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 11, 2017
9:30 a.m or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

PART B

Consultant: Mark Ibele

ITEMS FOR VOTE-ONLY

OVERSIGHT: FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

Department of FI$Cal
Department of Technology
State Controller's Office

Legislative Analyst's Office

ITEMS FOR DISCUSSION AND VOTE

Public Comment

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ISSUES PROPOSED FOR VOTE-ONLY

0950 STATE TREASURER'S OFFICE

Issue 1: Data and Government Transparency (BCP and BBL)

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

Background. The overall project is an effort to increase the public access to programs, data and information provided by STO and the associated boards, commissions and authorities through various web-based programs, including: Debtwatch debt data website; California Debt and Investment Advisory Commission (CDIAC) Issuance Documents project, California Business Incentives Gateway (CBIG); Treasurer's Awards Transparency project; BuyCaliforniaBonds website upgrade project; and various other programs. This issue was heard in Subcommittee No. 4 on March 2 and held open in order to develop language that would address the agency's concern regarding current staffing and limited-term funding. The proposed budget bill language states:

> *Notwithstanding Government Code Section 19080.3, the existing Data and Government Transparency Unit appointments set to expire on June 30, 2017 may remain limited-term appointments until the funding approved by the Legislature for their positions expires on June 30, 2019.*

Staff Comments. While the data and government transparency activities do not rise to the level of essentiality, funding on a temporary basis would at least be consistent with previous subcommittee actions; permanent funding seems inappropriate at this time. The department has raised issues regarding the difficulty of retaining existing trained staff for the program, given the restrictions on limited-term positions, and this issue will be addressed through budget bill language. The language would allow for the continuation of existing staff.

Staff Recommendation. Approve request on a two-year, limited-term basis, and proposed budget bill language.

Vote:

0971 California Alternative Energy and Advanced Transportation Financing Authority

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

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

Background. The CHEEF pilot programs are designed to encourage private lenders to develop financial products for energy efficiency projects. The pilots offer various forms of credit enhancements to provide additional security to participating financial institutions, attract private capital to energy efficiency finance, and expand consumer access to enhanced loan terms. CAEATFA was selected as the administrator of the CHEEF pilot programs which were approved for a two-year period by the Legislature and the PUC, and have been previously subject to review in Subcommittee No. 2 of the Senate Committee on Budget and Fiscal Review. The pilots were originally to be implemented through 2016-17; however, the PUC approved a decision which clarified that the 24-month term for the pilot programs should align with the enrollment of the first loan in that particular finance pilot. This change, in combination with a longer than anticipated implementation schedule, unanticipated complexity, infrastructure development, stakeholder involvement, and staffing changes, requires extending the schedule for the pilots. Consistent with the budget request, the pilots will run through 2019-20. This issue was heard by Subcommittee No. 4 on March 2 and held open pending receipt of additional workload documentation.

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

Staff Recommendation. Approve as budgeted.

Vote:

0956 CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

Issue 1: Personal Services Augmentation (BCP)

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

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

Staff Comments. CDIAC has made a reasonable case for the augmentation in expenditure authority to offset the growth in personal services that has occurred as staff vacancies have been filled. As a percentage of the overall budget authority, these expenses have grown from about 50 percent in 2012-13 to a projected 63 percent in 2017-18. This has left a declining share of the overall budget authority for other discretionary purposes, including operational expenses to improve services.

Staff Recommendation. Approve as budgeted.

Vote:

0840 STATE CONTROLLER'S OFFICE

Issue 1: FI$Cal Implementation of Control Functions (BCP)

Governor's Proposal. The budget includes a request from the SCO for $1.5 million (General Fund) and 13 positions to transition the state's Accounting Book of Record (ABR) from the SCO legacy system to the Financial Information System for California (FI$Cal) system and provide support to the FI$Cal departments.

Background. The activities associated with establishing and maintaining the ABR are of significant importance to the state and deeply integrated with departments. The conversion to FI$Cal from the legacy system will allow the SCO and departments to operate on the same basis – modified accrual basis of accounting – as opposed to the different systems used at the current time. As part of this process, the SCO will have access to encumbrances and accrual and other non-cash 'obligations.' The process will facilitate and streamline the documentation necessary for the production of the Budgetary Legal Basis Annual Report (BLBAR) and the Comprehensive Annual Financial Report (CAFR).

The responsibilities associated with this component of the FI$Cal project are essential elements of implementing and maintaining financial management and control functions in the new system. The functions associated with this effort include mapping business processes to FI$Cal, training staff in FI$Cal processes, cash management, journal transaction posting, budget and appropriation control, bond management recording, loan recording, statewide financial reporting for annual BLBAR and CAFR reports, and producing the monthly statement of receipts and disbursements.

Staff Comment. This issue was heard in Subcommittee No. 4 on March 23rd. Staff has no significant concerns with the proposal; however, the overall timeline associated with the SCO implementation of FI$Cal remains a concern.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 2: Vendor Management File (BCP)

Governor's Proposal. The budget includes an SCO request for $1.2 million ($674,000 General Fund) in 2017-18, $1.1 million ($655, 000 General Fund) in 2018-19, and $488,000 ($278,000 General Fund) in 2019-20 and ongoing. The resources will support 12 positions, seven limited-term for the initial two years, and five permanent. The resources and positions will be used to implement the Vendor Management File (VMF), a component of FI$Cal.

Background. Prior to FI$Cal, state agencies, boards, commissions and other state entities independently maintained their own vendor files. The implementation of the VMF began in July 2014, with the first FI$Cal 'wave' (now termed release). Releases will continue through 2018, based on the current schedule. The VMF is an important part of FI$Cal, and used by departments for procurement of state assets and resources, by the SCO for mandated reporting contractor payments, as well as for a variety of other activities. While the SCO has managed the VMF using existing resources of five positions, it expects the future workload to exceed existing capabilities, especially as additional waves of departments come on line. Total departments will expand from the current 63 to 151. In terms of expected workload, this is expected to grow over the next couple of years due to development, implementation and maintenance of new functionality for vendors and departments. In terms of VMF requests, these are expected to total 23,043 in 2016-17, 26,131 in 2017-18, and 31,044 in 2018-19, before dropping to a stable 14,600 in 2019-20 and beyond. The limited-term funding will be sufficient to provide resources during the initial phase, with five positions for ongoing workload.

Staff Comment: This issue was heard in Subcommittee No. 4 on March 23rd. Staff has no significant concerns with the proposal; however, the timeline associated with the SCO implementation of FI$Cal remains a concern.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 3: Property Tax Postponement Program (SFL)

Spring Finance Letter Request. The State Controller's Office (SCO) requests $358,000 three-year limited-term funding from the Senior Citizens and Disabled Citizens Property Tax Postponement Fund (PTP Fund) to support three positions in 2017-18 through 2019-20 for the administration of the Property Tax Postponement (PTP) Program. The SCO requests that funding for three of the limited-term positions due to expire at the end of the 2016-17 fiscal year be extended for an additional three years beginning in 2017-18.

Background. The California Constitution authorizes and establishes the PTP Program, administered by the SCO. The PTP Program provides low-income seniors, and persons who are blind or have a disability, the opportunity to stay in their homes, by making property tax payments on their behalf. It prevents these individuals from defaulting on their property taxes and ultimately ending up homeless or in an alternative living situation due to the property being sold by the county in a tax-defaulted land sale. Additionally, the program impacts counties' revenues. It not only provides revenue, but also reduces their workload with respect to collections and defaults resulting in tax-defaulted land sales. Currently, the SCO has 6.7 authorized two-year limited-term positions that will expire at the end of 2016-17.

Staff Comment. Staff has no concerns with this proposal

Staff Recommendation: Adopt Spring Finance Letter.

Vote:

9100 Tax Relief

Issue 1: Local Government Census Work (BCP)

Governor's Proposal. The Governor has proposed $7 million in grant authority to local governments that are to be used for participation in the Census Bureau's Local Update of Census Addresses (LUCA) program. The one-time program will be administered by the Department of Finance and will provide financial incentives for local governments to review and update the master address lists used to conduct the decennial census.

Background. Local governments are in a suitable position to provide information regarding housing, living quarters and other factors that can help inform the census undertaking. To provide assistance in this regard, the Legislature in 2007-08 appropriated $3 million for grants to local governments to assist in the census undertaking, with grant amounts ranging from $1,000 to $75,000. Possibly because of the potentially low grant amount, the participation rate among 535 counties and cities was only 42 percent, drawing down $1.8 million of the amount of funds available. The state also provided $2 million to the Complete Count Committee for the 2010 Census, which encouraged full participation in the census. (The Complete Count Committee also received $10 million in private funding.)

Under the proposed program, grants would range from $7,500 to $125,000, thus encouraging greater participation. Greater participation in the program for this census round is important, since the Census Bureau will no longer be conducting 100 percent canvassing, but rather rely on the US Postal Service, state and local governments, and third-party vendors to update the 2010 Census address list. The census results can have an impact on the calculation of federal funding; the undercount in 2000 cost the state an estimated $1.5 billion in federal funds over ten years for eight programs that rely on census data. The census is also used for congressional apportionment purposes.

Staff Comment: This issue was initially discussed by Subcommittee No. 4 on March 30th. The proposal for increased resources to assure an accurate census count for the state is fiscally prudent, and will assure that California federal representation accurate reflects its population. It is not clear to staff how the exact figure of $7 million was arrived at and whether the amount reflects need, efficiency or simply an outside parameter. In addition, LAO raises a reasonable option regarding assessors. The department should consider language and program design that would incorporate the county assessors as an option, where appropriate.

Staff Recommendation: Approve as budgeted.

Vote:

BUDGET OVERSIGHT

FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

Miriam Ingenito
Director, Department of FI$Cal

George Lolas
Chief Operating Officer, State Controller's Office

Amy Tong
Director, Department of Technology

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

FI$Cal is an ambitious and complex project, and in reflection of this, the project 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 6, approved last year. Under the changes in SPR 6, the project transitioned from implementing 'waves' to more independent 'releases', allowing departments that are not prepared to implement on the scheduled date to come on line at a later time. The amended approach established new programs to assist departments in transitioning to the project, revised the implementation schedule for remaining releases, and allowed more time for knowledge transfer to the state. These changes resulted in increased costs for the project and a two-year delay in the overall timeline for the project. The two-year time extension pushed out project completion from July 2017 to July 2019. The costs also expanded significantly to $910 million, representing an increase of $237 million from those in SPR 5 dated January 2014.

Costs and position authority for the major partners in the FI$Cal project (other than the project itself) have been and are expected to continue to be, substantial. Among the four partners, there are 110 positions in the current year, with 57 of these (51 percent) authorized to the SCO, 24 (22 percent) to the Department of General Services, 20 (18 percent) to the Department of Finance, and 9 (8 percent) to the State Treasurer's Office. The amount budgeted (or expected to be authorized) among the partners, is shown below:

FI$Cal Partner Resources
2010-11 through 2018-19
(Millions of Dollars)

Partner	FI$Cal Budget*
State Controller's Office	$65.3
State Treasurer's Office	$9.1
Department of Finance	$25.8
Department of General Services	$28.0

*Includes personal services, OE&E, baseline adjustments and other.

The auditor's Letter Report of January 2017 indicates that the project continues to experience some delays, despite the two-year time extension provided in SPR 6. While the delays represent a continuing concern, it is unclear whether these are the responsibility of FI$Cal or the participating departments, or both. It should be noted that many of the delays are due to failures on the part of departments to adequately staff the conversion to the new system. Specifically, the most recent letter report from the auditor identifies as a significant driver of the most recent SPR, the unanticipated need to provide continuing support from FI$Cal to departments in year-end reconciliation and budget close-out. More recently, in some cases, it appears that delays or time extensions have been necessitated by departments unwilling or unable to make a decision on how to proceed at a certain decision point.

The auditor 'remains concerned' regarding the number and size of the departments that have yet to implement FI$Cal, as well as the compressed time frame proposed for implementation. Given the challenges that were presented with smaller, fewer and less complex departments, the auditor notes potential issues with the project's ability to implement the next releases (scheduled for July 2017 and July 2018), which consist of major state departments.

The Senate Committee on Budget and Fiscal Review conducted an oversight hearing on the project in February of this year. At that hearing, significant concerns were raised regarding the delays in the implementation of the project, and whether additional time and or resources should be considered in order to ensure success. This oversight hearing is scheduled to provide Subcommittee No. 4 with updated information from the key players in the project. Last year, in conjunction with FI$Cal budget proposals, the LAO weighed in on the overall status of the project, noting that the FI$Cal Project involves the development of an extremely ambitious and complex IT system and significant work remains before the system is fully implemented. LAO thinks a future SPR is likely that would further extend the project schedule and increase costs.

Staff Comment. In addition to the February hearing held in February, Subcommittee No. 4 has also heard from the SCO and CDT regarding their roles in the project and their assessment of the current timeline. The representations to this subcommittee have not necessarily appeared totally consistent, and the subcommittee members may benefit from additional clarification of this important project. In addition, since the Senate hearings, the Department of FI$Cal has indicated it has made some adjustments regarding the implementation of certain project components in order to help will ensure its success.

Staff Recommendation. Informational item.

ISSUES FOR DISCUSSION AND VOTE

0860 BOARD OF EQUALIZATION

Issue 1: Sales and Use Tax Manufacturing Exemption (TBL)

Proposal. The proposal would address certain components in the existing tax program that provides an exemption from the state sales and use tax for specified manufacturers. The proposed trailer bill language would extend by five years from 2022 to 2027, the sales and use tax exemption on manufacturing equipment. It would also expand the exemption to include property used in electricity generation, production, storage, or distribution of electric power, commencing January 1, 2018. Finally, the language change the definition of "useful life," (currently defined as one or more years), to include property under certain warrantees or maintenance contracts of one or more years, or typically replaced by businesses at intervals or one or more years.

Background. The exemption from the sales and use tax for specified manufacturers was created in 2013 as part of the Governor's economic development initiative. Use of the exemption has fallen short of the estimated amounts based on Board of Equalization (BOE) data. As part of the original legislation, the BOE was required to identify options – including those identified in the proposed language – for increasing exemptions to meet estimated amounts, as part of its report to the Joint Legislative Budget Committee regarding the total dollar amount of exemptions granted. According to BOE, the proposed would have the following fiscal impacts: the expansion to include electricity generation, storage, transmission, and distribution results in revenue losses of $41 million in 2018-19, and $84.5 million in 2019-20; the inclusion of the agricultural industry results in revenue losses of $2 million in 2017-18, and $4 million in 2018-19; and information is unavailable to estimate the revenue effect of changes to the definition of useful life.

Staff Comment. The Department of Finance indicates that it plans to address the components of the 2013 legislation (manufacturing equipment exemption, New Employment Credit, and the California Competes Tax Credit) next year. Given that the three programs have been in place since late 2013 and early 2014, only very limited data on the programs has been available to date. These tax programs also have a significant impact on the state's overall fiscal condition and – as with any 'spending' program (whether direct or through the tax code) – they should be considered in the context of the state's overall financial health.

Staff Recommendation. Hold open.

Vote:

Issue 2: County of Los Angeles Measure H - Homelessness (TBL)

Proposal. According to the proponents, the proposed language would clarify that a local sales tax measure adopted by the County of Los Angeles can be collected in jurisdictions that have reached their two percent cap on local sales taxes. The county-wide measure (Measure H) was drafted to comply with the two percent statutory limit on local sales taxes, by taking into account the seven cities within the County which have reached the two percent cap. Under Measure H, transactions in those cities which have reached the 2 percent sales tax cap are not subject to the ¼ percent additional sales tax. The Board of Equalization (BOE) has requested that the County obtain statutory clarification to implement Measure H.

Background. The County of Los Angeles in 2015 developed strategies to reduce homelessness. In February 2016, the Board of Supervisors approved a set of strategies that were designed to: prevent homelessness, subsidize housing, increase income, provide case management and services, create a coordinated system, and increase affordable/homeless housing. The board allocated $100 million in one-time funding to support the initial implementation of the approved strategies, while expressing its intent to pursue an ongoing revenue source to sustain and expand the strategies. In December 2016, the board placed Measure H, a 10-year special ¼ percent sales tax to prevent and combat homelessness, on the March 7, 2017 countywide ballot, which was approved by approximately 70 percent of the voters.

Measure H is estimated to generate $355 million annually and enable 45,000 homeless families and individuals to move from homelessness into permanent housing in the next five years, while enabling an additional 30,000 families and individuals to avoid becoming homeless. Measure H will primarily fund outreach, interim housing, rental subsidies, and supportive services, and will leverage efforts to increase the supply of permanent supportive housing, including the State of California's No Place Like Home initiative and other local measures.

Staff Comment. The language submitted provides the clarification needed by the BOE, and is specific to Measure H, with no impact on any other sales tax which any city or county has enacted or may seek to enact in the future. However, staff is not aware than this particular method of exempting jurisdictions (who participated in the election that authorized Measure H) from the tax if its collection would result in exceeding the two percent cap has ever been previously enacted. In cases that the imposition of a tax would result in exceeding the cap, local jurisdictions generally request the Legislature for statutory authority to increase the cap headroom.

Staff Recommendation. Hold open.

Vote: