, in the amount of $231.2 million, for administration by HCD. Specifically, according to HCD, "HUD designated $201 million for unmet housing and infrastructure needs and $30.2 million for mitigation efforts. […] . Per HUD's designation, $201 million of the 2020 CDBG-DR allocation will be used to fund activities through the existing Multifamily Housing Program, Owner-Occupied Rehabilitation Program, Homebuyer Assistance Program and FEMA PA Match. In addition, $30.2 million of the 2020 CDBG-DR allocation will fund two new programs, Multifamily Housing Mitigation Program the Owner-Occupied Rehabilitation Mitigation Program."

HCD states that all of the 2020 CDBG-DR funding will be allocated to the Most Impacted and Distressed (MID) areas, in accordance with HUD requirements. The following counties make up the MID areas for the 2020 wildfires: Butte, Fresno, Los Angeles, Napa, Santa Cruz, Shasta, Siskiyou, Solano, and Sonoma.

In the past, this sort of federal disaster relief has usually been administered locally, but local governments do not always have sufficient capacity to do this effectively, especially in small or rural jurisdictions. To address that issue, HCD will be in charge of distribution of this tranche of disaster relief money, necessitating an augmentation in HCD's staffing.

This budget change proposal requests four things in relation to the expenditure of this CDBG-DR funding:

(1) incorporation of these disaster recovery funds into HCD's budget;

(2) authorization for HCD to hire the additional staff necessary to oversee the proper distribution of these funds;

(3) authorization to expend this funding at any time up through September 16, 2028, the federal deadline for utilizing the money before it would have to be returned; and

(4) authorization to transfer as much as $34.7 million of the funds to state operations upon order of the Department of Finance. This amount represents the full federal allowance for state operations through the end of the expenditure period.

Staff Comments. As California would not be able to receive and distribute this federal funding otherwise, approving the first three components of this request appears to make sense. However, the Legislature may wish to retain greater oversight over how the $34.7 million in state operation assistance is utilized over time. Even without insisting on annual budget requests, the Legislature could require the Department of Finance to provide notice and information to the Joint Legislative Budget Committee before transfers to state operations are made.

Staff Recommendation. Hold open.

Issue 24: Changes to the Definition of "Rural Areas" for the Purposes of Housing Funding and Changes to the Joe Serna Jr. Farmworker Housing Grant Program

Governor's Budget Proposal. Through proposed budget trailer bill language, the Governor requests changes to:

1) revise the definition of "rural areas" for purposes of many of the state's affordable housing funding programs, including set asides within the state Low Income Housing Tax Credit (LIHTC) program for affordable housing projects in rural areas; and

2) enable for-profit entities to apply for loans from the Joe Serna Jr. Farmworker Housing Grant Program (FWHG) for the construction or rehabilitation of rental housing for lower income agricultural employees and their families.

Background on the definition of "rural areas" for affordable housing funding purposes. HCD explains that the current definition of "rural areas" applicable to the majority of California's affordable housing financing programs has become outdated. The current definition relies on a cross-reference to Section 515 program of the Rural Development Administration of the United States Department of Agriculture. HCD reports that USDA has advised the department to make use of a more current definition of rural. The proposed trailer bill language makes this adjustment.

In addition, HCD states that portions of the existing definition of rural areas are confusing and difficult to apply consistently. To address this, the proposed trailer bill language modifies the definition of rural areas to include areas that are eligible for specified federal multi-family rural housing programs as well as unincorporated areas that do not adjoin a city and is not located within a census tract, block group, or block designated as an urban area by the United States Census Bureau in the most recent decennial census. HCD indicates that, as a practical matter, this does not significantly change the geographic locations that are eligible for funding, but does provide greater clarity.

Background on the Joe Serna Jr. Farmworker Housing Grant Program. The FWHG helps fund new construction, rehabilitation, and acquisition of owner-occupied and rental units for agricultural workers, with a priority for lower income households. (Health & Saf. Code § 50517.5.) Existing law sets forth a series of different categories of projects to which FWHG funding can be put. Existing law makes "local public entities, nonprofit corporations, limited liability companies, and limited partnerships" eligible to apply for grants for any of these kinds of projects. HCD reports that it interprets this language to mean that for-profit entities may not apply for funding through FWHG. The proposed trailer bill language changes open up eligibility to for-profit entities for one particular category of FWHG project: construction or rehabilitation of rental housing for lower income agricultural employees and their families.

HCD states that opening up this part of FWHG to for-profit entities is necessary to more smoothly incorporate FWHG into the streamlined SuperNOFA process. That process enables applicants to seek affordable housing development funding from several sources administered by HCD through a single application. Since for-profits entities are eligible for the other funding sources integrated into the SuperNOFA process, FWHG's existing prohibition on for-profit applicants makes it harder to administer within the SuperNOFA process. HCD has attempted to address this issue by allowing non-profit and for-profit collaborations to apply for FWHG funding within the SuperNOFA process, but HCD asserts that that solution is “cumbersome and results in significant delays with respect to approval and execution of those standard agreement contracts, which further delays the development of affordable housing projects.”

Staff Comments. The proposed trailer bill language additionally states that any entity applying for the FWHG funding in question would have to be certified by HCD as qualified to own, manage, and rehabilitate a rental housing development. HCD has indicated that no such certification program exists, that this aspect of the proposed trailer bill is in error, and that it will be removed.

Staff Recommendation. Hold open.

2245 CALIFORNIA HOUSING FINANCE AGENCY

Issue 25: California Dream for All Program Reduction (with Restoration Trigger)

Governor's Budget Proposal. The 2022 Budget Act allocated $500 million in one-time General Fund dollars to the California Housing Finance Agency (CalHFA) to launch the California Dream for All program. The Governor's Budget proposes to revert $200 million of the $500 million one-time General Fund in 2023-24. If there is sufficient General Fund in January 2024, these reductions will be restored.

Background. The California Dream for All program is designed to help low- and moderate-income Californians achieve homeownership for the first time, opening up a key path to building intergenerational wealth. The program offers shared-appreciation loans to eligible first-time homebuyers so that they can make a 20 percent down payment toward the purchase of their new home. Reaching this down payment threshold unlocks financial benefits for the homebuyers in reduced interest and mortgage insurance payments. When the program participants go to sell their home sometime later, the California Dream for All program receives back the money it contributed to the down payment, plus 20 percent of any accrued value in the home. These amounts then return to the pool of funds that the program can use to assist still more first-time California homebuyers. In this way, the program is intended to be financially self-sustaining.

CalHFA opened the California Dream for All program to applications in late March 2023. By Early April, CalHFA paused the program due to "unprecedented demand." CalHFA's announcement of the pause stated that:

> The $300 million in Dream For All funding currently available to CalHFA is expected to help more than 2300 low- and moderate-income Californians purchase their first homes. CalHFA is extremely proud of this successful program and pleased to make such a profound difference in the lives of so many Californians who have achieved the dream of homeownership.

In a press release, State Senate President Pro Tempore Toni Atkins also praised the program's initial outlook:

> It is incredible and inspiring to see that the launch of the California Dream for All program has already been so successful – the fact that it has helped more than 2,400 first time homebuyers with their down payments in its first two weeks is terrific. That rapid response and resulting use of the $300 million in funding currently available shows just how critical this down payment assistance program is for California families.

LAO Comments. As an initial matter, the LAO indicates that it anticipates the budget problem will be "roughly $7 billion larger than anticipated in January," and accordingly, the LAO does not anticipate that any funding subject to the proposed trigger language will be restored midway through the fiscal year.

Assuming no restoration, the LAO states that, based on analysis commissioned by the State Treasurer's Office, the reduction in funding could result in Dream for All assisting 1,500 fewer first-time homebuyers. The remaining $300 million would still enable the program to assist another 2,300 first-time homebuyers, approximately.

Staff Comments. Given the unprecedented demand shown for the program, its potential for self-funding, and its promise of helping low- and moderate-income Californians access homeownership, the Subcommittee may want to consider whether the Governor's proposed reduction makes sense. Early visions for the program involved a goal to provide about $1 billion per year for 10 years in order to create a $10 billion Revolving Fund that could sustain the program. The proposed reductions take a step further away from this vision and could create some frustration among Californians who learn about the program only to discover that it is only available to a relatively small number of first-time homebuyers.

Staff Recommendation. Hold open.

Issue 26: Accessory Dwelling Unit Grants Reduction (with Restoration Trigger)

Governor's Budget Proposal. The 2022 Budget Act included $50 million one-time General Fund for the Accessory Dwelling Unit program administered by CalHFA. The Governor's Budget proposes to revert $50 million one-time 2022-2023 General Fund dollars. If there is sufficient General Fund in January 2024, the Governor proposes that these reductions will be restored at that time.

Background. Sometimes known as casitas, granny flats, in-law units, backyard cottages, or secondary units, accessory dwelling units (ADUs) are additional housing units built alongside or within existing housing stock. ADUs add residential density and potentially offer a form of naturally-occurring affordable housing. CalHFA lauds them as "an innovative, affordable, and effective option for adding much-needed housing in California."

Constructing an ADU can be financially beneficial for the primary homeowner: the addition of an ADU typically raises the overall property value and is a potential source of rental income. Constructing an ADU requires significant investment up front, however, so it is not always an option for lower-income homeowners. Although ADU design and permitting have been greatly streamlined in recent years, the technical requirements involved can also be a barrier to ADU construction.

The ADU program at CalHFA is intended to assist homeowners to overcome these potential barriers to ADU construction. As described by CalHFA, the program provides "up to $40,000 towards pre-development and non-reoccurring closing costs associated with the construction of the ADU. Predevelopment costs include site prep, architectural designs, permits, soil tests, impact fees, property survey, and energy reports."

CalHFA reports that, as of March 1, 2023, all of the program's existing funding for grants were "fully reserved," so the proposed reduction means that no further grants will be available unless additional funding is allocated to the program at a later time.

LAO Comments. As an initial matter, the LAO indicates that it anticipates the budget problem will be "roughly $7 billion larger than anticipated in January," and accordingly, the LAO does not anticipate that any funding subject to the proposed trigger language will be restored midway through the fiscal year.

Assuming no restoration, the proposed reduction in funding would, the LAO states, result in 1,250 fewer ADU grants.

Staff Recommendation. Hold open.

Issue 27: Separating CalHFA from HCD

Governor's Budget Proposal. The Governor proposes to formally separate CalHFA from the Housing and Community Development Department (HCD) through trailer bill language accompanying the 2023-2024 budget.

Background. HCD is the umbrella organization for most of the state's housing policy and programs. The Department:

- administers the various grant programs through which the state invests in the development and preservation of affordable housing;

- oversees statewide planning for housing development through the Regional Housing Needs Assessment (RHNA) process;

- develops, administers, adopts, and enforces uniform statewide building standards, with a particularly active role in inspecting the condition of mobilehome parks, RV parks, manufactured homes, and employee housing to ensure with health and safety standards there.

California's Housing Finance Agency, as its name suggests, is primarily charged with the administration of programs that help low- and moderate-income Californians finance homeownership and the development of affordable rental housing. As detailed by CalHFA, "[t]he Agency's Multifamily Lending Division finances affordable rental housing through collaborations with developers, local, state and federal government partners and more, while its Single Family Division partners with a preferred lender network to provide first-time homebuyers with down payment and closing cost assistance and access to first mortgage loans. CalHFA is a self-supported state agency that doesn't rely on taxpayers dollars for its operational costs but regularly administers various state and federal resources on behalf of the state."

Currently, CalHFA is housed with HCD. The trailer bill language proposed by the Governor would remove CalHFA from under HCD and place it directly under the overall Business, Consumer Services, and Housing Agency (BCSH), instead.

The Administration reports that making this change will have no effect on either HCD or CalHFA's substantive authority, but will achieve some budgeting and accounting efficiencies, as CalHFA matters will no longer have to route through HCD.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Anna M. Caballero
Senator Roger W. Niello

Thursday, April 27, 2023
9:30 a.m. or Upon Adjournment of Session
1021 O. Street - Room 1100

Consultant: Timothy Griffiths & Diego Emilio J. Lopez

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

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

Issue 1: Staffing Expansion for Small Business Procurement Reporting

Governor's Budget Proposal. The Governor's Office of Business and Economic Development (GO-Biz) requests $391,000 ongoing General Fund and hiring authority for 3.0 positions for the California Office of the Small Business Advocate (CalOSBA) for the purpose of implementing AB 2019, Petrie-Norris, Ch. 730, Stats. 2022.

Background. CalOSBA describes its mission as supporting economic growth and innovation and ensuring that all California small businesses and innovative startups have the information and direct support they need to better navigate resources, programs and regulations. Moreover, CalOSBA states, it serves as the voice of small business, representing their views and interests across the state and advocating for equitable access to capital, markets, and networks so that all California small businesses successfully start, manage, grow and become more resilient. Among other things, CalOSBA administers grants, provides training and consultation services, conducts outreach and advocacy, and operates disaster preparedness and relief efforts for small businesses.

Of particular relevance to this request, CalOSBA is statutorily obligated to report annually to the Governor and to the Legislature regarding its activities and any small business-related policy recommendations that it has.

AB 2019 expanded the required content of this report to include two additional components:

(1) Details on CalOSBA's activities to support procurement participation by small businesses; microbusinesses; disabled veteran business enterprises (DVBEs); and businesses or microbusinesses owned by women, minorities or LGBTQ community members.

(2) Information on state agency compliance and implementation of "economic equity first" action plans and policies. AB 2019 required state agencies with $100,000 or more in annual contracting expenditures – estimated to be more than 250 agencies -- to have such plans, which are supposed to ensure that disadvantaged small businesses have access to the agency's procurement process.

CalOSBA states that, in order to report on these two new components as required, it will need to pursue extensive research, collaborate with hundreds of state agencies, and document a range of new metrics. This request is intended to enable CalOSBA to carry out these newly required functions.

Comparison to Appropriations Estimates. The amount requested is roughly consistent with costs estimates for AB 2019 considered by the Senate Appropriations Committee, which were "total ongoing costs of $500,000 to research, coordinate, and compile data with external agencies."

Staff Recommendation. Approve as budgeted.

Issue 2: Zero Emission Vehicles: Market Development Workload and Equity Advocate

Governor's Budget Proposal. The Governor's Office of Business and Economic Development (GO-Biz) requests hiring authority for 4.0 positions, $764,000 in Air Pollution Control Funds in 2023- 24 through 2027-28, and $534,000 in 2028-29 and ongoing in Air Pollution Control Funds for the Zero Emission Market Development Unit (ZEV Unit) to implement SB 1251, Gonzalez, Ch. 372, Stats. 2022 and to address increased workload.

Background. California is in the midst of a push to convert its transportation network to zero-emission vehicles. Within that effort, GO-Biz describes key duties of its ZEV Unit as follows:

- lead the state's ZEV Market Development Strategy;
- align state agency efforts related to ZEVs;
- work with the private sector to overcome barriers and expand new opportunities;
- advance permit streamlining; and
- accelerate infrastructure development.

According to GO-Biz, the ZEV Unit's newest challenge is supporting the development of Big ZEV markets. "Big ZEV" is a relatively new set of markets that includes class 3-8 trucks and buses, port infrastructure, and other hard-to-decarbonize technologies.

Due to the recent enactment of SB 1251, GO-Biz ZEV Unit also has new responsibilities to better integrate equity considerations into its work. Specifically, SB 1251 requires the ZEV Unit to hire a ZEV Equity Advocate tasked with overseeing the incorporation of equity planning and programming across state agencies involved in the development and support of California's ZEV vehicles and corresponding infrastructure. As described by GO-Biz, the ZEV Equity Advocate's duties will include:

- integrating equity principles and actions into ZEV market development activities;
- facilitating information flow, coordination, and partnerships between and among public private, and NGO partners;
- increase the transparency of ongoing ZEV equity efforts;
- establishing well-coordinated engagement with community-based organizations to continually improve interagency efforts to reach priority opportunities, incorporate feedback, and increase opportunities for those most in need to benefit from the transition to ZEVs;
- expanding ZEV equity communication and collaboration; and
- developing and implementing strategies and tools to deepen equitable access to ZEVs by identifying and addressing barriers.

This budget request is intended to address both general increased workload pressure on the ZEV Unit as well as implementation of SB 1251. GO-Biz breaks the request down into two components:

(1) Hiring authority for 4.0 additional positions, thus expanding the ZEV Unit to a 9-person team. (8.0 authorized + 0.6 blanket position).

(2) $100,000 ongoing General Fund for external contracting services.

GO-Biz explains that it needs money for external contracting services to respond to "unexpected developments or sudden shifts in expected developments" where "[t]he stakes are often high, with the consequences of inaction and incomplete action being lost investments, underdeveloped policies, or dramatic misalignments within or beyond state government." GO-Biz asserts that the requested $100,000 would allow the ZEV Unit to contract out, on an as-needed basis, with external consultants, nonprofits, and other groups with ZEV-related expertise.

Comparison with Appropriations Estimates. The requested amounts for implementation of SB 1251 are roughly consistent with projections when the bill was under consideration before the Assembly Appropriations Committee's, which were: "costs of at least $150,000 ongoing to GO-Biz to create the Advocate position and undertake the scope of work" and "one-time costs of approximately $55,000 to contract with third parties to assist in this collaborative process."

Staff Recommendation. Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

Issue 3: Acquisition of Goods and Services-Alternative Contracting Procedures (SB 1422)

Request. The Governor's budget requests $481,000 in ongoing expenditure authority from the Service Revolving Fund and 3.0 positions, beginning in 2023-24, for the Department of General Services (DGS), Procurement Division (PD) to address workload required to support the implementation of SB 1422 (Hertzberg), Chapter 310, Statutes of 2022.

Background. The DGS-PD establishes Leveraged Procurement Agreements (LPAs), which gives the DGS Director the authority to consolidate the needs of multiple state agencies for goods, information technology and services, and establish contracts, master agreements, multiple award schedules, and cooperative agreements, including agreements with entities outside the state, and other types of agreements that leverage the state's buying power for certain acquisitions.

SB 1422 authorizes DGS-PD to use the existing LPA procedures established in statute for purchase/installation contracts of carpet, resilient flooring, synthetic turf, or lighting fixtures, notwithstanding any other law requiring the bidding on public works projects.

DGS anticipates an increase of approximately 25 contracts (or 303 LPAs) per year relating to carpet contract requests for LPAs for goods and services to support the installation, and/or purchase of carpet, resilient flooring, synthetic turf, or lighting fixtures in multiple LPA types. DGS requests three AGPAs to address the estimated increase in workload.

Staff Recommendation. Approve as budgeted.

Issue 4: California Building Standards Commission New Bill Mandates

Request. The Governor's budget requests a limited-term expenditure authority increase of $535,000 from the Building Standards Administration Special Revolving Fund for DGS, Building Standards Commission (CBSC) to fund 1.0 Supervising Architect and 1.0 Associate Architect for three years, beginning in 2023-24 to meet new legislative mandates enacted by AB 209, AB 1738, AB 2075, AB 2232, AB 2446, AB 2863 (Chapters 251, 687, 346, 777, 352, and 809 of the Statutes of 2022, respectively). Additionally, CBSC requests a one-time augmentation in expenditure authority in 2023-24 of $56,000 to reconfigure CBSC's existing office space.

Background. According to DGS, the requested positions will be used to carry out the legislative mandates of AB 209, AB 1738, AB 2075, AB 2232, AB 2446, and AB 2863, including the coordination with multiple other proposing and adopting agencies throughout the process of researching, developing, adopting, codifying, and publishing new building standards to enact their requirements.

The mandates require ongoing duties and responsibilities for CBSC staff. The requested positions are intended to support the CBSC's ability to continue meeting its ongoing obligations in administering the triennial and intervening code adoption cycles, reviewing code ordinances received from over 540 local jurisdictions for accepted filing, providing education and outreach programs for current building standards, and continuing the development and updating of building standards for occupancies within its authority while also meeting the new mandates and avoiding delays.

AB 209 (Committee on Budget), Chapter 251, Statutes of 2022 requires CBSC to consider for adoption specified refrigerant reference standards.

AB 1738 (Boerner Horvath), Chapter 687, Statutes of 2022 requires CBSC to research, develop, and propose building standards for EV charging stations in existing nonresidential developments when they undergo certain additions or alterations to existing parking facilities.

AB 2075 (Ting), Chapter 346, Statutes of 2022 requires CBSC to collaborate with the California Energy Commission and the California Air Resources Board in the development of EV charging infrastructure standards with an emphasis on the costs of compliance and the economic and fiscal impacts of the standards proposed.

AB 2232 (McCarty), Chapter 777, Statutes of 2022 requires CBSC to research, develop, and propose for adoption mandatory standards for carbon dioxide monitors and minimum ventilation rates for covered school classrooms.

AB 2446 (Holden), Chapter 352, Statutes of 2022 requires CBSC to consult with CARB and other stakeholders to develop a framework for embodied carbon in construction materials by July 1, 2025.

AB 2863 (Wilson), Chapter 809, Statutes of 2022 requires CBSC to research, develop, and propose for adoption revised mandatory building standards for bicycle parking at nonresidential occupancies independent of the number of vehicle parking spaces.

Staff Recommendation. Approve as Budgeted.

Issue 5: Clean Energy, Jobs, Affordability Act of 2022 (SB 1020)

Request. The Governor's budget requests $1.7 million General Fund, $203,000 in limited-term authority from the Service Revolving Fund, and 1.0 position for three years, beginning in 2023-24 for the DGS, Office of Sustainability to accelerate the deployment of clean energy at state facilities and manage the transition to 100 percent renewable energy at all state facilities pursuant to SB 1020 (Laird), Chapter 361, Statutes of 2022.

Background. SB 1020 requires that 100 percent of electricity be procured to serve all state agencies by December 31, 2035, from renewable energy and zero-carbon resources in California. While Chapter 312, Statutes of 2018 (SB 100, De León) already mandates the state electrical grid to be 100 percent carbon neutral by 2045, this law accelerates the requirement for state agencies by ten years.

<u>DGS' Office of Sustainability.</u> The Office of Sustainability (OS) is responsible for the overall coordination of state sustainability efforts and reporting through the Sustainable Buildings Working Group. OS is the statewide coordinator of Sustainability Roadmaps, which outline the progress and future plans to achieve sustainability goals set forth by executive orders, policies, and procedures for each department. OS manages assessments, studies, and the design and construction of clean, on-site generation and energy storage through power purchase agreements (PPAs), and other procurement methods. OS also oversees the planning, designing, and constructing of energy efficiency projects on behalf of state agencies. Finally, OS supports state departments through deployment of electric vehicle charging infrastructure for state facilities.

<u>The Process of Building On-Site Renewable Energy.</u> OS currently installs on-site zero-carbon renewable energy generation systems at state facilities using a contracting method known as Power Purchase Agreement (PPA). Wind and solar energy systems installed with a PPA are owned and managed by a third-party contractor. The energy produced is sold to the state agency at a lower price than is available from the local electric utility. This method allows the state to reduce greenhouse gas emissions without necessitating the purchase of, or installation costs for, the equipment. Many state facilities could benefit from PPAs, but OS is limited by available staffing in its ability to evaluate sites and prioritize them for PPA contracting.

According to DGS, given the expedited timelines set by SB 1020, OS would utilize $1.667 million per year of the requested three-year funding to support initial feasibility, planning, and surveying work for renewable energy, energy storage, and microgrid project opportunities that would maximize the yield of clean energy, cost savings, and energy reliability for state facilities. OS will also work with utilities and CCAs to procure renewable energy through their programs to meet the needs of state facilities and operations not able to obtain onsite renewable energy.

DGS is also requesting one Staff Services Manager II (Specialist) within the Office of Sustainability to be responsible for, among other things, researching available renewable energy programs, analyzing costs, implementation of SB 1020, and conveying these findings to state departments.

Staff Recommendation. Approve as budgeted.

Issue 6: Emergency Services Function #7 Emergency Workload Support

Request. The Governor's budget requests $2.01 million in ongoing expenditure authority from the Service Revolving Fund and 12.0 full time permanent positions beginning in fiscal year 2023-24 for the DGS Procurement Division (PD), Office of Risk & Insurance Management (ORIM), and Office of Fiscal Services (OFS) to support the increased ongoing demand for statewide emergency management functions and departmental services specific to statewide emergency planning, fiscal, and procurement services.

Background.

California Emergency Plan. In 2009, Cal OES developed the State of California Emergency Plan, establishing the California Emergency Service Functions (CA-ESF), which consist of 18 primary disciplines or activities essential to addressing the emergency management needs of communities in all phases of emergency management. The Government Operations Agency has assigned DGS primary mission responsibility of CA-ESF 3 – Construction, and Engineering, and CA-ESF 7 – Resources. During an emergency recovery response, CA-ESF 7 has the broadest responsibility in supporting and coordinating state-level activities to restore critical community functions within California. CAESF 7 provides support for other CA-ESFs, the response community, and emergency procurement.

According to the Administration, the frequency and severity of emergency events requiring ORIM, PD, and OFS support has increased, resulting in a lack of resources during activation and suspension of ongoing emergency management functions, which are critical to effectively prepare for future disasters. The past four years have proven these extended disasters are not subsiding. This trend of increasing complexity and duration of support is expected to continue.

DGS requests the following positions to support the increased demand for departmental statewide emergency management functions and enable DGS to fulfill its statutory roles in disaster preparedness, emergency recovery procurement services, and fiscal service:

PD Requested Positions:
- Two Staff Services Manager Is
- Seven AGPAs

ORIM Requested Positions:
- One AGPA

OFS Requested Positions:
- One Accounting Administrator I (Supervisor)
- One Research Data Specialist II

Staff Recommendation. Approve as budgeted.

Issue 7: Enterprise Technology Solutions Information Technology Workload Adjustment

Request. The Governor's budget requests $2.5 million in one-time authority from the Service Revolving Fund in 2023-24, $2.2 million in ongoing authority from the Service Revolving Fund beginning in fiscal year 2024-25, and position authority for 12.0 permanent positions beginning in fiscal year 2023-24 for DGS, Enterprise Technology Solutions (ETS) to comply with existing Cal-Secure requirements of cybersecurity, privacy and data governance, and the evolving needs of its customers.

Background. DGS serves as the State's business manager by providing services to other state agencies. ETS provides infrastructure, application, security, and privacy support for each of DGS' twenty-four (24) unique business lines that support other state agencies, California's businesses, and members of the public.

On October 22, 2021, the office of Governor Gavin Newsom issued the State Government Cybersecurity memo, officially adopting Cal-Secure as the state's multi-year strategy and roadmap for cybersecurity. This directed state entities to implement specific security requirements within specific timeframes.

The table below shows the phased order of priority of Cybersecurity Capabilities mandated by Cal-Secure.

Cal-Secure Mandated Capabilities				
Phase 1 (FY21-22)	**Phase 2 (FY22-23)**	**Phase 3 (FY23-24)**	**Phase 4 (FY24-25)**	**Phase 5 (FY25-26)**
• Anti-Malware Protection • Anti-Phishing Program • Multi-Factor Authentication • Continuous Vulnerability Management	• Asset Management • Incident Response • Continuous Patch Management • Privileged Access Management • Security and Privacy Awareness Training • Security Continuous Monitoring 24x7 • Cloud Security Monitoring	• Data Loss Prevention • Log Management • Network Threat Detection • Network Threat Protection • Threat Intelligence Program • Application Security • Operational Technology Security	• Disaster Recovery • Enterprise Sign-on • Mobile Device Management • Application Development Security • Application Whitelisting • Software Supply Chain Management	• Identity Lifecycle Management • Insider Threat Detection • Network Access Control • Enterprise Encryption • Mobile Threat Defense

Staff Recommendation. Approve as budgeted.

Issue 8: Facilities Management Division Position Authority

Request. The Governor's budget requests 2.0 permanent positions beginning in 2023-24 and ongoing for DGS, FMD to address existing workload related to its building maintenance program for buildings owned and operated by DGS. The cost of these positions will be absorbed within existing expenditure authority.

Background. FMD provides building management, maintenance, and repairs for a myriad of office buildings, warehouses, and parking facilities throughout the State. FMD is comprised of three branches: Project and Construction Management (PCM), Facility Operations, and Administrative Services. FMD is responsible for the safety and security of buildings under the jurisdiction of DGS and provides management, maintenance, trades, engineering, custodial, landscaping, and minor construction services. The DGS portfolio currently has $1.4 billion in deferred maintenance needs and systematically prioritizes repairs or full building renovations of DGS' most deficient buildings as resources are available to reduce this number and protect the State's real estate assets.

The positions requested in this proposal include:

- One Staff Services Manager (SSM) II and one SSM I to replace contracted staff in FMD's automated maintenance system program, also known as the Maximo program, an asset management, life cycle, and workflow process management system that also acts as a database that tracks the day-to-day operations of facilities maintained by FMD.

Staff Recommendation. Approve as budgeted.

Issue 9: Office of Administrative Hearings Workload Adjustment

Request. The Governor's budget requests $650,000 ongoing authority from the Service Revolving Fund, 5.0 positions, and a three-year limited-term extension of $11.45 million in authority from the Service Revolving Fund for DGS, Office of Administrative Hearings (OAH) to address Peace Officer Certification Hearings workload created by SB 2 (Bradford), Chapter 409, Statutes of 2021 and Cannabis Administrative Hearings Workload.

Background. OAH is a quasi-judicial tribunal that conducts mediations and hearings for over 1,800 state and local agencies. OAH operates as a central panel and, as such, is independent of any entities which appear before it.

Peace Officer Certification Hearings. SB 2 requires the Commission on Peace Officer Standards and Training (POST) to establish the Peace Officer Standards Accountability Division, within the Commission, to review serious misconduct investigations conducted by law enforcement agencies, and conduct follow up investigations, if necessary. The Division's findings may lead to grounds for suspension or revocation of an individual's peace officer certification. SB 2 also requires the creation of a nine member Peace Officer Standards Accountability Advisory Board no later than January 1, 2023, to make recommendations on peace officer decertification. SB 2 requires POST to notify any individuals subject to revocation or suspension of their certification in writing. Should the individual contest POST's findings, due process must be initiated, to include review and recommendation by the Advisory Board, review and decision by the POST Commission, and a final review and proposed decision by an OAH Administrative Law Judge (ALJ).

The impact on OAH focuses on the hearings and decisions regarding the suspension or revocation of the peace officer certifications. OAH met with POST regarding the statutory and regulatory scheme for POST as it had been developing, and POST's estimates of case volume and where cases were expected to arise across the state. OAH also observed the public hearings held by POST on May 25, 2022, regarding proposed regulations. OAH plans to continue to meet regularly with POST as the statutes and/or regulations continue to be developed to ensure OAH is kept apprised of information relevant to anticipated case volume.

Cannabis Hearings. The 2020 budget provided an extension of $11.45 million for cannabis license hearings workload through 2022-23. Over the past five years, OAH has received minimal number of cases due to delays in the licensing program implementation. However, OAH is expecting an increase in caseload due to the phase-out of provisional licenses, the implementation of annual licenses, and a pending Superior Court case in Alameda County challenging the alleged lack of due process in not having an appeal right for a denial of a provisional license. If the case results in a finding that applicants denied provisional licenses are entitled to an administrative hearing on any challenge of the denial, the number of cases referred to OAH would increase significantly starting in fiscal years 2023-2024.

Staff Recommendation. Approve as budgeted.

Issue 10: Office of Fleet and Asset Management Fleet Asset Management System Program State Fleet Policy and Compliance

Request. The Governor's budget requests $654,000 ongoing authority from the Service Revolving Fund and 4.0 positions for the DGS, Office of Fleet and Asset Management (OFAM) to implement a State Fleet Policy Development and Compliance Review program to support the Administration's accelerated fleet sustainability initiatives by continuing to establish green fleet policies, ensure state departments' compliance with these policies, and provide mandatory reporting on the results of these policies.

Background. OFAM's Fleet Asset Management System (FAMS) program is responsible for the development, implementation, and maintenance of policies and procedures governing the State's fleet acquisition, utilization, disposition, and for data collection, reporting and management.

According to DGS, the FAMS program has been growing in response to the Administration's continued adoption of fleet sustainability initiatives. FAMS workload has consistently increased and is anticipated to continue to increase rapidly. Increased workload with limited resources have resulted in high turnover rates among FAMS staff and managers. Staffing shortage result in limited program capacity to provide the most efficient and effective services to State departments. It also causes FAMS management to spend a significant amount of time hiring, onboarding, and training new staff.

DGS requests the following positions to support the Administration's accelerated fleet sustainability initiatives:

- One Staff Services Manager I
- Three Associate Governmental Program Analysts.

Staff Recommendation. Approve as budgeted.

Issue 11: Office of Human Resources Workload Adjustment

Request. The Governor's budget requests $395,000 in ongoing authority from the Service Revolving Fund and 6.0 positions for the DGS, Office of Human Resources (OHR) to support human resources administrative services and to bring technical, analytical, and professional staffing in line with the department's growth.

Background. OHR provides human resources services for DGS and ensures DGS operates in compliance with all personnel laws, rules, regulations, and all applicable bargaining unit contracts. OHR is responsible for analyzing and processing Requests for Personnel Actions (RPA) and handles approximately 1,700 requests per calendar year for actions related to filling new positions, refilling vacancies, position reclassifications, and temporary help appointments. OHR is also responsible for processing all payroll and benefits-related transactions for DGS, including but not limited to appointments, separations, disability benefits, responding to inquiries from control agencies, retirements, review of documents, and payroll accounts receivables. Additionally, OHR manages the upward mobility and mentorship programs and develops supporting documents for recruitments.

According to DGS, current staffing is not sufficient to provide the critical administrative and human resources services in a timely fashion or to meet state mandated requirements. This proposal is intended to address the increased workload resulting from RPAs, developing supporting documents for recruitments, processing payroll transactions, correcting payroll transactions, improving and modernizing critical business processes, providing personnel support and assistance to all DGS programs on a variety of human resources issues.

The table below notes the positions requested by DGS and their corresponding units.

OHR Unit	Classification	Number of Requested Positions
Blanket to Coded Positions		
Personnel Transactions Unit	Senior Personnel Specialist*	1.0
Personnel Transactions Unit	Associate Governmental Program Analyst*	1.0
Customer Resources Unit	Office Assistant (General)*	1.0
Examinations Unit	Associate Personnel Analyst*	1.0
Labor Relations Unit	Labor Relations Specialist*	1.0
Special Projects Unit	Staff Services Manager I (Specialist)*	1.0
TOTAL		**6.0**

Staff Recommendation. Approve as budgeted.

Issue 12: Office of Legal Services Internal Workload Adjustment

Request. The Governor's budget requests $636,000 in ongoing authority from the Service Revolving Fund and 2.0 permanent positions beginning in 2023-24 for the DGS, Office of Legal Services Internal (OLS-INT) to manage growing workload associated with legal support for complex real estate matters and supervisory work over the entire range of legal issues handled by DGS attorneys.

Background. OLS staffing currently includes eighteen Staff Attorneys, one Retired Annuitant Staff Attorney, two Assistant Chief Counsels, and a Chief Counsel. OLS-INT serves all 35 business lines within DGS and is tasked with providing advice and training to customer divisions within DGS. Services for external customer agencies include close to 8,000 contract reviews annually, contract advisory work, and 80-100 annual bid protests, which are a distinct and separate workload from the responsibilities placed on OLS-INT attorneys as in-house counsel.

DGS requests one Assistant Chief Counsel (ACC) and one Attorney IV in Real Estate and Public Works. According to DGS, the addition of the Real Estate Attorney IV is needed to improve its ability to advise on Public Works issues due to the growing number and complexity of DGS' real estate projects and litigation. The ACC is requested to improve the balance of workload across three, instead of two, supervisors, and to ensure greater supervisory focus on attorneys handling an increasing employment law workload.

Staff Recommendation. Approve as budgeted.

Issue 13: Office of State Publishing ScholarShare Postage Increase (Spring Finance Letter)

Request. The DGS, Office of State Publishing (OSP) requests $558,000 in expenditure authority from the Service Revolving Fund in 2023-24 and $380,000 in 2024-25 for DGS, Office of State Publishing (OSP) to fund postage for the ScholarShare Investment Board's initial notification mailings to eligible participants of the California Kids Investment and Development Savings Program.

Background. OSP is responsible for providing state printing and mailing services to state, federal, county, and city agencies by providing printing, communication and document management solutions through specialized knowledge, statewide perspective and coordinated public and private partnership. Services include printing, mailing, storage, and strategic marketing solutions as well as document remediation to ensure accessibility compliance with state and federal standards.

The State Investment Board (SIB) is the state agency responsible for overseeing ScholarShare 529, a state sponsored, tax-advantaged investment vehicle designed to help and encourage families to save for future education expenses. SIB also oversees CalKIDS, a program that gives children in California a jump-start on saving for college or career training. All participants of the program receive a seed deposit in a CalKIDS account to help pay for future education after high school.

According to DGS, OSP's existing postage will not be able to absorb the new costs for services with SIB. The requested resources are intended to fund postage for the ScholarShare Investment Board's initial notification mailings to eligible participants of the California Kids Investment and Development Savings Program.

Staff Recommendation. Approve Spring Finance Letter.

Issue 14: Real Estate Services Division California Military Department and California Highway Patrol Workload

Request. The Governor's budget requests $795,000 in ongoing authority from the Service Revolving Fund, and three permanent positions beginning in 2023-24 for the DGS, Real Estate Services Division to address new project management workload associated with the California Military Department and California Highway Patrol (CHP).

Background. According to DGS, the requested resources in this proposal are necessary to take on the increased workload of project management responsibilities related to capital outlay work returning to DGS from the California Military Department as well as the increased workload from the CHP.

In 2022-23, CHP received funding for five property acquisitions for their field office projects. In addition, the CHP is currently seeking site selection (first step in acquisition) for five more sites and two additional site procurements (last step in acquisition) for field office projects funded in previous years. According to DGS, the additional staff are needed to address the current acquisition phases and then subsequent phases of the project in future years.

Staff Recommendation. Approve as budgeted.

Issue 15: Recycle Products and High Road Job Contracts Implementation (AB 661 and SB 674)

Request. The Governor's budget requests $672,000 from the Service Revolving Fund in ongoing expenditure authority, 4.0 permanent positions, and a one-time expenditure authority increase of $100,000 from the Service Revolving Fund, beginning in 2023-24 for the DGS, Procurement Division (PD) to address an increasing workload to support the requirements of AB 661 (Bennet) Chapter 517, Statutes of 2022 and SB 674 (Durazo) Chapter 875, Statutes of 2022.

Background. AB 661 requires CalRecycle and DGS PD to update the list of recycled products, update the minimum recycle content requirements, and to assist the PD Policy Unit with incorporating the above noted updated information in the State Contracting Manual (SCM), the Financial Information System for California (FI$Cal), and the financial system of any department not utilizing FI$Cal. Additionally, this bill would require PD to consolidate the needs of multiple state agencies to establish new LPAs for any newly identified recycled products.

SB 674 requires DGS PD, in collaboration with the Labor and Workforce Development Agency (LWDA), to develop and establish policies, develop contract requirements for high road job standards, and review and analyze contractor reports to determine compliance to contract requirements for high road job standards annually.

Additionally, the bill mandates contracts awarded by DGS or the Department of Transportation (CalTrans) for the acquisition of zero-emission transit vehicles and electric vehicle supply equipment valued at $10 million or more, except as specified, to incorporate high road job standards. It also would require contractors to annually submit information necessary to demonstrate its compliance with the specified requirements before, and a final report before it receives final payment on a covered contract.

According to DGS, the requested resources are needed to 1) provide the required updated policies, procedures and guidance to state procurement professionals and contractors pursuant to SB 674, 2) develop procurement policy and training materials to implement provisions of AB 661, and 3) conduct research and contract administration for the acquisition of newly identified recyclable products and zero-emission transit vehicles and EVSE.

Staff Recommendation. Approve as budgeted.

Issue 16: Small Business Participation on Infrastructure, Investment and Job Act (IIJA) Contracts (AB 2974)

Request. The Governor's budget requests $162,000 in ongoing expenditure authority from the Service Revolving Fund and 1.0 permanent position, beginning in 2023-24 for DGS, PD to implement AB 2974 (Committee on Jobs, Economic Development, and the Economy) Statutes of 2022, Chapter 600 which requires state agencies and departments to set 25 percent small business participation goals and report DGS small business participation on contracts funded by the Federal Infrastructure Investment and Jobs Act.

Background. AB 2974 establishes a 25 percent small business participation goal for contracts financed, in whole or in part, with specified funding from the Federal Infrastructure Investment and Jobs Act (IIJA), and includes reporting requirements, as specified.

The law as amended requires a state agency that has awarded any contract financed with the proceeds of the IIJA to annually report to DGS statistics comparing the small business and microbusiness participation dollars for contracts funded by these federal dollars to the total contract dollar amounts. It also requires any state agency that did not meet its participation goal to include in its report a plan of action (improvement plan) to meet its SB participation goals during the current fiscal year, in a manner to be determined by DGS.

The requested resources will provide a dedicated position to carry out the ongoing training, monitoring, technical assistance, and reporting of departments using the IIJA funding.

Staff Recommendation. Approve as budgeted.

Issue 17: Statewide Procurement Disparity Study and Outreach (AB 2019)

Request. The Governor's budget requests a one-time expenditure authority increase of $4.109 million from the General Fund for the DGS, Procurement Division to conduct a statewide procurement disparity study in 2023-24. Additionally, the Procurement Division requests 1.0 permanent positions, 1.0 two-year limited term position, and a one-time retired annuitant starting 2023-24, plus the associated expenditure authority increase from the Service Revolving Fund of $425,000 in 2023-24, $325,000 in 2024-25, and an ongoing expenditure authority increase of $162,000 in 2025-26 to support the implementation of AB 2019 (Petrie-Norris) Chapter 730, Statutes of 2022.

Background. AB 2019 codifies a 25 percent small business state contract participation goal. The bill requires DGS to conduct a statewide procurement and contracting disparity study to provide guidelines for outreach strategies, state government program development, and improvement to contracting policies. Additionally, state agencies are required to adopt an "Economic Equity First" action plan and policy, including specified elements, designed to promote the participation of small businesses, including women, minority, and LGBTQ-owned businesses, in their contracts.

Per AB 2019, DGS is authorized to collect and publicly display information on FI$Cal for Small Business or Disabled Veteran Business Enterprises applicants or certified firms that voluntarily submit a declaration that the business is 51 percent owned, and under the management of an individual or group of individuals who identify as either minority-owned, women-owned, or LGBTQ-owned.

DGS notes that it is facing significant data gaps and minimal tools to clearly identify what types of businesses are contracting with the state. As such, DGS' disparity study will examine various types of data to include quantifiable procurement and contracting data, census data, and anecdotal data.

DGS estimates the required disparity study to cost up to $4.109 million for a variety of reasons. FY 2020-21 State Contracting and Procurement Registration System (SCPRS) data shows that Caltrans accounted for $0.3 billion of the total $35.3 billion statewide spend. Caltrans' $0.9 million disparity study was their third study and only focused on Caltrans contracting activity. Caltrans is required by Title 49, Code of Federal Regulations section 26.45, to capture race, ethnicity data and contracting participation every three years, whereas the state does not. Hence the state will need to start from scratch to develop and incorporate mechanisms to obtain that data. DGS anticipates a significantly higher price tag for a statewide disparity study that must look at a much larger contracting and procurement universe and the statewide pool of vendors, of which there are over 17,000 certified firms.

In addition to the disparity study, requested resources will go towards policy development, as well as certification and outreach for minority-owned, women-owned, and LGBTQ-owned businesses.

Staff Recommendation. Approve as budgeted.

8885 COMMISSION ON STATE MANDATES

Issue 18: Sexual Assault Evidence Kits Testing Mandate

Request. The Governor's budget requests $22.8 million General Fund in 2023-24 to reimburse local governments for the costs they incurred during the initial claiming period of 2019-20 to 2020-21 associated with complying with SB 22 (Leyva) Chapter 588, Statutes of 2019. The Governor's budget also includes $10.8 million ongoing General Fund to support such costs in the future.

Background. SB 22 requires city and county law enforcement agencies to perform activities relating to DNA testing of sexual assault forensic evidence within specified time periods. The requested resources are intended to reimburse local governments for the costs they incurred during the initial claiming period of 2019-20 to 2020-21 to ensure sexual assault evidence kits were tested within the statutorily required time frames while they were under review by the Commission. Funding the mandate would make local compliance with the above requirements mandatory in 2023-24 and the state responsible for the costs incurred by local governments.

Staff Recommendation. Approve as budgeted.

Issue 19: Racial and Identity Profiling Mandate

Request. The Governor's budget requests $50.5 million General Fund to reimburse local governments for the costs they incurred to comply with AB 953 (Weber) Chapter 466, Statutes of 2015 while they were under review by the Commission. The Governor's budget also includes $16.5 million ongoing General Fund to support such costs in the future.

Background. AB 953 increased law enforcement reporting requirements by requiring each state and local agency that employs law enforcement officers to report annually to the Department of Justice on all stops conducted by its officers for the preceding calendar year. Funding the mandate would make local compliance with the above requirements mandatory in 2023-24 and the state responsible for the costs incurred by local governments.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

Issue 20: California Competes Grant Program

Governor's Budget Proposal. The Governor's Office of Business and Economic Development (GO-Biz) requests $120 million in one-time General Fund for a third year of funding for the California Competes Grant program.

Background. As described by GO-Biz, the CalCompetes program provides financial incentives for businesses to move to California and to stay, grow, and create quality full-time jobs here. GO-Biz states that CalCompetes "remains the State's strongest 'deal-closing' tool to attract and retain job-creating firms, with an emphasis on diversity, inclusion, training, and upward mobility."

In the first several years after it was established in 2014, CalCompetes offered all of its financial incentives to businesses in the form of tax credits. Under this structure, CalCompetes offers businesses savings off of their future state income tax bills in exchange for agreements to make certain capital investments and hire a certain number of employees in California. If the business carries out the agreements, the business can utilize the tax credits to reduce or eliminate their state tax bill. If the business does not comply with its agreements, the state recaptures the credits and recycles them back into the CalCompetes program.

It turned out, however, that because many of the companies receiving CalCompete's incentives are relatively new, they generated relatively little income. Accordingly, their tax burden is relatively low. As a result, only some of the businesses have been able to take full advantage of the tax credits that CalCompetes gave them.

To better address situations like these, the state added a grant-based component to CalCompetes beginning in 2021-22. Specifically, in addition to offering $290 million in tax credit-based incentives that year, CalCompetes also offered $120 million in grants as an alternative. The same amount was made available for CalCompetes grants again last year. Under the grant-based programs, CalCompetes provides up-front funding to businesses in exchange for their promise to make investments and to hire in California. GO-Biz explains that grant based funding is advantageous for businesses.

As evidence of the program's overall success to date, CalCompetes reports that:

In 2020-21, GO-Biz received over $3.1 billion in grant requests resulting in 8 awards to businesses who collectively committed to creating over 7,600 full-time jobs and making $3.3 billion of capital investments over the next 5 years. In 2021-22, GO-Biz received over $2.7 billion in grant requests resulting in 7 awards to businesses who collectively committed to creating over 6,300 full-time jobs and making over $1.7 billion of capital investments in California over the next 5 years.

This request seeks a third year of funding for CalCompetes grants, once again in the amount of $120 million. GO-Biz states that such funding will:

(1) benefit companies that cannot receive the CalCompetes Tax Credit;
(2) grow California's semiconductor manufacturing industry by leveraging federal funds available through the CHIPS Act; and
(3) promote equity by recruiting firms from States that restrict reproductive and/or LGBTQ+ civil rights.

The last of these goals appears to align well with the BRIDGE proposal set forth in Senate President Pro Tempore Atkins SB 447. GO-Biz emphasizes, however, that promoting semiconductor production projects will be a key focus of this round of CalCompetes grants, if approved.

LAO Comments. After reviewing recent studies CalCompetes' economic impact, the LAO concludes that there is "fairly good evidence that California Competes encourages recipients to make new investments in California." However, the LAO cautions that "these findings do not allow the state to be confident the program will remain effective when expanded significantly."

As to the difference between tax credit-based incentives and grant funding, the LAO notes that:

> there were some good reasons to add a grants component to California Competes. The recent research, however, warrants revisiting the way the grant program has been structured over the last two years. In particular, given evidence supporting the effectiveness of the credits, it likely makes sense to align the structure of the grant program as closely as possible with the credit program. The grant program has most clearly deviated from the credit program on one dimension: the number and size of the awards. Because of the grant program's focus on businesses making big investment promises, significantly larger awards have been made to a much smaller number of businesses. Should the state maintain a grant program moving forward, relaxing or eliminating this focus on big investment promises could make sense.

Staff Recommendation. Hold open.

Issue 21: Increased Staffing for California Business Investment Services

Request. The Governor's Office of Business and Economic Development's (GO-Biz) Business Investment Services (CalBIS) requests 6.0 positions and $740,000 ongoing General Fund to address increased workload and preserve the team's ability to maintain current service levels effectively.

Background. According to GO-Biz, the CalBIS program has three primarily responsibilities:

(1) Provide services to employers, corporate executives, business owners, and site location consultants interested in investing or locating within California.

(2) Create and implement a process for convening teams aimed at attracting new businesses to California, mitigating the potential closure of large employers within California, or other important business development situations.

(3) Work collaboratively with local, regional, state, and federal entities, including public and private marketing institutions and trade organizations, in attracting, retaining, and helping businesses grow and be successful in California. (Gov. Code §12096.5).

GO-Biz indicates that it operates three units to execute these statutory responsibilities: the Permitting team (currently 3.0 positions, all permanent); the Business Investment Services team (13.0 positions, including 10.0 permanent and 3.0 limited-term); and the Community and Place-based Solutions team (20.6 positions, including 2.0 permanent and 18.6 limited-term). A Deputy Director oversees all three units.

According to GO-Biz, the requested resources would allow CalBIS to "fully and successfully" implement existing statutory requirements. Without these resources, GO-Biz asserts, service levels at CalBIS may deteriorate, resulting in "unfulfilled" business development opportunities across California and "unachieved" local, regional, and statewide business development goals.

Staff Comments. GO-Biz frames this request, in part, as a response to "hiring and retention challenges" confronting CalBIS. It states that hiring is especially difficult for CalBIS because CalBIS generally has to compete for talent against the private sector, which tends to pay considerably higher salaries. The Subcommittee may wish to inquire further into how expanding staffing will help to resolve this issue.

More generally, like much of GO-Biz' business development operations, evaluation of whether the cost of additional CalBIS activity is worth the benefit to the state depends on a "but-for" factor that is difficult to pin down. CalBIS reports conducting vigorous activities in support of statewide business development in California. CalBIS credits these activities with creating or retaining over 100,000 jobs and attracting more than $20 billion in project investments since, CalBIS states, many of these investments and jobs could have ended up elsewhere. In considering whether to increase CalBIS staffing further, however, the Subcommittee may wish to inquire whether some or even all of these jobs and investments might have come to California even absent intervention from CalBIS.

Staff Recommendation. Hold open.

Issue 22: International Trade Staff and Resource Augmentation

Governor's Budget Proposal. The Governor's Office of Business and Economic Development (GO-Biz) requests $327,000 ongoing General Fund and hiring authority for two positions to address increased workload for the International Affairs and Trade Unit.

Background. GO-Biz's International Affairs and Trade Unit is the lead state agency on international trade. Among other things, the Unit is supposed to promote exports and investment-based economic growth and to foster relationships with "international counterparts to help address barriers to trade, find business partners, and promote California's strengths abroad."

Within this broader mission, the Unit is responsible for running the State Trade Expansion Program (STEP) program. As described by GO-Biz, the California STEP program helps small businesses export and enter global markets and tap into the benefits of selling their products and services overseas. California STEP organizes trade missions, delegations, and California pavilions at overseas trade shows. California STEP also manages the California Export Voucher program. The Export Voucher program enables eligible California small businesses to apply for a reimbursement voucher to offset export-related expenses. Small businesses can receive up to $10,000 in funding for qualified export expenses.

California STEP was previously operated by the California Department of Food and Agriculture. It was recently transferred to GO-Biz and integrated into the International Affairs and Trade Unit.

This request seeks two additional positions:

(1) One to handle STEP program administration.

(2) One to respond to "growing demand among California small businesses and other external partners for more and better contacts, services, and networking opportunities."

LAO Comments. While the LAO states that the request for an additional STEP-related position "appears justified" in light of the program's recent transfer from the Department of Food and Agriculture to GO-Biz, the LAO see less evidence of a need for the other position requested. The LAO notes that "[t]he unit experienced a temporary surge in 2020, but inquiries have now returned to pre-2020 levels." Accordingly, the LAO suggests rejecting the proposed position that is not related to STEP.

Staff Recommendation. Hold open.

Issue 23: Increased Staffing for Administrative Services Division

Governor's Budget Proposal. GO-Biz requests 7.0 positions and $955,000 in ongoing General Fund to support the increased workload for the Administrative Services Division.

Background. GO-Biz describes its overall role as helping "drive economic inclusiveness, sustainability, and competitiveness by offering a range of resources and collaborations to businesses and other stakeholders in and beyond California."

GO-Biz reports that it currently operates 12 different program areas:

- California Infrastructure and Economic Development Bank (IBank)
- California Business Investment Services (CalBIS)
- California Film Commission (Film Commission)
- California Office of the Small Business Advocate (CalOSBA)
- Community and Local Equity Grants
- California Competes (CalCompetes)
- International Trade and Affairs Unit (International Unit)
- Zero Emission Vehicles Market Development Unit (ZEV Unit)
- Sustainable Freight and Supply Chain Development (Freight and Supply Chain)
- Climate and Energy Unit (Energy Unit)
- Travel and Tourism (Tourism)
- Executive, Legislative, Legal, and Communication Services

The role of the Administrative Services Division is to provide support to each and all of these programs. These support include:

- High-level coordination, including department-wide and interagency problem-solving.
- Information technology services, including internal client services and external grant portals.
- Business services, including procurement, records retention, and facilities management.
- Budget services, including budget development, fund management, and accounting services.
- Human resources services, including compliance, training, and retention planning.

According to GO-Biz, the last few budget cycles have resulted in a permanent gap between GO-Biz's overall responsibilities and GO-Biz's administrative capacity. GO-Biz states that the number of permanent programs it runs has grown dramatically in the last five years, rising from 18 ongoing programs in 2017-18 to 30 in 2022-23. Adding new and ongoing programs has resulted in a substantial broadening of GO-Biz's programmatic structure and, ultimately, its administrative needs.

Staff comments. This request is one of several GO-Biz requests for increased staffing. Each may have merit on its own, but the Subcommittee may also want to consider these requests in the context of the overall expansion of GO-Biz staffing.

Staff Recommendation. Hold open.

Issue 24: Made In California Program Relaunch

Governor's Budget Proposal. The California Office of the Small Business Advocate (CalOSBA), within the Governor's Office of Business and Economic Development (GO-Biz) requests $1.534 million General Fund in 2023-24, to be spent over three years, to relaunch the Made in California Program. Through proposed trailer bill language, CalOSBA also seeks statutory changes intended to increase program participation.

Background. The Made in California Program (CA Made) was meant to support in-state manufacturing by increasing consumer awareness of in-state production. Under the program, business can apply to have their products certified by an independent third party as being made in California provided the products meet specified criteria. Among other things, the products have to qualify for the Made in U.S.A. standards and the manufacturing process may be subject to inspections.

By GO-Biz' own assessment, CA Made has remained "underutilized and inaccessible for most businesses that might be interested in participating" since it launched in 2016. Despite marketing, community outreach and engagement and the establishment of a website (www.camade.ca.gov), GO-Biz reports that only two companies have applied for the CA Made certification to date.

Based on feedback from focus groups, Go-Biz attributes the lack of CA Made uptake to the costs and complexity of the third party certification process, as well as the potential for on-site inspections.

To breathe new life into the program, GO-Biz proposes significantly lowering the CA Made certification standard and then relaunching the program with what GO-Biz hopes will be a more robust group of participants.

In terms of lowering the CA Made standards, GO-Biz proposes three primary changes:

- Eliminate the requirement to comply with the Made in U.S.A. standard.
- Eliminate the requirement for independent, third-party certification of compliance with Made in California standards.
- Allow for self-attestation of compliance.

With regard to the relaunch of the program, GO-Biz proposes to:

- Recreate the CA Made website by starting over and allowing for a range of new functions including, among other things, receiving and processing applications and displaying and tracking approved applicants.
- Host conferences and other events to, among other things, promote CA Made, display CA Made products, and generate statewide interest in joining the program.
- Conduct marketing campaigns using online media and other avenues, and using successful applicants to raise awareness and generate interest in CA Made products and companies.

- Engage with current and potential businesses interested in CA Made to ensure the program is designed and run effectively and with a focus on maximizing benefits for California businesses, including by conducting market research and/or surveys.

LAO Comments. The LAO believes that "GO-Biz has not offered a convincing argument as to how consumers could be confident in a CA Made designation that is not verified by a neutral party." In light of the state's current fiscal outlook, the LAO suggests rejecting the Governor's proposal, saying:

> The state's prior efforts with CA Made have been unsuccessful. Further, as far as our office and the administration are aware, no other state or local government has successfully carried out a similar program. While GO-Biz's proposal to allow self-attestation for CA Made might increase business participation, the administration has not offered a compelling argument that such a designation would be meaningful to consumers. Overall, we think funding this effort would be a risky bet for the state.

Staff Recommendation. Hold open.

Issue 25: COVID Small Business Relief Grants Reduction

Governor's Budget Proposal. The Governor's Budget proposes to claim back approximately $92 million in General Fund from the California Small Business COVID-19 Relief Grant Program.

Background. Under the auspices of GO-Biz, the California Small Business COVID-19 Relief Grant Program provides micro grants ranging from $5,000 to $25,000 to eligible small businesses and nonprofits impacted by the COVID-19 pandemic and the related public health and safety restrictions. Some of the available funding is set aside specifically for grants to certain qualified nonprofit cultural institutions. The company Lendistry operates the program for GO-Biz pursuant to a contract.

Eligible uses for the grant funding include:

- All employee expenses including payroll costs, health care benefits, paid sick, medical, or family leave, and insurance premiums;
- Working capital and overhead, including rent, utilities, mortgage principal and interest payments (excluding mortgage prepayments), and debt obligations (including principal and interest) incurred before March 1, 2020 (i.e., in order to be an eligible debt obligation, the loan agreement, promissory note, etc., as applicable, must have been entered into before March 1, 2020);
- Costs associated with re-opening business operations after being fully or partially closed due to state-mandated COVID-19 health and safety restrictions and business closures;
- Costs associated with complying with COVID-19 federal, state or local guidelines for reopening with required safety protocols, including but not limited to equipment, plexiglass barriers, outdoor dining, PPE supplies, testing, and employee training expenses;
- Any other COVID-19 related expenses not already covered through grants, forgivable loans or other relief through federal, state, county or city programs;
- Any other COVID-19 related costs that are not one of the ineligible uses of funds (see below).

More specifically, grants can be used to pay:

- Human resource expenses for the State share of Medicaid
- Employee bonuses or severance pay
- Taxes
- Legal settlements
- Personal expenses or other expenses unrelated to COVID-19 impacts
- Expenses for repairs from damages already covered by insurance
- Reimbursement to donors for donated items or services

Originally, the state allocated $2 billion to fund the program. Go-Biz reports that as of December 2022, over 320,000 small businesses had received grants in an average amount of around $11,000 each.

After all program awards have been made to eligible businesses, the Administration expects there will be a remaining balance of around $92 million. The Administration proposes to recoup this money as savings in order to help offset the projected decline in General Fund revenues.

Staff Comment. Many small businesses were hit hard by the economic slowdown that accompanied measures instituted to limit public health harms from the COVID-19 pandemic. In light of that, the Subcommittee may wish to inquire about why $92 million in relief funding remains unclaimed.

Additionally, the California Small Business COVID-19 Relief Grant Program is only one of several pandemic relief funds which operate under GO-Biz. Now that the COVID-19 state of emergency has been lifted, the Subcommittee may want to inquire about the status of the other pandemic relief programs. Have all of the other funds been exhausted? If not, is there a case to be made for sweeping out the balance remaining at other funds?

Staff Recommendation. Hold open.

Issue 26: Update on Immigrant Integration Programming

Background. The 2022-23 state budget allocated $11.6 million in General Fund and $500,000 annually thereafter, to the Governor's Office of Business and Economic Development (GO-Biz) to support statewide coordination for immigrant integration and propel innovation including through enhanced services for immigrant communities at the state and local level, and supports for economic development activities, including at the California-Mexico border.

GO-Biz broke down the allocation into five components:

- *Local Government Investments.* The bulk of the allocation, $8.7 million, is directed toward competitive grants to local governments to start or expand positions to: 1) build trust with immigrant residents and 2) help immigrant populations navigate state and local services with priority on quality of life, workforce, and entrepreneurship supports. GO-Biz has three years to distribute the money. The grants are intended to help cities and counties seed and deploy best practices in immigrant support services with state provided technical assistance, including hiring a liaison or ombudsman to provide or expand support services across local government for immigrant communities, including small business owners, or establishing or maintaining a local office for immigrant services.

- *Export Training Network.* Another $2 million from the allocation is intended to support the statewide expansion of the export training network overseen by the International Affairs and Trade unit within GO-Biz. The Unit is supposed to distribute the funding through a request for proposals from service providers. These service providers are supposed to develop export training programs and curriculum aimed at underserved business owners, including immigrant entrepreneurs and small business operators. As part of these training programs, service providers are supposed to recruit business professionals to mentor immigrant and refugee entrepreneurs. The funding is targeted to seven regions: San Diego, Inland Empire, Orange County, Los Angeles, Central Valley, Bay Area, and Northern California.

- *Business Quick Start Guides & Translations.* Another $600,000 General Fund in 2022-23, and $200,000 ongoing is directed to expanding the number, availability, and translation of informational materials designed to empower individuals to launch their own business ventures. For example, the program is supposed to produce Business Quick Start Guides and translate those resources to priority languages, with annual updates, in coordination with the California Business Investment Services permitting unit and the California Office of the Small Business Advocate. The program is also supposed to partner with the Department of Consumer Affairs and immigrant serving organizations to develop guides to the professional licensing process in California in multiple languages. Finally, the program is supposed to synthesize website content and make it easier for individuals to access translated forms and navigate the online content.

- *Export Training Network.* An allocation of $150,000 is directed toward enhancing border region economic development activities and growing bilateral trade and investment between California and Mexico. Specifically, the funding is supposed to be used for four to five virtual or hybrid trade missions, effectively scaling a successful Baja-focused May 2021 virtual trade mission organized by GO-Biz. The CaliforniaMexico border region, commonly referred to as the Cali Baja Bi-National Mega-Region or CaliBaja, has a strong and diverse industrial center with plenty of opportunity for cross-border economic activity, particularly in the manufacturing arena. The trade missions are intended to advance the border region's strategic industries, enabling cross-border economic growth and development.

- *Immigrant–Focused Position.* The last part of the allocation provided $150,000 in ongoing funding to establish a new immigrant-focused position within GO-Biz. The new position is intended to support statewide coordination and direct resources for integration, including:
  - convening the Interagency Council on Immigrant Integration & Talent and supporting its engagement with business and immigration stakeholders;
  - providing technical assistance to state departments and agencies;
  - leading outreach to target populations regarding available services and working with business owners to identify policies that foster complete economic integration of foreign-born talent and sustained prosperity for all;
  - identifying programs and initiatives that can help support cross-border commerce;
  - facilitating support of immigrant entrepreneurs and workers, including supporting workplace based English language training and promoting citizenship; and
  - overseeing the provision of one-time funding to local governments to seed and enhance immigrant integration support services across the state and amplify the development and deployment of best practices.

Staff Comments. Conditions at California's southern border with Mexico are constantly evolving. Currently, federal policy regarding the admission of asylum seekers and other migrants attempting to enter the United States is in flux. For the last several years, many migrants have been turned away pursuant to federal policy known as Title 42, ostensibly because of risks associated with the COVID-19 pandemic. That policy is set to end on May 11, 2023. Depending on what policies and procedures the federal government adopts in its place, the end of Title 42 may result in additional immigrant arrivals in California.

GO-Biz' funding for immigrant integration effort is available statewide; it is not exclusive to the border region. Nonetheless, given the evolving nature of federal immigrant admissions policy described above, the resources recently allocated to GO-Biz for immigrant integration programming may take on particular importance in the coming months. The Subcommittee may wish to inquire with GO-Biz about the status of this programming. Have guidelines been created? Have any grants been awarded yet? If so, what is the status of those expenditures? What has the money been spent on so far and how much is left? How is the program responding to the specific needs of communities along the border? If the program has not been rolled out yet, is there a reason why not and when can communities expect to see these resources deployed?

Staff Recommendation. None. Information item only.

Issue 27: Update on GoBiz Workforce Development Programming

Background. GO-Biz coordinates with the Labor and Workforce Development Agency (LWDA) on a variety of programs with workforce development components, including the Employment Training Panel, the Division of Apprenticeship Standards, the Joint Venture Program, and California's Workforce Development Board. In most instances, however, LWDA is the primary administrator of these programs.

The primary workforce-development program operated by GO-Biz is the California Dream Fund. As described by GO-Biz, the Dream Fund provided microgrants of up to $10,000 to "seed entrepreneurship and small business creation in underserved small business groups that faced opportunity gaps." GO-Biz explains that "[t]he program was made available to eligible startups that have completed trainings and advisory services designed to accelerate business start rates and ensure successful business outcomes for participating small business." The Dream Fund was administered by the California Office of the Small Business Advocate (CalOSBA), with trainings and advisory services provided by the more than 100 technical assistance centers operating under the Technical Assistance Program (TAP).

Go-Biz states that the SB TAP network of centers are "specifically charged with expanding services to underserved business groups, which include women, minorities, veterans, as well as communities that are low-wealth, rural, and disaster impacted. In addition, CalOSBA works with an expanded network of small business support providers who bring extensive cultural and linguistic expertise in working with target populations that face significant barriers to employment and often seek entrepreneurship as a pathway to creating their own job by starting their own business."

GO-Biz reports that the Dream Fund had provided $28,824,874.00 to 4,170 newly formed businesses as of February 10, 2023 and was on track to expend all available funds. The program was oversubscribed, GO-Biz indicates, and as a result many businesses who participated in eligible startup trainings and would have been eligible candidates for a grant ended up on waiting lists.

Preliminary CA Dream Fund Data, For-Profit Awardees as of 2/10/2023 (Source: Lendistry)

Demographic	# Awards	% of Total Awards	Grant Amount
Woman-owned	2,830	67.9%	$ 18,515,000.00
Located in Rural Area	595	14.3%	$ 4,330,000.00
LMI Area	2,306	55.3%	$ 15,660,000.00
Low Wealth Area	553	13.3%	$ 3,855,000.00
Minority-owned	3,007	72.1%	$ 20,190,000.00

Race	# awards	% of Total Awards	Grant Amount
White	1,474	35.3%	$ 9,885,000.00
Other Pacific Islander	49	1.2%	$ 330,000.00
Other	792	19.0%	$ 5,355,000.00
Not Disclosed	215	5.2%	$ 1,560,000.00
Hawaiian Native	3	n/a	$ 15,000.00
Asian	526	12.6%	$ 3,655,000.00
American Indian	81	1.9%	$ 620,000.00
Alaskan Native	2	n/a	$ 15,000.00
African American	1,006	24.1%	$ 6,605,000.00

Top 10 Industries
Clothing and Clothing Accessories Retailers
Child Day Care Services
Beauty Salons
All Other General Merchandise Retailers
All Other Personal Services
Mobile Food Services
Administrative Management and General Management Consulting Services
Other Personal Care Services
Independent Artists, Writers, and Performers
Cosmetics, Beauty Supplies, and Perfume Retailers

Staff Comments. The Subcommittee may wish to inquire about the results from the Dream Fund grants as well as GO-Biz' workforce development related programming more generally. What outcomes have been achieved thus far? Does GO-Biz anticipate undertaking any further programming in this area? What strategies did GO-Biz using to ensure that Dream Fund resources reached the communities and populations most in need of expanded job opportunities in an equitable manner? What steps did GO-Biz take to connect the participants in these programs with newly emerging industries and opportunities?

Staff Recommendation. None. Information only.

0690 Office of Emergency Services
2720 Department of the California Highway Patrol
7502 Department of Technology
8940 Military Department

Issue 28: California Cybersecurity Integration Center

Request. The Governor's budget requests $28.7 million General Fund and 17 new positions (14 at CalOES and 3 at the California Department of Technology) in 2023-24 and ongoing for the Office of Emergency Services, California Military Department, California Department of Technology, and the California Highway Patrol to address increased demand on Cal-CSIC for cybersecurity coordination, intelligence gathering and dissemination, and incident response. The proposal would also make permanent 23 existing positions approved in 2020-21 for three fiscal years (12 at CalOES, 8 at CMD, and 3 at CHP).

Background. The California Cybersecurity Integration Center (Cal-CSIC) is the lead entity for coordinating statewide information security (IS) activities; gathering and disseminating threat intelligence from the federal government, county and other local governments, and private companies to state entities; and responding to cybersecurity incidents. Cal-CSIC is a partnership between four state entities: the California Office of Emergency Services (OES), which administers Cal-CSIC; the California Department of Technology (CDT); the California Highway Patrol; and the California Military Department (CMD).

<u>LAO Comments.</u>

Merit in Augmentation of Cal-CSIC Funding and Positions… The LAO finds merit in Cal-CSIC's request to make existing positions permanent to meet statewide demand for coordination of IS activities, incident response (such as responding to incidents like those recently involving the Department of Finance and Los Angeles Unified School District), and threat intelligence gathering and dissemination. Increased cyberattacks and threats to state entities cited by the administration also support additional positions and resources to meet increased demand for existing services and address emerging areas of cybersecurity risk such as threats to critical infrastructure OT systems.

…But New Goals and Outcomes of Augmentation Warrant Oversight. However, the goals and outcomes provided by Cal-CSIC in support of this proposal suggest legislative oversight is warranted. This is to ensure the augmentation meets the increased demand for existing services, helps address emerging areas of cybersecurity risk, and achieves initiatives and technical capabilities in Cal-Secure. Cal-CSIC did provide supporting documentation that aligns each of the requested positions in the proposal with each of the gaps in Cal-CSIC's current capabilities based on their level of support, but currently there is no information about the plan and time line to close these gaps. Also, Cal-CSIC's supporting documentation establishes links between Cal-Secure and positions requested in the proposal, but the goals and success measures provided would require quantification and reporting to the Legislature to be useful. For example, one of the goals is to modernize cybersecurity procurement with an accompanying success measure of eliminating the use of unsecured technology. How procurement will be modernized and the number of devices, networks, and systems that are unsecured and need to be eliminated remains unclear. Clear, measurable goals and outcomes are critical for the Legislature to monitor whether increased Cal-CSIC resources are preventing increasing numbers of cyberattacks on and threats to state entities from becoming incidents.

Budget Problem Warrants Careful Scrutiny of Proposed General Fund Spending Augmentations. The LAO identifies a budget problem in the tens of billions of dollars in 2023-24 and projects a larger budget problem at May Revision by several billion dollars across 2022-23 and 2023-24. To address the budget problem, the LAO recommends the Legislature use specific criteria to evaluate which recent augmentations to maintain versus which ones to reduce or delay. One criterion is whether a proposal sets clear goals that are in alignment with legislative priorities. While improving the state's IS defenses and preparedness is a legislative priority, as evidenced by the Legislature's approval of numerous IS proposals across several budgets and the establishment of Cal-CSIC in statute, the proposal lacks clear goals and outcome measurements that are connected to the requested funding and positions.

High Vacancy Rate Suggests at Least Some Proposed Positions Could Remain Vacant. According to CalOES, the current vacancy rate for Cal-CSIC positions is 23 percent, which is several percentage points higher than the average vacancy rate for state entities. While CalOES expects to recruit and hire these positions more quickly based on current economic conditions in the technology sector and the increased number of applications received for some positions, some proposed positions (if approved) likely could remain vacant given ongoing vacancy challenges. Given the budget problem, possible vacancies might warrant some delays or reductions of funding.

LAO Recommendations.

Approve Funding for Existing Cal-CSIC Positions, but Direct Cal-CSIC to Prioritize New Funding and Positions. The LAO recommends the Legislature approve funding for Cal-CSIC to make permanent 23 existing positions approved in 2020-21. They also recommend that the Legislature direct Cal-CSIC, in consultation with its partners, to prioritize new funding and positions that are requested in its augmentation proposal. The current budget problem requires that even proposals that align with legislative goals must prioritize their activities, and the absence of prioritization makes discussions on the proposal more difficult. The Legislature could direct Cal-CSIC to report back to budget subcommittees before May Revision on what funding and which positions are most critical to furthering Cal-CSIC's mission. With this information, the Legislature could determine whether the requested augmentation might be reduced to make additional General Fund available to address the current budget problem.

Require Reporting on Goals and Outcomes for Any New Funding and Positions. The LAO also recommends the Legislature adopt provisional budget bill language for any new funding that requires Cal-CSIC to quantify its goals and outcomes, and requires a report to the Legislature on Cal-CSIC's progress towards these goals and outcomes. If the Cal-Secure implementation reporting recommended above is approved, the Legislature also could consider incorporating the Cal-Secure goals and success measures in this proposal into that annual report. This reporting would allow the Legislature to ensure its priorities to improve state entities' IS defenses and preparedness are achieved by Cal-CSIC.

Staff Recommendation. Hold Open.

0690 Office of Emergency Services
7502 Department of Technology
8940 Military Department

Issue 29: School Cybersecurity (AB 2355)

Request. The Governor's budget requests $5.4 million General Fund in 2023-24, $3.9 million General Fund annually in 2024-25 through 2026-27 and 17 positions (7 positions at OES, 5 positions at California Department of Technology, and 5 positions at the California Military Department) in 2023-24 through 2026-27 to implement AB 2355 (Salas) Chapter 498, Statutes of 2022.

Background. The California Cybersecurity Integration Center (Cal-CSIC) is the lead entity for coordinating statewide information security (IS) activities; gathering and disseminating threat intelligence from the federal government, county and other local governments, and private companies to state entities; and responding to cybersecurity incidents. Cal-CSIC is a partnership between four state entities: the California Office of Emergency Services (OES), which administers Cal-CSIC; the California Department of Technology (CDT); the California Highway Patrol; and the California Military Department (CMD).

AB 2355 requires 1) LEAs to report cyber-attacks that impact 500 or more staff or students to Cal-CSIC, 2) Cal-CSIC to establish a database to track LEA reports of cyberattacks, and 3) Cal-CSIC to annually report on January 1st the number and types of LEA cyberattacks and associated data breaches to the Legislature.

The bill did not specify requirements for Cal-CSIC, such as responding to each request for assistance from LEAs reporting to it. Assembly Bill 2355 remains in effect until January 1, 2027.

<u>Legislative Analyst's Office (LAO) Comments.</u>

Proposal Exceeds Requirements of AB 2355. Cal-CSIC's preliminary estimate of the resources needed to help LEAs goes beyond the specific requirements of AB 2355 in three key ways. First, the estimate assumes that the addition of requests from LEAs will result in a 100 percent increase in the total number of requests from all entities for assistance from Cal-CSIC and that Cal-CSIC responds to every request. Second, the estimate assumes Cal-CSIC will provide on-site incident response to any LEA, if requested. Third, the estimate assumes Cal-CSIC will establish data sharing agreements and software licensing arrangements with each LEA to integrate at least some LEA data into future automated solutions administered by Cal-CSIC. It is reasonable for Cal-CSIC to consider what additional resources might be needed to help LEAs in the event of a cyberattack or data breach, but none of these additional activities is required by AB 2355.

No Historical Data on Number of LEA Cyberattacks, Requests for Assistance, or Incidents Requiring Response. The new requirements of AB 2355 also mean Cal-CSIC's preliminary estimate is not informed by historical data on how many cyberattacks will be reported, how many requests for assistance will be submitted, and how many incidents will require Cal-CSIC to respond. The absence of these data makes it difficult to know, for example, how the level of support requested from Cal-CSIC will differ among LEAs. Some LEAs, particularly large LEAs, might first request assistance from their cyber insurance providers and other vendors before requesting Cal-CSIC's assistance. Other LEAs might meet the reporting requirements of AB 2355, but opt not to request any support from Cal-CSIC and instead use their internal IT staff to respond and remediate any deficiencies and vulnerabilities. Without historical data and/or information about how LEAs will respond to AB 2355, Cal-CSIC's preliminary estimate of the resources needed to assist LEAs is a "best guess."

Incremental Approach to Additional Funding and Positions Warranted. Given the specific requirements of AB 2355, the LAO finds the initial $951,000 and three positions necessary to plan, develop, and implement the database to be reasonable. However, any additional funding and/or positions in 2023-24 and future fiscal years, particularly within the context of the budget problem, should not be considered in the absence of LEAs' demonstrated need for additional assistance from Cal-CSIC.

<u>LAO Recommendations.</u>

Approve $951,000 and Three Positions to Meet Requirements of AB 2355. The LAO recommends the Legislature approve $951,000 and three ITS II positions from 2023-24 through 2026-27 for Cal-CSIC to plan, develop, and implement the database that will allow it to meet the specific requirements of AB 2355.

Reject All Remaining Proposed Funding and Positions That Go Beyond Meeting AB 2355 Requirements. Without a basis for assessing the LEAs' need for additional assistance from Cal-CSIC, the LAO recommends the Legislature reject the remainder of the funding and positions requested by Cal-CSIC to implement AB 2355: $4.4 million General Fund and 14 positions in 2023-24, and $2.95 million General Fund and 14 positions from 2024-25 through 2026-27.

Consider Approving Provisional Budget Bill Language That Allows Small Amount of Additional Funding Based on Experience With LEAs. Acknowledging the need for some level of Cal-CSIC funding to help LEAs with cyberattacks and data breaches, the LAO recommends the Legislature consider approving provisional budget bill language that would allow Cal-CSIC to request some small amount of additional funding, subject to notification of the Joint Legislative Budget Committee, based on its actual experience with LEAs' response to AB 2355. The LAO also recommends the language require Cal-CSIC to provide data on the number of reported cyberattacks, requests for assistance, responses to requests for assistance, incidents that warranted response, and descriptions of the level of response before DOF can authorize expenditure of the funding. These data would complement information that is expected to be in Cal-CSIC's first AB 2355 report on January 1, 2024, and provide the Legislature with an opportunity to assess whether additional resources are warranted.

Staff Recommendation. Hold Open.

0690 Office of Emergency Services

Issue 30: State and Local Cybersecurity Grant Program (Spring Finance Letter)

Request. The California Office of Emergency Services requests $400,000 in state operations and $7,600,000 in local assistance Federal Trust Fund authority to implement the new State and Local Cybersecurity Grant Program.

Background. The State and Local Cybersecurity Grant Program (SLCGP) is part of the federal 2021 Infrastructure Investment and Jobs Act also known as the Bipartisan Infrastructure Bill. The SLCGP awards grants to eligible entities to address cybersecurity threats and risks to information systems owned or operated by, or on behalf of, state, local, or tribal governments. The goal of the SLCGP is to assist state, local, or tribal governments to manage and reduce systemic cybersecurity related risks by meeting the following objectives:

- Objective 1: Develop and establish appropriate governance structures, including developing, implementing, or revising cybersecurity plans, to improve capabilities to respond to cybersecurity incidents and ensure continuity of operations.
- Objective 2: Understand their current cybersecurity posture and areas for improvement based on continuous testing, evaluation, and structured assessments.
- Objective 3: Implement security protections commensurate with risk.
- Objective 4: Ensure organization personnel are appropriately trained in cybersecurity, commensurate with responsibility.

SLCGP funding in the first year is limited to allowable administrative activities until a cybersecurity plan has been approved by the Department of Homeland Security. OES anticipates a plan to be developed and submitted by September 2023. The cybersecurity plan must be approved by a designated planning committee, selected by the state administrative agency, in conjunction with the Chief Information Officer of the state, and must consist of at least 50% cybersecurity professionals, and represent both urban and rural communities in the state. This plan, once approved, will delineate how funds will be provided to eligible state, local, or tribal entities.

OES, as the state administrative agency, is the only entity that is eligible to apply for this grant. The available funding is for the 2022 federal fiscal year and additional funding is anticipated in 2023, 2024, and 2025. The proposed resources only request the federal authority needed for the program. There is an additional 10 percent cost share for the state operations portion which will be funded through in-kind General Fund activities of current OES/Cal-CSIC staffing. Amounts for local matches will be established through the cybersecurity plan for allocation.

Staff Recommendation. Hold Open.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 31: Adaptive Reuse of Underutilized State Buildings (AB 2592)

Request. The Governor's budget requests $1 million General Fund in 2023-24 for the DGS, Real Estate Services Division/Asset Manage Branch to implement AB 2592 (McCarty), Chapter 439, Statutes of 2022.

Background. AB 2592 requires DGS, for the purposes of expanding affordable housing development and adaptive reuse opportunities, to prepare a streamlined plan to transition underutilized multistory state buildings into all types of housing, including, but not limited to, rental or ownership housing opportunities, and report this plan to the Legislature by January 1, 2024.

Adaptive reuse refers to the process of reusing an existing building for a purpose other than which it was originally designed for. It can be an effective tool for housing development if a given site meets necessary conditions. The most critical conditions are that the existing building must utilize the site to its development potential, and the dimensions of the building floorplates must fall within prescribed ranges that are suitable for housing conversion. DGS has conceptually evaluated sites for adaptive reuse options and have found very few to be suitable.

Executive Order N-06-19. Executive Order N-06-19 required DGS to review all state-owned property, identify excess properties that could be made available for affordable housing, develop an online inventory of excess sites and issue requests for proposals for long-term ground leases for affordable housing development.

Based on a visual review of each property, DGS identified approximately 500 sites that (1) appeared potentially suitable for housing, and (2) did not appear to be fully utilized by the departments having jurisdiction. After working with those departments to identify current uses, planned future uses, legal restrictions that would preclude redevelopment, and potential hazards, DGS was left with approximately 100 sites, which were declared excess pursuant to the executive order. (The number of excess sites in the program fluctuates as sites are eliminated or awarded and as departments declare additional properties to be excess.)

In accordance with the executive order, DGS publishes all solicitations for housing projects on its website, and all solicitations are sent out via listserv derived from Housing and Community Development's listing of developers and statewide affordable housing developer associations.

Adaptive Reuse Assessment Tool. DGS is finalizing an assessment tool to conceptually evaluate a building's suitability for adaptive reuse as housing. The tool leverages lessons learned from a recent DGS-commissioned consultant study of a state office building for adaptive reuse. It would consider technical factors such as building systems, status of repairs, configuration of the building core, and size of the floor plate, as well as factors such as adjacency to transit and amenities and the suitability of the surrounding neighborhood.

DGS is already pursuing the adaptive reuse of multistory state buildings, including in downtown Sacramento. The requested resources will be used to complete the report required by AB 2592. This would advance the state's efforts to leverage telework into housing solutions such as adaptive reuse.

Staff Recommendation. Hold Open.

Issue 32: Direct Digital Control Upgrades

Request. The Governor's budget requests $11.8 million limited-term authority from the General Fund for three years beginning in 2023-24, and $972,000 limited-term authority from the Service Revolving Fund and 4.0 limited-term positions for three years for the DGS, Facilities Management Division to upgrade the Direct Digital Control (DDC) systems in buildings managed by DGS to improve operations and energy efficiency.

Background. DDC systems offer control for building mechanical and electrical systems, and modern DDC systems have the capability to offer trends of data points on HVAC (Heating, Ventilation, and Air Conditioning) electrical equipment. An assessment of existing systems found that numerous DDC systems were obsolete and in need of upgrade or replacement as they could no longer fully communicate with the myriad of additional sensor and enunciation devices (alarms, strobes, etc.) that now interface with the Fire and Life Safety panel for code compliance. According to DGs, this communication is essential to minimizing the spread of fire and smoke during a fire event.

When a sensor is activated, communication is sent to the DDC system to close dampers, reduce or stop certain airflows, or engage the stairwell pressurization system to provide positive air pressure in the exit stairwells that prevents smoke intrusion. The absence of this communication could allow a small fire to spread and/or risk the possibility of the exit stairwells filling with smoke. As smoke inhalation is the major cause of loss of life in a fire event, having a reliable path that ensures occupants can be protected from this hazard is essential.

The requested $11.8 million annually from the General Fund for three years – a total of $35.4 million, would be used to complete the following projects:

DDC System Projects

Fiscal Year	Location	Building Name	Square Feet	Cost/ ft²	Estimated Cost
2023-24	Oakland	Elihu Harris	747,000	$15.00	$11,205,000
2024-25	San Diego	Mission Valley	250,000	$15.00	$3,750,000
2024-25	Van Nuys	Van Nuys State Building	153,698	$15.00	$2,155,470
2024-25	Marysville	CalTrans D3	208,000	$15.00	$3,120,000
2024-25	Sacramento	Rehabilitation (OB #10)	145,800	$15.00	$2,187,000
2025-26	San Diego	CalTrans D11	301,000	$15.00	$4,515,000
2025-26	Sacramento	OB #8	307,555	$15.00	$6,613,325
2025-26	Sacramento	Agriculture	127,010	$15.00	$1,905,150
Totals					**$33,450,945**

According to the Administration, in order to capitalize on energy savings projects and identify potential energy saving opportunities across the portfolio, FMD needs a Statewide Energy Management Program (SEMP) for building management and controls. To that end, DGS requests the following positions:

One Supervising Electrical Engineer to act as Statewide Energy Management Program (SEMP) manager perform field activities and site assessments, project planning and document review, and develop various types of reports. This position would oversee all aspects of energy use to maximize efficiency and serve as a single point of accountability for developing energy-saving goals and guide energy projects. The SEMP manager will also provide oversight of sustainable energy projects and contract management from development through closeout.

One Supervising Landscape Architect to act as an International Society of Arboriculture-certified tree arborist and a subject matter expert of tree health, hazard, and risk assessments. The incumbent will consult with Landscape Architects and Grounds Operations Managers to review landscape drawings and provide recommendations regarding tree placement to maximize building energy efficiency as well as provide specific tree species based on water conservation and local climates. The position will also be responsible for building energy conservation assessments and recommendations.

One Associate Governmental Program Analyst to provide administrative support including fiscal, contracting, procurement, and general administrative needs, including but not limited to analyzing and developing building energy reports, maintaining accurate records of contract needs and executed contracted services, and preparing monthly, quarterly, and annual reports.

Additionally, to further support FMD's building efficiency efforts, OS requests the following position:

One Staff Services Manager II (Specialist) (SSM II) to optimize the use of Building Management Systems at state-owned facilities. Buildings can realize 20 percent energy savings simply by optimizing the programming of existing building management systems. Facilities can earn revenue by using these systems to participate effectively in demand response programs. The SSMII will oversee a contract with a Demand Response Aggregator, perform outreach and enrollment of state facilities in the Demand Response Aggregator Program, and will assist departments in programming BMS systems for energy efficient operations and readiness to respond to energy emergencies.

LAO Comments. *Recommend Withholding Action on Proposal for Direct Digital Control Upgrades and Directing DGS to Report on Prioritization.* The Governor's budget proposes $11.8 million annually from the General Fund for three years—a total of $35.4 million—to upgrade direct digital control systems in eight buildings to improve operations and energy efficiency. Of the eight projects, a private firm assessed four as low priority. Accordingly, it is unclear if these systems need replacement. Additionally, the Governor's budget proposes to revert $92.5 million General Fund for deferred maintenance and direct digital control projects provided in past budgets, including for direct digital control projects assessed as high priority. This calls into question DGS' prioritization methodology. Given this, the LAO recommends the Legislature withhold action on the proposed funding for direct digital control projects and the reversion of funding related to high-priority direct digital control projects and require DGS to report at spring budget hearings on its prioritization methodology.

Staff Comments. Staff notes that in response to questions regarding the methodology in determining prioritization of building projects, DGS has provided a revised list of projects to be funded under this proposal. Estimated costs for individual projects will be further refined.

FY 23-24 BCP (Warm Shutdown Buildings Prioritized)						
Priority Number	**BMS System Projects Location**	**Building Name**	**Building Address**	**On Warm Shutdown List?**	**BCP/Non DGS/Renovation/New**	***Estimated Cost**
HIGH CATEGORY #1 BUILDINGS (2020 Enovity BMS Report)						
1	Los Angeles	Ronald Reagan Building (LA)	300 S. Spring St, Los Angeles, CA 90013	NO	22/23 BCP	$12,750,000
2	Oakland	Elihu Harris Building	1515 Clay Street, Oakland, CA 94612	YES	23/24 BCP	$11,205,000
3	San Francisco	Pat Brown CPUC	505 Van Ness Ave, San Francisco, CA 94102	YES	22/23 BCP	$5,752,545
4	Los Angeles	Junipero Serra Building (LA)	320 4th St, Los Angeles, CA 90013	YES	22/23 BCP	$8,250,000
5	Riverside	California Tower	3737 Main St, Riverside, CA 92501	NO	22/23 BCP	$2,430,000
6	San Diego	Mission Valley	7575 Metropolitan Dr, San Diego, CA 92108	NO	TBD	$1,400,000
7	Van Nuys	Van Nuys State Building	6150 Van Nuys Blvd, Van Nuys, CA 91401	NO	TBD	$2,155,470
					Total	**$43,943,015**

Staff Recommendation. Hold Open.

Issue 33: Facilities Management Division Fire Alarm System Deferred Maintenance

Request. The Governor's budget requests $20.4 million one-time General Fund in 2023-24 for DGS, Facilities Management Division (FMD) to address critical fire, life, and safety (FLS) issues relating to fire alarm systems.

Background. FMD requests $20.4 million one-time General Fund in 2023-24 to address critical FLS issues relating to fire alarm systems. According to the Administration, due to the buildings' aging infrastructure, changes in building code requirements, and evolution of technology, the current fire alarm systems are antiquated, prone to failing, and are comprised of obsolete parts. The requested resources will be used to bring eight buildings into full compliance with FLS regulations to avoid costly emergency response situations and risks to public health and safety.

<u>Fire Alarm Systems.</u> Early fire detection plays a significant role in protecting the safety of emergency response personnel as well as staff working in the building. Most alarm systems provide information to emergency responders on the location of the fire, speeding up the fire control process. Fire alarm and detection systems are designed and installed to detect and warn the occupants of a building during the incipient stage of the fire. These systems include fire alarm control panels (FACP), accessible pull stations, smoke detection systems, and accessible audio-visual announcement devices.

The table below shows the fire alarm system projects that this proposal would address:

Building Name	Address	Year Built	Number of Stories	Projected Cost
Agriculture Building	1220 N Street Sacramento	1936	4	1,105,000
East End Block (Building 225)	1430 N Street Sacramento	2002	6	4,340,000
East End Block (Building 171)	1501 Capitol Mall Sacramento	2003	6	3,984,000
East End Block (Building 172)	1500 Capitol Mall Sacramento	2003	6	1,626,000
East End Block (Building 173)	1615 Capitol Mall Sacramento	2003	7	2,005,000
East End Block (Building 174)	1616 Capitol Mall Sacramento	2003	7	2,267,000
Santa Rosa State Building	50 D Street Santa Rosa	1983	4	847,000
Junipero Serra Building	320 W. 4th Street Los Angeles	1914	10	4,245,000
Total				**20,419,000**

LAO Comments. *Reversion of $92.5 Million General Fund From Deferred Maintenance and Direct Digital Control Projects Approved in Prior Budgets.* The Governor's 2023-24 budget proposes to revert $92.5 million General Fund for deferred maintenance and direct digital control projects included in the 2021-22 and 2022-23 budgets. (The LAO notes this is about 61 percent of the total funding provided in those years.) DGS indicated that the department reduced spending on these projects given the deterioration in the state's budget condition.

Staff Recommendation. Hold Open.

Issue 34: Facilities Management Division New Buildings Operations and Support

Request. The Governor's budget requests $22.4 million in 2023-24 from the Service Revolving Fund and 149.0 positions with $29.867 million in ongoing authority from the Service Revolving Fund and 199.0 permanent positions beginning in 2024-25 for the DGS, Facilities Management Division (FMD) to manage, operate, and maintain the new Richards Boulevard Office Complex (RBOC) and the Joe Serna Jr. California Environmental Protection Agency (CalEPA) building, both located in Sacramento.

Background. The RBOC new office campus is comprised of approximately one million net usable square feet (1.3 million gross square feet) on state property at the corner of Richards Boulevard and North Seventh Street. The complex features four high performance, interconnected office buildings and a unique landscaping program. The project is designed to achieve zero net energy and zero net carbon for the entire site through state-purchased carbon-free green power. Construction of the RBOC began in Fall 2020 and is projected to be complete in March 2024, with anticipated tenant move in to begin in April 2024. Proposed tenants include the Department of Tax and Fee Administration and various Business, Consumer Services and Housing Agency departments.

The CalEPA Building is a tiered, 25-story structure on a 2.5-acre site, containing approximately 950,000 gross square feet with 776,000 net usable square feet. The building is LEED-EB (Leadership in Energy and Environmental Design for Existing Buildings) Platinum certified. DGS does not currently operate or maintain the CalEPA building; however, jurisdiction of the building is expected to transfer to DGS in May 2023.

The requested funds will provide DGS with resources to manage and operate the new RBOC and CalEPA buildings.

Staff Recommendation. Hold Open.

Issue 35: Legislative Office Building Roof Replacement (Spring Finance Letter)

Request. The Department of General Services, Facilities Management Division requests $5.9 million in one-time authority from the General Fund in 2023-24 to address critical repairs caused by water intrusion at various locations in the Legislative Office Building located at 1020 N Street in Sacramento. The building is experiencing water intrusion in multiple locations due to its aging infrastructure. The requested resources will be used to bring the Legislative Office Building into safe, functional, and operational compliance with local, state, and federal regulations, avoid costly emergency response situations, and the risk to public health and safety.

Background. Constructed in 1937, the Legislative Office Building located at 1020 N Street in Sacramento was built for use by a variety of state agencies and currently houses offices for the State Legislature. The building is composed of reinforced concrete with tall entrance pylons and parapet at the top level. A decorative banding encircles the building just below the parapet line. On each of the upper four stories, the building has large windows separated vertically by banding around the structure and narrow bands projecting above and below.

According to DGS, all building roof systems at the Legislative Office Building require replacement or major repair. FMD’s Direct Construction Unit (DCU) has been performing the less major repairs to date. The roof has not undergone a full replacement in 36 years, although in 2003 there was a refresh/repair project that performed minor repairs. The requested funds will allow DGS to repair and address the critically deficient elements listed in the table below:

Water Intrusion – Legislative Office Building

Location	Amount
Roof Replacement	$5,400,000
6th Floor Cafeteria Dining Areas	$250,000
Rooms 602 and 603	$250,000
	$5,900,000

Staff Recommendation. Hold Open.

Issue 36: Sacramento Region: New Richards Boulevard Office Complex

Request. The Governor's budget requests $402,000,000 General Fund to pay a portion of expenditures for the design-build phase of the Sacramento Region: New Richards Boulevard Office Complex project.

Background. The Richards Boulevard Office Complex project includes construction of a new office campus of approximately 1,250,000 square feet, comprised of four buildings between 11 and 7 stories, on land where the former State Printing Plant once stood. The project will be completed April 2024, with bonds for the project scheduled to be sold Spring 2024. Proposed tenants for this space include the Department of Tax and Fee Administration, Department of Healthcare Access and Information, Commission on Teacher Credentialing, and various departments in the Business, Consumer Services, and Housing Agency.

The project was authorized for total design-build funding in the amount of $1,014,598,000 through the Public Buildings Construction Fund (lease revenue bond financing) in the Budget Act of 2019. To finance projects funded by the Public Buildings Construction Fund, the State Public Works Board typically provides interim financing for the construction or design-build phases of a project, then issues tax-exempt lease revenue bonds as permanent project financing. Federal tax code for the issuance of tax-exempt bonds requires, among other things, that the bonds must be issued within three years of initial project expenditures. According to DGS, due to the nearly four-year construction schedule initially established for this project, a portion of expenditures fall outside of this three-year window and therefore those project expenditures no longer qualify for tax-exempt financing.

LAO Comments. *Governor's Budget Would Use a Combination of Cash and Lease Revenue Bonds for Capital Outlay Projects.* The Governor estimates that the state now faces a $22 billion General Fund budget problem. As a result, the Governor's 2023-24 budget proposes to switch financing for many capital outlay projects from cash to lease revenue bonds. (The Governor proposes other changes related to capital outlay projects—such as for the University of California and California State University—that the LAO analyzes in other budget reports.) The only projects that would use cash are three courthouses (Redding, El Centro, and Sacramento) and the Department of General Services' Richards Boulevard project. For these projects, a total of $491 million General Fund 2023-24 would be allocated to fund a portion of the cost. These projects would otherwise need to use taxable bonds to finance these costs because they exceed the three-year window required for tax-exempt bonds.

Staff Recommendation. Hold Open.

Issue 37: Office of State Publishing New Warehouse Operation

Request. The Governor's budget requests ongoing expenditure authority of $1.3 million from the Service Revolving Fund beginning in 2023-24 for the DGS, Office of State Publishing (OSP) to lease and operate a new warehouse facility located in West Sacramento and accommodate an increased supply level critical for print production operations.

Background. OSP is responsible for completing state printing jobs. OSP currently provides services to state, federal, county, and city agencies by providing printing, communication and document management solutions through specialized knowledge, statewide perspective and coordinated public and private partnership. Printing services include storage, mailing, and strategic marketing solutions. OSP also performs document remediation to ensure accessibility compliance with state and federal standards.

According to DGS, to maintain minimum inventory levels to avoid disruptions, OSP has leased approximately 80,000 square feet of additional warehouse space to store necessary paper and related commodities. The lease began July 1, 2022, and OSP requires the budgetary authority necessary to support these costs. This will allow OSP to respond swiftly to changing customer requirements, meet critical print jobs, and continuously provide good service delivery. The requested will be used to lease and operate a new warehouse facility in West Sacramento.

Staff Recommendation. Hold Open.

Issue 38: Office of Sustainability Electric Vehicle Service Equipment Infrastructure Assessment and Facility Development

Request. The Governor's budget requests a one-time budget augmentation of $35 million authority from the General Fund over three years for DGS, Office of Sustainability to support the DGS Five-Year Zero Emission Vehicles Infrastructure Investment Plan (2023-24 through 2027-28) to continue performing installations of electric vehicle service equipment (EVSE) at state-owned and leased facilities to meet California's clean transportation and greenhouse gas goals.

Background. EVSEs are classified as Level 1, Level 2, and Level 3. The amount of power an EVSE can supply to a vehicle increases with each level, which is significant because the amount of power supplied to an EV determines how long it takes to fully charge the vehicle. In general, a Level 1 EVSE can charge one vehicle per workday, while a Level 2 EVSE can charge two vehicles in the same amount of time. Therefore, the type of EVSE determines the number of vehicles it can charge in a single day. The goal of the program funded by this proposal is to service the vehicle charging needs of Fleet EVs as well as encouraging widespread EV adoption by employees by building capacity to make charging as available as possible.

Based on each department's historical purchasing practices, fleet makeup, vehicle miles traveled, and the new purchasing mandates, DGS has projected that approximately 4,250 fleet charging ports and 4,922 workplace charging ports are needed to meet the directives outlined and all fleet and workplace charging needs through 2027-28. Since 2017, DGS has built a small but expert team that has made significant progress in meeting the charging infrastructure goals. At the end of

2021-22, 2,473 charging ports were installed and by the end of 2022-23, an additional 1,480 port installations are expected to be completed, for a total of 3,953 anticipated completed installations by the end of 2022-23.

DGS anticipates a need to serve a combination of light-duty, medium-duty, and heavy-duty ZEVs with charging infrastructure. The department's five-year plan includes:

- DGS expects to perform an estimated 5,627 EV charging station installation assessments over the next four years at a cost of $7.5 million.
- To meet the workplace and fleet charging needs for light-duty vehicles over the next five years DGS anticipates installing 5,644 L2 chargers at a cost of $165.6 million and anticipates installing 50 Level 1 charging ports at a cost of $562,000.
- To meet remote and other special circumstances where hardwired chargers are not appropriate, we anticipate purchasing 50 mobile, solar-powered Level 2 EV chargers of "EV Arcs" at a cost of $3 million.
- To meet the fleet charging needs for MD/HD vehicles over the next five years, DGS anticipates installing a combination of High-powered L2 and L3 DC fast charging to support 1,238 MD/HD vehicles at a cost of $90.5 million.
- The total five-year budget is $267.2 million.

LAO Comments. *Consider Funding Electric Vehicle Service Equipment Infrastructure Through Zero-Emissions Vehicle (ZEV) Package.* The Governor proposes $35 million from the General Fund to perform installations of electric vehicle service equipment infrastructure at state facilities in order to help the state transition its fleet to ZEVs. Separately, the previous two budgets committed significant funding across five years for a ZEV package to promote the purchase and use of ZEVs more broadly, such as by paying for privately owned vehicles and charging stations. While the intent of the Governor's proposal has merit, it would commit the state to new discretionary General Fund spending. Given the General Fund condition and the fact that overseeing the state fleet is a core state responsibility, the Legislature may want to consider prioritizing funding for electric vehicle service equipment infrastructure at state facilities within the ZEV package over proposals to pay for activities that are not core responsibilities, such as for paying for privately owned vehicles and charging stations.

Staff Recommendation. Hold Open.

Issue 39: Procurement Division E-Marketplace Implementation

Request. The Governor's budget requests ongoing expenditure authority of $2.4 million ($2.2 million from the Service Revolving Fund and $224,000 in Reimbursements) and 2.0 permanent positions in 2023-24 for the DGS, Procurement Division (PD) to implement, maintain, and operate the statewide eMarketplace solution.

Background. FI$Cal is a statewide implemented system used by state departments and involving thousands of state businesses in its procurement functions. As the Business Manager for the State, part of PD's business management responsibility is to match vendors that provide goods and services at the best price for the state's business needs, which are best determined by what the State contracts for. To attract the appropriate suppliers to work with the State and to ensure that California can effectively leverage its purchasing power, suppliers need a way to know what the State is contracting for.

According to DGS, the proposed eMarketplace solution will be a cost-friendly and modernized system that will require vendors to submit electronic catalogs for viewing online. State agencies will have the ability to acquire the best goods and services available to serve customers along with a simplified selection of items for purchase orders and requisitions. Features of the system would also include reporting functionality, which will help DGS provide state agencies with sustainability information and assistance regarding environmentally preferable purchasing (EPP). The tool will provide a solution for buyers to identify and track information on environmental and social impacts, such as greenhouse gas emissions, global warming, energy and water consumption, life-cycle costs, and human health concerns related to goods and services procured. Having a searchable items catalog will also give state buyers more accessibility to products and broader searching capabilities for Small Business and Disabled Veterans Enterprises (SB/DVBE) certified suppliers.

As part of this proposal, DGS requests the following positions:

- One Information Technology Specialist II
- One Information Technology Specialist II (under and Interagency Agreement with FI$Cal)

Staff Recommendation. Hold Open.

Issue 40: Procurement Division Permanent Support for the California Pharmaceutical Collaborative

Request. The Governor's budget requests ongoing expenditure authority of $842,000 from the Service Revolving Fund beginning in 2023-24, as an extension of one-time funding provided in 7760-017-BCP-2020-GB, for the DGS, Procurement Division (PD) to continue funding 4.0 positions supporting ongoing workload of the Statewide Pharmaceutical Program's California Pharmaceutical Collaborative.

Background. The Statewide Pharmaceutical Program was established in 2002, and allows state and local governmental entities to access negotiated contracts that can provide substantial savings through bulk purchasing of pharmaceutical products and services.

The Governor issued Executive Order (EO) N-01-19 to create the largest single purchaser for prescription drugs and allow private employers to join the State in negotiating drug prices. Specifically, the EO required PD, in consultation with the CPC, to complete the following reports:

1. In March 2019, a list of prescription drugs was developed that could appropriately be prioritized for future purchasing initiatives or reexamined for potential renegotiation with the manufacturer.
2. In April 2019, the prioritized list was utilized to develop and implement purchasing arrangements for high-priority drugs and provide pro-active outreach to local governments to encourage participation in these arrangements.

3. In June 2019, a framework was developed for enabling private purchasers, including small businesses, health plans, and the self-insured, to opt into a state purchasing program to benefit from the State's pharmaceutical purchasing program.

DGS-PD provides manufacturer-pricing agreements to five counties and continues to work with additional counties to leverage state purchasing power to lower cost on prescription medications for participating counties. The existing positions carry out the required tasks and reporting requirements of the EO, while developing research, analyses, outreach, change management, relationship management, and pharmacoeconomic strategies to achieve savings on escalating prescription drug spending.

Table 1. Prescription Medication Contracts and Resulting Savings (to State)

Medication	Wholesale Acquisition Cost (WAC)[1]	Actual Invoice Cost[2]	Savings ($)
Epclusa	$284,411,960	$59,678,431	$224,733,529
Genvoya	$3,714,136	$2,716,755	$997,381
Harvoni	$1,512,000	$406,403	$1,105,597
Invega Sustenna	$16,551,287	$14,980,480	$1,570,807
Lantus	$13,686,874	$5,080,283	$8,606,591
Semglee	$98,240	$68,017	$30,223
Total	**$319,974,497**	**$82,930,369**	**$237,044,128**

[1] WAC is the wholesale reference price
[2] Invoice cost is how much participating pharmacies paid

Staff Recommendation. Hold Open.

Issue 41: Procurement Division Support for Small Business & Disabled Veterans Business Enterprises Program Compliance

Request. The Governor's budget requests ongoing expenditure authority of $320,000 from the Service Revolving Fund and 2.0 permanent positions beginning in 2023-24 for the DGS, Procurement Division (PD) to effectively staff the Small Business and Disabled Veteran Business Enterprise program to support training, communication, compliance, enforcement, and program abuse functions, for implementation of the 2018-114 State Audit recommendations and recently passed legislation.

Background. According to the California State Auditor's Report No. 2018-114 (Audit), released February 2019, "The Department of General Services has not adequately overseen the DVBE program, hindering its success. Specifically, this audit contained several recommendations to improve the DVBE compliance and program abuse effectiveness which equally apply to the State's SB/DVBE program." To minimize the occurrence of program abuse and ensure that program abuse cases are handled appropriately and consistently, the Audit recommended OSDS (1) conduct comprehensive statewide trainings and (2) develop procedures to help awarding departments identify whether a complaint constitutes program abuse, learn how to effectively track all complaints, and take the appropriate steps when investigating program abuse complaints. This audit also recommended that OSDS strengthen the enforcement of DVBE laws, regulations, and guidelines, and track complaints by including the type of program abuse, how it was reported or discovered, and the dates specific actions are taken on the case.

The requested staffing resources are intended to address compliance, enforcement, and program abuse activities:

- Investigate complaints regarding SB/DVBE certification status or eligibility and make recommendations to the Program Abuse/Compliance Manager for the appropriate course of action.
- Review certification denials to ensure consistent application of the statutes and regulations.
- Process appeals of certification decisions and preparing case or discovery materials for use in OAH hearings, as necessary.
- Investigate and research complaints of SB/DVBE program abuse and make recommendations to the Program Audit/Compliance Manager.
- Process sanctions, as necessary, for enforcement of the SB/DVBE program.
- Act as a statewide subject matter expert in OAH hearings for SB/DVBE program compliance and requirements pertaining to program abuse.
- Provide statewide training and support for state department SB/DVBE advocates and procurement staff regarding the SB/DVBE program requirements.
- Review, approve/deny, all DVBE subcontractor substitution requests on State contracts.
- Perform quality certification file reviews on internal OSDS processes to ensure consistency, accuracy, and compliance with program statutes and regulations.
- Perform quality certification file reviews on certifications that were approved online to ensure eligibility requirements are met and accurate supporting documents were submitted.

Staff Recommendation. Hold Open.

Issue 42: Ongoing Support for Diversity and Inclusiveness in State Contracting

Request. The Governor's budget requests ongoing expenditure authority of $3.51 million from the Service Revolving Fund and 21.0 permanent positions beginning in 2023-24 for the DGS, Procurement Division and the Office of Small Business and Disabled Veteran Business Enterprise Services and the Statewide Supplier Diversity Program (SSDP) to continue increasing diversity and inclusiveness in state contracting programs across all state departments, as well as acquire Learning Management Systems licenses for the Office of the Small Business. This request is an extension of an approved onetime General Fund appropriation in fiscal year 2022-23 (7760-115-BCP-2022-MR).

Background. According to DGS, the requested funds will help the state be successful in ensuring increased diversity in its pool of vendors and resulting contract awards including certified Small Business/Disabled Veteran Business Enterprises through the following:

- Train and provide direct one-on-one technical assistance to SB/DVBEs on bidding and participating in state contracting.
- Develop and carry out targeted outreach strategies in addition to its general ongoing outreach efforts.
- Adequately staff SSDP to ensure statewide polices and processes are developed and implemented related to supplier diversity.

- Support the statewide SB/DVBE Advocate network with the necessary training, education, and resources to help them carry out their duties and help departments not only meet their SB/DVBE participation goals, but also increase diversity and inclusiveness in their contracting programs.

Staff Recommendation. Hold Open.

Issue 43: Real Estate Services Division Affordable Housing Development Program Funding

Request. The Governor's budget requests $1.1 million in ongoing authority from the Property Acquisition Law Money Account beginning in 2023-24 for the DGS, Real Estate Services Division/Asset Management Branch. Additionally, DGS requests approval to create a multi-year operating reserve in the account retaining revenue from the sale of surplus state-owned real estate and from the lease of state-owned property. The reserve would support DGS' ongoing efforts to implement Executive Order N-06-19, which requires DGS to lease excess state property to affordable housing developers for the development of affordable housing.

Background. According to DGS, developing housing on state-owned property is a complicated process. Sites must be selected, real estate due diligence (title checks, environmental assessments, utility evaluations, housing feasibility analyses, etc.) needs to be conducted, solicitations need to be conducted (which generally require consultant support in evaluating proposals), and the complicated real estate transaction (multiple agreements, including Exclusive Negotiating Agreements, Lease Options, Ground Leases, and Regulatory Agreements) need to be drafted, executed, and enforced. Additionally, exchanging of parcels and receipt of gifts of real property from local governments are becoming increasingly common. These activities for the sites currently in the DGS portfolio have required an annual operating expense of approximately $700,000.

At present, the sale of state properties (not suitable for housing) and revenue from the lease of state properties are generally directed to either the Special Fund for Economic Uncertainties, the

Property Acquisition Law Money Account, or the General Fund, less administrative costs incurred by DGS. Leveraging this revenue to fund affordable housing projects on excess properties would be efficient, leverage existing administrative procedures, and would avoid General Fund subsidies to keep the program operational.

Trailer Bill Language. Complementary to this request, DGS requests trailer bill language that would provide DGS with the authority to deposit net proceeds of any real property disposition, including the sale, lease, exchange, or other means, into the Proposition Acquisition Law Money Account for the purposes of maintaining an operating reserve sufficient to continue redeveloping excess state properties as affordable housing. The language defines a sufficient operating reserve as an amount not to exceed three years of operating costs. According to DGS, this would amount to a $4.5 million-dollar operating reserve, which in turn would provide funding for Asset Management Branch staff, including: two positions that were approved in 2022-23 through trailer bill; internal and external consultant support; environmental assessments and remediation; and ongoing expenses.

Staff Recommendation. Hold Open.

Issue 44: State Surplus Property, Digital Inventory, Affordable Housing (SB 561 and AB 2233)

Request. The Governor's budget $516,000 in one-time expenditure authority from the General Fund and 1.0 permanent position in 2023-24, and $316,000 in ongoing expenditure authority from the General Fund beginning in 2024-25 to address the expansive codification of Executive Order N-06-19 (affordable housing) by SB 561 (Dodd) Chapter 446, Statutes of 2022 and AB 2233 (Quirk-Silva) Chapter 438, Statutes of 2022.

Background. Executive Order N-06-19 required DGS to review all state-owned property, identify excess properties that could be made available for affordable housing, develop an online inventory of excess sites, and issue requests for proposals for long-term ground leases for affordable housing development. SB 561 and AB 2233 were signed into law codifying the provisions of Executive Order N-06-19. In addition, the bills expanded upon the order by requiring DGS to repeat its property analysis every four years.

In 2019, when DGS undertook its initial analysis, the unit responsible for disposal of state property (and now is the unit focused on the development of affordable housing on state property) led the effort. According to DGS, this initiative required the redirection of over a dozen real estate officers from projects for other departments for a period of three months to conduct the analysis, and this method is currently not sustainable.

Requested resources will be used as follows:

- $250,000 in one-time funding to establish a screening methodology to automate the site evaluation process,
- $50,000 in ongoing funding to conduct property reviews, and
- $266,000 in ongoing funding for one Attorney position to provide legal support. According to DGS, a legal position is necessary to support the facilitation of ground leases to developers and provide generalist real estate legal advice as issues arise.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Anna M. Caballero
Senator Roger W. Niello

Thursday, May 4th, 2023
9:30 a.m. or Upon Adjournment of Session
1020 N. Street - Room 100

Consultant: Elisa Wynne, Timothy Griffiths & Diego Emilio J. Lopez

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

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

ITEMS FOR VOTE ONLY

0511 SECRETARY OF GOVERNMENT OPERATIONS

Issue 1: 2019 California Mass Timber Building Competition Reappropriation (Spring Finance Letter)

Request. The Governor's finance letter requests that the encumbrance or expenditure availability of $144,000 in Timber Regulation and Forest Restoration Funds be extended until June 30, 2024. This request provides the additional time necessary for the Government Operations Agency to disburse funds to the winners of the 2019 California Mass Timber Building Competition.

Staff Recommendation. Approve Spring Finance Letter.

0650 Office of Planning and Research

Issue 2: California Climate Adaptation Strategy (AB 1384)

Request. The Governor's budget includes $188,000 General Fund and 1.0 position in 2023-24 and ongoing for the Office of Planning and Research (OPR) to develop and report on implementation progress of the California Climate Adaptation Strategy (Strategy) pursuant to AB 1384 (Gabriel), Chapter 338, Statutes of 2022.

Background. The Integrated Climate Adaptation and Resiliency Program (ICARP) within OPR was established to provide a comprehensive and coordinated response to climate impacts, with consideration for impacts to vulnerable populations, through coordination across state and local entities.

AB 1384 requires the California Natural Resources Agency (NRA) to coordinate with the Office of Planning and Research and identify, among other things, vulnerabilities to climate change for vulnerable communities, an operational definition of "climate resilience" for each sector and for vulnerable communities, special protections of vulnerable communities and industries that are disproportionately impacted by climate change, and timetables and specific metrics to measure the state's progress in implementing the plan.

Proposal. According to the BCP, ICARP requires 1.0 Senior Intergovernmental Program Analyst to support OPR's responsibilities to coordinate on the development of the State Adaptation Strategy. In the years the Strategy is not under development, this position would support promotion and public communication of the Strategy's implementation, the interagency coordination required to evaluate implementation progress, and support the development of the annual implementation report specified in statute.

Staff Recommendation. Approve as budgeted.

1045 Cannabis Control Appeals Panel

Issue 3: Continuation of Cannabis Control Appeals Panel Resources

Request. The Governor's budget requests $3,054,000 Cannabis Control Fund in 2023-24, $3,069,000 in 2024-25, and $3,084,000 in 2025-26 to support the operations of the Cannabis Control Appeals Panel.

Background. The Cannabis Control Appeals Panel (Panel) was established pursuant to the November 2016 voter approved Proposition 64, the Adult Use of Marijuana Act, and amended by SB 94 (Committee on Budget and Fiscal Review), Chapter 27, Statutes of 2017, the Medicinal and Adult-Use Cannabis Regulation and Safety Act. The Panel is organized under the Business, Consumer Services, and Housing Agency and consists of five members, one appointed by the Senate, one appointed by the Assembly, and three appointed by the Governor, subject to confirmation by the Senate.

The Panel provides a forum of appeal for individuals to address licensing decisions made by the Department of Cannabis Control relating to any penalty assessment, denial, transfer, condition, suspension, revocation, or other disciplinary action of annual cannabis licenses. The Panel streamlines the appeals process, and provides expertise and due process in the review of licensing decisions.

The Panel requests a three-year extension of funding to support 11.0 existing positions to provide a thorough analysis of this new area of law and processing of appeals in a timely manner. The requested positions are as follows:

- One Panel Chair
- Four Panel Members
- One Executive Director
- One Assistant Chief Counsel
- Two Attorney III's
- One AGPA
- One Office Technician

Staff Recommendation. Approve as budgeted.

1111 DEPARTMENT OF CONSUMER AFFAIRS

Issue 4: Medical Board of California - Augmentation and Continuation of Resources for the Licensed Physicians from Mexico Pilot Program

Request. The Governor's budget requests an increase in expenditure authority of $223,000 Special Deposit Fund in 2023-24 and $299,000 in 2024-25 for the Medical Board of California to support the ongoing evaluation of the Licensed Physicians and Dentists from Mexico Pilot Program required under Business and Professions Code section 853, established by AB 1045 (Firebaugh), Chapter 1157, Statutes of 2002.

Background. AB 1045 established the Program and authorizes up to 30 licensed physicians from Mexico specializing in family practice, internal medicine, pediatrics, and obstetrics and gynecology to practice medicine in California, upon approval and under specific restrictions, for a period not to exceed three years. The Board is responsible for overseeing the implementation and evaluation of the Program.

Currently, there are 20 physicians licensed in the Program. The Board issued 17 physician licenses in 2021-22 and three in 2022-23 for the Program and anticipates issuing 10 more in 2022-23, as 30 physician licenses are authorized under BPC section 853. Three of the physicians awaiting licensure meet all requirements, but have requested the Board to delay the issuance of their license until they are ready to submit their visa application. The community health clinics are in the process of selecting the remaining seven physicians for the Program. As authorized under BPC section 853, the Board approved a fifth community health clinic located in a fifth distinct county. To include these remaining physicians and the fifth clinic in the Program evaluation, UC Davis will need to extend the evaluation out an additional year into 2024-25 and add personnel and other expenses to cover the new project scope.

Staff Recommendation. Approve as budgeted.

1115 DEPARTMENT OF CANNABIS CONTROL

Issue 5: Cannabis Interstate Commerce (SB 1326)

Request. The Governor's budget requests $264,000 Cannabis Control Fund in 2023-24 and $256,000 ongoing for 1.0 position for the Department of Cannabis Control (DCC) to fulfill the workload associated with SB 1326 (Caballero), Chapter 396, Statutes of 2022.

Background. SB 1326 creates a limited exception to California's existing state-law prohibition against exporting cannabis to other states. SB 1326 authorizes the Governor to enter into an agreement with one or more other states authorizing interstate commercial cannabis activity (either medicinal, or adult-use, or both).

The bill requires that such agreements mirror existing California law regarding certain issues, such as health and safety standards, track-and trace participation, and packaging and labeling standards. Out-of-state licensees conducting business in California would still be required to obtain a California license and, if applicable, local authorization. The intent of this bill is to strengthen California's legal cannabis market by allowing the legal market to begin to access interstate markets.

DCC requests 1.0 position to 1) perform preparatory work before entering into state-to-state trade agreements, including engagement with the Attorney General on legal risks to California, 2) conduct legal research for any anticipated trade agreements, 3) engage with other states receptive to interstate cannabis commerce, 4) work with the Administration and key stakeholders to establish guardrails for negotiations of trade agreements, and 5) resolving and managing resulting litigation from trade negotiations and implementation of agreements.

Staff Recommendation. Approve as budgeted.

Issue 6: Cannabis Pet Products (AB 1885)

Request. The Governor's budget requests $155,000 Cannabis Control Fund and 1.0 position in 2023-24 and $147,000 in 2024-25 and ongoing for DCC to fulfill the requirements of AB 1885 (Kalra), Chapter 389, Statutes of 2022.

Background. DCC is responsible for regulating all aspects of the commercial cannabis industry, and has the authority to create, issue, deny, renew, discipline, condition, suspend, and revoke licenses for cannabis cultivators, manufacturers, distributors, retailers, microbusinesses, testing laboratories, and temporary cannabis events. Cannabis activity conducted without a license is illegal, subject to fines and penalties at both the state and local levels.

AB 1855 authorizes a veterinarian to recommend the use of cannabis on an animal for potential therapeutic effect or health supplementation purposes. This authority is delayed until DCC promulgates regulations for animal product standards, no later than July 1 2025, and prohibits the marketing or sale of those products before the regulations take effect.

DCC requests one Associate Governmental Program Analyst (AGPA) to 1) provide expertise on implementation of statutory and regulatory requirements through preparation and maintenance of guidance documents for industry and for inspection staff, 2) conduct trainings for industry and for inspection staff, 3) provide ongoing assessment of regulatory requirements for necessary updates.

Ongoing workload for the requested AGPA position will include assisting the Licensing Division with application documents review for new applicants and managing complaints regarding pet products.

Staff Recommendation. Approve as budgeted.

8620 FAIR POLITICAL PRACTICES COMMISSION (FPPC)

Issue 7: Excessive Contributions (SB 794) (Spring Finance Letter)

Request. The Governor's finance letter requests $284,000 General Fund in 2023-24 and $270,000 in 2024-25 and ongoing, and 2.0 positions for FPPC to implement, interpret, audit, and enforce new workload associated with the provisions of SB 794 (Glazer), Chapter 816, Statutes of 2022.

Background. SB 794 authorizes a committee that receives a contribution with actual knowledge that the contribution is over the applicable contribution limit in the Act to accept the contribution and return the portion in excess within 72 hours of receipt or before the date of the election, whichever is sooner. The bill would prohibit a committee from using the excessive contribution prior to returning it and would cap the amount of a contribution that may be accepted pursuant to this bill at twice the applicable limit. The bill also codifies the existing regulation allowing return of contributions within 14 days if the committee does not have actual knowledge that the contribution exceeds the applicable contribution limit.

According to FPPC, the requested positions of one Staff Services Management Auditor in the Audits and Assistance Division and one Commission Counsel in the Enforcement Division will include the following functions:

- Research, learn and implement procedures for performing compliance review of contribution limit and exceed contribution rules.
- Review complex allegations concerning technical interpretations and disclosure obligations under the Act.
- Perform the most complex campaign investigations and audits of contribution limit and excess contribution violations under the new requirements of SB 794.
- Analyzing complex financial transactions and information regarding state and local officials.

Staff Recommendation. Approve Spring Finance Letter.

8825 Commission on Asian and Pacific Islander American Affairs

Issue 8: Health Access Program Analyst (Spring Finance Letter)

Request. The Governor's finance letter requests $149,000 ongoing General Fund to fund 1.0 permanent Associate Governmental Program Analyst for the Commission on Asian and Pacific Islander American Affairs (CAPIAA) to effectively respond to the growing needs and challenges of Asian and Pacific Islander American communities to ensure all Californians have access to culturally and linguistically appropriate health and mental health resources and services.

Background. The California Commission on Asian and Pacific Islander American Affairs was established as an independent state commission to do the following:

1. Advise the Governor, Legislature, and state agencies, departments, and commissions on issues relating to the social and economic development, and the rights and interests of APIA communities and how to respond most effectively to the views, needs and concerns of the state's APIA communities.
2. Assist the state in maintaining effective liaison and outreach with APIA communities in California.
3. Examine issues of access and cultural and language sensitivity by state agencies, departments, and commissions and compile research about APIA communities.
4. Provide assistance to policymakers and state agencies on identifying the needs or problems affecting APIA communities and in developing appropriate responses and programs.
5. Educate the public about hate crimes against APIA communities and other key issue areas identified by the commission.

CAPIAA requests one Associate Governmental Program Analyst (AGPA) – a Health Access Program Analyst – to focus on interagency state collaboration and ongoing engagement with APIA stakeholders in response to the increase of health and mental health needs of APIA communities.

Staff Recommendation. Approve Spring Finance Letter.

8885 Commission on State Mandates

Issue 9: Sexual Assault Evidence Kits: Testing Mandate (Spring Finance Letter)

Request. The Governor’s finance letter requests $10,764,000 General Fund on a one-time basis to reimburse cities and counties for the workload costs associated with complying with Penal Code section 680, which requires city and county law enforcement agencies to perform activities relating to DNA testing of sexual assault forensic evidence within specified time periods. In July 2021, the Commission on State Mandates found Penal Code section 680, as amended by SB 22 (Leyva), Chapter 588, Statutes of 2019, imposed a reimbursable state-mandated program.

Adjustment of Funded Mandates to Correct Appropriation Levels. The Governor’s finance letter also requests adjustments to update the amounts included in the Governor’s Budget to match with current appropriation levels that were provided by the State Controller's Office. These adjustments result in a net-zero change and are necessary to ensure the proper amounts are provided for each mandate.

Staff Recommendation. Approve Spring Finance Letter.

Issue 10: County of Los Angeles Citizens Redistricting Commission Mandate (Spring Finance Letter)

Request. The Governor's finance letter requests $1,157,000 General Fund on a one-time basis to reimburse the County of Los Angeles to staff and fund the Citizens Redistricting Commission, which was created to adjust the boundary lines of the County supervisorial districts in the year following the year of the decennial federal census. In January 2023, the Commission on State Mandates found SB 958 (Lara), Chapter 781, Statutes of 2016, imposed a reimbursable state-mandated program.

Staff Recommendation. Approve Spring Finance Letter.

8940 MILITARY DEPARTMENT

Issue 11: Military Family Relief Fund Dissolution (Spring Finance Letter)

Request. The Governor's finance letter requests statutory changes to abolish the California National Guard Military Family Relief Fund and absorb the remaining monies into the Military Department Support Fund.

Background. California National Guard Military Family Relief Fund. The Relief Fund program was statutorily established under the CMD to benefit California National Guard families experiencing financial hardship. The program allowed California residents to provide a "check-off" contribution to the Relief Fund on their California income tax form. The statute required the State Controller to transfer money designated to the Relief Fund to the Franchise Tax Board and State Controller for reimbursement of costs incurred in administering the Relief Fund; then to the CMD for the administration and issuance of cash grants for Guard members in need. Cash grants can only be used for food, housing, childcare, utilities, medical services, medical prescriptions, insurance or vehicle payments. California Military Department Instruction 1814.00 establishes policy, procedures, and assigns responsibilities, for the administration of the Relief Fund.

California Military Department Support Fund. Statute established the Support Fund and authorized the Military Department to adopt regulations beyond traditional federal MWR concepts to enhance and support programs that are unique to the CMD. Donations are used for programs that directly support readiness by providing a variety of community, unit, and family support programs, grants, activities, and services for Service members. Included are social, fitness, recreational, educational, and other programs and activities that enhance community life, foster unit readiness, and promote mental and physical fitness. Additionally, the CMD administers various youth-oriented programs that target California's at-risk youth population. Donations are also used to improve and enhance the quality of these youth programs.

According to CMD, overseas deployments have decreased, making it challenging to give financial hardship grants from the Relief Fund. As a result, the Relief Fund is no longer the most appropriate or expeditious way to provide financial assistance to CMD Servicemembers in need. Even after broadening eligibility requirements of the original Relief Fund established in 2004, the CMD has struggled to provide grants to those in need due to the cumbersome and strict application process set by the Relief Fund. Declining applications and grants continue to be the trend. To qualify for a Relief Fund grant, a Servicemember must have been deployed for a military mission and experienced a financial hardship as a result.

Trailer Bill Language. The associated trailer bill language would abolish the California National Guard Military Family Relief Fund and absorb the remaining monies into the Military Department Support Fund.

Staff Recommendation. Approve Spring Finance Letter.

Issue 12: Army Facilities Agreement Program Income Fund (Spring Finance Letter)

Request. The Governor's finance letter requests statutory changes to establish the Army Facilities Agreement Program Income Fund to receive, maintain, and expend Army Facilities Agreement Program Income (PI) generated from leases, licensing, and support agreements of CMD Army facilities by non-federal tenants. It also requests $2.5 million ongoing Army Facilities Agreement Program Income Fund expenditure authority to pay for facility repair, maintenance, and other activities for the CMD Army facilities.

Background. The CMD Army Facilities Cooperative Agreement (Cooperative Agreement) provides for the use of Army facilities on a chargeable basis to other non-federal entities when the facilities are not being used for the training and housing of the National Guard Units for their missions. Per NGB Regulation NGB 5-1, these revenues are called program income (PI) and are required to be spent in support of the facilities which generated the income.

The Cooperative Agreement generates up to $2.5 million annually in PI revenue from permanent and transient non-federal tenants such as the California Department of Forestry and Fire Protection, Office of Emergency Services, colleges, local fire and police departments, community churches, and other for profit and non-profit companies and organizations. These funds are generated through leases, license, and support agreements. Tenants are charged according to the cost of facility use, including utilities and maintenance, for the period they are using the facility.

According to CMD, the department utilizes its state reimbursement authority to receive the PI revenue. This authority requires such funds to be used or encumbered by the end of the state fiscal year in which the funds are generated or have the funds returned to the state treasury. This creates a challenge for the CMD to expend the funds each year, as PI funds may be received late in the fiscal year, such as May and June. Such funds become reverted revenues and are not able to be applied to support the maintenance and repair of facilities that generated the income.

The proposed request would appropriate use of PI funds across fiscal years for the purpose of properly supporting the Army Facilities Program activities as directed by NGB Cooperative Agreement policy for PI.

Trailer Bill Language. The trailer bill language associated with this request would establish the Army Facilities Agreement Program Income Fund to receive, maintain, and expend Army Facilities Agreement Program Income generated from leases, licensing, and support agreements of CMD Army facilities by non-federal tenants.

Staff Recommendation. Approve Spring Finance Letter.

9860 CAPITAL OUTLAY PLANNING AND STUDIES FUNDING

Issue 13: Capital Outlay Planning and Studies Funding

Request. The Governor's budget requests $2,000,000 General Fund in capital outlay statewide planning and studies funding to be allocated by the Department of Finance to state agencies to develop design and cost information for new projects.

Background. According to the Administration, these studies assist departments and decision makers with the evaluation of project feasibility and to inform funding levels for future budgets. The funds would be used to develop refined design, cost, and schedule information (budget packages or studies) for new capital outlay projects. This helps ensure total project costs are more accurate, funding levels are appropriate, and the project scopes are feasible. More accurate funding information also provides decision makers with a better understanding of total project costs to ensure the proposed solution is cost-effective and has been vetted to ensure viability.

Staff Recommendation. Approve as Budgeted.

0860 Board of Equalization

7330 Franchise Tax Board

7600 Department of Tax and Fee Administration

Issue 14: Removal of Provision 1 – Position Control

Request. The Governor's budget includes the elimination of provisional language from the budget act items from the Board of Equalization, the Franchise Tax Board, and the Department of Tax and Fee Administration that required notification to the Joint Legislative Budget Committee if specified positions were redirected from their intended purposes.

Staff Recommendation. Reject proposal. The Legislature may wish to consider alternate proposals before removing Legislative control established in Provision 1 language for specified departments.

7730 Franchise Tax Board

Issue 15: Digital Workflow Management/Low-Code Platform (Spring Finance Letter)

Request. The Administration proposes in an April Finance Letter to provide the Franchise Tax Board (FTB) with $1.83 million, ($1.79 million General Fund and $35,000 special funds), for two permanent positions, one limited-term position, and software costs in Fiscal Year (FY) 2023-24; $1.55 million, ($1.52 million General Fund and $30,000 special funds), for two permanent positions, one limited-term position, and software costs in 2024-25; $1.91 million, ($1.87 million General Fund and $36,000 special funds), for two permanent positions, one limited-term position, and software costs in 2025-26; and $1.49 million, ($1.46 million General Fund and $28,000 special funds), for two permanent positions and software costs in 2026-27 and ongoing to replace obsolete legacy and custom-coded solutions and implement a new, enterprise-class low-code service management platform that will reduce risks, sustain legacy integration efforts, and improve service delivery for both internal and external customers.

Staff Recommendation. Approve as Budgeted.

Issue 16: Management Enterprise Licensing Agreement Renewal (Spring Finance Letter)

Request. The Administration proposes in an April Finance Letter to provide the Franchise Tax Board (FTB) $1.83 million, ($1.81 million General Fund and $27,000 Special Funds) in FY 2023-24, $1.91 million, ($1.88 million General Fund and $29,000 Special Funds) in FY 2024-25 and ongoing to establish a fully funded, permanent baseline budget to continue existing licensing and support subscription for existing mainframe software that allows FTB to keep its existing mission critical applications running.

Background. FTB's mainframe is essential to the mission-critical accounting and noticing systems and is relied on by all tax processing systems. The mainframe supports application systems essential to the filing, collections, audit, non-filer, and refund processes, websites, and phone lines. All these systems have substantial dependency on the data that resides within the mainframe and processing that is done by the mainframe and therefore, rely on the mainframe to support the efficient, effective, and secure operations of those applications.

The authorized software entitlements, maintenance, and support that allow FTB to perform these operations are licensed through an Enterprise Licensing Agreement (ELA). Historically, FTB partners with California Department of Technology (CDT), and CDT works with the Department of General Services (DGS) to negotiate the contract renewal for software licenses under a common ELA with the goal of achieving volume pricing and lower total cost for the state. The current contract was negotiated by CDT in September 2022.

FTB's current budget allocation is not able to absorb ongoing funding increases associated with this contract without impacting existing business operations. The prior mainframe ELA resulted in annual payments of $2.40 million each year and a lump-sum cost of $4 million the first year. The new ELA results in costs of $4.10 million in FY 2022-23, $4.23 million in FY 2023-24, $4.31 million in FY 2024-25. This creates a funding gap of $1.70 million, $1.83 million, and $1.91 million respectively.

Staff Recommendation. Approve as Budgeted.

Issue 17: Security and Access Management (Spring Finance Letter)

Request. The Administration proposes in an April Finance Letter to provide the Franchise Tax Board (FTB) $1.81 million, $1.77 million General Fund and $35,000 special funds, for two permanent positions, and software costs in FY 2023-24; $1.55 million, $1.52 million General Fund and $30,000 special funds, for two permanent positions and software costs in 2024-25, $1.58 million, $1.55 million General Fund and $31,000 special funds, for two permanent positions and software costs in FY 2025-26 and ongoing to reduce security risk by implementing a solution to add Privileged Access Management (PAM) capabilities and improve login security by integrating multi-factor authentication (MFA) into FTB's public web applications in compliance with Cal-Secure direction.

Background.

System Access: Privileged Access Management (PAM): Privileged access is a higher level of permission to make changes to a given system, application, or data. PAM is a strategy that includes policies, processes, procedures, and tools that govern how privileged access is controlled. Where appropriate, privileged access is granted to staff, vendors, systems, and applications. PAM helps FTB meet IT security compliance requirements. PAM also reduces the risk of misuse of privileged access, which in turn reduces the risk to FTB's business from the loss of confidentiality, integrity, or availability of systems, applications, and data.

Multi-Factor Authentication (MFA): MFA is a security enhancement that requires at least two pieces of evidence from the registrant when logging into an account and is an important part of any modern authentication method. FTB uses MFA in its employee and vendor authentication but has yet to implement a method in our public web applications with external tax professionals, business representatives, and individual taxpayers. Currently, once accounts are set up, our external applications require only authentication by single factor of a user ID and password combination. This single method is non-compliant with FTB Information Security Policy 9500 Section 215; SAM (State Administrative Manual) Policy 5360, Identity and Access Management Section; Cal-Secure Strategic Plan; and IRS Publication 1075. Adding an additional method of authentication, such as a one-time passcode response where the user must use an additional channel of communication, such as a phone call or text, and reply with a generated code, would significantly improve FTB's login security.

Over the past several years FTB's Technology Services Division (TSD) has consistently been asked to implement changes and adopt new workloads through legislative change or change requests. At the same time, FTB must provide ongoing technical maintenance activities to ensure its systems and related infrastructure are on supported versions and contain the latest security patches so that FTB can continue to safeguard taxpayer information and provide timely return-processing services to a variety of key stakeholders (e.g., taxpayers, tax preparers). These factors have contributed to FTB's TSD struggling to fulfill the responsibility of complying with evolving security policies and standards and reducing departmental security risks and accomplish all other mandated or necessary workloads, negatively impacting the public services supported by the revenue FTB generates.

As a result, FTB has begun a comprehensive review of resources, both positions and tools that support our technology work for all functions. This proposal focuses on resource gaps impacting privileged access and multi-factor authentication.

Staff Recommendation. Approve as Budgeted.

ITEMS FOR DISCUSSION

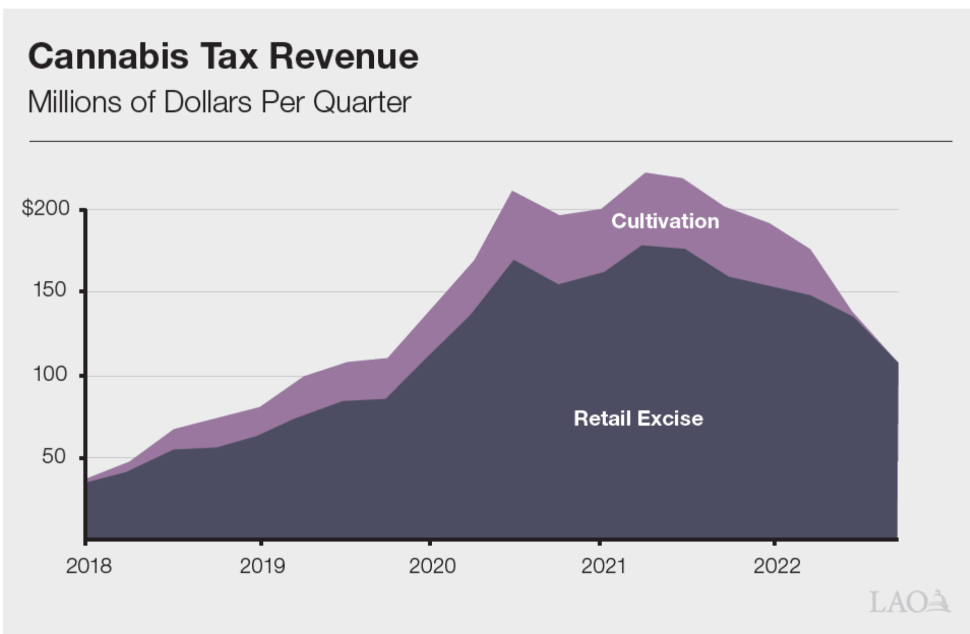
1115 DEPARTMENT OF CANNABIS CONTROL (DCC)

Issue 18: Update on Cannabis Tax Revenues

Background. Cannabis Tax Revenues. Prior to July 1, 2022, California enacted two types of state taxes on Cannabis businesses: a weight-based cultivation tax and an ad valorem retail excise tax primarily based on wholesale sales.

In 2022, the Legislature made several changes to the cannabis taxation structure; 1) the cannabis cultivation tax was eliminated, and 2) retailers are now responsible for paying the retail excise tax starting January 1, 2023 (previously, the collection responsibility were on cannabis distributors).

The Administration currently estimates that retail excise tax revenue was $108 million in the second quarter of 2022-23 (October through December). As shown in the figure below, retail excise tax revenue has declined for six straight quarters.



Staff Recommendation. Informational Item.

Issue 19: Update on Cannabis Grant Programs (Local Jurisdiction Assistance & Retail Access Programs)

Background. Local Jurisdiction Assistance Grant Program. The Budget Act of 2021, established the Local Jurisdiction Assistance Grant Program, which provided $100 million to assist local governments with the greatest needs to transition provisional licensees to annual licenses. Additional funding was allocated to those local jurisdictions that have received grant funding from the state to support an already established local equity program.

Allowable uses of the program are intended to encourage local jurisdictions to administer grant funds in ways that assist in the transition of provisional licenses to annual licenses more expeditiously and prioritizes addressing CEQA licensing requirements.

DCC reported the following grant awards:

Jurisdiction	Total Grant Award	Total Spent as of August 12, 2022	Transitions from Provisional to Annual Licensure (January 1, 2022 – December 31, 2022)
County of Monterey	$1,737,035	$0.00	11
County of Nevada	$1,221,188	$0.00	49
County of Sonoma	$1,158,023	$52,178	5
County of Lake	$2,101,143	$123,747	53
City of Oakland	$9,905,020	$1,408,467	32
County of Humboldt	$18,635,137	$15,437	244
County of Trinity	$3,293,867	$600,000	3
City of Long Beach	$3,934,773	$0.00	4
City of Santa Rosa	$775,841	$0.00	7
City of Sacramento	$5,786,617	$10,789	62
City of Commerce	$416,320	$79,626	1
City of Adelanto	$972,696	$0.00	6
City of Desert Hot Springs	$822,160	$0.00	3
City of San Diego	$764,261	$6,291	8
City of Los Angeles	$22,312,360	$0.00	1
City and County of San Francisco	$3,075,769	$6,026	13
County of Mendocino	$17,586,4067	$3,100,959	4

Local Jurisdiction Retail Access Grant Program. The Budget Act of 2022, established the Local Jurisdiction Retail Access Grant Program, which provides $20 million in funding to be distributed in two phases. This grant program supports local governments in establishing cannabis retail licensing programs and seeks to reduce the size of the illicit market and establish sufficient cannabis retail stores statewide to meet existing consumer demand.

A local jurisdiction, such as a city or county, would be eligible for funding if does not currently have a cannabis retail licensing program under its jurisdiction but has a plan to develop one. Funding would be able to be used to support equity applicants and licensees, environmental reviews, permitting expenses, and personnel costs.

The grant program will provide $20 million in funding, distributed in two phases:

- Phase I: Funding to develop and implement a local cannabis retailer licensing program (up to $10 million total funding; awarded by June 20, 2023)
- Phase II: Funding awarded based on the number of cannabis retail permits issued (at least $10 million total funding, maximum $2 million per jurisdiction; awarded on or after June 30, 2023)

Staff Recommendation. Informational Item.

Issue 20: Update on Cannabis Licensing

Background. Cannabis Licensing. The Department of Cannabis Control is the state entity responsible for licensing and regulating cannabis businesses in California. This includes regulating the growing of cannabis plants, the manufacturing of cannabis products, the transportation and tracking of cannabis goods throughout the state, the sale of cannabis goods, and the labeling of goods sold at retail.

California law establishes a dual license system for cannabis businesses wishing to operate in the state. Applicants for a cannabis business license must both go through the local permitting process and meet the state's licensing requirements. In 2018, in responses to challenges in meeting all cannabis licensing requirements, the Legislature created a "provisional" licensing category. Under this provisional license, a cannabis business could continue operating while working to comply with all of the regulatory requirements of a full permit.

Over the years, compliance with the California Environmental Quality Act (CEQA) was cited by cannabis operators as a significant hurdle towards meeting full licensing requirements. In most cases, CEQA review is performed at the local level, with the local jurisdiction acting as the "lead agency," which determines the potential environmental impacts of the project. However, if the local jurisdiction does not undertake CEQA review, such a review may need to be performed at the state level, causing the state to be the "lead agency". The scope of the required CEQA review varies from case-to-case, based on the nature of the application and any prior environmental reviews that have been conducted. Cannabis businesses have noted that these reviews can often be extensive and time-consuming.

In 2021, the Legislature made several changes to the provisional licensing requirement. First, it modified requirements for renewing provisional licenses, including demonstrating that progress is being made towards annual licensure. For example, an applicant must submit evidence that CEQA compliance is underway, if not complete. Secondly, it created a schedule to eventually phase out provisional licenses.

Staff Recommendation. Informational Item.

Issue 21: Continuation of Implementation of the Department of Cannabis Control

Request. The Governor's budget requests $4 million Cannabis Control Fund in 2023-24, $2.3 million in 2024-25, $2.4 million in 2025-26 and ongoing and 11.0 positions for DCC to support its Information Technology (IT) operations and to establish a central California district office in Fresno to increase its statewide enforcement capacity.

Additionally, this proposal requests provisional language authorizing DCC to request resources to support the enhanced implementation of the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) (Chapter 27, Statutes of 2017), particularly in the areas of enforcement, licensing, and compliance.

Background. IT Services Division. Currently, DCC receives various information technology services through interagency agreements with legacy departments. Funding for the interagency agreements was received through 2023-24. According to the Administration, this request is necessary to 1) transition the workload that was conducted by legacy departments to DCC, 2) establish positions necessary for DCC to become independent, 3) establish a minimum level of infrastructure for DCC to administer its programs, 4) have necessary IT security, and 5) to meets its regulatory mandates, including maintenance of the track and trace and licensing systems.

The IT Services Division requests the following positions:

Business Integration and Enterprise Testing Unit:
- Two Information Technology Specialist I's

Cloud and Server Administration Unit:
- Two Information Technology Specialist I's

Enterprise Services Office:
- One Information Technology Manager I
- One Information Technology Specialist I
- Two Information Technology Associate(s)

Network and Security Unit:
- One Information Technology Specialist III
- One Information Technology Specialist II

Project Management Business Integration:
- One Information Technology Specialist II

Central Region Enforcement Office. This proposal also includes establishment of a Central District field office for the Enforcement Division. Currently, the Fresno Enforcement team is operating out of temporary offices. Prior to the formation of the Fresno Enforcement team, staff had to travel from Northern and Southern California (Sacramento and Burbank Enforcement Offices), averaging four hours in travel time each way.

This permanent office will include an evidence room, briefing room, and computer forensic lab to support the law enforcement team in the central region. To transition the team from temporary offices to a more stable operational environment, DCC is requesting one-time funding of $1.576 million in 2023-24 for build out and $335,000 in 2023-24, increasing by 4 percent in each year thereafter for leasing costs for a permanent facility.

Provisional Authority. According to the Administration, DCC continues to assess its operational, programmatic, and administrative needs by division, post-consolidation. As such, this proposal includes a request for provisional language providing authority for the Department of Finance to augment this item by an amount not to exceed available Cannabis Control Fund when DCC determines it requires additional resources for the implementation of MAUCRSA, and its mandates. The provisional language also requires that the augmentation shall be authorized no sooner than 30 days after notification to the Joint Legislative Budget Committee (JLBC).

Legislative Analyst's Office (LAO) Comments. *Provisional Language Limits Legislative Oversight.* While the provisional language includes a notification to the JLBC, the notification process allows for less legislative oversight than the traditional budget process, which includes public hearings that enable the Legislature to ask questions, vote to make changes to spending proposals, and hear from the public and other stakeholders about the potential impacts of those decisions. In addition, the notification process does not require the same level of information that would normally be required for a budget change proposal. For example, a budget change proposal typically includes a narrative describing the justification for the proposal, expected outcomes, and an evaluation of other alternatives. This type of information is not a required part of the notification, but would be valuable to assist the Legislature in determining the merit of the Administration's proposals.

Cannabis Control Fund Balance Has Significantly Declined Since 2021-22. The Cannabis Control Fund is structurally imbalanced in 2022-23 and 2023-24, meaning that its expenditures exceed its revenues. As a result, the fund balance has declined from $169.1 million in 2021-22 to a projected $71.2 million in 2023-24—a decrease of 58 percent. Accordingly, it will be important for the Legislature to closely monitor the Cannabis Control Fund's revenues and expenditures going forward to ensure it maintains a healthy fund balance.

Staff Recommendation. Hold Open.

0509 GOVERNOR'S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT

Issue 22: Update on Cannabis Equity Grants Program for Local Jurisdictions

Background. Cannabis Equity Grants Program for Local Jurisdictions. The California Governor's Office of Business and Economic Development (GO-Biz) administers the Cannabis Equity Grants Program for Local Jurisdictions to aid local equity program efforts to support their equity applicants and equity licensees.

The program aims to support local jurisdictions in developing and implementing cannabis equity programs, and ensuring that persons most harmed and economically disadvantaged by cannabis criminalization are offered assistance, and priority licensing when possible, to enter the multibillion-dollar cannabis industry as entrepreneurs. Generally, the program is funded from the Cannabis Tax Fund.

This grant program offers two funding types:

- Type 1 - Assistance for Cannabis Equity Assessment/Program Development: Provides assistance for the creation of a cannabis equity assessment and/or assistance for the development of a local equity program. Examples of funding uses include hiring staff or consultants to conduct a local equity assessment, and to develop and implement a local equity program if one was not already operational.
- Type 2 - Assistance for Cannabis Equity Program Applicants and Licensees: Provides assistance for cannabis equity program applicants and licensees to gain entry to, and to successfully operate in, the state's regulated cannabis marketplace. Examples of funding uses include grants, no-interest loans, or low-interest loans to the jurisdiction's local equity applicants and/or local equity licensees to assist with startup and ongoing costs, or provide direct technical assistance to the jurisdiction's local equity applicants and/or local equity licensees.

Program Funding History:

- A total $30,600,000 was available in 2019-2020. ($15.6 million Cannabis Tax Fund and $15 million General Fund for Go-Biz)
- A total of $15,500,000 was made available for fiscal year 2020-2021
- For fiscal year 2021-2022, $15,500,000 from the Cannabis Tax Fund, and $20,000,000 from the General Fund as a one-time allocation, for a total of $35,500,000 for the Cannabis Local Equity Grant Program, administered by GO-Biz, to assist local equity applicants and licensees.
- A total of $15,500,000 was available for 2022-23.

GO-Biz awarded $15 million in grants to 16 jurisdictions in 2022-23, as noted in the figure below.

Cannabis Equity Grants Program for Local Jurisdictions

2022-23 Grant Amounts

Jurisdiction	Award Amount
City of Oakland	$1,996,487.50
City of Los Angeles	1,984,947.11
City of Sacramento	1,563,722.87
City and County of San Francisco	1,511,791.11
City of Long Beach	1,454,089.16
County of Humboldt	1,234,821.75
City of San Diego	882,839.85
County of Lake	836,678.29
City of Watsonville	767,435.95
County of Nevada	755,895.55
County of Sonoma	687,561.00
City of Coachella	500,000.00
City of Modesto	350,000.00
County of San Diego	350,000.00
City of Vista	75,000.00
City of Nevada City	48,729.86
Total	**$15,000,000.00**

Staff Recommendation. Informational Item.

8940 MILITARY DEPARTMENT

Issue 23: Consolidated Headquarters Complex Security (Spring Finance Letter)

Request. The Governor's budget requests 18 State Active Duty (SAD) positions and $2.4 million General Fund in 2023-24 and $2.3 million ongoing for the California Military Department (CMD) to provide security for the state employees, military personnel, and the new state-owned Consolidated Headquarters Complex (CHQC).

Background. The current CMD Joint Forces Headquarters (JFHQ) is the center of gravity for military, civil support, public safety, and security operations coordinated by CMD and conducted across the state. The CMD is comprised of the Air National Guard, Army National Guard, the California State Guard, and the Youth and Community Programs Task Force. The leadership and primary staff for each component of the CMD are all assigned to the current JFHQ.

According to CMD, the new CHQC is a 31 acre, five building complex which will require security for 24 hours/7 days a week operations. This proposal requests appropriate staffing to support the following increases of:

1) 1 building to 5,
2) 608 personnel to 1033,
3) 110,000 sq. ft. to 285,700,
4) 7.75 acres to 31 acres, and
5) 465 parking spaces to 800.

The additional 18 Security Force positions the CMD is requesting for the new CHQC will include: two Sergeants of the Guard and two Team Leaders to provide for the supervision and management of the 14 SECFOR Guards. The 18 positions will join the existing six SECFOR personnel.

Staff Recommendation. Hold Open.

Issue 24: State Active Duty Pay Adjustment (Spring Finance Letter)

Request. The Governor's finance letter requests an ongoing increase of $959,000 ($299,000 General Fund, $623,000 Federal Trust Fund, $20,000 Mental Health Services Fund, and $17,000 Reimbursement authority) for the California Military Department (CMD) to align the pay of its State Active Duty (SAD) employees to the pay of service members of similar grade in the United States Army, United States Air Force, and United States Navy.

Background. Military and Veterans Code (MVC), sections 320 and 321 require that the CMD must pay its SAD employees at the same rate as service members of similar grade in the federal armed forces.

Compensation for service members of the United States Army, United States Air Force, and United States Navy is set forth annually by the federal government in the National Defense Authorization Act (NDAA). In the Fall of 2022, the version of the NDAA under consideration in Congress proposed a 4.6 percent pay increase for all service members, 4.3 percent increase for the Basic Allowance for Housing (BAH) and a 3.4 percent increase for the Basic Allowance for Subsistence (BAS). Based on this information, the 2023-24 Governor's budget included a $2.2 million adjustment to align the pay of SAD employees to the pay of service members of similar grade in the federal armed forces. At that time, the Cost–of-Living Adjustment (COLA) numbers were not available, and it was understood that once the actual salary, BAH, BAS and COLA rates become available, a spring request would be submitted to adjust the funding requested in the Governor's budget.

Once the final BAH, BAS and COLA numbers were released, CMD made the adjustments to the Governor's budget figures. These adjustments are shown in the chart below. There is an increase in the approved BAH and BAS rates, which leads to an overall increase in this request.

Proposed Salary and Allowance/Adjustment Increases by Service Branch:

Service Branch	Proposed Salary Increase	Proposed BAH Increase	Proposed BAS Increase	Proposed COLA
Air Force	4.6%	4.6%	3.2%	TBD
Army	4.6%	4.6%	3.2%	TBD
Navy	4.6%	4.6%	3.2%	TBD

Final Salary and Allowance/Adjustment Increases:

Service Branch	Approved Salary Increase	Approved BAH Increase	Approved BAS Increase	Approved COLA
Air Force	4.6%	12.1%	11.2%	N/A
Army	4.6%	12.1%	11.2%	N/A
Navy	4.6%	12.1%	11.2%	N/A

Staff Recommendation. Hold Open.

8955 DEPARTMENT OF VETERANS AFFAIRS (CALVET)

Issue 25: Initial Support for Yountville Skilled Nursing Facility (Spring Finance Letter)

Request. The Governor's budget requests 2.2 positions and $356,000 General Fund in 2023-24, and 10 positions and $1,325,000 General Fund annually thereafter for CalVet for the first phase of staffing ramp up of a new skilled nursing facility (SNF) at the Veterans Home of California-Yountville (Yountville Home). This new skilled nursing facility will directly support the health and welfare of residents, meet updated licensing standards, and reflect modern design standards.

Background. The Yountville Home currently provides four levels of care: Domiciliary (DOM), Residential Care Facility for the Elderly (RCFE), Intermediate Care Facility (ICF), and SNF. The SNF level of care provides around-the-clock nursing support to residents with significant care needs. Residents in the SNF unit require assistance with all activities of daily living, may be bedridden, or suffer from other significant physical or mental health limitations. SNF residents often receive physical, occupational, and/or speech therapy, as well as other clinically intensive services. Staffing levels are high in the SNF unit, which must have a minimum of 3.5 direct-care staffing hours per patient per day. SNF Memory Care (MC) carries identical licenses to typical SNFs, but provide specialized care for residents with cognitive disabilities.

The new structure will feature 240 SNF beds (150 SNF; 90 SNF MC), replacing the existing 231-bed SNF program (156 SNF; 75 SNF MC). The new layout will be very different compared to the Holderman building, with private bedrooms and private restrooms, more personal space, and a modernized food service program. The new SNF building will be a stand-alone, self-contained operation having its own boiler room, mechanical room, chillers, main and satellite kitchens, dining rooms, warehouse, clinic space, and mail room, among other things. Currently, the new SNF building is scheduled for completion in July 2024 with certificate of occupancy expected in September 2024.

CalVet is requesting resources for the initial staffing phases of the new SNF building to support the property, plant operations, and human resources. The positions include:

- 1 Chief Engineer
- 2 Maintenance Mechanics
- 2 Stationary Engineers
- 1 Property Controller
- 2 Stock Clerks
- 3 Human Resources Personnel

Staff Recommendation. Hold Open.

Issue 26: Reappropriation for the Rector Creek Assessment Study (Spring Finance Letter)

Request. The Governor's finance letter requests a reappropriation to extend the liquidation period from June 30, 2023 to June 30, 2024, to complete the Rector Creek Instream Flow and Fish Condition Assessment Study.

Background. Rector Creek is located in Napa County, and is a small tributary to Conn Creek, which leads to a tributary to the Napa River, and finally a tributary to the San Francisco Bay. The state constructed the Rector Dam in 1946, impounding water in Rector Reservoir. Rector Dam and Reservoir are operated by CalVet to provide drinking water to the Veterans Home of California-Yountville, Town of Yountville, California Department of Fish and Wildlife (CDFW), Napa State Hospital, and a number of small wineries located within close proximity to the Rector Dam.

In response to a lawsuit filed in 2016, the 2018 Budget Act appropriated $950,000 one-time General Fund to conduct the Rector Creek Instream Flow and Fish Condition Assessment Study. The purpose of the study is to, among other things, evaluate the conditions of the creek, determine the appropriate level of flow to support the fish population, and identify any necessary modifications accordingly. Once completed, the study will inform future operations at the Rector Dam and Reservoir and ensure ongoing compliance with state and federal law. The funds for this study are available until June 30, 2023.

According to CalVet, the study is currently underway; however, due to the extreme dry rainy seasons, the study has not been completed due to the need for a high flow event. While the current water year is promising to provide enough hydrologic data to complete the high flow portion of the report, the report will not be concluded by June 30, 2023. This is due to the need to synthesize the data and collaborate with CDFW and other interested agencies before the report can be finalized.

CalVet requests a reappropriation to extend the liquidation period to complete the Rector Creek Instream Flow and Fish Condition Assessment Study. According to the Administration, with this reappropriation, CalVet would have sufficient time to complete the study and ensure compliance with state and federal law.

Staff Recommendation. Hold Open.

Issue 27: Settlement Costs (Spring Finance Letter)

Request. The Governor's finance letter requests $8,659,000 one-time General Fund to pay for legal settlement costs as a result of a recently settled lawsuit at the Veterans Home of California, Chula Vista.

Background. In 2019, a man tripped, struck his knee, and suffered fractures to his knees and toes on a second curb built on top of an existing curb at the Veterans Home. In a subsequent lawsuit, a San Diego Superior Court jury ruled in favor of the individual, and returned an $8.4 million verdict for past and future medical expenses, suffering, and related harms. The total appropriation sought to pay the judgement is inclusive of all damages and awardable litigation costs.

Staff Recommendation. Hold Open.

0890 SECRETARY OF STATE

Issue 28: Disqualification from Voting (AB 2841)

Request. The Governor's budget requests $3,076,000 General Fund in 2023-24, and $1,776,000 annually thereafter, and 11.0 positions for SOS to implement the provisions of AB 2841 (Low), Chapter 807, Statutes of 2022.

Background. AB 2841 requires SOS to post data showing the number of conservatorship voting rights disqualifications and restorations by county, and to provide training to court and county staff related to conservatorship voting rights to ensure compliance with existing law. Requires a county elections official, before canceling a voter's registration, to notify the voter and provide the voter with an opportunity to correct an erroneous cancellation, as specified.

The SOS will primarily incur costs for 11 staff to implement the requirements of AB 2841. Additional costs include modifying the voter registration system (VoteCal), procuring an Axway license to develop a mechanism for courts to electronically transfer conservatorship files to the SOS, and engaging and seeking an interagency agreement with California Department of Human Resources (CalHR) to host web-based learning and management training classes on CalLearns, CalHR's Learning Management System.

The SOS requests 11 positions divided between the Elections Division and the Information Technology Division (ITD) to implement AB 2841.

The Elections Divisions requests the following positions:

- 4.0 – Associate Governmental Program Analyst
- 2.0 – Program Technician II
- 1.0 – Staff Services Manager I

The Information Technology Division requests the following positions:

- 1.0 – Information Technology Specialist (ITS) III
- 2.0 – ITS II
- 1.0 – Information Technology Associate

Staff Recommendation. Hold Open.

8820 COMMISSION ON THE STATUS OF WOMEN AND GIRLS

Issue 29: Update on Commission Activities & Continued Implementation of SB 24 (2019) (Spring Finance Letter)

Request. The Governor's finance letter requests for the Commission on the Status of Women and Girls to extend the existing 3 limited-term positions tasked with implementing SB 24 (Leyva), Chapter 740, Statutes of 2019 for two additional years.

Background. The California Commission on the Status of Women and Girls is the leading state agency advancing the interests of women and girls in one of the world's largest economies and the most populous state in the nation. The Commission works inclusively to champion issues impacting women and girls through advocacy, education, and outreach to the Governor, Legislature, other public policymakers, and the public to attain equity and access for all.

The Commission is comprised of 17 members which include three State Senators, three Assemblymembers, the State Labor Commissioner, and ten appointed public members (seven by the Governor, one by the Superintendent of Public Instruction, one by the Senate Committee on Rules and one by the Assembly Speaker).

SB 24 establishes and requires the Commission to administer the College Student Health Center Sexual and Reproductive Health Preparation Fund, which is continuously appropriated, to provide direct allocations to each public university system in order to equip all CSU and UC student health centers to offer abortion by medication techniques on or by January 1, 2023, and to cover the Commission's costs to administer the program.

As previously mentioned, SB 24 creates the College Student Health Center Sexual and Reproductive Health Preparation Fund, seeded by a one-time private donation of $10.3 million, and names the Commission as the fund administrator. Additionally, the bill directs all public universities to prepare their student health centers to be able to provide abortion by medication techniques by January 1, 2023. To date, the Commission has allocated $200,000 from the Fund to each UC and CSU campus to help implement SB 24.

According to the Commission, to successfully and timely complete the Commission's statutorily required tasks, the three limited-term staff are needed for two additional years to continue to develop, implement, report, monitor, and oversee the work of the program. The Fund currently has a sufficient fund balance to continue supporting these positions for an additional two years.

Staff Recommendation. Hold Open.

0954 SCHOLARSHARE INVESTMENT BOARD

Issue 30: CalKIDS Savings Accounts

Request: The Governor's budget proposes to shift $30 million ongoing General Fund within the California Kids Investment and Development Savings (CalKIDS) program and to provide $1 million one-time General Fund to support marketing and outreach efforts for the program.

Background. The ScholarShare Investment Board (SIB) administers the Golden State ScholarShare College Savings Trust Program (ScholarShare 529), the California Memorial Scholarship Program (CMS), and the California Kids Investment and Development Savings Program (CalKIDS).

The CalKIDS program was created in the 2019-20 Budget. The program funds college savings accounts targeted to low-income and underrepresented public school students, in addition to establishing college savings accounts for all newborns. Under the program, the Scholarshare Investment Board (SIB) opens college savings accounts and makes deposits for eligible children. The deposits are invested so they have the potential to grow over time. (Parents cannot contribute to these accounts, but they may open a Scholarshare 529 account to save their own funds.) To access funds in a CalKIDS account, a family must register on SIB's online portal. Once the child goes to college, the funds in their CalKIDS account can be spent on qualified higher education expenses—generally tuition and fees, books and supplies, computer equipment, and room and board costs. The funds can be spent at any higher education institution eligible for federal financial aid as well as registered apprenticeship programs. If the funds are not spent by the time the beneficiary reaches age 26, the funds revert to the CalKIDS program.

The 2021 Budget Act provided approximately $1.9 billion in one-time federal and state funds to establish college savings accounts for all current low-income public school students in grades 1-12 in 2021-22, as defined for purposes of the Local Control Funding Formula, with supplemental investments for foster youth and homeless students enrolled in a public school. Approximately $170 million ongoing General Fund was provided in 2022-23 and ongoing to establish college savings accounts for incoming first-grade cohorts of low-income public school students, as defined for purposes of the Local Control Funding Formula, with supplemental investments for foster youth and homeless students enrolled in a public school.

The CalKIDS program has two main components:

- Newborn Deposit: Under the first component, SIB is to open a college savings account for every child born in California and provide a seed deposit of at least $25 in each account. This component is universal, meaning all newborns receive seed deposits regardless of their financial need. The state is providing $15 million ongoing General Fund to support seed deposits for children born on or after July 1, 2022.
- Low-Income First Graders: Under the second component of the CalKIDS program, SIB is to provide a deposit of $500 to each first grader who is low-income (as defined under the

Local Control Funding Formula). First graders qualify for an additional $500 deposit if they are foster youth and an additional $500 deposit if they are homeless, leading to a maximum deposit of $1,500. SIB is to add these deposits to the existing CalKIDS accounts of any first graders who had an account created as a newborn, while creating new accounts for any first graders who do not already have one. The state is providing $170 million ongoing General Fund to support deposits for low-income first graders beginning in 2022-23. However, the Administration now estimates it would cost approximately $140 million annually to provide these deposits, $30 million less than previously budgeted.

Additionally, the 2021-22 Budget Act provided $1.8 billion one time for deposits to low-income students enrolled in grades 1 through 12 in that year. Thus, eligible high school seniors who graduated in Spring 2022 were eligible for college funding last Fall.

Participation Rates. SIB recently provided the Subcommittee with outcomes of the first several months of the program. About 3 percent of participants automatically enrolled in the program have registered, meaning they have signed on to the CalKIDS website and connected with their account. Of the participants who registered, nearly half of newborn-families linked to another Scholarshare account, while about 5 percent of school-age families linked to another account. Funding provided in 2021-22 to provide college funds to all 1-12th -graders in California has had similar participation. About 4 percent of 12th graders who graduated in 2022 requested funding. Payouts for higher education purposes total $5.6 million so far.

State Funded Several CalKIDS Marketing and Outreach Efforts in 2022-23. The 2022-23 Budget Act provided the following General Fund augmentations to SIB for CalKIDS marketing and outreach:

- $5 million ongoing for financial literacy outreach to CalKIDS participants and their families.
- $5 million one-time for contracts with local college savings account programs to conduct outreach and coordinate with the CalKIDS program.
- $3.1 million one-time and $900,000 ongoing to send notification letters informing participants' families of their accounts.
- $1 million one-time for a marketing campaign to increase awareness of the CalKIDS program. In addition to these state funds, SIB receives marketing support from the Scholarshare 529 program manager (who, through a contract with SIB, also provides investment services, customer service, and other administrative support). SIB reports the program manager has committed to spending $1 million annually on CalKIDS marketing as part of their current contract, which extends through November 2026.

Governor's Budget Proposal: The Governor's budget proposes to:

- Redirect $30 million ongoing General Fund from that First Grade program component toward the newborn component beginning in 2023-24 for a total funding level for the newborn component to $45 million. At this funding level, the Administration projects the state could provide a $100 seed deposit to all of the approximately 450,000 newborns annually.

- Provides $1 million one-time General Fund to SIB for marketing and outreach expenses for the CalKIDS program. The proposal would extend the marketing activities funded in 2022-23, with the goal of increasing families' awareness of the CalKIDS program as well as encouraging them to register their accounts and potentially open a Scholarshare 529 account to save their own funds.

Legislative Analyst's Office Analysis and Recommendations:

Administration's Cost Estimates Are Reasonable. We concur with the Administration that total CalKIDS funding under the Governor's budget is likely sufficient to support the proposed seed deposits for newborns while maintaining the current deposits for first graders in 2023-24. In addition, under the most recent demographic projections, we do not anticipate costs in either program component will increase much, if any, in the out years. Between 2023-24 and 2026-27, the Department of Finance projects the number of births will remain about flat, while the number of first graders will decline by about 10 percent. (The share of students who are low-income has been relatively steady in recent years.)

Proposal Would Expand Program Component Amid State Budget Deficits. Typically, when the state adjusts caseload estimates downward in a given program, it reflects the lower associated spending level in the budget. The Governor's proposal, however, takes a different approach. Instead of aligning CalKIDS spending with the lower revised cost estimate for the first-grader component, the Governor proposes to use the identified savings to expand the newborn component. This approach warrants careful consideration in light of the state's budget condition. As we discuss in The 2023-24 Budget: Overview of the Governor's Budget, the state faces a budget problem in 2023-24, in addition to projected out-year operating deficits under the Governor's budget.

Impact of Increasing Seed Deposits for Newborns Is Not Known. Evaluations of college savings account pilot programs in other states have found that these programs have benefits in the short term, such as increasing parents' educational expectations for their children. However, because the children enrolled in these programs are still young, evidence of their eventual impact on college access is limited. Although some research suggests children with college savings are more likely to enroll in and graduate from college, we do not at this time have evidence that providing a $100 seed deposit has a larger effect on these outcomes than providing a $25 seed deposit. A $100 seed deposit would provide more savings for college (particularly after accounting for potential investment earnings), but the amount would remain small relative to the cost of college attendance. Moreover, because the deposits are universal, some of the funds would go toward high-income children who already have a relatively high likelihood of enrolling in and graduating from college. Low-income children, meanwhile, are already under current law eligible for a significantly larger deposit (generally $500) upon entering first grade. Upon entering college, many students are also eligible for assistance with tuition and living costs through other financial aid programs, including the state's Cal Grant and Middle Class Scholarship programs as well as the federal Pell Grant program.

Program Likely Has Unspent Funds From Previous Years. Beyond the $30 million the Governor is proposing to redirect from the first-grader component beginning in 2023-24, there are likely additional potential savings in the CalKIDS program. First, based on recent school enrollment projections, the amount budgeted for first-grader deposits in 2022-23 is likely also too high. Second, some of the funding the state provided in previous years for the newborn component likely remains unspent. This is because the state provided funding (a combined $39 million) for the newborn component in 2019-20 and 2021-22, whereas SIB did not launch this component until 2022-23.

Outreach Funding:
The LAO notes that in order for the CalKIDS program to expand college access, participants and their families need to know about the funds the state has deposited into their account and how they can be used. The state provided ongoing augmentations last year for SIB to send notification letters to participants' families as well as provide financial literacy outreach.

However, the LAO finds that the marketing and outreach funds provided in 2022-23 are largely unspent. SIB began sending notification letters to participants' families in November 2022. As of January 2023, however, it has not yet begun to spend the other marketing and outreach funds provided in 2022-23. SIB is currently developing requests for proposals for the funds for financial literacy outreach, outreach and coordination with local college savings account programs, and the marketing campaign. Given that SIB is still determining how to spend the funds provided last year, it is too soon to assess whether further augmentations are needed this year.

SIB indicates the proposed funds for 2023-24 could potentially be used for various marketing activities, including, but not limited to, videos, radio announcements, and online advertising. At this time, the specific activities have not yet been determined. SIB intends to make these determinations after it has spent the marketing funds provided in 2022-23 and analyzed the results.

LAO Recommendations: The LAO recommends that the Legislature reject both CalKIDs related proposals:

Given the state budget condition and the unknown impact of increasing seed deposits for all newborns, we recommend the Legislature reject the Governor's proposal. We recommend the Legislature instead align CalKIDS ongoing spending in 2023-24 with the Administration's revised cost estimates— essentially treating this as a typical caseload adjustment. This would generate $30 million in additional budget solution for 2023-24 and help address projected outyear operating deficits. Furthermore, we recommend the Legislature sweep any unspent CalKIDS funds from 2019-20 through 2022-23 that are not needed to cover program costs those years as additional one-time budget solution.

We recommend the Legislature reject the Governor's proposal to provide $1 million one-time General Fund for CalKIDS marketing in 2023-24, given that it does not yet know whether additional funding is needed for this purpose or what activities those funds would support. Rejecting this proposal would provide additional budget solution in 2023-24.

Staff Recommendation: Hold Open.

7730 FRANCHISE TAX BOARD

Issue 31: Data Sharing Trailer Bill Language

Request. The Administration proposes trailer bill that includes a proposal to extend data sharing between the Franchise Tax Board, the California Department of Social Services, and the Department of Health Care Services to support unique or joint efforts on outreach and education associated with the California Earned Income Tax Credit.

Additionally, this language modifies the outreach requirements for employers to notify employees, and the California public assistance programs to notify their clients, twice annually as to the California and the federal Earned Income Tax Credit, as well as the existence of other federal or state tax credits supporting lower income Californians and providing information on how these individuals can file a tax return for free.

Staff Recommendation. Hold Open.

Issue 32: Film and Television Tax Credit Administration (Spring Finance Letter)

Request. The Administration proposes in an April Finance Letter to provide the Franchise Tax Board (FTB) $154,000 in General Fund and 1.0 position in FY 2023-24; $721,000 in General Fund and 4.1 positions in FY 2024-25; $767,000 in General Fund and 5.3 positions in FY 2025-26; $292,000 in General Fund and 2.0 positions in FY 2026-27 and ongoing to implement the expansion of Film and Television Tax Credit. These resources are critical to successfully implement the Administration's proposal for the expansion of the Film and Television Tax Credit.

Since the Spring Finance was provided, the FTB has further refined their request and is no longer requesting resources in the 2023-24 year.

Background. The Governor's budget includes a proposal to extend the Film and Television Tax Credit Program, and earmark $330 million for film and TV tax incentives each fiscal year starting in FY 2025-26 through FY 2030-31. The difference between the current program and the proposed program is that the proposed program would allow for the credit to be refundable. The new program would be operative for taxable years beginning on or after 1/1/2025 and before 1/1/2030.

Administrative Services Division:

- Information Technology Associate (ITA): $6,000 for overtime in FY 2024-25

The Communications Services Branch (CSB) manages FTB's external website and creates accessible tax forms and instructions. CSB is requesting overtime funding for an ITA to perform form design services, including updating existing tax forms and creating a new tax form.

Filing Division:

- Associate Tax Auditor (ATA): One 18-month limited-term position (10/1/2024 through 3/31/2026)
- Information Technology Specialist I (IT Spec I): One 18-month limited-term position (10/1/2024 through 3/31/2026)
- Program Specialist II (PS II): One 18-month limited-term position (10/1/2024 through 3/31/2026)
- Program Specialist I (PS I), Associate Operations Specialist (AOS), Staff Operations Specialist (SOS): $81,000 for overtime in FY 2024-25
- Principal Compliance Representative (PCR): One permanent position (effective 10/1/2025)

The Filing Division is responsible for implementing the proposed Film and Television Tax Credit Program changes into the appropriate tax forms and instructions, preparing and processing returns received, manually analyzing returns that have issues identified during processing, as well as resolving customer/taxpayer questions regarding the credit. The Filing Division is requesting three positions for workloads that prepare the division for the implementation of the new refundable credit, and one position for the processing of the returns claiming the new refundable credit

Technology Services Division:

- IT Spec I: One one-year limited-term position (7/1/2023 through 6/30/2024)
- IT Spec I: Three one-year limited-term positions (1/1/2025 through 12/31/2025)
- IT Spec I: One permanent position (effective 1/1/2025)

The Technology Services Division requests one one-year limited term position to analyze, code and test the Film and Television Tax Credit reservation system. In addition, three one-year limited term positions will analyze, code and test changes to our return analysis and tax accounting systems, which is required to support this important legislative change. Finally, one permanent position will analyze, code, and complete the ongoing maintenance and monitoring of the refundable Film and Television Tax Credit processing functionality and data.

Staff Recommendation. Hold Open.

Issue 33: "Protect Our Progress" Budget Plan - Tax Credits

Legislative Proposal. The Senate Democrats "Protect Our Progress" Budget Plan, released on April 26, 2023 includes the following tax credit proposals to provide targeted tax relief:

1. **Renters Tax Credit.**

The state's Personal Income Tax law allows eligible taxpayers who rent their principal residence to claim the Renter's Tax Credit on their Personal Income Tax Return. The Legislature enacted the credit in 1972 as part of a comprehensive property tax reform program that increased the homeowner's exemption from property tax which reduces the value subject to property tax on owner-occupied property. Specifically, because renters do not directly benefit from property tax reductions, the Legislature enacted the credit to provide a direct benefit to renters. State law requires an annual inflation adjustment of the credit's adjusted gross income (AGI) limitations, but does not annually increase the credit amount for inflation, which has remained at its current amount since 1979. The credit is nonrefundable, which means that the credit can reduce a taxpayer's tax liability to zero, but it cannot result in a refund.

Proposal: The plan provides $700 million to increase the Renters Tax Credit and to reform the program to benefit taxpayers with children and to make the credit refundable beginning with the 2023 taxable year. The improvements will cut taxes for approximately 3,250,000 taxpayers, with the following details:

- For Joint Filers and Heads of Households with no dependents, increases the credit from $120 to $250, a 108 percent increase.
- For Joint Filers and Heads of Households with dependents, increases the credit from $120 to $500, a 316 percent increase.
- For Single Filers with no dependents, increases the credit from $60 to $250, a 316 percent increase.
- For Single Filers with dependents, increases the credit from $60 to $500, a 733 percent increase.
- Makes the Renters Tax Credit refundable, recognizing that lower income Californians often do not have an income tax liability, but still certainly pay other state and local taxes and should benefit from the credit.

2. **California Earned Income Tax Credit (EITC).**

The California EITC is a state personal income tax provision that benefits individuals and families who earn less than $30,000. The amount of the credit depends on taxpayers "earned income" (which primarily includes wages and self-employment income), filing status, and the number of qualifying dependent children. The amount of the EITC initially rises with earnings, such that the greater the filer's earnings, the larger the credit. The credit peaks at a certain income and then gradually phases out for higher levels of earnings. The tax credit is fully refundable. This means that if the amount of a taxpayer's EITC is greater than his or her liability before applying the credit, then the state pays the taxpayer that difference. The Franchise Tax Board (FTB) annually adjusts the income thresholds and credit amounts for inflation, similar to the adjustment made at the federal level (although the state uses a California-specific inflation index).

2022 CalEITC Credit

Number of qualifying children	California maximum income	CalEITC (up to)	IRS EITC (up to)
None	$30,000	$275	$560
1	$30,000	$1,843	$3,733
2	$30,000	$3,037	$6,164
3 or more	$30,000	$3,417	$6,935

Source: Franchise Tax Board

Proposal: The plan provides $400 million to set a minimum CalEITC amount at $275 million beginning with the 2023 tax year for the lowest income recipients. While the CalEITC has been transformative to those that qualify for larger amounts, roughly 88 percent of CalEITC recipients receive less than $275, and providing a meaningful minimum will encourage more to file taxes and receive their CalEITC benefit. The minimum benefit would be phased-out at a specified income level.

3. Workers' Tax Fairness Tax Credit.

The Workers' Tax Fairness Tax Credit

As part of the 2022 Budget Act agreement, AB 158 (Committee on Budget), Chapter 737, Statutes of 2022, a budget trailer bill, was enacted that established the Workers Tax Fairness Tax Credit. The tax credit would provide for union workers to get a similar tax benefit to what typically higher paid professions enjoy by providing a credit for union dues paid. However, under the 2022 Budget Act agreement future Legislative action was needed to fund and activate the tax credit.

Proposal: The plan provides $400 million ongoing to activate the Workers Tax Fairness Tax Credit and activates the Workers Tax Fairness Tax Credit starting in the 2024 tax year to change union dues from being a tax deduction to be a tax credit, so that as many as 2,500,000 workers can get the tax benefit.

Staff Recommendation: Information Only. These proposals will be considered as part of an overall budget package informed by the May Revision.

Issue 34: Diversity in the Film and Television Industry – Tax Credits

Tax Credit Background:

The California Film Commission (CFC) allocates credits to taxpayers producing a motion picture or television show in California according to a competitive process. The California Motion Picture and Television Production Credit has been re-authorized three times as noted below. While new applications are only currently accepted for Program 3.0, carryforward allowances mean that credits issued under Programs 1.0 and 2.0 may still be in the process of being claimed on tax returns. The Soundstage filming credit is a new additional credit.

- Original California Motion Picture and Television Production Credit (Program 1.0 – Credit allocation letters dated from July 1 2009 – June 30, 2016)
- New California Motion Picture and Television Production Credit (Program 2.0 - Credit allocation letters dated from July 1 2016 – June 30, 2020)
- Program 3.0 California Motion Picture and Television Production Credit (Credit allocation letters dated from July 1 2020 – June 30, 2025)
- California Soundstage Filming Tax Credit, enacted under Senate Bill 144

The California Motion Picture and Television Credit (Program 3.0) is the most recent authorization of the credit and it allows a credit against the Personal Income and Corporation Taxes for taxpayers producing qualified motion pictures, administered and allocated by the CFC. Under this credit, the CFC may allocate up to $330 million in tax annually for fiscal years 2020-21 to 2024-25 for qualified motion pictures, defined as follows:

- Have 75 percent of the motion picture shooting days take place in California, or have 75 percent of the motion production budget incurred for services or the purchase or rental of property within the state;
- Commence principal photography within 180 days, and finish within 30 months from the date when the application was approved by the CFC; and
- Obtain a copyright from the United States Copyright Office.

The CFC may allocate credits to any of the following productions:

- A feature film with a minimum production budget of $1 million;

- A movie of the week or miniseries with a minimum production budget of $500,000.

- A new television series produced in California with a minimum production budget of $1 million.

- An independent film, as defined.

- A television series that relocated to California.

- A pilot for a new television series longer than 40 minutes of running time exclusive of commercials produced in California with a minimum production budget of $1 million.

The credit is generally equal to 20 percent to 25 percent of qualified expenditures for the production of a qualified motion picture, independent film, feature, or television series in California, based on certain specifications, with additional credit amounts allowed, including for amounts equal to specific qualified expenditures and qualified wages relating to original photography.

Qualified expenditures are defined as amounts paid or incurred to purchase, or lease, tangible personal property, wages, or services performed in the state, during the motion picture production in California. Qualified expenditures do not include amounts paid to writers, directors, music directors, music composers, music supervisors, producers, or performers, other than background actors.

Under current law, the credit is nonrefundable, but grants taxpayers three options if they do not have sufficient income tax liability to offset the credit:

- Taxpayers with credits for independent films may sell the credit to not more than one unrelated party, who cannot subsequently resell it, so long as the taxpayer reports the sale along with specified information to the FTB.
- Taxpayers can elect to apply credits to offset any sales and use tax liability, and obtain either a refund of previously paid taxes or an offset of future ones, according to procedures set forth in statute.
- Lastly, corporation taxpayers may assign the credit to one or more affiliates within their unitary groups if the credit exceeds their liability.

Applicants file an application to the CFC, along with specified information about the production, including anticipated qualified expenditures. If approved, the CFC issues the applicant a credit allocation letter indicating the amount of credit reserved, pending continuing eligibility and final documentation. The applicant provides final documentation to CFC necessary to verify the qualified expenditures and after verification, the CFC issues the taxpayer a credit certificate which can be applied beginning that taxable year.

California Soundstage Filming Tax Credit. SB 144 (Portantino), Chapter 114, Statutes of 2021, allowed a new additional credit allocated by CFC to taxpayers who produce qualified motion pictures and complete “certified studio construction projects,” when the qualified motion picture or television series is mostly produced at the soundstage, or soundstages, constructed by the taxpayer, or a soundstage(s) where the taxpayer has a long-term lease. Soundstage Filming Tax Credits became allowable as of January 2022 and will be allowable for a period of ten years, under the current program. The program has a total of $150 million to allocate, and allocations will be made on a first come, first served basis for approved applicants. The CFC allocates this credit in addition to the film and television production credit and outside the current competitive allocation process.

Diversity Reporting and Plans:

Film and TV Tax Credit 3.0. In 2018, the Legislature enacted the Film and TV Tax Credit 3.0, authorizing the Commission to allocate $330 million in credits each year through 2024-25 [SB 871 (Budget and Fiscal Review Committee), Chapter 54, Statutes of 2018]. SB 871 allowed a credit equal to 20 percent or 25 percent of qualified expenditures for production of a qualified motion picture in California, with additional credits for qualified expenditures related to original photography, as defined. Additionally, SB 871 required applicants to submit a summary of their voluntary programs designed to increase the representation of minorities and women in certain job classifications and directed the Commission to establish the Career Pathways Training program, among other provisions.

Soundstage Tax Credit. The 2021 budget package included SB 144 (Portantino, Chapter 114, Statutes of 2021) which allocates $150 million in film tax credits for productions that are filmed at new or renovated soundstages. The credits are available for productions in 2022 through 2032. The Commission identifies and certifies qualified soundstage construction projects. Productions receiving credits under this program are required to submit a diversity workplan to the Commission. The diversity workplan is required to include goals that are broadly reflective of California's population, in terms of race and gender. Those productions are eligible to receive an additional 4 percent tax credit if they meet or make a good faith effort to meet their diversity goals.

As part of the Soundstage Credit, an additional component was added to include the potential of an additional 4 percent of the credit or "uplift" in credit amount for projects that submit diversity workplans that include specific goals and provide information for individuals whose wages are both included and excluded in the definition of qualified wages for the project. The diversity goals uplift will be approved for applicants that show in their diversity report that they have met or made a good-faith effort to meet the goals they set for the project in their workplan.

The California Film Commission has posted the latest Annual Diversity Data and Summary of Diversity Initiatives from the Film and TV Tax Credit Program 3.0 and the Soundstage Filming Tax credit program on their website at www.film.ca.gov/tax-credit/diversity-equity-inclusion/

Governor's Budget Proposal.

The Governor's budget includes proposed trailer bill language to extend the authority for the California Film Commission (CFC) to allocate, and for qualified taxpayers to claim, the California Motion Picture and Television Production Credit for an additional five years, starting in 2025-26. The proposal maintains the current authorization amount of $330 million per year, and makes the credit refundable, thereby allowing taxpayers with insufficient tax liability to make use of the credit. In addition, the Governor's budget includes proposed trailer bill language to amend the California Soundstage Filming Tax Credit.

The proposed Program 4.0 also includes a diversity workplan component, with some structural changes from the diversity component included in the soundstage credit. Instead of an uplift on top of the credit amount, the CFC will provide applicants with a notice of total award amount, inclusive of applicants opting-in to complete new diversity provisions. Four percent of total dollar award amounts will be allocated for a diversity incentive and will be distributed based on applicants achieving their goals or making a good faith effort to meet their goals. In order to qualify for the diversity incentive, applicants must provide a diversity workplan, and interim and final diversity assessments to CFC related to individuals whose wages are included in the definition of qualified wages for a project. CFC will aggregate applicants' work and summarize findings in its annual diversity report. Independent films are exempt from the diversity provisions and their total award amount will not be impacted.

Proposed Refundability Provision

The Administration's proposal to extend the California Film and Television Tax Credit Program by five years includes a provision allowing taxpayers who receive a Program 4.0 credit to receive a refund at a 10-percent discount rate and to be claimed according to a five-year claiming schedule if certified credits exceed the taxpayer's liability for the taxable year that the credits were certified. Credits must first be applied against the taxpayer's liability, and in case of excess credits, the refundable amount that can optionally be claimed per year is set at the lesser of:

1- 18 percent (one-fifth or 20 percent of the original credit amount minus 2 percent due to the 10-percent discount rate) of the original credit amount, or

2- The remaining amount of the excess credit adjusted for the 10-percent discount rate.

In any given year, the maximum amount of refund that a taxpayer can receive is 18 percent of the original credit, and this reduces their available credits by an additional 2 percent due to the discount rate. Whenever the remaining excess credits are less than 20 percent of the original credit, the amount that is refunded to the taxpayer is equal to 90 percent of the excess credit and the remaining 10 percent is discounted and reduces available credits to zero.

Credits applied against tax liability and credits claimed as a refund must be claimed within the nine years during which the credit can be carried forward. The election to receive a refundable credit is irrevocable, and taxpayers may not receive a refund for credits purchased from another taxpayer.

Current Program Trends

According to the Department of Finance (DOF), over the lifetime of the program (1.0, 2.0 and 3.0), the CFC has allocated credits to 624 projects, including 185 that have applied as an independent production. This equates to about 30 companies per year who have received allocations. About 60 percent of all allocated credits have been certified and about 80 percent of credits certified so far have been claimed and used against income tax liability or sales tax liability.

The pace at which credits are certified has significantly slowed down over the most recent years, with just about 15 percent of credits allocated that have been certified from 2019-20 through 2022-23. The share of credits used against sales tax liability (as opposed to being used against income tax) has steadily but drastically increased over the years, from an average of 15 percent of total credit usage in the first six years of the program to an average of 60 percent in the past three years.

DOF notes that nine states offer 100 percent refundable tax credits and two additional states' have refundability with a discount of 10 percent. Other countries such as Australia, Canada, France, and the UK offer 100 percent refundable tax credits. In addition to refundability, several jurisdictions include monetization provisions, such as the ability to sell tax credits to third-parties or back to the state.

In addition, data analysis shows that the state lost 77 percent of production spending by those projects that applied for but did not receive a California tax credit; 16 out of 28 projects that did not receive a tax credits, left California to be produced out-of-state. These runaway projects accounted for $951 million in production spending outside California.

Revenue Impact
According to DOF, most of the costs associated with the 4.0 program are incurred in future years of the timing of the extension as well as the need for productions to reach their milestones before being able to generate and certify credits. DOF estimates a revenue impact of $8 million in 2025-26 and of $49 million in 2026-27 for the extension.

$ in Millions	2023-24	2024-25	2025-26	2026-27
Five-Year extension	$0.0	$0.0	$7.0	$43.0
Film tax credit refundability	$0.0	$0.0	$1.0	$6.0

Over the lifetime of the credit, DOF projects the costs associated with the extension are projected to total a little less than $1.65 billion, including about $200 million lifetime costs for refundability. These costs are spread over 12 years from 2025-26 through 2036-37.

Legislative Analyst's Office (LAO) Comments:

The LAO recently released their report, *The 2023-24 Budget: California's Film Tax Credit*, which both provides an analysis of the Governor's proposal as well as meets their requirements to produce a report on the credit under Revenue and Taxation Code Section 38.9(a). The LAO summary is provided here:

California's Film Tax Credit Created to Counteract Other States' Efforts to Attract Hollywood. During the 2000s, California policy makers became concerned that the state may be losing motion picture production to other states. In response, the Legislature in 2009 created a film tax credit to encourage motion picture productions to locate here. The Legislature since has extended and expanded the credit multiple times. It currently is scheduled to expire in 2025.

Governor Proposes Five Year Extension of Film Tax Credit. The Governor's budget proposes a five year extension of the film tax credit. The Governor also proposes to make the credit refundable—allowing production companies to claim credits in excess of the amount of taxes they owe.

Film Tax Credit Makes California's Motion Picture Industry Bigger, but Effect on Overall Economy Is Unclear. Our review of research on state film tax credits suggests that state's with film tax credits have larger motion picture industries. Whether or not this results in growth of the state's overall economy, however, is unclear. This is because revenues forgone to the film tax credit could have been spent on other activities, which would have grown other parts of the economy. Existing evidence does not allow us to be confident that film tax credits lead to more economic activity than alternative uses of funds.

Decision on Extension Should Depend on How the Legislature Prioritizes the Importance of Hollywood. We do not recommend considering the film tax credit as a reliable mechanism to grow the state's overall economy. Instead, how the Legislature assesses a potential extension should depend on how much it prioritizes the importance of maintaining Hollywood's centrality in the motion picture industry.

If Extending the Credit, Refundability Worth Considering but With Modifications. If the Legislature elects to extend the credit, refundability is worth considering but with modifications to achieve some benefits of refundability (such as improved taxpayer equity) while limiting the downsides (such as increased costs and administrative complexity). These modifications include: specifying a schedule for the credit to be claimed over a period of years, reducing the annual allocation cap, and limiting other flexibilities in production companies' use of the credit.

Staff Recommendation. Information Only

The Film Tax Credit was also heard on in Subcommittee #4 on March 2, 2023.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Steve Padilla, Chair
Senator Anna Caballero
Senator Roger Niello

Thursday, May 18, 2023
1:30 p.m.
1021 O Street – Room 2200

Consultants: Elisa Wynne, Diego Emilio J. Lopez, Timothy Griffiths

Issues for Discussion

Public Comment

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

Issues for Discussion

TAXES AND ECONOMIC DEVELOPMENT

7600 Franchise Tax Board (FTB)

- **Middle Class Tax Refund Savings.** The May Revise reverts $200 million to the General Fund from the total amount set aside for the Middle Class Tax Refunds in the Budget Act of 2022. These savings are due to an over-estimation of the number of eligible taxpayers based on the limited information available at the time the program was adopted. The FTB continues to retain funding necessary to cover payments for all eligible taxpayers, even those who have not yet activated debit cards.

7730 Department of Tax and Fee Administration
7600 Franchise Tax Board (FTB)

- **Main Street Small Business Tax Credits I and II.** The May Revise reverts $101 million to the General Fund from the total amount set aside for the Main Street Small Business Tax Credits I and II. This credit is intended to provide financial relief to qualified small businesses for the economic disruptions in 2020 and 2021 that have resulted in unprecedented job losses. These credits required a reservation system and the reservation period to claim the funds closed on November 30, 2021. Funds are retained to cover existing reservations.

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

- **Partial Reallocation to City of Fresno Public Infrastructure Plan.** The January budget proposed a $300 million allocation over three years for the Local Government Budget Sustainability Fund. The purpose of the Fund was to help counties with high levels of poverty and unemployment to maintain budget stability. The May Revise reallocates $250 million from this Fund, directing it instead to the City of Fresno's Public Infrastructure Plan for investment in a high speed rail station, parking, green space, walkability, and water projects in the downtown area.

- **Increase in Technical Assistance to Small Businesses.** The May Revise proposes to allocate $23.5 in federal funds to the Office of the Small Business Advocate to provide technical assistance to small business applying for State Small Business Credit Initiative capital programs.

- **Decrease in California Small Business COVID-19 Relief Grant Program.** The May Revise proposes an additional $50 million in reductions to the California Small Business COVID-19 Relief Grant Program. The Office of the Small Business Advocate (CalOSBA) administers the program. At the time of the Governor's January Budget proposal, CalOSBA estimated that there would be $92 million in unspent funding after all grants had been awarded. After further awards, CalOSBA now believes there will an additional unspent amount remaining.

- **Extension of Deadlines for Office of the Small Business Advocate (Cal-OSBA) programs.** The May Revision proposes statutory changes for to extend deadlines for several programs run by Cal-OSBA to allow additional time for awarding grants and for program closeout activities.

AFFORDABLE HOUSING AND HOMELESSNESS

0515 Business, Consumer Services, and Housing (BCSH)

- **Accountability for state spending on homelessness.** The May Revision does not make any changes to the Governor's January budget proposals for addressing homelessness. This leaves in place two paragraphs setting forth the intent to: (1) incorporate further accountability measures meant to ensure that HHAP and other state homelessness reduction and prevention resources are being used effectively; and (2) incorporate language making the submission of a legally compliant housing element a prerequisite for eligibility to receive state homelessness reduction and prevention resources.

2240 Department of Housing and Community Development (HCD)

- **Partial deferment of Foreclosure Invention Housing Preservation Program (FIHPP).** FIHPP is designed to preserve affordable housing and promote resident or nonprofit organization ownership of residential real property. The Budget Act of 2021 appropriated $500 million through June 30, 2027 for the program. Funds are to be made available as loans or grants to eligible borrowers to acquire and rehabilitate properties at risk of foreclosure or in the foreclosure process. The May Revision proposes to defer $345 million of that allocation. Instead of being allocated this year, the $345 million deferral will be allocated to the program over the next four fiscal years.

- **Reversion of $17.5 million from the Downtown Rebound Program.** The 2000 Budget Act allocated $25 million to the Department of Housing and Community Development for the establishment of a Downtown Rebound Program. The program was intended to provide funding for the conversion of commercial and industrial structures into residential housing. Over two decades later, $17.5 million of the original allocation remains unspent. The May Revise proposes to recapture this unspent amount and redirect it to the General Fund.

General Government and State Administration

0650 Office of Planning and Research (OPR)

- **Staffing Reconfigurations.** The January budget proposed staffing increases at OPR in response to program growth. In light of declining state revenue, the May Revise proposes to reduce this staffing expansion by $2 million and 10 positions. Of the remaining 16 new positions, 13 will be established as civil service positions as an initial step toward the use of state civil service classifications across OPR. At the same time, the May Revise proposes the establishment of a new Information Technology Unit within OPR with 15 positions at a cost of $5.3 million per year.

CANNABIS

- **Updated Allocation of the Cannabis Tax Fund.** The May Revision estimates $567.4 million will be available for Allocation 3 purposes in 2023-24, which includes $150 million General Fund to backfill the estimated declines in revenues. These figures reflect a total decrease of $102.2 million compared to the Governor's budget estimate.

  AB 195 (Committee on Budget), Chapter 56, Statutes of 2022, requires that Allocation 3 programs are funded at a baseline of approximately $670 million using cannabis tax revenues, and included a $150 million General Fund appropriation to backfill revenues to help meet that baseline.

  Breakdown of Allocation 3 funding is as follows:

  - **Educations, prevention, and treatment of youth substance use disorders and school retention** – 60 percent ($340.4 million)

  - **Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation** – 20 percent ($113.5 million)

  - **Public safety-related activites** – 20 percent ($113.5 million)

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Anna M. Caballero
Senator Roger W. Niello

Thursday, May 25th, 2023
1:00 p.m. or Upon Adjournment of Session
1021 O. Street - Room 2100

Consultant: Elisa Wynne, Timothy Griffiths & Diego Emilio J. Lopez

ITEMS FOR VOTE ONLY

Public Comment

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0509 GOVERNOR'S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT

Issue 1: Administrative Staffing Increase

Governor's Budget Proposal. GO-Biz requests 7.0 positions and $955,000 in ongoing General Fund to support the increased workload for the Administrative Services Division.

According to GO-Biz, the last few budget cycles have resulted in a permanent gap between GO-Biz's overall responsibilities and GO-Biz's administrative capacity. GO-Biz states that the number of permanent programs it runs has grown dramatically in the last five years, rising from 18 ongoing programs in 2017-18 to 30 in 2022-23. Adding new and ongoing programs has resulted in a substantial broadening of GO-Biz's programmatic structure and, ultimately, its administrative needs.

This proposal was heard on March 27, 2023 and held open.

Staff Recommendation: Approve as budgeted.

Issue 2: California Business Investment Services Staffing Increase

Governor's Budget Proposal: The Governor's Office of Business and Economic Development's (GO-Biz) Business Investment Services (CalBIS) requests 6.0 positions and $740,000 ongoing General Fund to address increased workload and preserve the team's ability to maintain current service levels effectively.

According to GO-Biz, the requested resources would allow CalBIS to "fully and successfully" implement existing statutory requirements. Without these resources, GO-Biz asserts, service levels at CalBIS may deteriorate, resulting in "unfulfilled" business development opportunities across California and "unachieved" local, regional, and statewide business development goals.

This proposal was heard on March 27, 2023 and held open.

Staff Recommendation: Approve as budgeted.

Issue 3: California Competes Grant Program Funding for Third Year

Governor's Budget Proposal. The Governor's Office of Business and Economic Development (GO-Biz) requests $120 million in one-time General Fund for a third year of funding for the California Competes Grant program.

This request seeks a third year of funding for CalCompetes grants, once again in the amount of $120 million. GO-Biz states that such funding would:

(1) benefit companies that cannot receive the CalCompetes Tax Credit;

(2) grow California's semiconductor manufacturing industry by leveraging federal funds available through the CHIPS Act; and
(3) promote equity by recruiting firms from States that restrict reproductive and/or LGBTQ+ civil rights.

This proposal was heard on March 27, 2023 and held open.

Staff Recommendation: Approve as budgeted.

Issue 4: International Trade Staffing Increase

Governor's Budget Proposal: The Governor's Office of Business and Economic Development (GO-Biz) requests $327,000 ongoing General Fund and hiring authority for two positions to address increased workload for the International Affairs and Trade Unit.

This request seeks two additional positions:

(1) One to handle administration of the State Trade Expansion Program (STEP) program.

(2) One to respond to "growing demand among California small businesses and other external partners for more and better contacts, services, and networking opportunities."

This proposal was heard on March 27, 2023 and held open.

Staff Recommendation: Approve as budgeted.

Issue 5: Made in California Program Relaunch

Governor's Budget Proposal. The California Office of the Small Business Advocate (CalOSBA), within the Governor's Office of Business and Economic Development (GO-Biz) requests $1.534 million General Fund in 2023-24, to be spent over three years, to relaunch the Made in California Program. Through proposed trailer bill language, CalOSBA also seeks statutory changes intended to increase program participation.

The Made in California Program (CA Made) was meant to support in-state manufacturing by increasing consumer awareness of in-state production. Under the program, business can apply to have their products certified by an independent third party as being made in California provided the products meet specified criteria. Thus far, participation in the program has been anemic. To breathe new life into the program, GO-Biz proposes significantly lowering the CA Made certification standard and then relaunching the program with what GO-Biz hopes will be a more robust group of participants.

This proposal was heard on March 27, 2023 and held open.

Staff Recommendation: Reject.

Issue 6: COVID-Related Small Business Relief Grant Reduction

Governor's Budget Proposal. The Governor's Budget proposed to claim back approximately $92 million in General Fund from the California Small Business COVID-19 Relief Grant Program. The Office of the Small Business Advocate (CalOSBA) administers the program. At the time of the Governor's January Budget proposal, CalOSBA estimated that there would be $92 million in unspent funding after all grants had been awarded. The Budget Proposal was heard on March 27, 2023 and held open.

May Revision. The May Revision proposed an additional $50 million in reductions to the program. After further awards, CalOSBA now believes there will an additional unspent amount remaining. The May Revision was heard on May 18, 2023 and held open.

Staff Recommendation: Approve the May Revision.

Issue 7: Outsmart Disaster Program

Governor's May Revision Proposal. The California Office of the Small Business Advocate (CalOSBA), within the Governor's Office of Business and Economic Development (GO-Biz), requests $350,000 in Reimbursement Authority in 2023-24 to allow CalOSBA to administer a federal grant, in coordination with the California Academy for Economic Development, for the Small Business Outsmart Disaster Program.

Background. As described by GO-Biz, the Small Business Outsmart Disaster Program is a statewide awareness campaign focused on providing California businesses and communities with the resources they need to adequately prepare for and recover from all types of disasters and business interruptions.

According to GO-Biz, the program currently operates through the CalOSBA website and provides an online, self-guided training called the "Resilient Business Challenge": https://outsmartdisaster.calosba.ca.gov/resilient-business-challenge/ .

CalOSBA envisions adding in-person and virtual trainings based on the same material to individual businesses, communities, and business support organizations across the state in 2023. With that in mind, CalOSBA is requesting reimbursement authority to support three limited-term regional positions, one each for Northern, Central, and Southern California. CalOSBA states that these positions would provide program outreach as well as business continuity training including "train the trainer" versions for existing partners within the CalOSBA Technical Assistance Program.

Staff Comments. As this programming is federally funded, there is no cost to the state.

Staff Recommendation: Approve the May Revision.

Issue 8: Extension of Program Sunset Dates

May Revision Proposal. The Governor's May Revision proposes statutory changes that extend the deadlines for several programs run by Cal-OSBA to allow additional time for awarding grants and for program closeout activities.

This proposal was heard on May 18, 2023 and held open.

Staff Recommendation: Adopt trailer bill language as proposed.

Issue 9: Technical Assistance to Small Businesses for Accessing Federal Resources

May Revision Proposal. The Governor's May Revision proposes to allocate $23.5 in federal funds to the Office of the Small Business Advocate (CalOSBA) to provide technical assistance to small business applying for State Small Business Credit Initiative capital programs.

This proposal was heard on May 18, 2023 and held open.

Staff Recommendation: Approve the May Revision.

Issue 10: Diablo Canyon Local Economic Development Plan

May Revision Proposal. Through an accompanying Finance Letter, the Governor's May Revision proposes to allocate $10 million in one-time funding for support of local economic development efforts as contemplated in SB 846 (Dodd, Ch. 239, Stats. 2022). The funds would be available for state operations or local assistance for encumbrance or expenditure until June 30, 2027.

Background: SB 846 extended the Diablo Canyon nuclear power plant's license to operate for an additional five years. SB 846 also included a series of associated measures. Of particular relevance to this budget proposal, the bill called for expenditure of $160 million – $10 million in fiscal year 23-24 and $150 million in 24-25 – to support implementation of a plan for environmental enhancements, access to powerplant lands, and local economic development "in a manner that is consistent with existing decommissioning efforts." SB 846 directed the Natural Resources Agency to develop this Land Conservation and Economic Development Plan in consultation with the Labor and Workforce Development Agency and GO-Biz and to submit it to the Joint Legislative Budget Committee (JLBC) by March 23, 2023. NRA submitted the corresponding report to the JLBC in May. Among other things, the report sets forth five values to guide subsequent land conservation, public access, and local economic development as envisioned by SB 846:

- Foster the robust conservation of environmental and cultural resources while enabling appropriate public access.
- Support transfer of ownership of North Ranch and South Ranch to California Native American tribal ownership.
- Explore expanding existing managed public access of Diablo Canyon Lands.

- Enable reuse of Parcel P for research and economic activity, including a clean tech incubator, while protecting cultural, environmental, and marine resources on the site.
- Explore transfer of ownership of Wild Cherry Canyon to State Parks.

This proposal would allocates the first installment of $10 million to support implementation of this Plan, as contemplated in SB 846.

Staff Recommendation:

- Approve the appropriation.

- Approve the request to add provisional language allowing the funds to be available for encumbrance or expenditure until June 30, 2027, but first amend the provisional language to require Go-Biz to submit an expenditure plan to DOF prior to the release of funding with 30 day notification to JLBC.

Issue 11: Immigrant Integration and Economic Development Grants Reappropriation

May Revision Proposal. Through an accompanying Finance Letter, the Governor's May Revision proposes to reappropriate up to $2 million for competitive grants to service providers to develop export training programs and curriculum aimed at underserved business owners. Under the proposal, these funds would be available for encumbrance or expenditure until June 30, 2025.

Background: The 2022 Budget Act included $2 million for competitive grants to service providers to develop export training programs and curriculum aimed at underserved business owners. The DOF explains that the availability of this funding was inadvertently set for too short a period to align with the related competitive grants to local governments included in the Immigrant Integration and Economic Development proposal. To address the issue and facilitate coordinated administration of the grants, this proposal reappropriates the original funding and extends the encumbrance or expenditure period out until June 30, 2025.

Staff Recommendation: Approve the May Revision.

Issue 12: Reduction of Local Government Budget Sustainability Fund

May Revision Proposal. Through an accompanying Finance Letter, the Governor's May Revision includes a proposal reduce the $300 million allocation to the Local Government Budget Sustainability Fund by $250 million, leaving a balance of $50 million.

This proposal is associated with Issue 13, below. It was heard on May 18, 2023 and held open.

Staff Recommendation: Approve the May Revision.

Issue 13: Reallocation to Downtown Fresno Infrastructure Plan

May Revision Proposal. The Governor's May Revision proposed to reallocate $250 million to the City of Fresno's Public Infrastructure Plan for investment in a high speed rail station, parking, green space, walkability, and water supply projects in the downtown area. The proposed amount derives from a corresponding reduction to the Local Government Budget Sustainability Fund.

This proposal is associated with Issue 12, above. It was heard on May 18, 2023 and held open.

Staff Recommendation: Approve the May Revision.

Issue 14: Migrant Reception Support

Senate Proposal. The Senate proposes to allocate $2 million in one-time General Fund in fiscal year 2023-24 to support the City of Calexico's effort to provide an indoor facility in which to receive recently arrived asylum seekers and other migrants leaving federal processing and in transit to their final destinations.

This proposal was discussed on April 27, 2023 and held open.

Background: In its role overseeing immigration, the federal government processes asylum seekers and other migrants who arrive at the U.S. border and express a legal basis for entering and remaining in the country. At the conclusion of this processing, the federal government sometimes transports the migrants to border communities. The migrants are then responsible for getting themselves to their final destination. Transportation connections are not always immediately or readily available, however, so migrants sometimes linger temporarily in the border communities in which they were dropped off. California provides some facilities to assist migrants during this transition. The City of Calexico operates a facility like this, but it is configured such that migrants must remain outdoors, exposing them to extreme weather conditions and greatly increasing the risk of heat-related illness. This proposal would direct resources through GO-Biz to the City of Calexico to enable the City to transition to an indoor facility for receiving recently arriving migrants.

Staff Recommendation: Approve as proposed.

0650 OFFICE OF PLANNING AND RESEARCH

Issue 15: California Volunteers – California Climate Action Corps

Governor's Budget Proposal: The Governor's budget includes $4.7 million General Fund annually from 2023-24 through 2025-26, and $9.3 million General Fund in 2026-27 and ongoing for the California Volunteers, within the Office of Planning and Research. These funds would be used to expand the California Climate Action Corps program and make this limited-term program ongoing. In addition to the funding request, CalVolunteers is also requesting provisional language to allow funding to be distributed as advance payments (not reimbursement-based), in alignment with State Contracting Manual 7.32.

This proposal was heard on March 16, 2023 and held open.

Staff Recommendation: Reject.

Issue 16: California Volunteers – Youth Job Corps

Governor's Budget Proposal: The Governor's budget requests $78.1 million ongoing General Fund to expand, and make ongoing, the CaliforniansForAll Youth Jobs Corps program in California Volunteers, within the Office of Planning and Research. Of this total, four percent is for state operations and the remainder would be used for local assistance grants. The Governor's Budget Proposal also includes repurposing $25 million provided in the 2022-23 Budget Act to supplement the existing program during the summer of 2023.

This proposal was heard on March 16, 2023 and held open.

Governor's May Revision: Through an accompanying Finance Letter, the Governor's May Revision proposes to add language to provide a $2 million set-aside for tribal communities and to prioritize outreach to, and recruitment of, AB 540 students in the program.

Staff Recommendation: Approve as budgeted and approve the May Revision.

Issue 17: General Plan Guidelines Updates and Technical Assistance

Governor's Budget Proposal: The Governor's budget requests $2,289,000 General Fund in fiscal year 2023-24 and $714,000 in 2024-25 and 2025-26 and 3.0 positions for the Office of Planning and Research (OPR) to support comprehensive update of General Plan Guidelines in order to incorporate 150 newly enacted laws since 2017 and to align the Guidelines with the State Housing, Equity and Climate priorities.

This proposal was heard on March 16, 2023 and held open.

Staff Recommendation: Approve as budgeted subject to revisions described under Issue 23.

Issue 18: Legislative and Legal Staffing Increase

Governor's Budget Proposal: The Governor's budget requests $1,433,000 General Fund in fiscal year 2023-24 and ongoing and 5.0 positions for OPR's growing legal and legislative workload.

This proposal was heard on March 16, 2023 and held open.

Staff Recommendation: Approve as budgeted subject to revisions described under Issue 23.

Issue 19: Racial Equity Commission and Youth Empowerment Commission Transfer

Governor's Budget Proposal: The Governor's budget requests $3,789,000 General Fund in fiscal year 2023-24, and $3,112,000 from 2024-25 through 2029-30 and 12.0 positions for OPR to support the new Racial Equity Commission as required by Executive Order N-16-22 and the Youth Empowerment Commission to meet statutory requirements enacted in AB 46 (Luz Rivas), Chapter 660, Statutes of 2021. Of the total amount, $1,500,000 General Fund is a net-zero transfer from the Youth Empowerment Commission to the Office of Planning and Research. This request also includes trailer bill language to effectuate the transfer of the Youth Empowerment Commission to OPR.

This proposal was heard on March 16, 2023 and held open.

Staff Recommendation: Approve as budgeted subject to revisions described under Issue 23 and adopt trailer bill as proposed.

Issue 20: Transformative Climate Communities Reappropriation

Governor's Proposal: Through an April 1 Finance Letter, the Governor requests to extend the time that Transformative Climate Community Round 2 grantees have to fully expend grant awards through June 30, 2027.

Staff Recommendation: Approve as proposed.

Issue 21: CEQANet Reappropriation

Governor's Proposal: Through an April 1 Finance Letter, the Governor requests to reappropriate up to $1,206,000 in resources for Project Approval Lifecycle costs to plan for a CEQANet system redesign. CEQANet is the computer system through which OPR receives and catalogs CEQA-related notices, as required by statute. The DOF explains that the reappropriation is necessary to provide additional time to complete the Project Approval Lifecycle. The proposal would make the funding available for encumbrance and expenditure until June 30, 2025.

Staff Recommendation: Approve as proposed.

Issue 22: CEQA Judicial Streamlining Reappropriation

Governor's Proposal: Through an April 1 Finance Letter, the Governor requests to reappropriate as-yet unused resources to the implementation of SB 7 and allow for their encumbrance or expenditure until June 30, 2024.

Background: SB 7 provides CEQA streamlining for "environmental leadership development projects" provided that that the Governor certifies that the projects meet specified criteria. OPR conducts the necessary review for the Governor to make this determination. DOF explains that the proposed reappropriation is necessary to provide additional time to process CEQA streamlining exemptions reviews pursuant to SB 7.

Staff Recommendation: Approve as proposed.

Issue 23: Transition to State Civil Service Positions and Reductions to Governor's Budget Proposal

Governor's May Revision: In light of declining state revenue, the Governor's May Revision proposes to reduce the size of the staffing increases previously sought. At the same time, the Governor's May Revision also proposes to begin the process of transition OPR to the use of state civil service classifications.

Background: The Governor's January Budget Proposal 26 new staff positions for various programs across OPR. The May Revision reduces this proposed expansion by $2 million and 10 positions, as detailed in the following table:

	Governor's Budget		May Revision		Difference	
	$	PY	$	PY	$	PY
California Climate Adaptation Strategy (AB 1348)	$ 188	1	$ -	0	$ (188)	-1
General Plan Guidance Updates and Technical Assistance	$ 2,289	3	$ 2,073	2	$ (216)	-1
Legislative and Legal Staffing	$ 1,433	5	$ 1,288	4	$ (145)	-1
CEQANet Programmer Position	$ 283	1	$ -	0	$ (283)	-1
Tribal Liaison	$ 284	1	$ 244	1	$ (40)	0
Statewide Extreme Heat Ranking System (AB 2238)	$ 944	3	$ 703	1	$ (241)	-2
Racial Equity Commission & Youth Empowerment Commission Transfer	$ 3,789	12	$ 2,901	8	$ (888)	-4
Total	$ 9,210	26	$ 7,209	16	$ (2,001)	-10

Of the 16 new positions now proposed, the Governor requests to establish 13 of them as civil service positions as an initial step toward the use of state civil service classifications across OPR.

This proposal was heard on May 18, 2023 and held open.

Staff Recommendation: Approve the May Revision.

Issue 24: Establish Information Technology Unit

Governor's May Revision: The Governor's May Revision seeks $5.3 million General Fund and 15.0 positions in 2023-24 and $5.2 million in 2024-25 and ongoing to establish an Information Technology Unit within OPR to support internal departmental oversight and administration of information technology needs.

This proposal was heard on May 18, 2023 and held open.

Background: OPR has expanded significantly in recent years both in terms of assigned responsibilities and personnel. OPR states that its budget program staff "have long been supported by the Governor's Office Information Technology Unit (GO ITU), but due to the recent growth and complexity of OPR budget programs, the GO ITU can no longer support OPR's IT needs." To address the issue, OPR proposes to establish its own internal IT unit comprised of 15 positions including a Chief Information Officer (CIO), Chief Security Officer, Infrastructure and Technical Support Team, Web-Services Team, Cloud support staff, Application Development & Implementation staff, and Geographic Information System staff.

LAO Suggestion: "The LAO recommend modifying the Governor's proposal to be targeted around OPR's most urgent and necessary information technology (IT) needs and provide time for the Legislature to better assess future and ongoing needs. Specifically, we recommend providing 10 new positions (instead of the proposed 15) and $3.9 million (instead of the proposed $5.3 million). […] We recommend the Legislature approve the CIO and ISO positions requested in OPR's proposal, but reduce the amount of funding and positions across the three areas identified in the proposal according to their importance and priority to OPR's operations. Based on our review of OPR's responses, we recommend reducing (1) Application Development by one Application Developer position, (2) Help Desk by two Associate positions, and (3) Infrastructure by two positions—one Architect position and One Cloud Management position. We also recommend the Legislature direct OPR, to the extent possible, to leverage opportunities identified by CDT and GO to reduce one-time and ongoing contract, license, and other vendor costs required to stand up a new IT unit. One way the Legislature could implement this recommendation would be to reduce the external consulting and professional services funding by roughly the same percentage our proposed reduction in the number of positions—that is, by one-third or about $485,000 in 2023-24."

Staff Recommendation: Adopt the LAO's suggestion.

Issue 25: Office of Local Defense Community Cooperation Federal Grant

Governor's May Revision: Through a Finance Letter accompanying the May Revision, the Governor requests increased reimbursement authority in the amount of $500,000 one-time for an anticipated federal Office of Local Defense grant award.

Background: The U.S. Department of Defense Office of Local Defense Community Cooperation describes its function as helping states and communities to "strengthen critical relationships with Department of Defense's assets and installations." DOF explains that the requested reimbursement authority is needed because OPR is expected to be a subrecipient of a Local Defense Community Cooperation grant awarded to the University of California, Davis.

Staff Comment: The requested authority involves federal resources and does not result in any costs to the state.

Staff Recommendation: Approve the May Revision.

Issue 26: U.S. Environmental Protection Agency Environmental Justice Grant

Governor's May Revision: Through a Finance Letter accompanying the May Revision, the Governor requests an increase of $350,000 in 2023-24, and $400,000 in 2024-25 and 2025-26, to account for an anticipated federal United States Environmental Protection Agency Environmental Justice Government-to-Government grant award.

Background: According to DOF, the anticipated grant will be used to partner with community-based organizations within disproportionately impacted areas to pilot activities that address climate change, disaster resiliency, and emergency preparedness.

Staff Comment: The requested authority involves federal resources and does not result in any costs to the state.

Staff Recommendation: Approve the May Revision.

Issue 27: Transformative Climate Communities Administrative Carveout Increase

Governor's May Revision: Through a Finance Letter accompanying the May Revision, the Governor requests to increase the maximum amount that the Transformative Climate Communities Program may spend on administrative costs from 5 percent to 10 percent. This request is necessary to support additional technical assistance for local jurisdictions that intend to apply for federal grants that fund projects similar to the Transformative Climate Communities program

Background: DOF explains that the increased allowance for administrative expenses is needed to support additional technical assistance for local jurisdictions that intend to apply for federal grants that fund projects like the Transformative Climate Communities program.

Staff Recommendation: Approve the May Revision.

Issue 28: Integrated Climate Adaptation Planning Program Set-Aside

Governor's May Revision: Through a Finance Letter accompanying the May Revision, the Governor proposes to set aside funding for tribal communities and under-resourced communities to promote their participation in the Integrated Climate Adaptation Planning Grant Program.

Staff Recommendation: Approve the May Revision.

Issue 29: Technical Adjustment to Extreme Heat Accounting Categorization

Governor's May Revision: Through a Finance Letter accompanying the May Revision, the Governor requests to modify the accounting code associated with a $14 million one-time allocation for an extreme heat outreach campaign administered by the Office of Community Partnerships and Strategic Communications.

Background: DOF explains that the modification is needed to appropriately reflect that the funding is limited-term.

Staff Recommendation: Approve the May Revision.

Issue 30: Advance Payments to Community Resiliency Centers

Governor's May Revision: Through proposed trailer bill language accompanying the May Revision, the Governor seeks statutory changes to authorize the Strategic Growth Council (SGC) make advance payments to community resiliency centers, if specified criteria are met.

Background: AB 156 (Author, Ch. 159, Stats. 2022) established a statewide Advance Payment Pilot Program. Under the pilot program, state agencies may provide advance payments on grants, generally limited to no more than 25 percent of the total grant, if the recipient meets specified requirements, including demonstrating good standing with the Internal Revenue Service, submitting progress reports on the spend-down of funds, and providing an itemized budget, a spending timeline, and a workplan. The program prioritizes local agency or nongovernmental entity recipients and projects serving disadvantaged, low-income, and under-resourced communities or organizations with modest reserves and potential cashflow problems.

According to DOF, Community Resiliency Centers were meant to be included in the pilot program but they were inadvertently left out due to a drafting error. This proposal corrects the mistake.

Staff Recommendation: Adopt the trailer bill language as proposed.

Issue 31: CEQA Lead Agency Exemption

Governor's May Revision: Through proposed trailer bill language accompanying the May Revision, the Governor seeks statutory changes to clarify that OPR is not a "lead agency" for purposes of the California Environmental Quality Act when OPR merely provides financial assistance for planning, research, or project implementation related to land use or climate resiliency, adaptation, or mitigation, and another public agency or tribal government will be conducting its own environmental review of the project.

Background: Under CEQA, the public agency with primary responsibility for carrying out or approving a development project is deemed to be the "lead agency." Lead agencies have they duty to prepare (or hire someone to prepare) and certify the environmental impact report on a project that it proposes to carry out or approve that may have a significant effect on the environment. Alternatively, the lead agency must adopt a negative declaration if it finds that the project will not have that a significant effect on the environment or prepare a mitigated negative declaration for a project that may have a significant effect on the environment if revisions to the project would avoid or mitigate that effect and there is no substantial evidence that the project, as revised, would have a significant effect on the environment.

OPR occupies a unique role in relation to CEQA. Not only is OPR potentially subject to CEQA, but it also has duties related to administration, interpretation, and application of the statute. Where OPR provides grant-funding to a proposed development, OPR's unique position arguably creates a conflict of interest: in awarding the grant to the project, OPR is pre-invested in its approval under CEQA. To avoid this potential conflict, the proposed trailer bill would clarify that OPR is not a lead agency for purposes of CEQA when its sole role in the project is as grant-maker and another public agency will be conducting an environmental review of the project pursuant to CEQA or a tribal government will be undertaking its own environmental review of the project.

Staff Recommendation: Adopt the trailer bill language.

0870 OFFICE OF TAX APPEALS

Issue 32: Regulatory Exemption

Request. The May Revision includes trailer bill language that would provide the Office of Tax Appeals (OTA) with a narrow exemption from the Office of Administrative Law (OAL) rulemaking approval process to ensure that OTA's precedential decisions do not require OAL approval.

Background. The OTA is responsible for hearing and deciding tax appeals arising from taxpayer disputes of actions taken by the Franchise Tax Board (FTB) and the California Department of Tax and Fee Administration (CDTFA). Since its inception in 2017, OTA was exempted from the OAL regulatory review and approval process to facilitate the adoption of emergency regulations while the agency got off the ground. During this exemption period, OTA has complied with steps required by OAL including the Interested Parties Meeting process, adhered to the full comment period for our regulatory packages and have submitted our regulatory packages for review to OAL. This language would restate the existing exemption from the APA to apply to any policy, procedure, notice, or guideline issued by the office and exempt any final written opinion published by office from the requirements of the APA. The language would authorize the office to designate any published written opinion as precedential in any matter or proceeding before the office, unless overruled, superseded, or otherwise designated nonprecedential by the office.

Staff Recommendation. Approve placeholder trailer bill language.

0985 CALIFORNIA SCHOOL FINANCE AUTHORITY

Issue 33: Charter School Facility Grant Program

Budget. The May Revision includes an increase of $51,000 ongoing Proposition 98 General Fund to reflect an 8.22-percent cost-of-living adjustment for the Charter School Facility Grant Program

Staff Recommendation. Approve as proposed.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 34: Employee Housing Regulation Fund Establishment and Increase in Inspectors

Governor's Budget Proposal. Through proposed trailer bill language, the Governor's budget requests the establishment of the Employee Housing Regulation Fund in HCD. Through a related budget change proposal, the Governor's budget also requests authority to use money in that Fund for HCD to hire 10 additional staff in 2023-24 and ongoing to address critical health and safety conditions within Mobilehome Parks, Special Occupancy Parks, Employee Housing (EH) facilities, and for mobilehome and manufactured housing occupants statewide.

This proposal was heard on April 20, 2023 and held open.

Staff Recommendation: Approve as budgeted. Adopt proposed trailer bill language with amendment requiring public notice and opportunity for comment before any fee decrease.

Issue 35: Implementation and Enforcement of Local Tenant Preference Legislation

Governor's Budget Proposal. The Department of Housing and Community Development (HCD) requests a General Fund augmentation of $445,000 annually starting in 2023-24 through 2025-26 for a consulting contract to review local tenant preference ordinances, as authorized by SB 649, Cortese, Ch. 660, Stats. 2022.

This proposal was heard on April 20, 2023 and held open.

Staff Recommendation. Approve as budgeted.

Issue 36: CalHome Grants Trigger Reduction

Governor's Budget Proposal. The 2022 Budget Act included $350 million one-time General Fund ($250 million in the 2022 Budget Act and $100 million committed for 2023-24) for the Department of Housing and Community Development (HCD)'s CalHome program. The Governor's Budget proposes to remove $100 million one-time General Fund in 2023-24, to be restored if the revenue outlook improves and there is sufficient General Fund in January 2024.

The Governor's proposed cut would eliminate all of the funding previously authorized for CalHome in 2023-24.

This proposal was heard on April 20, 2023 and held open.

Staff Recommendation: Reject.

Issue 37: Community Development Block Grants – Disaster Recovery

Governor's Budget Proposal. The Governor's Budget requests the incorporation of $231.2 million in 2023-24 in federal Community Development Block Grant – Disaster Recovery funding into HCD's budget. HCD also seeks the authority to hire 20 additional staff to enable the department to allocate these funds to communities impacted by the 2020 wildfires. The Governor also requests that provisional language be added to provide an extended encumbrance period and to allow the transfer of funding for state operations.

This budget change proposal requests four things in relation to the expenditure of this CDBG-DR funding:

(1) incorporation of these disaster recovery funds into HCD's budget;

(2) authorization for HCD to hire the additional staff necessary to oversee the proper distribution of these funds;

(3) authorization to expend this funding at any time up through September 16, 2028, the federal deadline for utilizing the money before it would have to be returned; and

(4) authorization to transfer as much as $34.7 million of the funds to state operations upon order of the Department of Finance. This amount represents the full federal allowance for state operations through the end of the expenditure period.

This proposal was heard on April 20, 2023 and held open.

Staff Recommendation: Approve as amended to require the Department of Finance to provide 30 day's advance notice and information to the Joint Legislative Budget Committee before transfers to state operations are made.

Issue 38: Changes to Rural Housing Definition and Joe Serna Jr. Farmworker Housing Grant Program

Governor's Budget Proposal. Through proposed budget trailer bill language, the Governor requests changes to:

1) revise the definition of "rural areas" for purposes of many of the state's affordable housing funding programs, including set asides within the state Low Income Housing Tax Credit (LIHTC) program for affordable housing projects in rural areas; and
2) enable for-profit entities to apply for loans from the Joe Serna Jr. Farmworker Housing Grant Program (FWHG) for the construction or rehabilitation of rental housing for lower income agricultural employees and their families.

This proposal was heard on April 20, 2023 and held open.

Staff Recommendation: Adopt the trailer bill language as to the update to the definition of "rural area." Reject the trailer bill language allowing for-profit entities to apply for funding from FWHG.

Issue 39: Recapture Unused Downtown Rebound Balance

Governor's May Revision: The Governor's May Revision proposes to revert $17.5 million from the Downtown Rebound Program. The 2000 Budget Act allocated $25 million to the Department of Housing and Community Development for the establishment of a Downtown Rebound Program. The program was intended to provide funding for the conversion of commercial and industrial structures into residential housing. Over two decades later, $17.5 million of the original allocation remains unspent. The May Revise proposes to recapture this unspent amount and redirect it to the General Fund.

This proposal was heard on May 18, 2023 and held open.

Staff Recommendation: Approve the May Revision.

Issue 40: Emergency Rental Assistance Closeout

Governor's May Revision: Through an accompanying Finance Letter, the Governor's May Revision requests to extend the encumbrance period for Emergency Rental Assistance Program funds until June 30, 2024 in order to complete administrative close-out activities.

Staff Recommendation: Approve the May Revision.

Issue 41: Partial Deferral of Foreclosure Intervention and Housing Preservation Program Funding

Governor's May Revision: FIHPP is designed to preserve affordable housing and promote resident or nonprofit organization ownership of residential real property. The Budget Act of 2021 appropriated $500 million through June 30, 2027 for the program. Funds are to be made available as loans or grants to eligible borrowers to acquire and rehabilitate properties at risk of foreclosure or in the foreclosure process. The May Revision proposes to defer $345 million of that allocation. Instead of being allocated this year, the $345 million deferral will be allocated to the program over the next four fiscal years.

This proposal was heard on May 18, 2023 and held open.

Staff Recommendation: Approve the May Revision but first modify the timing of the deferred allocations as follows: $115 million in fiscal year 2023-24, $115 million in 2024-25, and $115 million in 2025-26.

Issue 42: Surplus Lands Act Exemption

Senate Proposal: The Senate proposes the adoption of a statutory exemption to the Surplus Lands Act to cover narrow circumstances involving the designation of property for use as educational campus, subject to specified requirements.

Background: The Surplus Lands Act requires public entities to offer their surplus lands for the development of housing – including affordable housing – before selling the land for other purposes. For roughly three decades, the City of Chula Vista has envisioned developing a university campus on public land. Chula Vista is concerned that if it were to proceed with this development, it would have to comply with the Surplus Lands Act, it would first have to offer the property up for housing development. In order to eliminate this risk, this proposal would exempt certain property from the Surplus Lands Act under specified conditions for which the proposed Chula Vista campus would qualify, including the provision of the at 25 percent affordable housing.

Staff Recommendation: Adopt placeholder trailer bill language in accordance with this proposal.

7730 FRANCHISE TAX BOARD

Issue 43: Enterprise Data to Revenue Project 2

Budget. The Governor's budget requests $135 million General Fund and the full time equivalent of 41.0 permanent positions, and 31.0 limited-term positions for the Franchise Tax Board (FTB) for the third-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

Staff Recommendation. Approve as proposed. This issue was heard on March 2, 2023.

Issue 44: Technology Expansion for Business Entities Refundable Credit

Budget. The Governor's budget includes $4.5 million General Fund and 2 two-year limited term positions and 5.0 permanent positions in 2023-24; $1.0 million General Fund in 2024-25; $753,000 General Fund in 2025-26 and ongoing for FTB to expand the tax systems necessary to support refundable credits for Business Entities (BE). This issue was heard on March 2, 2023.

Staff Recommendation. Approve as proposed.

Issue 45: Return Processing Technology Support

Budget. The Governor's budget includes $4.9 million General Fund and $96,000 special funds for 29.0 permanent positions in 2023-24; and $4.6 million General Fund and $91,000 special funds in 2024-25 and ongoing for FTB to maintain and improve its existing mission- critical applications and return-processing technology support services. This issue was heard on March 2, 2023.

Staff Recommendation. Approve as proposed.

Issue 46: Essential Services and Stakeholder Support Gaps

Budget. The Governor's budget includes $2.5 million ($2.4 million in General Fund and $100,000 in special funds) for 13 positions for 2023-24 and $2.4 million ($2.3 million in General Fund and $100,000 in special funds) for 13 positions in 2024-25 and ongoing to enable the FTB to engage in critical and essential services related to revenue estimating, budgeting, legislative analysis, project oversight, procurement, talent management and ensure compliance with Equal Employment Opportunity Laws. This issue was heard on March 2, 2023.

Staff Recommendation. Approve as proposed.

Issue 47: Film and Television Tax Credits

Budget. The Governor's budget includes proposed trailer bill language to extend the authority for the California Film Commission (CFC) to allocate, and for qualified taxpayers to claim, the California Motion Picture and Television Production Credit for an additional five years, starting in 2025-26. The proposal maintains the current authorization amount of $330 million per year, and makes the credit refundable, thereby allowing taxpayers with insufficient tax liability to make use of the credit.

In addition, the Governor’s budget includes proposed trailer bill language to amend the California Soundstage Filming Tax Credit.

Diversity Changes.

As part of the Soundstage Credit, an additional component was added to include the potential of an additional 4 percent of the credit or “uplift” in credit amount for projects that submit diversity workplans that include specific goals and provide information for individuals whose wages are both included and excluded in the definition of qualified wages for the project. The diversity goals uplift will be approved for applicants that show in their diversity report that they have met or made a good-faith effort to meet the goals they set for the project in their workplan.

The proposed Program 4.0 also includes a diversity workplan component, with some structural changes from the diversity component included in the soundstage credit. Instead of an uplift on top of the credit amount, the CFC will provide applicants with a notice of total award amount, inclusive of applicants opting-in to complete new diversity provisions. Four percent of total dollar award amounts will be allocated for a diversity incentive and will be distributed based on applicants achieving their goals or making a good faith effort to meet their goals. In order to qualify for the diversity incentive, applicants must provide a diversity workplan, and interim and final diversity assessments to CFC related to individuals whose wages are included in the definition of qualified wages for a project. CFC will aggregate applicants’ work and summarize findings in its annual diversity report. Independent films are exempt from the diversity provisions and their total award amount will not be impacted.

Proposed Refundability Provision

The Administration’s proposal to extend the California Film and Television Tax Credit Program by five years includes a provision allowing taxpayers who receive a Program 4.0 credit to receive a refund at a 10-percent discount rate and to be claimed according to a five-year claiming schedule if certified credits exceed the taxpayer’s liability for the taxable year that the credits were certified. Credits must first be applied against the taxpayer’s liability, and in case of excess credits, the refundable amount that can optionally be claimed per year is set at the lesser of:

1- 18 percent (one-fifth or 20 percent of the original credit amount minus 2 percent due to the 10-percent discount rate) of the original credit amount, or

2- The remaining amount of the excess credit adjusted for the 10-percent discount rate.

In any given year, the maximum amount of refund that a taxpayer can receive is 18 percent of the original credit, and this reduces their available credits by an additional 2 percent due to the discount rate. Whenever the remaining excess credits are less than 20 percent of the original credit, the amount that is refunded to the taxpayer is equal to 90 percent of the excess credit and the remaining 10 percent is discounted and reduces available credits to zero.

Credits applied against tax liability and credits claimed as a refund must be claimed within the nine years during which the credit can be carried forward. The election to receive a refundable credit is irrevocable, and taxpayers may not receive a refund for credits purchased from another taxpayer.

The Film Tax Credit was heard in Subcommittee #4 on March 2, 2023 and May 4, 2023.

Staff Recommendation. Approve placeholder trailer bill language, including the following:

- Proposed changes to the soundstage credit and the film and television credit 3.0.
- Refundable tax credit structure.
- Diversity workplan requirements and the uplift incentive to fulfill those requirements.
- Increase of the required financial contribution to the Career Pathways Training Program and additional data reporting on program outcomes.
- Provide for additional representation and focus on diversity at the California Film Commission.
- Consider the need for additional staffing at the commission prior to the Tax Credit 4.0 start date.
- Establish the Safety on Productions Pilot Program as component of receiving a tax credit.

Staff notes that this action is intended to allow for continued collaboration with the Assembly, Administration, and stakeholders.

Issue 48: Incomplete Non-Grantor Trusts

Budget. The Governor's budget includes proposed trailer bill language to include the income of an incomplete non-grantor trust in the gross income of the grantor. This would effectively close a tax loophole that allows a grantor to avoid paying California income tax on incomplete non-grantor trust set up in another state.

This issue was heard on March 2, 2023.

Staff Recommendation. Approve placeholder trailer bill language.

Issue 49: New Employment Credit Exemption for Semiconductor Companies

Budget. The Governor's budget includes proposed trailer bill language to expand the New Employment Credit for semiconductor companies. The New Employment Credit provides a tax credit for businesses that operate in high-poverty areas and provide long-term employment for specified populations. The proposed budget removes existing geographic restrictions for qualifying semiconductor manufacturing, research, and development firms.

Background.

The New Employment Credit is a credit allowed against Personal Income Tax and Corporation Tax, for taxable years beginning on or after January 1, 2014, and before January 1, 2026, for hiring qualified full-time employees, as specified in statute, within a designated census tract or economic development area in an amount equal to 35 percent of the qualified wages paid to those employees multiplied by the applicable percentage for that taxable year. A taxpayer claiming the credit must request a tentative credit reservation from the Franchise Tax Board within 30 days of complying with specified new hire reporting requirements.

Proposed Language.

For taxable years beginning on or after January 1, 2023, and before January 1, 2026, the proposed language would allow a taxpayer engaged in semiconductor manufacturing or semiconductor research and development, who apples for federal funding or related federal tax credits would be able to claim the new employment credit and for these specific taxpayers:

- Eliminates the requirement that the new employment be located within a designated census tract or economic development area.
- Allows the taxpayer to request a tentative credit reservation from the Franchise Tax Board on or before the last day of the month following the close of the taxable year for which the credit is claimed, instead of within 30 days of complying with specified new hire reporting requirements.

This issue was heard on March 2, 2023.

Staff Recommendation. Approve proposal and placeholder trailer bill language to incorporate the same changes proposed for semiconductor-related businesses also for lithium extraction, electric battery manufacturing, and electric airplane manufacturing businesses.

In addition, for these categories, modify the eligible employee definition to those that receive starting wages that exceed 100 percent California minimum wage at the time of hire (instead of the current 150 percent requirement).

Issue 50: Tax Expenditure Report

Budget. The Governor's budget includes trailer bill language that proposes to move the due date of the Tax Expenditure Report (provided by the Department of Finance to the Legislature) from September 15th of each year, to November 1, 2024 and biennially thereafter.

This issue was heard on March 2, 2023.

Staff Recommendation. Move the due date of the Tax Expenditure Report (provided by the Department of Finance to the Legislature) from September 15th of each year, to November 1, 2024, however retain this as an annual report. Add two additional reporting requirements: 1) remove the $5 million reporting threshold for tax expenditures so that all tax expenditures are reported, and 2) providing details by income levels of taxpayers on how many taxpayers use each tax expenditure and the aggregate cost of each item per income group.

Issue 51: Data Sharing Trailer Bill Language

Request. The Administration proposes trailer bill that includes a proposal to extend data sharing between the Franchise Tax Board, the California Department of Social Services, and the Department of Health Care Services to support unique or joint efforts on outreach and education associated with the California Earned Income Tax Credit.

Additionally, this language modifies the outreach requirements for employers to notify employees, and the California public assistance programs to notify their clients, twice annually as to the California and the federal Earned Income Tax Credit, as well as the existence of other federal or state tax credits supporting lower income Californians and providing information on how these individuals can file a tax return for free.

This proposal was heard in Subcommittee #4 on May 4, 2023.

Staff Recommendation. Approve placeholder trailer bill language.

Issue 52: Film and Television Tax Credit Administration

Request. The Administration proposes in an April Finance Letter to provide the Franchise Tax Board (FTB) $154,000 in General Fund and 1.0 position in FY 2023-24; $721,000 in General Fund and 4.1 positions in FY 2024-25; $767,000 in General Fund and 5.3 positions in FY 2025-26; $292,000 in General Fund and 2.0 positions in FY 2026-27 and ongoing to implement the expansion of Film and Television Tax Credit. These resources are critical to successfully implement the Administration's proposal for the expansion of the Film and Television Tax Credit. Since the Spring Finance was provided, the FTB has further refined their request and is no longer requesting resources in the 2023-24 year.

This proposal was heard in Subcommittee #4 on May 4, 2023.

Staff Recommendation. Approve proposal for funding and positions as requested in 2024-25 and ongoing. Staff notes that the FTB has withdrawn the request for a position and funding in 2023-24.

Issue 53: Reversions - Middle Class Tax Refund and Other 2022 Balances

Request: The May Revise proposes to revert $200 million to the General Fund from the total amount set aside for the Middle Class Tax Refunds in the Budget Act of 2022. These savings are due to an over-estimation of the number of eligible taxpayers based on the limited information available at the time the program was adopted. The FTB continues to retain funding necessary to cover payments for all eligible taxpayers, even those who have not yet activated debit cards.

The May Revise also reverts the unexpended balance of appropriations in the 2022 Budget Act related to FTB staffing costs anticipated to be saved in fiscal year 2022-23 and one-time FTB legal expense savings in fiscal year 2022-23

This proposal was heard in Subcommittee #4 on May 18, 2023.

Staff Recommendation. Approve as proposed.

Issue 54: Customer Service Resources

Request: The May Revise includes $2,738,000 General Fund and 19 positions ongoing to augment Franchise Tax Board (FTB) staffing levels that will handle increased workload in the taxpayer customer service center, and to also support efforts to improve customer service employee retention.

Staff Recommendation. Approve as proposed.

Issue 55: Reappropriation of Enterprise Data to Revenue 2 Project Vendor Compensation

Request: The May Revise reappropriates $17,543,000 General Fund of the unexpended Enterprise Data to Revenue 2 (EDR2) Project funds for vendor compensation appropriated in the 2022 Budget Act. FTB and the project vendor jointly determined that work initially planned for 2022-23 was more complex than originally thought, and that the least risk to the overall project is realized by delaying implementation for three months to ensure adequate testing is performed. The planned deliverables for June 2023 have therefore shifted to September 2023.

Staff Recommendation. Approve as proposed.

Issue 56: Reappropriation of Enterprise Data to Revenue 2 Contingency Funding

Request: The May Revise reappropriates $11,626,000 General Fund of the unexpended EDR2 Project contingency funds appropriated in the 2022 Budget Act. As part of the EDR2 project funding plan, annual contingency funds are appropriated so FTB can accommodate fluctuations in project costs without incurring project delays. If the contingency funds are not needed, the funds will revert to the General Fund at the end of the project

Staff Recommendation. Approve as proposed.

Issue 57: Reappropriation of Franchise Tax Board Support Funding

Request: The May Revise reappropriates $4 million General Fund of the unexpended support funding appropriated for Tax Programs in the 2022 Budget Act. The reappropriated funds are necessary for the processing of 2022 tax returns and payments in fiscal year 2023-24 in response to the tax filing extension provided due to the severe winter storms.

Staff Recommendation. Approve as proposed.

Issue 58: Debt Intercept Trailer Bill

Request: This is a legislative proposal to add technical amendments to Section 12419.3.3 of the Government Code to clarify that the State Controller shall not offset delinquent accounts against the personal income tax refunds of taxpayers who have received the Foster Youth Tax Credit. Statute currently only references recipients of the Earned Income Tax Credit and the Young Child Tax Credit.

Staff Recommendation. Approve placeholder trailer bill language.

8860 DEPARTMENT OF FINANCE

Issue 59: Department of Finance Support

Budget. The May Revision includes an increase of $3.8 million ($2.1 million General Fund and $1.7 million other funds) and 9.0 ongoing positions to address vulnerabilities in Finance's Information Technology (IT) Infrastructure that were identified as a result of the cybersecurity incident that Finance experienced in December 2022.

As a result of the incident, Finance transitioned its enterprise network infrastructure to the cloud environment, and its infrastructure architecture no longer hosts on-premises servers. Web-based applications are being developed and hosted in the cloud environment. Finance had to focus current staff resources on supporting the recovery, restoration, and rebuild effort in the short term.

This request is necessary to cover the costs associated with continued rebuild and restoration efforts as well as the ongoing support that is needed to maintain the new environment and ensure future vulnerabilities are quickly identified and mitigated. The 9.0 new positions will support

Finance’s Infrastructure as a Service (IaaS), Platform as a Service (PaaS), Software as a Service (SaaS), and Cloud Security infrastructure.

Staff Recommendation. Approve as proposed.

8885 COMMISSION ON STATE MANDATES

Issue 60: Reappropriation of Personnel Savings from the 2022 Budget Act – May Revision

May Revision. The May Revision proposes to reappropriate up to $130,000 General Fund of estimated savings from the 2022 Budget Act to pay out leave balances for staff planning to retire in 2023-24.

Staff Recommendation. Approve as requested.

Issue 61: Adjustment of Funded Mandates– May Revision

May Revision. The May Revision proposes an increase of $13,000 to update the amounts included in the Governor’s Budget to match the most recent mandated cost reimbursement claims submitted to the State Controller's Office. These adjustments are necessary to ensure the proper amounts are provided for each mandate.

Staff Recommendation. Approve as requested.

Issue 62: Eliminate Election Mandate Survey – May Revision

May Revision. The May Revision proposes statutory changes to eliminate the requirements that the Department of Finance conduct a statewide Election Mandate Survey. SB 84 (Committee on Budget and Fiscal Review), Chapter 25, Statutes of 2015 requires the Department of Finance to conduct an anonymous survey of county election officials after each statewide election. The intent is to determine if counties performed requirements set forth in various suspended state mandates concerning elections. The proposed language would eliminate the requirement for Finance to conduct this survey.

Staff Comments. Staff notes that according to the Administration, the associated costs to conduct each survey average to approximately 50 hours of staff time and $6,000. The importance of having a tool to track county activities related to election mandates outweigh the minimal savings in staff time and resources resulting from the statutory elimination of the survey.

Staff Recommendation. Reject proposed trailer bill language.

8820 Commission on the Status of Women and Girls

Issue 63: Continued Implementation of SB 24 (2019) – Spring Finance Letter

Spring Finance Letter. The Governor's finance letter requests for the Commission on the Status of Women and Girls (Commission) to extend the existing 3 limited-term positions tasked with implementing SB 24 (Leyva), Chapter 740, Statutes of 2019 for two additional years.

Staff Recommendation. Approve as requested.

Issue 64: Women's Recovery Response Grant Program

Senate Budget Proposal. The Senate proposes to allocate $1 million General Fund in 2023-24 to the Commission on the Status of Women and Girls for the purpose of funding the Commission's Women's Recovery Response Grant program.

Background. The Women's Recovery Response Grant program invests in grants and programming to strengthen the network of local services and assistance for women delivering critical connections wrap-around supportive services inclusive of safety-net programs and benefits.

The Senate now proposes to allocate $1 million to fund the Women's Recovery Response Grant program.

Staff Recommendation. Approve as proposed.

Issue 65: Regional Support – Extension of Encumbrance Availability

Request. The Administration proposes to provide an additional year of encumbrance availability through 2023-24 for funds appropriated to the Commission for Local Assistance to provide grants to local women and girls' organizations and other community-based organizations.

Staff Recommendation. Approve as requested.

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 66: Franchise Application and Complaint Workload – AB 676

Governor's Budget Proposal. The Governor's budget requests an increase in expenditure authority of $1.3 million Financial Protection Fund in fiscal year 2023-24 and $1.2 million in 2024-25 and ongoing and 5.0 positions for the Department of Financial Protection and Innovation (DFPI) to implement the provisions of AB 676 (Holden), Chapter 728, Statutes of 2022.

The subcommittee heard this item at its March 9, 2023 hearing.

Staff Recommendation. Approve as requested.

1703 CALIFORNIA PRIVACY PROTECTION AGENCY

Issue 67: Consumer Privacy Enforcement Implementation – May Revision

May Revision. The May Revision proposes funding for the California Privacy Protection Agency $1.8 million General Fund and 7.0 positions in fiscal year 2023-24 and $1.2 million in fiscal year 2024-25 and ongoing for cumulative cost of-living adjustments outlined in Civil Code 1798.199.95 to implement and enforce the California Consumer Privacy Act of 2018, which was amended by the California Privacy Rights Act of 2020.

Staff Recommendation. Approve as requested.

0890 SECRETARY OF STATE

Issue 68: Disqualification from Voting (AB 2841)

Governor's Budget Proposal. The Governor's budget requests $3,076,000 General Fund in 2023-24, and $1,776,000 annually thereafter, and 11.0 positions for SOS to implement the provisions of AB 2841 (Low), Chapter 807, Statutes of 2022.

The subcommittee heard this item at its May 4, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 69: Secretary of State Staffing Resources – May Revision

May Revision. The May Revision requests $2,701,000 ongoing ($1,324,000 Business Fees Fund and $1,377,000 General Fund) for the Secretary of State to address the funding deficiency for a subset of the agency's existing positions. According to the Administration, The evolving operational needs of the Secretary of State over the past 10 years have required the agency to transition from a technical workforce to an analytical workforce requiring a position funding realignment.

Staff Recommendation. Approve as requested.

Issue 70: California Business Connect Maintenance and Operations – May Revision

May Revision. The May Revision proposes $7.696 million ongoing Business Fees Fund for the Secretary of State for the Maintenance and Operations phase to support the California Business Connect system under the program name "**biz**file".

Staff Recommendation. Approve as requested.

Issue 71: Business Programs Division – May Revision

May Revision. The May Revision proposes $3.488 million Business Fees Fund in 2023-24, 2024-25, and 2025-26 for the Secretary of State to support the Business Programs Division on a limited term basis while additional data is collected on the ongoing needs of the program. Specifically, this request includes $369,000 Business Fees Fund to reclassify 33 existing positions and $3.119 million Business Fees Fund to continue funding 37 existing limited-funded positions to address increasing filing submissions, phone call volumes, and wait times.

Staff Recommendation. Approve as requested.

Issue 72: Information Security (AB 2135) – May Revision

May Revision. The May Revision proposes $437,000 ($145,000 General Fund and $292,000 Business Fees Fund) in 2023-24 and $427,000 ($142,000 General Fund and $285,000 Business Fees Fund) in 2024-25 and annually thereafter to support 2 new permanent positions to begin establishing an information security office and further assess needs upon the completion of a security assessment in compliance with the mandates of Chapter 773, Statutes of 2022 (AB 2135).

Staff Recommendation. Approve as requested.

Issue 73: CalACCESS Replacement Project – May Revision

May Revision. The May Revision proposes $6.92 million General Fund in 2023-24 for the Secretary of State to support the CARS Project and replace the outdated CAL-ACCESS system for electronic reporting of campaign finance and lobbying activities mandated by the Political Reform Act (SB 84 and SB 1349).

Staff Recommendation. Approve as requested.

Issue 74: Help America Vote Act: 2023 Election Security Federal Grant – May Revision

May Revision. The May Revision proposes $6,993,000 in 2023-24 as follows: $5,827,000 Federal Trust Fund authority to accept and expend the grant award, and $1,166,000 General Fund to meet the 20 percent state match requirement. This request will enable the Secretary of State to continue implementation of the statewide mandates of the Help America Vote Act of 2002.

Staff Recommendation. Approve as requested.

Issue 75: Withdrawn: Improving Safe at Home Customer Service – May Revision

May Revision. The May Revision proposes to withdraw its request of $730,000 for the Improving Safe at Home Customer Service budget change proposal that was included in the Governor's Budget. These resources are duplicative of workload associated with the Governor's Budget proposal to implement Chapter 554, Statutes of 2022 (SB 1131).

Staff Recommendation. Approve as requested.

Issue 76: Notary Automation Program Replacement Project (NAP 2.0)

Governor's Budget Proposal. The Governor's budget requests $3.607 million in 2023-2024 and two Information Technology Manager I positions for the Secretary of State for planning resources for the Notary Automation Program system replacement.

The subcommittee heard this item at its March 23, 2023 hearing.

Staff Recommendation. Approve as requested.

7502 DEPARTMENT OF TECHNOLOGY

Issue 77: CA.Gov Resource Renewal

Governor's Budget Proposal. The Governor's budget requests $1,316,000 in General Fund in 2023-24 and ongoing and permanent renewal of 5.0 positions for the Department of Technology to continue focusing on the development and evolution of digital transformation initiatives, including the CA Design System, incorporating UX disciplines into digital efforts, and re-imagining the CA.gov web portal.

The subcommittee heard this item at its March 23, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 78: Office of Information Security Cal-Secure Unified Integrated Risk Management Project – May Revision

May Revision. The May Revision proposes $700,000 in General Fund authority in 2023-24 for the Department of Technology. This request is for contracting dollars to plan the solution for the Statewide Unified Integrated Risk Management Platform. The URIM security program will allow the Office of Information Security to effectively measure information security maturity, assess risk across the enterprise and at each state entity, and automate compliance submission and tracking in a cost-effective and efficient manner.

Staff Recommendation. Approve as requested.

Issue 79: FI$Cal Onboarding – May Revision

May Revision. The May Revision proposes $2.2 million General Fund in 2023-24 for the Department of Technology to assist in the successful completion of the onboarding process to the statewide Financial Information System of California.

Staff Recommendation. Approve as requested.

Issue 80: State Digital Equity Grant Reappropriation – May Revision

May Revision. The May Revision proposes to extend the encumbrance or expenditure availability of $4,002,000 Federal Trust Fund until June 30, 2024. CDT received the State Digital Equity Grant in December 2022, with 12 months to develop the State Digital Equity Plan. Extending the encumbrance period will allow CDT access to these federal funds throughout the grant period.

Staff Recommendation. Approve as requested.

Issue 81: State Digital Equity Plan (AB 2750)

Governor's Budget Proposal. The Governor's budget requests $2.5 million General Fund, including $1 million for consulting, in fiscal year 2023-24 and ongoing and 9.0 positions for CDT, in support of AB 2750 (Mia Bonta), Chapter 597, Statutes of 2022, to develop a state digital equity plan and obtain anticipated federal funding to develop, oversee and monitor the implementation of the State Digital Equity Plan (SDEP).

The subcommittee heard this item at its March 23, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 82: New Federal Expenditure Item – May Revision

May Revision. The May Revision proposes the creation of a new federal expenditure item for the 2023 Budget Act to provide for receipt and expenditure of federal grants by the Department of Technology (CDT), Office of Broadband and Digital literacy.

Staff Comments. Staff notes that the requested creation of this new federal expenditure item would authorize CDT to expend federal funds outside of the annual budget development process. Because this would compress the timeline in which the Legislature is able to provide oversight of federal broadband funding expenditures, the Department should wait until federal funds are received and then submit a request for an increase in federal fund expenditure authority through the annual budget development process.

Staff Recommendation. Reject without prejudice.

Issue 83: Digital Identification Continuation

Governor's Budget Proposal. The Governor's budget requests $1.2 million General Fund in 2023-24 and 2024-25 and an extension of 2.0 positions for CDT to continue efforts of implementing the Digital Identification (ID) system.

The subcommittee heard this item at its March 23, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 84: Centralized Services Renewal & OTech Reduction of Services

Governor's Budget Proposal. Centralized Services Renewal. The Governor's budget requests a conversion of $42.3 million from the Technology Services Revolving Fund (TSRF) to the General Fund in 2023-24 for CDT to support critical statewide services, mandatory/oversight services, and internal indirect and administrative costs.

CDT additionally requests new General Fund augmentation of $3 million for the statewide strategic initiative's positions. According to the Administration, this proposal, which includes transitioning 216.5 positions to the General Fund, will allow CDT to significantly reduce its rates to reflect only expenses required for the delivery of the service and make CDT more competitive and stem the flow of customers migrating off the state's IT infrastructure to cut costs.

OTech Reduction of Services. The Governor's budget requests $8.2 million General Fund in 2023-24 and $4.9 million in 2024-25 for CDT to supplement an under collection because of the loss of revenue due to customers migrating to vendor cloud-based services.

The subcommittee heard this item at its March 23, 2023 hearing.

Staff Recommendation. Staff recommends the following actions:

- Reduce the conversion amount of Technology Services Revolving Fund to the General Fund in 2023-24 from $42.3 million to $39.3 million.
- Approve the $3 million General Fund for the statewide strategic initiative's positions.
- Reject the OTech Reduction of Services request for $8.2 million General Fund in 2023-24 and $4.9 million in 2024-25.

Issue 85: State Middle Mile Broadband Enterprise Fund Creation Trailer Bill Language – May Revision

Staff Comment. Staff notes that at the time of the writing of this agenda, the details of this trailer bill language have yet to be shared with the Legislature. Due to the timing of this request and the need for any information necessary for its consideration, it would be reasonable and prudent for this proposal to be revisited as part of the 2024-25 budget development process.

Staff Recommendation. Reject trailer bill language without prejudice.

Issue 86: Technology Modernization and Stabilization Fund Reductions

Governor's Budget Proposal. The Governor's budget proposes to reduce the balance of the Technology Modernization Fund by $21 million and the Technology Stabilization Fund by $17.5 million in 2022-23 to address the budget problem. According to CDT, the remaining balances of the TMF and TSF will be encumbered by March and June 2023, respectively, and expended some time thereafter. TMF staff will assist approved projects through completion and gather lessons learned, while TSF staff will continue to assess critical systems and identify stabilization issues that will be remediated with funding requested through the budget process. These stabilization issues are expected by CDT to be prioritized for remediation in a list available by July 2023.

Staff Recommendation. Approve as requested.

7760 Department of General Services

Issue 87: SB 1203 Implementation

Senate Budget Proposal. The Senate proposes $7.5 million General Fund in 2023-24, $7.5 million in 2024-25 and $7.5 million in 2025-26 for the Department of General Services to implement the provisions of SB 1203 (Becker), Chapter 368, Statutes of 2022.

Background. SB 1203 establishes the intent of the Legislature that all state agencies aim to achieve net-zero greenhouse gas (GHG) emissions resulting from their operations no later than January 1, 2035, or as soon as feasible thereafter. The bill also requires the Department of General Services (DGS), in consultation with the Air Resources Board (ARB) to identify actions and investments necessary to achieve the goal, inventory state agency emissions, and report progress to the Legislature.

Staff Recommendation. Approve as proposed.

Issue 88: Emergency Sleeping Cabins Trailer Bill Language – May Revision

May Revision. The May Revision proposes statutory changes intended to expedite the construction of emergency sleeping cabins.

Staff Comment. Staff notes that the Legislature received this Trailer Bill Language on May 19th, 2023. Due to the timing of this request and the need for adequate time necessary for its consideration, it would be reasonable and prudent for these statutory changes to be revisited as part of the 2024-25 budget development process.

Staff Recommendation. Reject without prejudice.

Issue 89: Extend Encumbrance Date for the STEM Teacher Recruitment Grant Program – May Revision

May Revision. The May Revision proposes statutory changes to extend the encumbrance period of funds made available in the Budget Act of 2021 for the STEM Teacher Recruitment Grant program until June 30, 2024. These changes are intended to allow the Department of General Services to fund administrative costs through the duration of the grant program.

Staff Recommendation. Approve as requested.

8940 Military Department

Issue 90: CHQC Maintenance Resources – Phase 2

Governor's Budget Proposal. The Governor's budget requests $448,000 General Fund in fiscal year 2023-24, and $441,000 in 2024-25 and ongoing, and 3.0 positions for the Military Department (CMD) to perform work order clerk duties and to oversee the sustainability objectives of the new Consolidated Headquarters Complex (CHQC) building, such as Zero Net Energy (ZNE) and Leadership in Energy and Environmental Design (LEED).

The subcommittee heard this item at its March 16, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 91: Consolidated Headquarters Complex Security – Spring Finance Letter

Spring Finance Letter. The Governor's finance letter requests 18 State Active Duty (SAD) positions and $2.4 million General Fund in 2023-24 and $2.3 million ongoing for the California Military Department (CMD) to provide security for the state employees, military personnel, and the new state-owned Consolidated Headquarters Complex (CHQC).

The subcommittee heard this item at its May 4, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 92: Grizzly Youth ChalleNGe Program

Governor's Budget Proposal. The Governor's budget requests $2 million ($1.5 million Federal Trust Fund authority and $500,000 General Fund) in fiscal year 2023-24 and ongoing and 12.0 positions for CMD to administer the Youth ChalleNGe Program expansion at the Grizzly Youth Academy in Camp San Luis Obispo.

The subcommittee heard this item at its March 16, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 93: STARBASE Porterville and Camp San Luis Obispo

Governor's Budget Proposal. The Governor's budget requests an increase in expenditure authority of $1.3 million Federal Trust Fund authority in fiscal year 2023-24, and $1.5 million in 2024-25 and ongoing, for CMD to establish and operate STARBASE programs at Porterville Military Academy and Camp San Luis Obispo.

The subcommittee heard this item at its March 16, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 94: State Comptroller Workload

Governor's Budget Proposal. The Governor's budget requests $1,483,000 General Fund in 2023-24, and $1,464,000 annually thereafter and 9.0 positions for CMD to support administrative services within the department's accounting and budget areas.

The subcommittee heard this item at its March 16, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 95: State Active Duty Pay Adjustment and April 1 update

Governor's Budget Proposal. The Governor's budget requests an increase in expenditure authority of $1.3 million Federal Trust Fund authority in fiscal year 2023-24, and $1.5 million in 2024-25 and ongoing, for CMD to establish and operate STARBASE programs at Porterville Military Academy and Camp San Luis Obispo.

Spring Finance Letter. The Governor's finance letter requests an ongoing increase of $959,000 ($299,000 General Fund, $623,000 Federal Trust Fund, $20,000 Mental Health Services Fund, and $17,000 Reimbursement authority) for the California Military Department (CMD) to align the pay of its State Active Duty (SAD) employees to the pay of service members of similar grade in the United States Army, United States Air Force, and United States Navy.

The subcommittee heard this item at its March 16 and May 4, 2023 hearings.

Staff Recommendation. Approve as budgeted at April 1 adjustment.

0690 Office of Emergency Services
2720 Department of the California Highway Patrol
7502 Department of Technology
8940 Military Department

Issue 96: California Cybersecurity Integration Center

Governor's Budget Proposal. The Governor's budget requests $28.7 million General Fund and 17 new positions (14 at CalOES and 3 at the California Department of Technology) in 2023-24 and ongoing for the Office of Emergency Services, California Military Department, California Department of Technology, and the California Highway Patrol to address increased demand on Cal-CSIC for cybersecurity coordination, intelligence gathering and dissemination, and incident response. The proposal would also make permanent 23 existing positions approved in 2020-21 for three fiscal years (12 at CalOES, 8 at CMD, and 3 at CHP).

The subcommittee heard this item at its April 27, 2023 hearing.

Staff Recommendation. Approve funding and adopt provisional budget bill language requiring reporting on the activities of Cal-CSIC. Conforming to the action taken in Sub. 5.

0690 Office of Emergency Services
7502 Department of Technology
8940 Military Department

Issue 97: School Cybersecurity (AB 2355)

Governor's Budget Proposal. The Governor's budget requests $5.4 million General Fund in 2023-24, $3.9 million General Fund annually in 2024-25 through 2026-27 and 17 positions (7 positions at OES, 5 positions at California Department of Technology, and 5 positions at the California Military Department) in 2023-24 through 2026-27 to implement AB 2355 (Salas) Chapter 498, Statutes of 2022.

The subcommittee heard this item at its April 27, 2023 hearing.

Staff Recommendation. Approve $951,000 and three ITS II positions from 2023-24 through 2026-27 for Cal-CSIC to plan, develop, and implement the database to meet the specific requirements of AB 2355. Conforming to the action taken in Sub. 5.

8955 Department of Veterans Affairs (CalVet)

Issue 98: Yountville Fire Service Contract – May Revision

May Revision. The May Revision proposes $535,000 General Fund in 2023-24 and $800,000 ongoing for CalVet to fund an increase in costs for contracted fire prevention services for the Yountville Veterans Home.

Staff Recommendation. Approve as requested.

Issue 99: Headquarters Building Electrical Maintenance – May Revision

May Revision. The May Revision proposes $21,950,000 one-time General Fund for CalVet to upgrade the electrical infrastructure at the department's headquarters building. The electrical infrastructure is outdated and poses fire, life, and safety concerns.

Staff Recommendation. Approve as requested.

Issue 100: Reappropriation for the Rector Creek Assessment Study – Spring Finance Letter

Spring Finance Letter. The Governor's finance letter requests a reappropriation to extend the liquidation period from June 30, 2023 to June 30, 2024, to complete the Rector Creek Instream Flow and Fish Condition Assessment Study.

Staff Recommendation. Approve as requested.

Issue 101: Settlement Costs – Spring Finance Letter

Spring Finance Letter. The Governor's finance letter requests $8,659,000 one-time General Fund to pay for legal settlement costs as a result of a recently settled lawsuit at the Veterans Home of California, Chula Vista.

The subcommittee heard this item at its May 4, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 102: Increased Support for Nursing Operations – May Revision

May Revision. The May Revision proposes $25 million General Fund ongoing for CalVet to provide for nursing staff overtime and nursing registry staff costs to ensure continuity of nursing staff operations at the Veterans Homes of California.

Staff Recommendation. Staff recommends the following actions:

- Approve two-year, limited-term funding of $25 million General Fund in 2023-24 and 2024-25 for nursing staff overtime and registry staff costs.
- Include the following provisional language:

> *On January 10, 2024, the department shall report to the Legislature by facility and classification (registered nurse, certified nurse assistant, and licensed vocational nurse) the monthly cost and hours used of (1) mandatory overtime, (2) voluntary overtime, and (3) contracted staffing registry services. The report shall also include by facility and classification the number of established and vacant positions in each month. In addition, the report shall summarize (1) the department's actions to improve recruitment and retention of the classifications and reduce its reliance on contracted registry services and overtime and (2) the department's plans to further reduce its reliance on contracted registry services and overtime in 2024-25.*

Issue 103: Yountville Roof Replacements

Governor's Budget Proposal. The Governor's budget requests $15,857,000 General Fund in fiscal year 2023-24 for the Department of Veterans Affairs (CalVet) to replace five roofs at Veterans Home of California (VHC)-Yountville. The request includes construction costs and DGS project management costs and associated fees.

The subcommittee heard this item at its March 9, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 104: Initial Support for Yountville Skilled Nursing Facility – Spring Finance Letter

Governor's Budget Proposal. The Governor's finance letter requests 2.2 positions and $356,000 General Fund in 2023-24, and 10 positions and $1,325,000 General Fund annually thereafter for CalVet for the first phase of staffing ramp up of a new skilled nursing facility (SNF) at the Veterans Home of California-Yountville (Yountville Home). This new skilled nursing facility will directly support the health and welfare of residents, meet updated licensing standards, and reflect modern design standards.

The subcommittee heard this item at its May 4, 2023 hearing.

Staff Recommendation. Approve as requested.

0954 SCHOLARSHARE INVESTMENT BOARD

Issue 105: CalKIDS Savings Accounts & Trailer Bill Language

Request: The Governor's budget proposes to shift $30 million ongoing General Fund within the California Kids Investment and Development Savings (CalKIDS) program and to provide $1 million one-time General Fund to support marketing and outreach efforts for the program.

Trailer Bill Language. The May Revision proposes trailer bill language to increase the amount of seed deposits in KIDS accounts to at least $100 and technical changes related to the administration of the program.

The subcommittee heard this item at its May 4, 2023 hearing.

Staff Recommendation. Staff recommends the following actions:

- Approve the shift of $30 million ongoing General Fund within the CalKids program.
- Reject the $1 million General Fund and instead reappropriates $8 million of unspent funds from the California Kids Investment and Development Savings Program Fund appropriated in the Budget Act of 2019 towards a statewide marketing and outreach campaign.
- Include budget bill language that directs that $8 million to a statewide marketing and outreach campaign that shall include a focus on low-income and disadvantaged communities.
- Adopt placeholder trailer bill language.

0840 State Controller's Office

Issue 106: Broadcom Computer Associates (CA) Integrated Database Management System (IDMS) Software Licensing Incremental Additional Cost – May Revision

May Revision. To reflect final negotiations and software license contract renewal with Broadcom Computer Associates (CA) Integrated Database Management System (IDMS) software vendor, the May Revision proposes additional funding of $2,454,000 annually in 2023-24 through 2025-26; including $1,313,000 General Fund (GF); $791,000 Central Service Cost Recovery Fund (CSCRF); and $350,000 Special Fund (SF), and requests reductions of $4,877,000 in 2026-27 and 2027-28 that are included in the Governor's Budget estimated cost proposal which reflected an expected contract term of five years for the renewal instead of only three years.

Staff Recommendation. Approve as requested.

Issue 107: SCO Annual Comprehensive Financial Report (ACFR) and Other Annual Reports

Request: The Governor's budget requests $924,000 ($545,000 General Fund and $379,000 Central Service Cost Recovery Fund) in 2023-24 and ongoing to make permanent 6.0 expiring limited-term positions currently working to ensure that all of SCO's financial reporting functions related to the Legacy system are successfully transitioned to FI$Cal, including handling of departmental accounting information and processes while using FI$Cal to produce annually and on-time the ACFR, the Budgetary/Legal Basis Annual Report (BLBAR), and other reports.

The subcommittee heard this item at its March 23, 2023 hearing.

Staff Recommendation. Approve as requested.

Issue 108: SCO FI$Cal Integrated Solution Maintenance and Operations Support

Governor's Budget Proposal. The Governor's budget requests $3,255,000 ($1,920,000 General Fund and $1,335,000 Central Cost Recovery Fund (CSCRF)) in 2023-24, $3,240,000 ($1,912,000 General Fund and $1,328,000 CSCRF) in 2024-25 and 2025-26, and $950,000 ($561,000 General Fund and $389,000 CSCRF) in 2026-27 and ongoing for the SCO to support the continuation of 6.0 existing positions on a permanent basis and for contract resources to support the maintenance and operations of the FI$Cal Integrated Solution (IS) including providing support to the FI$Cal departments.

The subcommittee heard this item at its March 23, 2023 hearing.

Staff Recommendation. Approve as requested.

0840 State Controller's Office
7501 Department of Human resources

Issue 109: California State Payroll System (CSPS) Project – May Revision

Request: The May Revision proposes the following resources for the State Controller's Office (SCO) and the Department of Human Resources (CalHR) to support the California State Payroll System as it passes from planning to implementation, following the anticipated successful completion of the California Department of Technology's Project Approval Lifecycle (PAL) Stage 4 process in 2023-24, resulting in CSPS achieving official CDT-approved project status.

SCO requests $46,810,000 General Fund and 6.5 permanent positions in 2023-24 and that provisional language be added to SCO's main General Fund support item to reflect that $28,393,000 of the amount requested will be available for Department Agency Readiness Teams (DART) activities following CDT's approval of the CSCPS Stage 4 PAL submission.

SCO also requests reappropriation of the unencumbered balance of funding for the System Integration (SI) contract that was appropriated in the 2022-23 budget.

CalHR requests $2,892,000 General Fund and 9.0 permanent positions in 2023-24, $1,821,000 General Fund in 2024-25, and $2,007,000 General Fund in 2025-26, and ongoing to support the continuation of the CSPS project.

Staff Recommendation. Staff recommends the following actions:

- Reappropriate $83.3 million in funding for the System Integration contract, subject to JLBC notification,
- Approve additional $21.3 million for project implementation.
- Reject $28.4 million for Department Agency Readiness Team activities.
- Include placeholder budget bill language to direct the State Controller's Office and the California Department of Human Resources to work with processing departments on identifying and requesting the necessary amount of funding and positions through the 2024-25 budget process.

0509 GOVERNOR'S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT
0950 STATE TREASURER'S OFFICE

Issue 110: Performing Arts Equitable Payroll Fund

Legislative Proposal. As of June 30, 2023, revert the available balance of the funds provided for the Non-Profit Performing Arts Grant Program established within CalOSBA pursuant to Government Code Section 12100.83.6 and re-appropriate the funds for the Performing Arts Equitable Payroll Fund, for use consistent with section 8757.1 of the Government Fund.

Staff Recommendation: Approve as proposed.