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

SUBCOMMITTEE NO. 4 Agenda

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

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

Consultant: Mark Ibele

ITEMS PROPOSED FOR VOTE-ONLY

Item	Department	Page
0950	**State Treasurer's Office**	**3**
Issue 1	Information Security Program	3
0956	**California Debt and Investment Advisory Commission**	**3**
Issue 1	Implementation of SB 1029	3
0968	**California Tax Credit Allocation Committee**	**4**
Issue 1	Compliance and Monitoring Staff Support	4

ITEMS FOR DISCUSSION AND VOTE

Oversight: California Credit and Debt Overview **5**

Item	Department	Page
0950	**State Treasurer's Office**	**11**
Issue 1	Data Management System	12
Issue 2	Data and Government Transparency	13
Issue 3	Fiscal Recovery Fund Termination	15
0956	**California Debt and Investment Advisory Commission**	**16**
Issue 1	Personal Services Augmentation	16

0971	**California Alternative Energy and Advanced Transportation Financing Authority**	**17**
Issue 1	Administration of California Hub for Energy Efficiency Financing	17
0984	**California Secure Choice Retirement Savings Investment Board**	**18**
Issue 1	California Secure Choice Retirement Savings Program Implementation	18
	Public Comment	

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

ISSUES PROPOSED FOR VOTE ONLY

0950 STATE TREASURER'S OFFICE

Issue 1: Information Security Program (BCP)

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

Staff Comments. Staff has no concerns with this proposal.

Staff Recommendation. Approve as budgeted.

Vote:

0956 CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

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

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

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

Staff Comments. Staff has no concerns with the proposal.

Staff Recommendation. Approve as budgeted.

Vote:

0968 CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Issue 1: Compliance and Monitoring Staff Support (BCP)

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

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

Staff Comments. Staff has no concerns with this proposal.

Staff Recommendation. Approve as budgeted.

Vote:

ISSUES FOR DISCUSSION AND VOTE

CALIFORNIA CREDIT AND DEBT OVERVIEW

Presenter: **State Treasurer's Office**
Public Finance Division

Comments: **Legislative Analyst's Office**

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

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

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

[1] Non self-liquidating.

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

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

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

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

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

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

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

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

2017 Five-Year Infrastructure Plan
(Dollars in Millions)

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

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

[1] Senate Committee on Budget and Fiscal Review, *Overview of the 2015-16 Budget Bill*, February 2015 http://sbud.senate.ca.gov/sites/sbud/senate.ca.gov/files/overview/2015overview2015-16Budget.pdf.
[2] Senate Committee on Budget and Fiscal Review, *Overview of the 2017-18 Budget Bill*, February 2017, http://sbud.senate.ca.gov/sites/sbud/senate.ca.gov/files/overview/2017overview2017-18Budget.pdf.

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

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

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

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

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

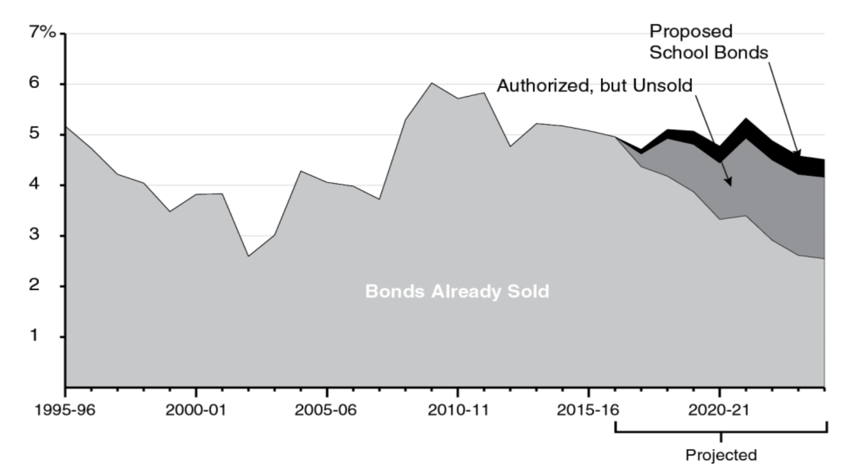
[3] California's current long-term General Obligation bond ratings from the three major services are: Moody's Aa3; Standard & Poor's AA-; Fitch A+.

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

Figure 1

General Fund Debt-Service Ratio

Percent of General Fund Revenues Spent on Debt Service



Source: Legislative Analyst's Office

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

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

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

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

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

Staff Recommendation: Informational item.

0950 STATE TREASURER'S OFFICE

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

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

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

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

State Treasurer's Office
Position Authority
(actual positions)

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

Issue 1: Debt Management System II (BCP)

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

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

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

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

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

State Recommendation. Approve as budgeted.

Vote:

Issue 2: Data and Government Transparency (BCP)

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

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

The STO indicates that services currently identified include providing:

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

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

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

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

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

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

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

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

Staff Recommendation. Hold open.

Vote:

Issue 3: Fiscal Recovery Fund Termination (TBL)

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

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

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

Staff Recommendation. Approve proposed trailer bill language.

Vote:

0956 CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

Issue 1: Personal Services Augmentation (BCP)

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

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

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

Staff Recommendation. Hold open.

Vote:

0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

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

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

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

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

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

Vote:

0984 California Secure Choice Retirement Savings Investment Board

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

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

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

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

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

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

Staff Recommendation. Hold open.

Vote: