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, May 3, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Part A

Consultants: Joe Stephenshaw

Items Proposed for Vote Only

Item	**Department**	
	0840 State Controller's Office	
Issue 1	Local Apportionments Workload Increase	2
Issue 2	Road Maintenance and Rehabilitation Program	2
Issue 3	FI$Cal Claim Audits Workload	3
	0984 Secure Choice Retirement Savings Investment Board	
Issue 1	CalSavers Program Implementation	3

Items Proposed for Discussion

Item	**Department**	
	8880 Financial Information System for CA (FI$Cal)	
Issue 1	Informational - FI$Cal Project Update	5
	0840 State Controller's Office	
Issue 1	SCO FI$Cal Implementation	9
Issue 2	CA IDMS Licensing	10
Issue 3	Payroll Audits	12
Issue 4	Personnel and Payroll Services Workload	12

Public Comment

ISSUES PROPOSED FOR VOTE ONLY

0840 STATE CONTROLLER'S OFFICE

Issue 1: Local Apportionments Workload Increase

Governor's Proposal. The Governor's budget proposes $246,000 ($138,000 General Fund, $104,000 Central Service Cost Recovery Fund, and $4,000 Reimbursement) and two positions to address increased workload related to apportionment payments to local governments and schools.

Background. The Local Apportionments Section (Section) within the State Controller Office's Local Government Programs and Services Division is statutorily required to process payments to local governments. The Section is responsible for processing over 500 payments for 67 programs totaling over $70 billion annually to local governments and schools. Payments are issued monthly, quarterly, semi-annually, and annually and involve verifying legislation, performing calculations and reconciliations, and ensuring cash and authority exist.

From 2011-12 to 2016-17, there was a 52 percent increase in the number of programs, a 35 percent increase in the number of payments, and a 92 percent increase in the total amount paid out annually to local governments and schools. By 2014-15, the continual increase in workload created an unsustainable level of work that could no longer be absorbed. To address the issue, resources were redirected to the Section from other areas.

Staff Recommendation. Approve as budgeted.

Issue 2: Road Maintenance and Rehabilitation Program

Governor's Proposal. The Governor's budget proposes $909,000 from the Road Maintenance and Rehabilitation Account (RMRA) to support seven positions to ensure local agencies are spending funds on street, road, and highway purposes related to RMRA.

Background. Senate Bill 1 (Beall), Chapter 5, Statutes of 2017, created the Road Maintenance and Rehabilitation Program to address deferred maintenance on the state highway system and the local street and road system, and the RMRA for the deposit of various funds for the program.

To receive an allocation and remain eligible for an allocation from the RMRA, cities and counties must maintain their existing commitment of local funds for street, road, and highway purposes, otherwise known as a maintenance-of-effort (MOE). Cities and counties must annually expend from its general fund for street, road, and highway purposes an amount not less than the annual average of its general fund expenditures during 2009-10, 2010-11, and 2011-12, as reported to the Controller. By October 1 of each year, each county and city shall provide the Controller a complete report of the expenditures for street and road purposes during the preceding year. The Controller is required to annually tabulate and compile data submitted by cities and counties.

Staff Recommendation. Approve as budgeted.

Issue 3: FI$Cal Claim Audits Workload

Governor's Proposal. A spring Finance Letter proposes $265,000 ($151,000 General Fund [GF]; $114,000 Central Service Cost Recovery Fund [CSCRF]) in 2018-19 and $236,000 ($135,000 GF; $101,000 CSCRF) in 2019-20 and 2020-21 (for a three-year limited-term basis) to support 3.0 positions to address increased workload required to audit Financial Information System for California (FI$Cal) vouchers and to fulfill SCO's constitutional and statutory responsibilities to audit vouchers prior to payment and to protect taxpayer's dollars.

Background. SCO Division of Audits (Audits) provides the state and taxpayers with assurances that claim payments are legal and valid. The Operations Bureau (Claim Audits) is responsible for auditing manual (paper) claims and FI$Cal vouchers.

Historically, Claim Audits manually audits 250,000 paper claim schedules annually. Each claim is a standalone document and must include all back-up documentation to support the payments. Each claim should be readily auditable to determine its legality, propriety, and accuracy. Each claim can support up to 99 individual payees. With all the backup documentation attached behind the invoice. In the claim schedule, documents are easily accessible to ensure that all proper documentation required by law is attached, and to determine legality, propriety, and accuracy of each claim.

Whereas historically, departments have submitted for audit on average 13 invoices per claim, within FI$Cal the system is designed to require a maximum of one invoice per voucher (claim). Therefore as new departments onboard into the FI$Cal system, the SCO receives an increased number of vouchers that must be audited. Because vouchers/invoices must be matched to back-up documents in the FI$Cal system, it takes Claim Audits longer to audit each voucher/invoice, as all documents are not readily attached and visible but located on various tabs within the system. The requested resources are critical to ensure that claim payments are legal and proper and paid within the 15-day time period to avoid late-payment penalties.

Staff Recommendation. Approve as budgeted.

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

Issue 1: CalSavers Program Implementation (BCP)

Governor's Proposal. The Governor's budget requests a General Fund loan of $2.5 million for fiscal year 2018-19 to provide resources for the Secure Choice Retirement Savings Investment

Board (Board) and the CalSavers program, including funding for new and existing staff, external consultants, and administrative and overhead costs.

Background. The Board and the CalSavers (formerly California Secure Choice Retirement Savings Program) 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 required that the Board conduct a market analysis, financial feasibility study and legal analysis to determine whether the necessary conditions for implementation of the program could be met.

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 completed in spring 2016 indicated 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).

As the Board begins the process of program implementation, startup funding is required. The Board stated that the program is currently on target to launch a pilot program in late 2018 and a full statewide launch in 2019.

Staff Recommendation. Approve as budgeted.

ISSUES PROPOSED FOR DISCUSSION AND VOTE

8880 Financial Information System for California (FI$Cal)

The Department of FI$Cal is responsible for supporting the Financial Information System for California (FI$Cal) Project, including supporting the system's customers and stakeholders, onboarding any new, deferred, or exempt entities, as well as assuming responsibility for system maintenance, upgrades, and enhancements as portions of the system are implemented and accepted.

The FI$Cal project is a partnership of four control agencies: the Department of Finance, the State Controller's Office, the State Treasurer's Office, and the Department of General Services. FI$Cal will provide the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. FI$Cal, through the adoption of best business practices, will: reengineer business processes; improve efficiency; enhance decision making and resource management; and provide reliable, accessible, and timely statewide financial information allowing the state to be more transparent.

The Governor’s budget includes $88.8 million ($52.2 million General Fund) and 257.9 positions for the Department of FI$Cal in 2018-19. The following table from the Governor’s budget shows the department’s expenditures (and positions) for the prior, current and budget years.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
6890	Statewide Systems Development	207.2	211.9	257.9	$112,711	$163,824	$88,812
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**207.2**	**211.9**	**257.9**	**$112,711**	**$163,824**	**$88,812**

Source: 2018 Governor’s Budget (dollars in thousands)

Issue 1: Informational - FI$Cal Project Update

Background. One of the most vital projects for the state is FI$Cal, the statewide project being undertaken to integrate and reengineer the statewide business processes related to budgeting, accounting, procurement and cash management. The goal of the project is to provide a unified and consistent financial system that will be used by virtually all state entities. System integration for the project is being provided by Accenture LLP; independent project oversight (IPO) by the California Department of Technology (CDT); and, independent verification and validation (IV&V) by the Public Consulting Group. In 2016-17, the Legislature approved a permanent administrative structure for FI$Cal, establishing it as a stand-alone department.

FI$Cal is an ambitious and complex project that has undergone numerous changes in scope, schedule and cost. These various changes have been incorporated and documented in special project reports (SPRs) with the project currently working under the rubric of SPR 7. SPR 7 is primarily driven by the need to re-plan for the implementation of the State Treasurer's Office (STO) and State Controller's Office (SCO) accounting and cash management functions that were not ready for deployment on schedule. Some key features of SPR 7 include:

- Establishes July 2019 as the project's end point.
- Changes the scope of the FI$Cal Project by, 1) ending the project before SCO fully transitions onto FI$Cal, and 2) changing the onboarding approach so that not all departments that were previously anticipated to transition to FI$Cal will actually transition.
- Establishes a new approach for deploying the accounting and cash management functions related to STO and SCO. Under SPR 7, STO will deploy all of its functions in FI$Cal in the first quarter of 2018-19, one year later than anticipated by SPR 6. However, SPR 7 significantly changes the release of SCO functions. Rather than transitioning fully to FI$Cal, as prior SPRs planned, SPR 7 introduces an interim solution, the Integrated Solution.
- Onboards most remaining departments in July 2018 (64 departments). It will be the largest number of departments onboarding at one time, and includes some of the state's largest departments with the most complex financial needs. According to SPR 7, any department transitioning to FI$Cal following the completion of the project in July 2018 would be considered outside the scope of the project (these include California Department of Justice and the Department of Rehabilitation).
- Only reflects very minor changes in overall project costs ($493 million General Fund, $918 million all funds).

Under the Integrated Solution, SCO will run the FI$Cal system and its existing legacy accounting systems in tandem. The Integrated Solution develops interfaces between both FI$Cal and SCO's legacy systems so that data is entered only once (in either system) but then both systems share the data. This way each system can perform the accounting and cash management functions for the state. During this interim phase, SCO's legacy systems will continue to serve as the state's official accounting record. SCO indicates that it plans to use the FI$Cal system to produce the state's (Comprehensive Annual Financial Report) CAFR for the 2019-20 fiscal year. If the CAFR is produced successfully, SCO anticipates it would decommission its legacy systems beginning in 2022-23.

Legislative Analyst's Office Comments. The Legislative Analyst's Office (LAO) commented, as follows, in regard to SPR 7 and previous concerns they have raised that continue to exist:

- The SCO and STO integrated solution presents some risk.
- A single integrated financial system is no longer achieved within the modified scope of SPR 7.
- An accountability mechanism is needed to ensure SCO transitions to FI$Cal.
- FI$Cal project cost should include SCO budget proposal.
- Onboarding of departments beyond July 2018, will make it difficult to track total project costs.

- The quantity and complexity of departments that have yet to implement FI$Cal and the compressed timeframe proposed for implementing them remains a concern.
- Continued challenges with closing month- and year-end financial statements.
- The project failed to meet various conditions previously set by CDT.
- Staff vacancy rates continue to present challenges (18 percent as of December 2017).
- An additional SPR may be necessary.

The LAO recommends that the Legislature adopt budget bill language that clarifies that the Legislature does not consider the project to be complete until all previously planned functionalities have been implemented and all departments have been on-boarded to FI$Cal.

Staff Comments. Staff notes that the State Auditor has continued to highlight concerns similar to the LAO, including changes in the project schedule and responses to oversight entity recommendations.

With respect to SPR 7, the July 2018 onboarding of 64 departments will be key to the project's success as well as the Legislature's ability to evaluate the project going forward, particularly if a significant number of departments slip beyond this onboarding date. With additional changes related to the SCO's timeline and the July 2019 project end-date, the Legislature should consider its understanding, agreements, and expectations of the project and how they align with the current project state.

Staff Recommendation. Informational item.

0840 STATE CONTROLLER'S OFFICE

The State Controller is the Chief Fiscal Officer of California, the sixth largest economy in the world. Principally responsible for transparency and accountability of the state's financial resources, the Controller ensures the appropriate disbursement and tracking of taxpayer dollars. The Controller serves on dozens of state boards, commissions, and committees with duties ranging from administrative oversight of the nation's two largest public pension funds, to protection of state lands and coastlines, to modernization and financing of major infrastructure. The Controller also offers fiscal guidance to local governments and has independent auditing authority over government agencies related to the spending of state funds. The Controller's primary objectives are to:

- Account for and control disbursement of all state funds, issuing warrants in payment of the state's bills, including lottery prizes.
- Determine legality and accuracy of financial claims against the state.
- Audit state and local government programs.
- Safeguard many types of assets until claimed by the rightful owners, in accordance with the Unclaimed Property Law.
- Inform the public of the state's financial condition.
- Inform the public of financial transactions of city, county, and other local governments.
- Administer the Uniform State Payroll System.
- Audit and process all personnel and payroll transactions for state civil service, state exempt employees, state university employees, and college system employees.

The Governor's budget includes $220.2 million ($64.2 million General Fund) and 1,444.9 positions for the State Controller's Office (SCO) in 2018-19. The following table from the Governor's budget shows expenditures and positions for the prior, current and budget years.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2016-17	2017-18	2018-19	2016-17*	2017-18*	2018-19*
0500100	Accounting and Reporting	287.9	257.8	275.8	$43,364	$47,826	$51,867
0500200	Audits	282.1	280.7	283.7	46,075	52,643	53,473
0500300	Personnel/Payroll Services	224.4	205.0	240.0	39,012	46,502	44,725
0500400	Unclaimed Property	249.0	256.0	256.0	37,017	38,390	39,397
0500500	Disbursements	82.6	95.8	96.8	29,549	29,564	30,460
9900100	Administration	295.0	287.6	292.6	52,849	56,752	59,702
9900200	Administration - Distributed	-	-	-	-52,849	-56,473	-59,423
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**1,421.0**	**1,382.9**	**1,444.9**	**$195,017**	**$215,204**	**$220,201**

Source: 2018 Governor's Budget (dollars in thousands)

Issue 1: SCO FI$Cal Implementation

Governor's Proposal. The Governor's budget proposes funding for the transitioning of the State's accounting Book of Record (BOR) from the SCO Legacy system to the FI$Cal system and provide support to the FI$Cal departments. Specifically, the following resources are requested:

- 2018-19: 30.0 positions and $5.4 million ($3.1 million GF and $2.3 million CSGRF).
- 2019-20: 49.0 positions and $7.5 million ($4.3 million GF and $3.2 million CSGRF).
- 2020-21: 49.0 positions and $7.5 million ($4.3 million GF and $3.2 million CSGRF).
- 2021-22: 47.0 positions and $7.2 million ($4.1 million GF and $3.1 million CSGRF).

Resources requested for 2022-23 and beyond will require DOF approval in subsequent years.

Lastly, a spring Finance Letter proposes to amend provisional language contained in the Governor's budget to provide clarification on milestones to be completed and the participants involved in the verification process regarding satisfactory progress or completion of predetermined FI$Cal milestones.

Background. As noted in the previous issue, a two- phase deployment was introduced for the BOR, where the SCO will implement an interim Integrated Solution. Once the SCO determines that FI$Cal can be relied on for all its critical functions, the SCO will transition to an End State Solution. At that time the BOR will be transitioned to the FI$Cal system.

The principal objective of the Integrated Solution is to have one point of entry, either in the FI$Cal system or Legacy system, for all of the state's accounting events. Once recorded in one system (either FI$Cal or Legacy), accounting events will be interfaced to the other system. This allows the two systems to be compared and validated while the Legacy system continues to be the BOR for the SCO's critical cash basis functions and responsibilities. This also allows for the most complex processes of the SCO to be fully vetted before implementation at End State. At End State, most of the interfaces will be retired and FI$Cal will become the State's BOR.

During each phase of deployment, the SCO control functionality is critical. This transition must occur without disruption to the state's financial and reporting obligations. The workload identified in this proposal is intended to provide support for the various divisions within the SCO. Previously the workload and support needed for each wave or release was provided by the FI$Cal project or the FI$Cal Service Center (FSC). However in this release the FSC cannot perform SCO specific statewide control functions.

The delay of the BOR conversion and the implementation of the Integrated Solution requires the workload associated originally with the 2015 release to be continued into 2017-18 through 2024-25 and ongoing. The resources requested in this proposal will support:

- **SCO FI$Cal** to support both the Integrated and End-State solutions, and ultimately, will be redirected to support ongoing maintenance and operation.

- **The Vendor Management Group** to provide continued support to the FI$Cal Vendor Management File.
- **State Accounting and Reporting Division (including the Bureau of FI$Cal Implementation and Transition)** to prepare for the Go Live and bring the SCO's control agency responsibilities for the accounting BOR over to FI$Cal as part of the Integrated Solution and End State release.
- **The Information Systems Division** to directly support the FI$Cal project and implementation of the FI$Cal Integrated Solution.

Legislative Analyst's Office Comments. The Legislative Analyst's Office (LAO) recommends that the Legislature approve SCO's 2018-19 budget proposal as it helps to addresses SCO's concerns regarding the performance and accuracy of the FI$Cal system while supporting the eventual transition of SCO onto FI$Cal. Additionally, the LAO recommends that the Legislature reject SCO's proposal for 2019-20 and beyond. Doing so provides the Legislature with an opportunity to exercise oversight over the project's progress when the Administration makes budget requests in future fiscal years.

Staff Comments. Transitioning SCO's systems to FI$Cal must be done in a manner that does not disrupt the state's financial and accounting and reporting obligations. As such, the requested resources are prudent. As the Integrated Solution is implemented and the SCO's transition to FI$Cal progresses, the Legislature should closely monitor to ensure the state's financial controls and processes are appropriately maintained.

Staff Recommendation. Hold open.

Issue 2: CA IDMS Licensing

Governor's Proposal. The Governor's budget proposes the following funding to support the increased costs associated with maintaining the Computer Associates (CA) Integrated Database Management System (IDMS) and to support positions to develop a migration pilot to remove five core systems off of the CA-IDMS.

- 2018-19: $5.7 million ($2.4 million GF; $2.2 million Special Fund (SF); $1.1 million Reimbursement) and 4.0 permanent positions and 1.0 LT positions.
- 2019-20: $5.7 million ($2.4 million GF; $2.2 million SF; $1.1 million Reimbursement) and 4.0 permanent positions and 1.0 LT positions.
- 2020-21: through 2022-23: $5.5 million ($2.3 million GF; $2.1 million SF; $1.1 million Reimbursement) and 4.0 permanent positions.
- 2023-24: and ongoing: $522,000 ($232,000 GF; $276,000 SF; $14,000 Reimbursement) and 4.0 perm positions.

Additionally, the Governor's budget proposes budget bill language to all the Department of Finance to adjust authorized mounts based on executed contract costs.

Background. The CA-IDMS technology is a suite of software products running on the SCO's mainframe hosted at the California Department of Technology (CDT). The SCO uses this technology as a primary mainframe database for its systems, and is 100 percent dependent on these systems to conduct business, including personnel, payroll, audits, and fiscal functions. The SCO has 14 core systems, along with related sub-systems, reliant on CA-IDMS software.

Currently, the CDT has a fixed, five-year contract with CA to use the IDMS technology. This contract is in effect from April 1, 2013, through March 31, 2018. The cost will remain constant until such time as a new contract is negotiated, commencing in April 2018. The CDT anticipates at the time of contract renewal the cost for CA-IDMS to increase and the California Highway Patrol (CHP) plans to be off of CA-IDMS prior to contract renewal. Taking this into account, it is estimated that the software licensing and CDT support costs will increase as the cost of the licenses are no longer split amongst other departments.

The 2014 Budget Act funded these in the amount of $3,482,000 from 2014-15 through 2017-18 for increased data center costs to support CA-IDMS and other miscellaneous CA software products. The approval was conditioned upon the SCO, in consultation with the CDT, conducting a cost-benefit comparative analysis to assess the SCO's long-term IT Plan for the continued use of the CA-IDMS technology, or the use of an alternative technology.

The SCO developed a cost-benefit comparative analysis study to assess the feasibility and determine the long-term plan for the CA-IDMS technology. The comparative analysis study determined the feasibility (i.e., cost and effort) to move from the CA-IDMS technology and secondly, the effort it would take to make system modifications to remove CA-IDMS logic and/or decommission systems to gauge how long the SCC would be reliant on this technology. As a result of the analysis the SCO recommended the continued use of the CA-IDMS technology for the foreseeable future, while immediately working to shift to other technologies. Therefore, the SCC is requesting funding in 2018-19 through 2022-23 to cover the increase in contract costs.

In December of 2016, the SCC submitted its IT plan for the CA-IDMS Systems, which identified the SCO's long-term strategy for the decommissioning of the department's core IDMS systems. The estimates show the cost and effort for system modifications to only remove the CA-IDMS logic and replace it with Common Business-Oriented Language (COBOL) equivalent logic (i.e., current technology in use by SCC for these systems) and/or to decommission the system based on its dependency for replacement by an SCC Initiative.

As a part of that strategy, the CA-IDMS Legacy Systems Study identified 14 core systems. The California State Payroll System and the FI$Cal project are earmarked to replace nine of the 14 systems. Of the remaining five IDMS systems, the SCO is requesting to conduct a migration pilot to remove IDMS from one of these five systems.

Legislative Analyst's Office Comments. The Legislative Analyst's Office has not expressed concern with this proposal.

Staff Comments. The resources will allow SCO maintain their database and plan for the future.

Staff Recommendation. Approve as budgeted.

Issue 3: Payroll Audits

Governor's Proposal. The Governor's budget proposes $682,000 ($389,000 GF; $293,000 CSCRF) in 2018-19, and $668,000 ($381,000 GF; $287,000 CSCRF) in 2019-20 to support five two-year limited-term positions to perform audits of payroll controls and payroll records to ensure compliance with the SCO's decentralized legacy payroll system, processes, and practices.

Background. In 2013-14 and 2014-15 the SCO received 5.0 two-year limited-term positions to perform audits of payroll controls and payroll records. This request was in response to an internal audit at the California Department of Parks and Recreation (Parks), as well an investigation by the California Attorney General's Office that disclosed a vacation buyout program that was instituted at Parks without authorization from Parks management or the California Department of Human Resources (CalHR), as required by state law.

The 5.0 two-year limited-term positions received in 2013-14 and 2014-15 expired June 30, 2015. Subsequently, the SCO received 5.0 permanent positions in 2015-16 and ongoing to continue to perform the audits of payroll controls and payroll records. The performance of the first four years of payroll auditing disclosed the following:

- $29.5 million in questioned costs were identified due to poor payroll controls and processes at the departments/agencies. These questioned costs were due to systemic issues related to poor internal controls and the departments/agencies are rectifying the problems. Once departments/agencies have rectified these issues there will be an additional $58,952,128 in estimated future cost savings.
- Strong internal controls are lacking at the department/agency level and leave the state susceptible to fraud.
- Operating in a decentralized payroll system increases the likelihood of fraud, waste and abuse due to the number of state departments and agencies performing transactions independent of one another.
- The performance of payroll audits mitigates risk to the state.

Legislative Analyst's Office Comments. The Legislative Analyst's Office has not expressed concern with this proposal.

Staff Comments. Staff has no concern with this proposal.

Staff Recommendation. Approve as budgeted.

Issue 4: Personnel and Payroll Services Workload

Governor's Proposal. The Governor's budget proposes the following resources to address understaffing, workload automation and workload related to the Affordable Care Act (ACA) and Public Employee's Pension Reform Act (PEPRA) within Personnel and Payroll Services Division:

- 2018-19: $6.1 million [$3.5 million General Fund (GF); $2.6 million Central Service Cost Recovery Fund (CSCRF)].
- 2019-20: $6 million ($3.4 million GF; $2.6 million CSCRF).
- 2020-21: and 2021-22: $4.2 million ($2.4 million GF; $1.8 million CSCRF).
- 2022-23: and ongoing: $3.8 million ($2.2 million GF; $1.6 million CSCRF).
- 37.0 permanent positions and 19.0 limited-term (LT) positions (15.0 two-year LT; 4.0 four-year LT).

Background. The SCO is responsible for issuing pay to state civil service (CS), California State University (CSU), and Judicial Council employees. There are currently over 150 departments, 23 CSU campuses, and the CSU Chancellor's Office in the State of California. The State workforce is comprised of approximately 286,000 employees, represented by 21 CS bargaining units and 13 CSU bargaining units.

As part of the SCC Strategic Plan and the Controller's Functions, the Personnel and Payroll Services Division (PPSD) administers the Uniform State Payroll System (USPS) and processes all personnel and payroll transactions for employees of the CS, CSUs, and Judicial Council. The PPSD is responsible for providing information required to manage the personnel resources of the State and to properly account for salary and wage expenditures.

ACA and PEPRA Legislation Workload. The SCO is requesting 9.0 permanent positions and 4.0 four-year limited-term (LT) positions to support the ongoing work related to the ACA and the PEPRA legislation. Both the ACA and the PEPRA are extremely complex pieces of legislation, with significant continuing impacts on how the SCO conducts business. Due to the complexity, changes and clarification by the IRS and CalPERS is ongoing. Directives continue to be issued on a flow basis. In many cases, different aspects of the legislation are phased in over time, leading to multi- year impacts to the SCO's workload.

PEPRA. The PEPRA creates a need for two categories of retirement members: New and Classic. The USPS was never designed to distinguish two different types of retirement members (Classic vs. New) with distinctly different characteristics, as required by the PEPRA legislation. It is expected that the PEPRA will remain as an exclusive workload under its own umbrella within the PPSD. Four years after enactment, PEPRA has become a large component of all retirement related workloads. With the introduction of the PEPRA, the infrastructure of the USPS specific to retirement has undergone significant changes, which has doubled the number of processes and procedures. Any changes or enhancements to the payroll and employment history systems require a PEPRA consideration. Additionally, any program already in place that supports the PEPRA also must be analyzed for impact to determine if subsequent changes are required.

OPEB Workload Automation. The SCO is requesting funding to support 15.0 two-year LT resources in completing the Other Post-Employment Benefits (OPEB) automation effort. Bargaining Units (BUs) first adopted OPEB deductions in 2009-10 as a way to prefund post-employment benefits. Currently, 12 BUs and the Judicial Council have adopted the OPEB prefunding. At the beginning of the program, in 2010, the PPSD processed OPEB deductions as a monthly point-in-time deduction outside of the payroll system using base pay. Currently, this process applies to one BU as of July 1, 2017, and the PPSD knows that creating deduction transactions from base pay is not a viable option. The remaining BUs are all moving, or have moved, to calculating OPEB based on all pensionable payments.

PPOB Workload. The SCO requests 24 permanent positions to address the current production workload and prevent the backlog of documents from increasing further. The PPOB receives documents for employee programs that departments and campuses cannot key in the system, such as benefit enrollments and changes or the processing of retroactive payments, due to system limitations. Additionally, due to the USPS design, the PPOB must process all pay adjustments that are older than 13 months. These payments, considered retroactive, represent a large portion of the PPOB workload.

PMAB Workload. The proposal provides the minimum number of resources to achieve some critical project milestones supporting the SCO and CalHR and provides ongoing support of these projects once completed. It will also help to support the SCO's efforts to provide greater levels of support and guidance to state departments in personnel and payroll related data. Deliverables and milestone dates associated with these workloads will be monitored closely by the SCO. Reports will be developed to document the overall progress made, while making current the modernization needed to support previous and future policy and legislative changes affecting the CS, CSU, and Judicial Council workforce. The reports will specifically track the department's work in progressing forward.

Legislative Analyst's Office Comments. The Legislative Analyst's Office has not expressed concern with this proposal.

Staff Comments. Staff has no concern with this proposal.

Staff Recommendation. Approve as budgeted.