

SUBCOMMITTEE NO. 4

Agenda

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



Thursday, April 5, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

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ISSUES PROPOSED FOR VOTE-ONLY**0511 GOVERNMENT OPERATIONS AGENCY (GovOps)****Issue 1: Increased Legal and Administrative Workload**

Budget. The agency requests \$323,000 in reimbursement authority in 2018-19 and \$304,000 in ongoing reimbursement authority for one Attorney IV position (Assistant General Counsel) and one administrative assistant.

Background. GovOps was established in 2013 and is responsible for administering state operations including procurement, information technology, and human resources. The agency was originally established with 17 positions which included one exempt General Counsel/Deputy Secretary position and two clerical positions. At the time of establishment, the agency included nine departments. Currently, GovOps oversees ten state departments, boards, and programs. Last year, the budget established the California Department of Tax and Fee Administration (CDTFA) within GovOps. Additionally, statute provides that the Department of FI\$Cal will be within the agency upon acceptance of the system by the state. The addition of these two departments will significantly increase the workload at the agency level.

The requested Assistant General Counsel position will assist the General Counsel, by consulting directly with the legal counsels of the departments within GovOps on a wide variety of legal matters. The Assistant General Counsel will also attend meetings and represent GovOps on behalf of the General Counsel, as well as provide comprehensive legal recommendations to the General Counsel to ensure consistency of policy, practice, and vision. GovOps also requests an administrative assistant to support existing and increased workload resulting from the addition of CDTFA and FI\$Cal. The agency anticipates additional workload processing various forms and requests with the addition of CDTFA and FI\$Cal.

Staff Recommendation. Approve as requested.

0845 DEPARTMENT OF INSURANCE**Issue 1: Workers' Compensation Fraud Program**

Budget. The budget includes an ongoing \$2.9 million (Insurance Fund) increase in expenditure authority to fund local District Attorney workers' compensation fraud investigation and prosecution workload increases. The increase is consistent with the assessment approved by the Governor-appointed Fraud Assessment Commission (FAC).

Background. Senate Bill 1218 (Presley), Chapter 116, Statutes of 1991, established the FAC. The FAC meets annually to determine the level of funding necessary to support department operations and district attorneys (DA) investigations, and is made up of seven members appointed by the Governor. In September 2017 the FAC voted to approve an eight percent increase to the Workers' Compensation Assessment, effective for 2018-19 and ongoing. Statute directs that after incidental expenses at least 40 percent of the funds shall be provided to the department's fraud division, and at least 40 percent of funds shall be distributed to local DA offices. Historically, DAs have received approximately 60 percent of funding, with the department receiving the remaining 40 percent.

The enforcement branch of the California Department of Insurance (CDI) is seeing a pattern where a large percentage of medical fraud is connected with workers' compensation claims and the providers operating within the workers' compensation system. Many of the large and complex cases in medical provider fraud lead to joint investigations with other law enforcement agencies. These investigations are labor and time intensive. They can take between one and three years to complete and generally require specialized expertise in investigations and prosecutions. It can then take an additional six months to several years of court and investigative time to navigate the case through the court process, tying up investigators and prosecutors in court for however long that process takes.

Local DAs are responsible for the investigation and prosecution of workers' compensation cases. The department oversees an existing local assistance grant program for DAs to receive funding for the cost to investigate and prosecute these cases. The additional requested funding would enable local DAs to expand investigation and prosecution efforts.

Staff Recommendation. Approve as requested.

Issue 2: Surplus Line Brokers (AB 1641)

Budget. The department requests an increase in expenditure authority of \$196,000 (Insurance Fund) in 2018-19 and \$189,000 (Insurance Fund) annually thereafter to support one position to comply with the mandates of Assembly Bill 1641 (Daly), Chapter 477, Statutes of 2017.

Background. The CDI regulates the surplus line insurance market by licensing surplus line brokers and monitoring the placements made by the surplus line brokers for insurance in that market. The surplus line insurance market is a market by which Californians can obtain insurance from an insurance company that is not licensed by the department when the desired insurance product is not available from the admitted market. The surplus line broker must make a diligent search of the admitted market before placing insurance through the surplus line insurance market. The diligent search means that the broker seeks to determine if there are at least three admitted carriers that write this type of risk/coverage or that three admitted carriers have declined to write this particular policy.

Statute requires the Insurance Commissioner to declare any type of coverage that is not available on the admitted market as permissible for placement with a non-admitted insurer by adding that coverage or risk to the export list maintained by the commissioner. The surplus line broker must substantiate the diligent search when filing materials for placement on the export list. The export list helps the surplus line brokers with the diligent search requirement. If an item is on the export list, then the surplus line broker does not need to perform a diligent search of the admitted market and he/she does not have to file the diligent search paperwork when filing materials to substantiate the placement with the department.

AB 1641 expanded the grounds for additions to and removal of coverages from the export list by an additional category for "new, innovative products for which a reasonable or adequate market among admitted insurers has not had time to develop." This language is not defined in the existing California surplus lines statutes and is not defined in the measure. The department will need to determine how to implement the new terms and obtain expert information and research products to determine if they are new and innovative. The department also expects export list hearings to become longer in order to hear all arguments for each product being presented. To address the increased workload the department is requesting one Attorney III position.

Staff Recommendation. Approve as requested.

Issue 3: CDI Menu Modernization Project – Year 5

Budget. The department is requesting an ongoing increase in expenditure authority of \$278,000 (Insurance Fund) to provide ongoing maintenance to support the recently upgraded CDI Menu and Integrated Database (IDB).

Background. The CDI Menu Project is a gateway or portal (user interface) that was developed in 1992 using an Oracle Forms and Reports platform. The core of the CDI Menu is the IDB database. Built over 20 years ago, the vendor stopped supporting the technology in June 2017. The system's aging technology created several functionality issues and challenges, so the department decided to conduct an overhaul of the menu.

In 2013-14, the California Department of Technology (CDT) approved the project's Feasibility Study Report to replace its legacy CDI Menu and IDB database. As part of the 2014-15 budget process, the Legislature approved funding for year one of the project. In addition, the Legislature has approved proposals for years two, three, and four in each subsequent budget. The current request includes funding for the final year of the project. To date, the project has received total resources of \$8.8 million. The department is requesting year five resources of \$278,000.

The CDT will continue to provide administrative oversight of this project. As the project completes and moves to maintenance and operations, the CDI will continue to be responsible for providing periodic status reports on the project's maintenance and operations and closing phases. The project will conclude with submission of a Post Implementation Evaluation Report to the CDT and the Legislative Analyst Office.

Staff Recommendation. Approve as requested.

Issue 4: Producer Licensing Enforcement Cases

Budget. The department requests six positions, an increase in expenditure authority of \$1.14 million (Insurance Fund) in 2018-19, and \$1 million (Insurance Fund) annually thereafter to address an increase in producer licensing enforcement cases. The six positions include five Attorney III positions and one Senior Legal Typist position.

Background. The Legal Branch - Enforcement Bureaus (LEB) litigate enforcement actions against insurance producers and others engaged in insurance business in California. Many of the bureaus' cases require attorneys to assess an applicant or licensee's fitness for licensure, often resulting in an administrative hearing. In addition, the LEB attorneys provide legal guidance to executive staff and other members of the department as well as supervise the work of Deputy Attorney Generals who represent the department in writ proceedings. The LEB's duty is to remove the bad actors from the licensee rolls quickly and efficiently while ensuring that those applicants that are properly prepared, knowledgeable, and possessing the appropriate integrity are licensed.

Since 2012-13, the number of insurance producers (agents and brokers) licensed by the department has increased by 19.5 percent increase. From 2013-14 to 2017-18 the LEB has experienced an approximate 57 percent increase in the number of licensing cases being referred. Cases referred to the LEB either proceed to a hearing or are resolved without a hearing. Since 2013-14, the branch has experienced an approximately 79 percent increase in the volume of cases that proceed to a hearing. This increase has required more time from attorneys and support staff, hindering the ability to assign additional cases. Despite the increase, the LEB has not added any additional positions to address the workload. Given the year over year increases in the number of cases received and the number of cases proceeding to a hearing, the additional workload can no longer be absorbed. The additional staff will enable the LEB to resolve cases more quickly and effectively.

Staff Recommendation. Approve as requested.

0890 SECRETARY OF STATE**Issue 1: HAVA VoteCal**

Budget. The Secretary of State (SOS) requests \$7.1 million (Federal Trust Fund) in expenditure authority for 2018-19, to cover the maintenance and operations cost of California's statewide voter registration database known as VoteCal.

Background. Section 303 of the Help America Vote Act (HAVA) of 2002 (Public Law 107-22, 107th Congress) mandates that each state implement a uniform, centralized, interactive, computerized voter registration database that is defined, maintained, and administered at the state level. The SOS is responsible for overseeing the administration of California elections and administers the VoteCal system, in conjunction with county elections officials. The VoteCal system serves as the single system for storing and managing the official list of registered voters in the state.

HAVA mandates that the voter registration system utilize data that is contained in systems at the Department of Motor Vehicles, the California Department of Public Health, and the California Department of Corrections and Rehabilitation for voter identification or verification and list maintenance purposes. The VoteCal system also interfaces with the Employment Development Department 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.

\$1.6 million of the requested funding provides local assistance support for county efforts associated with cyber security risks and the associated infrastructure needs and external consulting.

Staff Recommendation. Approve as requested.

Issue 2: Business Programs Division Filings Processing Times

Budget. The SOS requests spending authority of \$5.1 million (Business Fees Fund) and 47 positions, temporary help and overtime for 2018-19, 2019-20, and 2020-21. This request is a ten percent reduction in current ongoing support due to recent and ongoing automation and online improvements. The Business Fees Fund is comprised of the filing and services fees that businesses pay the SOS for the service.

Background. The SOS has the responsibility for processing and filing important commerce and trade documents including business formations, changes, and terminations. The SOS processes over 150 different types of business filings, using more than 20 different software applications. In addition, the office currently relies on several antiquated electronic and paper database (including 3" x 5" index cards) systems in order to process more than two million business filings and requests for information submitted on an annual basis.

In 2013, the SOS submitted a finance letter for 56 limited-term positions in 2013-14, and 54 limited-term positions in 2014-15 and 2015-16. The request was approved by the Legislature. The request was meant to reduce the processing times for business filings and to sustain a processing time of approximately five business days in advance of implementation of the California Business Connect project. The California Business Connect project is envisioned to automate paper-based processes, allowing businesses to file and request copies of records online and to process fee payments within one business day.

In August 2015 the SOS, with guidance from the California Department of Technology, agreed to terminate the CBC systems integrator contract with Bodhtree Solutions, causing delays in the project. Due to the delays in the automation project, the SOS was approved for increased spending authority of \$5.5 million to support the additional positions, temporary help and overtime in both 2016-17 and 2017-18 to maintain the five business day turnaround times. The California Business Connect project is expected to be fully implemented by 2021.

Staff Recommendation. Approve as requested.

Issue 3: Address Confidentiality for Victims of Human Trafficking (SB 597)

Budget. The SOS requests one position, an increase of \$240,000 (General Fund) in 2018-19, and \$235,000 (General Fund) annually thereafter. This expenditure authority is requested to implement the provisions of Senate Bill 597 (Leyva), Chapter 570, Statutes of 2017.

Background. Safe at Home is California's address confidentiality program for victims of domestic violence, stalking and sexual assault. Reproductive healthcare workers who have experienced a threat to their safety are also eligible to participate. Passage of SB 597 allows the addition for two more victim types to enroll into the Safe at Home Program: 1) victims of human trafficking, and 2) specified household members of all current Safe at Home participants and applicants. The SOS, through the Safe at Home program, provides an address to participants which they can use in lieu of their home address to receive mail. Safe at Home then forwards their mail on to them at an address they can keep confidential and out of the public record.

Currently, the program serves 3,367 participants. With the addition of human trafficking and household members, Safe at Home expects to see an increase in the amount of mail received. In 2016-17 the program processed approximately 9,969 pieces of mail a month. With the new additional eligible participants Safe at Home estimates that it will see an additional 91,575 pieces of mail every year. The program currently has one Program Technician II position responsible for processing all of the incoming mail. With the anticipated increase in mail volume, overtime and temporary help are requested to continue forwarding mail to participants.

The program is currently staffed with seven positions, including four analysts. The analysts work as enrolling agents, conduct trainings throughout the state, develop policies and forms, maintain the program website, and conduct bill analyses. With new eligible participants the Safe at Home program will need to generate new policies and procedures, and also wishes to expand its outreach activities. To meet these needs the program requests funding for one permanent Staff Services Manager II position. This manager will network with local, state and federal organizations to make them aware of the program and coordinate efforts to better serve participants. In addition, the manager will develop outreach activities, which include public service announcements, social media outlets and disseminating other information needed to expand the program. While the program expects mail to increase eventually, the program first desires to increase its outreach and get the word out about the new eligibility. The manager will also be instrumental in finalizing regulations for the program.

Staff Recommendation. Approve as requested.

8620 FAIR POLITICAL PRACTICES COMMISSION (FPPC)**Issue 1: Mass Mailing Prohibition (SB 45)**

Budget. The FPPC requests increased expenditure authority of \$147,000 (General Fund) in 2018-19 and \$140,000 (General Fund) annually thereafter to fund an existing but unfunded position to implement the provisions of SB 45 (Mendoza), Chapter 827, Statutes of 2017.

Background. The FPPC was created by the Political Reform Act as an independent, non-partisan agency whose objective is to prevent corruption of public officials in the governmental decision-making process. The act prohibits sending mass mailings at public expense. An existing regulation adopted by the FPPC defines criteria for mass mailings at public expense, and lists certain forms of mass mailings that will be permitted despite the act's prohibition. SB 45 adopts the FPPC's regulation in its entirety. The bill also creates a prohibition on sending publicly-funded mass mailings within the 60 days preceding an election by or on behalf of a state or local candidate whose name will appear on the ballot, except as otherwise specified in the bill.

There are over 3,000 jurisdictions and agencies (state, local, special district) that could, prior to January 1, 2018, send mass mailers at public expense within 60 days before an election. There are two elections each even numbered year, in addition to special elections. Therefore, the FPPC is expecting a sizable and continued increase in advice requests as local and state officials and agencies attempt to comply with the new blackout periods. The FPPC will undertake substantial advice and educational efforts to inform new campaign managers each election and state and local government agencies of the new 60-day black out period. The FPPC will also need to draft new rules related to mass mailing at public expense. The Enforcement Division foresees an increase in workload in pre-election work to timely address any violations of the prohibition before the election. To meet this additional workload the FPPC is requesting increased expenditure authority to fill a Commission Counsel position.

Staff Recommendation. Approve as requested.

Issue 2: Advertisement Disclosure and Earmarking of Funds (AB 249)

Budget. The FPPC is requested increased expenditure authority of \$420,000 (General Fund) in 2018-19 and \$400,000 (General Fund) in 2019-20 and 2020-21 to fund three existing but unfunded positions to implement the provisions of AB 249 (Mullin), Chapter 546, Statutes of 2017. The three positions are:

- A Senior Commission Counsel
- A Political Reform Consultant
- A Special Investigator

Background. Currently, the FPPC has an extensive outreach and education effort to inform individuals of all rules, including campaign advertising and reporting rules. The agency also enacts regulations interpreting the Political Reform Act and provides advice to over 20,000 individuals a year. AB 249 made substantial changes to numerous sections in the act. Additional staff resources are needed for the effective and efficient implementation of these comprehensive changes. The legislation prescribes the disclosure statements, location, and format criteria required for television, print, radio, telephone, and electronic media advertisements with some exemptions and it requires on-advertisement disclosure of the top three contributors. Certain committees would be exempt from the top contributor disclosure, including candidate, political party, major donors and independent expenditure committees. The legislation also expands earmarking to include payments to any committee or ballot measure and not just to candidates. It also changes the definition of earmarking and creates an exception for specified membership organizations.

The FPPC will have extensive, additional workload to implement its provisions. There is a statewide, gubernatorial election in 2018 and administering a wholesale change in the act's disclosure regime during an election year will require expedited action by staff to minimize any significant issues for the regulated community. The FPPC will need to update and communicate substantive changes to regulations, manuals, and fact sheets in time for local and state primary elections. The commission also anticipates a great increase in requests for advice as the regulated community works to understand these new requirements.

Staff Recommendation. Approve as requested.

ISSUES PROPOSED FOR DISCUSSION AND VOTE

0890	SECRETARY OF STATE
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Overview. The SOS is the chief elections officer and administers and enforces election laws. The SOS also administers and enforces laws related to corporations, limited liability companies, partnerships, limited partnerships, unincorporated associations, and bonds and perfecting security agreements. The Secretary is the filing officer for lobbying and campaign documents under the Political Reform Act, 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 Museum.

Budget. The budget includes \$231.7 million (\$166.8 million General Fund, \$51.2 million Secretary of State Business Fees Fund, \$11.6 million Federal Trust Fund, and \$2.1 million other special funds) and 542.1 positions.

Issue 1: Voting System Replacement for Counties
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Budget. The SOS requests \$134.3 million (General Fund) spending authority to cover the costs for the replacement of voting systems. This includes one-time purchase of all necessary hardware, software, peripherals, and one year's worth of software licenses. This funding assumes a 50/50 split between the state and counties.

Background. County elections officials administer most local, state, and federal elections in California. They also operate elections for most cities, schools, and special districts. County responsibilities include processing voter registrations, verifying signatures on petitions to qualify ballot initiatives, choosing voting equipment, establishing precincts, printing ballots, mailing materials to voters, and recording elections results. Beyond the specific requirements established in state and federal law, county elections officials have discretion in how people vote in their county. Consequently, elections operations - including equipment used to cast and count ballots - vary across counties.

Generally, counties pay for costs associated with elections out of their general funds. Other local entities whose elections are managed by counties pay those counties for administering their elections. Both the state and federal government can provide funding for the update of elections equipment. In 2002, Congress passed the Help America Vote Act (HAVA) which provided funding to improve voting systems. \$195 million in federal funds were provided to California counties to comply with HAVA voting systems requirements. That same year California voters passed Proposition 41 which provided \$200 million to improve voting systems throughout the state. Many counties used these funds to replace their outdated voting equipment. However, legislative and policy changes taken by the Legislature and previous Secretaries of State forced many counties to abandon this newly purchased equipment and rely on paper-based, optical scan systems for voting.

Much of the voting equipment currently used by counties to administer elections is antiquated. Parts are no longer available or they rely on operating systems that no longer receive security

upgrades from the manufacturers. This proposal would provide funding to counties for replacement voting technology to ensure that elections are conducted accurately, reliably, and securely. Funds would be allocated based on the number of registered voters and county size. The SOS would award a contract to each county, and the counties would be able to contract for the lease or purchase of voting equipment upon approval of the contract. The SOS requests that reimbursement be allowed for counties that have made qualifying purchases of voting technologies in fiscal years prior to 2018-19. SOS personnel will be responsible for verifying that the purchase or lease of voting equipment by the county seeking reimbursement meets the criteria set forth in the contract and will, thereafter reimburse the county for the allowable amount.

The signing of SB 450 (Allen), Chapter 832, Statutes of 2016, will significantly change the way elections are conducted throughout the state. The bill creates a new model for elections, known as the vote center model. With the vote center model every registered voter will be delivered a vote-by-mail (VBM) ballot before election day and will be able to either vote in-person at a vote center, mail his/her ballot in, or drop it off at a vote center or ballot drop-off location. Polling places will be replaced by vote centers, where voters will be able to cast a ballot at any vote center in their county beginning 10 days before the election.

Voters will also have the option of returning their ballots at a drop-off location starting 28 days before election day. Implementation of the vote center model is voluntary for all counties. 14 counties are permitted to use the new vote center model for the 2018 election cycle; however, only the counties of Madera, Napa, Nevada, Sacramento, and San Mateo have committed to using the vote center model for 2018 elections. On or after January 1, 2020, Los Angeles County has the option to conduct special elections as an all-mailed ballot election and the remaining 43 counties will be eligible to conduct any election using the vote center model. Counties that choose to apply this new model must develop a plan for implementation that must be approved by the Secretary of State.

Cost estimates for this proposal were determined with the assumption that large jurisdictions would move to the vote center model and small jurisdictions, those with fewer than 50 precincts, would remain using the traditional polling place model.

Legislative Analyst's Office (LAO). The LAO has noted the following in its analysis of the proposal:

- The LAO recognizes the need for the replacement of counties' voting equipment. The outmoded equipment raises concerns about the reliability of the voting system as well as the possibility of a catastrophic failure of voting systems in counties.
- Cost estimates were determined with the assumption that large jurisdictions would move to the vote center model. However, only a handful of counties are moving to the model in 2018, and whether counties will implement the system in 2020 is unclear. Counties' voting models affect the types of equipment purchased as well as how much equipment to purchase. For the majority of counties, adopting the vote center model lowers the cost of replacing voting equipment.

- Counties' ability to conduct secure and timely elections is a clear state interest. Counties' administration of elections relieves the state from organizing thousands of local government elections, as well as the elections for California's members of Congress, the state Legislature, other statewide positions, and statewide initiatives. In fact, in many elections, state issues make up the majority of the ballot. While the state reaps regular benefits from county elections administration, it only sporadically provides funding to counties for elections activities or equipment.

The LAO recommends the Legislature direct the SOS to distribute funds based on counties' equipment costs for implementing the vote center model. Given the condition of counties' voting equipment and the state's interest in effective county administration of elections, state assistance for purchasing new voting equipment is warranted. By providing funding based on the voter center model, counties would have some incentive to implement the new system. Implementing the vote center model, however, would be at counties' discretion.

Staff Comment. The Governor has proposed \$134.3 million for the replacement of voting systems throughout the state. The proposed amount was determined with the assumption that certain counties, based on size, would switch to the vote center model. As noted by the LAO, it is unclear whether any other eligible counties will implement the model in 2020. The amount of funding needed to replace voting systems will vary depending on what voting model is being used. The Legislature may wish to consider the costs associated with the replacement of voting systems and whether it wishes to provide incentives for counties to use the vote center model.

Staff Recommendation. Hold open.

Issue 2: Help America Vote Act (HAVA) Spending Plan
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Budget. The SOS requests \$4.2 million (Federal Trust Fund) in expenditure authority for 2018-19 to continue implementation of the statewide mandates of the Help America Vote Act (HAVA).

Background. On October 29, 2002, President Bush signed the Help America Vote Act (HAVA), which provides federal funding to states to implement mandated elections changes. The requirements of HAVA include statewide modernization or replacement of voting equipment, education and training programs for election officials and poll workers, and a statewide voter registration database.

There are three sources of funding provided by HAVA for use to improve the administration of federal elections and to meet HAVA requirements. Those sources are Section 101, Section 102, and Section 251 funds. Sections 261 and 271 provide additional funding specific to meeting the requirements of those sections.

The HAVA Spending Plan for 2018-19, includes the following activities:

HAVA Spending Plan for FY 2018-19

Activity	Amount	HAVA Citation
Voting System Testing & Approval – Support	\$ 550,000	HAVA Required – Section 301
Voter Education – Support	\$ 500,000	HAVA Required – Section 302
Administration – Support	\$ 1,421,000	HAVA Allowable – Sections 101, 251 & 261
Performance Measures – Support	\$ 200,000	HAVA Allowable – Section 254
Local Assistance – Support	\$ 1,564,000	HAVA Allowable – Section 251
HAVA Activities Total ¹	\$ 4,235,000	

¹ Funds for the VoteCal program will be secured through a separate BCP

In more detail, the requested funding will be used for:

- The testing of new voting system hardware and software that are being brought forth by vendors for certification for use in California;
- The testing of open or disclosed source voting systems, including the testing of hardware and software, for a pilot project that is being brought forward for certification;
- The testing of voting system modifications made to update, maintain, and upgrade the software on existing voting systems;

- The testing of ballot marking system hardware and software that are being brought forth for certification in California;
- And the approval of state-approved testing agencies.

Staff Recommendation. Approve as requested.

0690 GOVERNOR'S OFFICE OF EMERGENCY SERVICES

Overview. The principal objective of the Office of Emergency Services (OES) is to protect lives and property, build capabilities, and support communities for a resilient California. The OES director serves as both the Governor's Homeland Security Advisor and Emergency Management Director, with responsibility to implement and facilitate the state's homeland security and counter-terrorism strategy. The OES serves the public through effective collaboration in preparing for, protecting against, responding to, recovering from, and mitigating the impacts of all hazards and threats.

Budget. The budget includes \$1.4 billion (\$1 billion Federal Trust Fund, \$229 million special funds, \$166.3 million General Fund, and \$4.6 million reimbursements) and 895.6 positions to support the office and its programs. Note that the budget for OES also includes \$25 million as part of the Governor's cap-and-trade expenditure plan which will be discussed in more detail in Senate Budget and Fiscal Review Subcommittee No. 2 on Resources, Environmental Protection, Energy, and Transportation.

Issue 1: Establishment of a Domestic and Sexual Violence Prevention Complementary Services Fund

Proposal. The subcommittee has received a proposal from Senator Jim Beall for \$50 million in ongoing funds to establish the Domestic and Sexual Violence Prevention Complementary Services Fund under OES. Funds deposited into the fund would be distributed through a competitive grant process to organizations addressing domestic and sexual violence.

Background. According to the World Health Organization, one in three women worldwide is the victim of either sexual violence or intimate partner violence in their lifetime. A recent study from the Blue Shield of California Foundation found that 58 percent of Californians are personally affected by domestic violence.

Domestic violence and sexual assault programs have experienced a sharp increase in demand for services. Prevention and outreach efforts have decreased as centers struggle to fund crisis response programs. Over one-third of rape crisis centers reduced their counseling and services due to insufficient funding, and more than half had a waitlist for services¹. The proposed \$50 million would support community-based strategies to prevent domestic and sexual violence, complementary wrap-around survivor support, and research into accountability options for people who harm outside of the criminal justice system and alternative family interventions.

Staff Recommendation. Hold open.

¹ National Alliance to End Sexual Violence, available at <https://www.endsexualviolence.org/legislation/sexual-assault-services-program/>

Issue 2: California Earthquake Early Warning System (CEEW)

Budget. OES requests \$15.75 million (General Fund) to complete the build out of and provide continued staffing and operating costs for the California Earthquake Early Warning System and program. Of the total requested amount, \$15 million is a one-time augmentation to complete the build out of the system. The remaining \$750,000 requested is for the ongoing, continued funding of four positions. The positions are:

- Two Research Program Specialists
- One Associate Governmental Program Analyst
- One Program Manager

Background. SB 438 (Hill), Chapter 803, Statutes of 2016, established the CEEW program and the CEEW Advisory Board. This requires OES, in collaboration with a variety of stakeholders, to develop a comprehensive statewide earthquake early warning system in California through a public private partnership. The CEEW steering committee has finalized an implementation framework to build out and operate the system and program. The California Integrated Seismic Network is the integrated statewide network which provides post-seismic information that makes up the backbone of the CEEW system technology. The committee determined that in order to provide reliable signals for early warnings sensor stations were needed every six miles in urban areas, and every twelve miles in rural areas. This totals to approximately 1,115 stations throughout the state. The requested funding would allow for the installation of the remaining 283 sensors. When complete, the CEEW system would use this sensor network to provide warning several seconds in advance of the arrival of an earthquake.

The 2016-17 budget included a one-time appropriation of \$10 million General Fund and four positions for OES to install and upgrade stations to the CEEW system. In 2017-18, these positions were funded through savings in the 2016 Emergency Management Performance Grant. This grant provides federal funding to assist state, local, tribal, and territorial governments in developing emergency preparedness systems. However, this funding source is not able to sustain these positions ongoing; thus, this request includes continued funding for these positions.

By completing the CEEW system network build out, OES will be able to leverage future additional federal and private funding to realize the full benefit of the system. The Federal Emergency Management Agency's (FEMA) Hazard Mitigation Grant Program provides funding to state and local jurisdictions to install technology to reduce seismic risk at individual sites. FEMA has stated that once the network build out is complete, the requirements necessary to compete for this grant program will be satisfied and local entities will be able to leverage this funding stream to install end-user applications, such as earthquake alerts in classrooms for schools, automated shut off valves for waste management, and automated rollup doors at fire stations. The CEEW system has previously benefited from other federal grants. The United States Geological Survey (USGS) funded the installation of some of the existing sensor stations. Additionally, USGS awarded \$3.7 million in 2016-17 and \$4.9 million in 2017-18 to support the

development of ShakeAlert, a prototype earthquake early warning technology utilized by the CEEW system.

Legislative Analyst's Office. The LAO recommends the Legislature withhold action on the Governor's proposal pending the release of the CEEW system business plan from OES. The Legislature will want to ensure that OES provides detailed information on (1) the equipment that still needs to be installed for the system, (2) total one-time and ongoing costs for the system, (3) how it will be funded, and (4) what support different stakeholders will provide to the CEEW system.

Staff Comment. SB 438 required OES to submit a business plan identifying estimated system costs, sources of funding, a project completion schedule, risks, and roles and responsibilities of program stakeholders by February 2, 2018. On January 31, 2018, OES submitted a letter to the Legislature notifying it of a 45 day delay in the release of the business plan due to recent disaster response-related workload. However, in a November 30, 2017, document prepared for the CEEW Advisory Board, OES estimated remaining one-time costs of \$35 million and ongoing costs at \$21million annually. The subcommittee may wish to inquire about how OES plans to fund those remaining costs.

Staff Recommendation. Hold open pending release and review of CEEW business plan.

Issue 3: 9-1-1 Sustainment

Budget. The budget proposes six positions, \$11.5 million (State Emergency Telephone Number Account (SETNA)) in 2018-19, and various amounts in outgoing years (see table below) to build out and support Next Generation 9-1-1 activities and to maintain the legacy 9-1-1 system. The total five-year request for the project is \$131.8 million, with an ongoing increased annual cost of \$39.7 million. The requested positions include:

- Four Telecommunications System Manager positions
- One Associate Telecommunications Engineer position
- One Associate Government Program Analyst position

The budget also includes trailer bill language to change the current calculation of the SETNA surcharge rate to a fixed rate in order to collect sufficient SETNA revenues. The budget proposal is dependent on the Legislature passing trailer bill language.

<i>Dollars in thousands</i>	2018-19	2019-20	2020-21	2021-22	2022-23
Positions	6	6	6	6	6
State Operations	1,082	1,082	1,082	1,082	1,082
Local Assistance	10,381	20,381	22,950	34,050	38,601
Total	\$11,463	\$21,463	\$24,032	\$35,132	\$39,683

Background. The Warren Emergency Communications Act of 1977 establishes authority for OES to develop and maintain the 9-1-1 system in California. The current technology used for the system is outdated, causing an increase in the number of failures and response times; it is also unable to support the demands of new technologies. Service providers have developed a replacement technology called Next Generation 9-1-1. The new Next Gen 9-1-1 system updates the current point-to-point connections with a network that can dynamically route 9-1-1 calls and data. OES has completed several pilot programs to validate this new system and ensure that it would support California's needs. The department has also developed a transition plan to aid in the switch to the new system.

Currently, OES is using existing staff to support the initial build out of the Next Gen network. However, the 18 current staff members will be needed to support activities that will not be replaced by the new system once it is up and running. This request includes six positions to coordinate and manage the four regional and one statewide network that will make up the Next Gen 9-1-1 system. The primary function of these networks will be to route 9-1-1 calls to the correct 9-1-1 call center. The additional positions will also develop and implement Next Gen 9-1-1 strategies, policies and procedures, and coordinate the transition and implementation from legacy 9-1-1 infrastructure to the Next Gen network.

Trailer Bill Language (TBL). SETNA funds the existing 9-1-1 infrastructure, as well as the 18 positions that manage the network and call delivery for 9-1-1 in California. In order to implement the new Next Gen system, the budget proposes changes to the calculation of the SENTA surcharge rate to a fixed rate.

SETNA is currently funded by a surcharge set at a rate of no less than one-half of one percent (0.005) or greater than three quarters of one percent (0.0075), on intrastate voice telephone communication services originating within the state of California. The surcharge is collected by each telephone service supplier from the consumers and remitted to the Board of Equalization. There has been a steady downward trend in revenues deposited into SETNA in recent years. Much of the decline in revenue is due to the fact that phone plans are changing – much of the wireless bill that is allocated to voice is decreasing as an overall percentage of wireless bills. In addition, the percentage of voice calls that are considered intrastate has been declining, while interstate percentages are on the rise.

The proposed TBL seeks a flat fee on all lines that can access 9-1-1. The language would change the surcharge rate so that it will not exceed 60 cents per access line, nor be less than ten cents per access line. OES estimates that the new flat fee will be about \$0.32 per month. Currently consumers are charged around \$0.14 a month for 9-1-1 services. OES believes this change will create a long-term, sustainable funding source for the 9-1-1 program. The flat fee will be determined each October and posted on the California Department of Tax and Fee Administration's website. As technology changes, the model can be adjusted without the need for new legislation.

Staff Comment. Staff notes that OES and various stakeholders representing the wireless, wireline, and cable industries have been engaged in conversations to refine the proposed language. OES and these stakeholders have come to agreement on some modifications to the proposed language, but final language has not been confirmed.

Stakeholders providing wireline services have expressed concerns regarding the surcharge paid by prepaid wireless consumers. Currently, prepaid wireless pays the 9-1-1 fee under AB 1717 (Perea), Chapter 885, Statutes of 2014. This statute sunsets on January 1, 2020. Stakeholders urge that language include a solution to the statute, so that revenue generated from the 9-1-1 flat fee is proportional to each sector's use of the 9-1-1 system. OES, the Department of Finance, and various stakeholders have expressed a commitment to solving this issue prior to the sunset date.

Staff Recommendation. Hold open pending agreement between OES and stakeholders on trailer bill language.

0845 DEPARTMENT OF INSURANCE

Overview. The California Department of Insurance (CDI) was created in 1868 as part of a national system of state-based insurance regulation. The state's publicly-elected Insurance Commissioner regulates the sixth largest insurance economy in the world, collecting more than \$259 billion in premiums annually. CDE licenses approximately 1,300 insurance companies and more than 400,000 insurance agents, brokers, adjusters, and bail agents.

Annually, the department receives and investigates around 200,000 consumer inquiries and complaints, performs examinations to ensure the financial solvency of companies, and receives approximately 30,000 suspected fraudulent claim referrals annually.

Budget. The budget includes \$285.1 million (\$275.9 million Insurance Fund, \$10.2 million General Fund, \$992,000 Federal Trust Fund, and \$372,000 in reimbursements) and 1,325.7 positions to support the department and its programs.

Issue 1: Enhanced Fraud Investigation and Prevention

Budget. The department has submitted two proposals related to enhanced fraud investigation and prevention. Both proposals are discussed in this item.

The department requests a total increase in expenditure authority of \$8.2 million (General Fund) in 2018-19, \$8 million in 2019-20, and \$7.6 million in 2020-21 to support enhanced fraud investigation and prevention efforts. A breakdown of the funding requests and associated activities is detailed in the table below.

	2018-19	2019-20	2020-21
Update of Fraud Data Analytic Software (FDAS) system	\$200,000	\$200,000	--
Software-as-a-Service (SaaS) annual subscription	\$285,000	\$285,000	--
Thirteen investigator positions	\$1.8 million	\$1.8 million	\$1.8 million
Staff training	\$175,000	\$175,000	\$175,000
One Associate Management Auditor position	\$124,000	\$124,000	\$124,000
Two General Auditor III positions and two Property Controller I positions	\$411,000	\$411,000	\$411,000
Two Associate Government Program Analyst positions	\$246,000	\$232,000	\$232,000
One Staff Services Manager I position	\$144,000	\$134,000	\$134,000
Local assistance to District Attorneys (DAs)	\$1.5 million	\$1.5 million	\$1.5 million
Five Special Investigator positions	\$628,000	\$628,000	\$628,000
Two General Auditor III positions	\$271,000	\$255,000	\$255,000
Ten various positions supporting the fraud liaison branch	\$1.4 million	\$1.4 million	\$1.4 million
Litigation Costs	\$1 million	\$1 million	\$1 million
Total	\$8.2 million	\$8 million	\$7.6 million

Background. Since November 2013, the department has reached settlement agreements in a number of major whistleblower lawsuits resulting in \$99.2 million in settlement payments, \$46.6 million of which was paid to the General Fund. The department has submitted, and the Legislature has approved, multiple proposals to receive expenditure authority to utilize these funds pursuant to statute.

The core mission of the Fraud Division within the department is to protect the public and prevent economic loss through the detection, investigation, and arrest of insurance fraud offenders. The FDAS software will assist the fraud division in selecting the cases with the greatest impact on the industry and the highest degree of viability, to be used for enhanced fraud investigation and prevention efforts. Social network analysis activities will help detect insurance fraud and

document supporting evidence to support a case. To accomplish this goal, the FDAS system must remain relevant and new algorithms must be developed. The SaaS eDiscovery project allows for the automation of discovery documents in whistleblower cases. In order to continue to utilize the SaaS solution the department needs to be able to renew the subscription annually. The request also includes funds in 2018-19 and 2019-20 to support annual renewal of the system subscription.

The department is also requesting funding for various positions to support the fraud, investigation, and legal divisions within the department. The majority of these positions and funding were approved as limited-term through 2017-18. This proposal requests continued funding for these positions through 2020-21. In the past couple of years all three divisions have had cases closed or go unassigned due to insufficient resources. The requested positions will help to address this workload.

The department has requested four additional positions that do not currently exist to support the legal division. These resources would permit additional pre-litigation investigation of cases and the civil prosecution of insurance fraud cases with the goal of bringing civil cases that would have major impact upon patterns of insurance fraud.

Staff Comment. Staff notes that funding for these resources is being requested on a limited-term basis as the funding source (settlement payments from whistleblower lawsuits) is not permanent.

Staff Recommendation. Approve as requested.

7502 DEPARTMENT OF TECHNOLOGY

Overview. The California Department of Technology (CDT) is the central information technology (IT) organization for California. The department is responsible for the approval and oversight of statewide IT projects, statewide IT professional development, and provides centralized IT services to state and local governments as well as non-governmental entities. The department promulgates statewide IT security policies and procedures, and has responsibility over telecommunication and IT procurements.

Budget. The budget includes \$398 million (\$389.7 million Technology Services Revolving Fund, \$4.7 million General Fund, \$3.5 million Central Services Cost Recovery Fund, and \$10,000 in reimbursements) and 868.7 positions to support the department and its programs.

Issue 1: Information Security Program Improvement

Budget. The department requests five positions, approximately \$4.7 million (Technology Services Revolving Fund) in 2018-19, and approximately \$1.5 million (Technology Services Revolving Fund) annually thereafter to augment the Security Solutions Unit within the Office of Information Security. The five positions include:

- Two System Software Specialist III positions
- Two System Software Specialist II positions
- One System Software Specialist I position

Background. In 2017-18 the department established a Security Operations Center (SOC) at the Gold Camp Data center to provide 24/7 threat detection, investigation, and mitigation as well as vulnerability identification and patching to safeguard data. The department did not request funding or positions to establish the SOC. The department used its existing budget authority and redirected nine positions from the Office of Technology Services. To support the SOC, a suite of security technologies and services have been implemented, these services include vulnerability scanning, security analytics, security operation workflow management, network intrusion detection/protection, endpoint protection, incident management, and web access protection. Currently, these technologies and services are administered by nine state positions and five contract staff. The external vendor contracts expire at the end of 2017-18. The requested positions would replace the contract staff currently administering services at the SOC.

The request also includes a one-time augmentation of \$700,000 for contracted professional services. These services would be used to ensure that incoming state staff receive the necessary security training and instruction to carry out their duties. The requested contracting authority will be partially offset by approximately \$1.3 million in expected savings for the department.

Approximately \$3 million in 2018-19 (\$563,000 ongoing) is requested to procure identity management system software, application static/dynamic testing licenses, and access control

system hardware to enhance physical security. The implementation of the identity management system software will help ensure that CDT employees only maintain access and privileges for systems that pertain to their direct workload. Application static/dynamic testing will enable CDT to continue to integrate new security measures into the software development lifecycle and provide the department with an additional tool to counter system vulnerabilities. Lastly, securing additional access control systems hardware would provide CDT with a critical backup for the current system in the event that the primary system becomes compromised.

Staff Recommendation. Approve as requested.

Issue 2: Statewide Project Management Office

Background. As part of the 2014-15 Budget Act, the Legislature approved a Governor’s proposal to establish a centralized project management office within the California Department of Technology (CDT) to improve the day-to-day management of information technology (IT) projects and, eventually, overall IT project outcomes across the state. The Project Management Office (PMO) would address critical state deficiencies in project management by consolidating a team of experienced project management professionals within CDT. These project managers would provide their services to state IT projects as needed. With support from the Legislature, CDT envisioned that the PMO would eventually manage some of the state’s largest, most complex, and high-costing projects. The Legislative Analyst’s Office (LAO) wanted to assess whether the office is meeting—or on track to meet—its original objectives.

Thus far, six state IT projects have sought direct project management services from the PMO. For the first six projects, the PMO selected projects likely to progress smoothly, preferring smaller, less complex projects. This allowed the PMO to test the potential of the centralized project management approach and build the reputation and capacity of the office gradually, with the intention of scaling up to larger, more complex projects once the office was more established. All six departments that have utilized PMO services have found the PMO to be a valuable asset.

Although the PMO has been operating largely as intended and in line with legislative intent, two recent developments within CDT have greatly impacted the operation of the PMO going forward. According to the LAO, a reorganization of CDT creates a potential conflict of interest as it places CDT oversight and project management responsibilities under the same chief deputy director. Additionally, CDT implemented a policy change that significantly reduces the number and complexity of IT projects eligible for PMO services.

In spring 2016, a new director assumed leadership of CDT and proposed an organizational realignment of the department. The reorganization sought to achieve organizational efficiencies across a variety of CDT’s functions, not specific to the PMO. However, the reorganization consolidated the project management and oversight functions under the same office—the Office of Statewide Project Delivery—with both functions reporting to the same chief deputy director. Consequently, the current departmental structure may be thought to compromise CDT’s ability to maintain independent and objective oversight for projects managed by the PMO.

State IT projects are either “reportable” or “non-reportable.” Reportable projects are generally more complex and costly, and as such, they require approval and oversight from CDT. Non-reportable projects, on the other hand, can be independently managed by sponsoring departments without CDT approval or oversight. In summer 2016, CDT instituted a new policy that makes most reportable projects under the oversight of CDT—that is, generally the larger, more complex projects—ineligible for PMO direct services. Under this narrowed eligibility policy a majority of the previously eligible projects could no longer use direct project management services. Note that, despite the narrowed eligibility criteria for direct PMO services, all departments remain eligible for PMO consulting services, which provide short-term project assistance. Specifically, CDT’s new eligibility policy narrows direct PMO services to (1) all non-reportable projects, (2) reportable projects only during the project approval process (known as

the Project Approval Lifecycle [PAL]), and (3) reportable projects that have completed the PAL process but are determined by CDT to be “low-complexity,” and therefore receive very limited oversight from CDT.

The Administration has expressed an interest in continuing to build project management capacity within individual departments as opposed to maintaining a centralized PMO as originally envisioned. The Administration thereby expressed its preference for a decentralized approach to project management, whereby CDT provides departments support—such as consulting and indirect services—that may position departments to successfully manage their own projects independently. CDT noted that departments primarily view its role as a control agency, and that departments with adequate resources would prefer to keep project management internal, limiting interactions with a control agency and building their own long-term project management capacity. According to CDT, the narrowed eligibility policy addresses these concerns by allowing centralized project management services, through the PMO, for smaller projects that are likely to lack internal capacity or expertise but otherwise relying on a decentralized approach for project management for most large, complex projects. Both CDT and the LAO have also reported that departments have raised concerns about CDT’s ability to maintain independent oversight while providing project management services.

The LAO made several findings and recommendations that assert the original intent of the PMO and position the office to help state IT projects succeed. Those findings and recommendations are discussed in detail below.

- There is a role for both centralized and decentralized approaches to project management. CDT sees a continued role for the decentralized approach to project management, and has used this to partially explain the recent change in the eligibility criteria for direct PMO services. For some departments this approach makes sense. However, there can be a role for both a centralized and decentralized approach to project management, and that there is no need to only have one or the other model available for state departments.
- Reassert original objectives of PMO. The recent changes to the PMO have caused the office to diverge from its original intent to provide direct project management services to the most complex IT projects and to engage projects that may be or already are challenged due to project management deficiencies. The LAO recommends the Legislature reassert its original objectives for the PMO in statute. The Legislature could establish the types of projects under the purview of the office and the pathways through which projects engage the PMO. Codifying the objectives of the office would provide CDT with legislative guidance for the operation of the office and ensure that the goals and functions of the office remain aligned with legislative intent.
- Establish strong firewall between CDT’s oversight and project management responsibilities. The LAO recommends the Legislature require in statute that CDT maintain an organizational firewall between its project management and oversight responsibilities.

- Clarify intent that PMO act independently. Concerns raised by CDT and departments signal that the firewall between CDT's oversight and project management responsibilities, even prior to the recent reorganization, could be further strengthened to allow the PMO to function in a way that relieves departments' concerns about a potential conflict of interest between CDT's project management and oversight functions. The LAO recommends the Legislature express intent in statute that it expects the PMO to operate independently and serve in the best interests of the projects. This would ease sponsoring departments' concerns of inappropriate and unnecessary information sharing between the PMO and CDT oversight, and cultivate an open pathway of communication between the PMO and sponsoring departments.

Staff Comment. The subcommittee may wish to ask the following questions.

What are the differences between the PMO's direct services and its short-term consulting services?

What was the reason behind the change in organizational structure at CDT that put the oversight and project management functions under the same office?

Staff Recommendation. Informational item. No action necessary.