Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard D. Roth, Chair
Senator Steven M. Glazer
Senator Janet Nguyen
Senator Richard Pan

Thursday, May 12, 2016
9:30 a.m. or Upon Adjournment of Session
State Capitol - Rose Ann Vuich Hearing Room 2040

Consultant: Mark Ibele

ITEMS PROPOSED FOR VOTE-ONLY

ITEMS FOR DISCUSSION AND VOTE

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ISSUES PROPOSED FOR VOTE ONLY

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

Issue 1: California Infrastructure and Economic Development Bank - Administrative Workload (BCP 001)

Governor's Proposal. The Governor's Office of Business and Economic Development (GO-Biz) requests increased reimbursement and corresponding expenditure authority from the California Infrastructure and Economic Development Bank Fund in the amount of $1.5 million in 2016-17 ($1.3 million in 2017-18 and ongoing). The new funding will allow the California Infrastructure and Economic Development Bank (IBank) to administer the Small Business Finance Center, bond programs, and loan programs. To ensure appropriate implementation and administration of the numerous existing, new, and expanding programs, IBank also requests the establishment of 11 permanent positions. The positions include staff programmer analysts, assistant trainee, associate government program analyst, attorney, senior loan officer and six staff loan officers. This issue was discussed at the committee's March 30th hearing and held open pending receipt of additional information.

Background. The IBank has broad authority to issue tax-exempt and taxable bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage state and federal funds. The IBank's current major programs include the Direct Loan Unit, Bond Unit, Small Business Finance Center, Compliance Unit, Fiscal Unit, Legal and Legislative Unit and Technical Resource Support Center.

Staff Comments. The department has provided reasonable measures of workload increases and the requirements for additional staff. The proposal indicates that the additional resources will be sufficient to work down the existing backlog. If this occurs, then once the backlog is reduced, there could be excess staff capacity, absent a steady increased demand for services. Staff has received additional information from the department regarding the continuing workload need once the backlog has been reduced or eliminated, and has no additional concerns with the proposal.

Staff Recommendation: Approve as budgeted.

Vote.

0840 STATE CONTROLLER'S OFFICE

Issue 1: Financial Information System for California System Support (BCP 016)

Governor's Proposal. The Governor's budget includes a request from the State Controller's Office (SCO) for $1.7 million ($968,000 General Fund) in 2016-17, and $1.6 million ($911,000 General Fund) in 2017-18 and 2018-19 for 13.0 positions to support new workload resulting from the FI$Cal project. The requested resources are intended to provide for the SCO's continued efforts to fulfill its obligations and statutory responsibilities related to fiscal management, state reporting and auditing of payments during transition and use of the FI$Cal system. The positions will be directed to governance risk and compliance (eight positions), business analysis (two positions), information security (one position), production operations (one position), application development (four positions). This issue was discussed at the committee's March 30th hearing and held open pending receipt of additional information.

Background. The SCO in partnership with Department of Finance, State Treasurer's Office and the Department of General Services are engaged in a collaborative effort to develop, implement, utilize and maintain an integrated financial management system, known as the FI$Cal project. As described elsewhere in this agenda, the FI$Cal system is a statewide enterprise solution, which will re-engineer the state's business processes and encompass the management of resources and dollars in the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset management, project accounting, grant management and human resources management.

Staff Comments. The positions in this request appear to be necessary to support required activities for the SCO in the areas of security, compliance, analysis and ISD support. These resources will be integrated into existing SCO divisions and report to SCO management. The workload and resources requested are in direct support of both the SCO and FI$Cal, and will demonstrate a commitment to the success of the FI$Cal project beyond implementation. Given that direct requests related to the FI$Cal project are recommended for approval, this item should also be approved.

Staff Recommendation. Approve as budgeted.

Vote.

Issue 2: California Automated Travel Expense Reimbursement System (SFL and BBL)

Governor's Proposal. In a spring finance letter (SFL) the SCO has requested $1.1 million ($619,000 General Fund and $467,000 Central Service Cost Recovery Fund [CSCRF]) in 2016-17 for three positions to continue the study of alternatives for replacing the California Automated Travel Expense Reimbursement System (CalATERS) vendor and reimbursement system and to maintain the current system without disruptions to service through 2016-17. Additionally, the SCO requests a funding realignment in 2016-17 and ongoing, to more appropriately support the existing CalATERS workload which provides a central service function to other state entities (reduction of $1.9 million in reimbursement authority and corresponding increase in General Fund and CSCRF support).

Background. The SCO's Personnel and Payroll Services Division (PPSD), operates and maintains CalATERS as a service to state department accounting offices and employees. Prior to 2000, travel advances and expense reimbursement claims were processed using a manual, paper-based method, which was labor-intensive and often delayed reimbursements to state employees. In 2000, the SCO developed CalATERS to process claims more rapidly and accurately. The system allows employees to electronically submit claims through the internet, and for those claims to follow an automatic review, approval, and payment process. Funding for the system came from agencies that voluntarily determined they needed a more efficient way to process reimbursement for travel expenses. In addition to a one-time development fee, participating agencies pay a transaction fee for each reimbursement claim processed through CalATERS to support ongoing program expenditures.

In 2007, the Legislature mandated all state agencies use CalATERS by July 1, 2009. This mandate recognized that an electronic process using web technologies, an electronic workflow, and incorporating audits and edits based on state travel rules, would improve the way the state does business. The legislation also provided for an agency to opt out of CalATERS, if a business case could be made to the SCO and Department of Finance that the use was not cost effective or feasible. Currently, CalATERS is used by 94 agencies and 93,020 users, with 23 agencies granted an exemption.

CalATERS was designed and built under a contract with International Business Machines Inc. (IBM). In November 2013, CalATERS was fully upgraded to IBM's Global Expense Reporting Solution (GERS) to become compliant with the Americans with Disabilities Act (ADA). In May 2014, IBM announced that it will sunset and discontinue support for the current system effective March 31, 2016 (which is the end date of the current contract). The SCO is actively engaged in contract negotiations with IBM for transitional support until June 2020. This option can be provided at an increased cost of $171,000 for 2015-16 and $684,000 for 2016-17, which will allow the SCO to actively pursue the most feasible travel reimbursement solution. Due to IBM announcing the discontinuation of support to the GERS solution, the SCO will need a temporary solution to maintain service during the process of evaluating all possible solutions for a replacement system and to implement the solution. The funding requested would maintain the current level of service through 2016-17, while the SCO evaluates solutions to replace the CalATERS system.

Staff Comments. Staff has no concerns with the proposal.

Staff Recommendation. Approve as proposed.

Vote.

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

Issue 1: Funding for Special Project Report 6 – Project and Department (BCP 001 and 002)

Governor's Proposal. The budget includes a request from FI$Cal for $45.1 million to support the changes identified in SPR 6. This brings the total 2016-17 budget to $135 million ($96.2 million General Fund, $18.3 million Central Service Cost Recovery Fund (CSCRF) and $20.5 million special funds). This request has been broken into two separate requests to identify the project costs and departmental costs. The 2016-17 project costs requested are $92.4 million ($71.9 million General Fund and $20.5 million various special funds) and the departmental costs requested are $42.6 million ($24.3 million General Fund and $18.3 million CSCRF). The proposed trailer bill language establishing the Department of FI$Cal is presented as a discussion item.

During the development of Special Project Report (SPR) 6, FI$Cal re-baselined its budget, evaluated and redirected existing resources to project or department activities, and identified additional costs. The change in project costs compared to SPR 5 are related to: system integrator costs (Accenture); project management and independent verification & validation (IV&V) contracts; additional project-related contracts; and staff costs (FI$Cal positions for technology staff, re-direction of existing resources; and, hardware/software related to SPR 6).

The cost of operating the proposed Department of FI$Cal would be funded 57 percent from the General Fund and 43 percent from the CSCRF. The CSCRF portion would be paid for by allocating the operational cost to departments based on their share of use. The annual cost of operating the department will increase in future years as new functions and departments come onto the FI$Cal system. The cost of operating the department is expected to level off in 2019–20, at which point the annual ongoing cost is expected to be $70.4 million ($40 million General Fund).

The proposed department would include 122 positions (99 of which would shift from the project to the department) to support the FI$Cal maintenance and operations. This position total will grow over time as the FI$Cal system becomes more mature and as other staff working on design, development and implementation activities and finishing up the implementation work for the project, shift to ongoing activities. By 2019–20, it is estimated that the department will be comprised of 274 ongoing positions, primarily dedicated to maintenance and operations of the FI$Cal System.

Background. 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 SPRs with the project currently working under the rubric of SPR 5. The Governor's budget proposals are based on SPR 6, just released. SPR 6 incorporates intentional delays in the implementation of the project in order to increase the probability of success. The Legislative Analyst's Office (LAO) notes that project changes to date have led to schedule extensions and cost increases, but have also have led to modifications that have mitigated project risk and made project objectives more attainable.

LAO Comments. In its recent analysis of the FI$Cal project, the LAO noted that the release approach is more realistic going forward and views the revision as improving the flexibility for the implementation. They view the addition of the knowledge transfer to the scope of the project favorably, but indicate that some additional time may be required for final project completion. Finally, the office notes the cost is still dependent on contract negotiations with the vendor.

Staff Comments. The FI$Cal project is vital to the modernization of the state's fiscal management and control structure. While there have been delays and cost increases, as is typical for most IT projects with this degree of complexity, generally the project is on a positive course. It is essential that the project continue to be given adequate resources and support to ensure its success. Staff is supportive of the budget request, but continues to have some reservations regarding the timeline. It is likely, given the magnitude of the work that has been pushed to the back end of the project timeline, that an additional SPR will be required, even without additional unexpected complications or developments. Nevertheless, after discussions with the project and DOF staff, the current timeline currently seems to be a reasonable structure under which to conduct the next phases of the project and staff recommends approval of the budget requests.

Staff Recommendation. Approve as budgeted, both proposals.

Vote.

0954 SCHOLARSHARE INVESTMENT BOARD

Issue 1: California Memorial Scholarship Program (SFL)

Governor's Proposal. The Governor proposes adding the California Memorial Scholarship Fund item to the budget and providing funding in the amount of $236,000 for scholarships for surviving dependents of California residents killed as a result of the September 11, 2001 terrorist attacks. The Scholarshare Investment Board has identified and notified additional persons of their eligibility for the educational assistance program and anticipates making new awards in 2016-17.

Staff Recommendation. Approve as proposed.

Vote.

0959 CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Issue 1: Staff Augmentation for Workload (SFL)

Governor's Proposal. The Administration has requested in a spring finance letter (SFL) the establishment of one permanent position and a corresponding increase of $132,000 in expenditure authority for the California Debt Limit Allocation Committee (CDLAC). This increase in resources will allow CDLAC to administer its programs. The fees CDLAC collects will cover the costs of the position.

Background. CDLAC allocates the federal tax-exempt private activity volume ceiling for the state of California through a variety of programs including multifamily housing, single-family housing, tax-exempt facilities, and industrial development bonds. CDLAC indicates that demand for tax-exempt bond financing will continue to increase and remain high over the next several years which will result in an increased number of submissions to CDLAC. The agency expects application submittals for existing programs to grow by at least 10 percent annually over the next few years. CDLAC received 34 applications requesting a total of $664 million for the first application round in 2016, representing a 100 percent increase in the number of applications reviewed, when compared to the annual average number of applications reviewed from 2009-2014.

Staff Comments. Staff has no concerns with this budget request.

Staff Recommendation. Approve as proposed.

Vote.

0860 Board of Equalization

Issue 1: Board of Equalization Physical Office Space (SRL)

Committee Proposal: At a previous hearing, the committee requested the Board of Equalization (BOE) to provide an assessment of the agencies physical office needs in view of its overall strategic plan regarding taxpayer access and information. Draft supplemental report language has been prepared as follows:

> ***Item 0860-001-0001—State Board of Equalization***
> *1.* ***Physical Office Space.*** *The Board of Equalization (BOE), in consultation with the Department of General Services, shall conduct a comprehensive strategic review of its physical office space requirements and current office space usage. No later than February 1, 2017, the BOE shall submit to the appropriate fiscal committees of the Legislature and to the Department of Finance a report containing the following:*
> *(1) A detailed inventory of all office space occupied by the BOE during the 2015-16 fiscal year. For each office, this inventory shall provide (a) a description of its purpose, (b) the size in square feet, (c) the terms of its lease, and (d) the total annual cost of leasing and using the space—including all necessary operational expenses.*
> *(2) Information about any office space the BOE owned or leased during 2015-16 that was unoccupied and an explanation for why the space was not occupied.*
> *(3) A list of the office space requirements of the BOE. It is the intent of the Legislature that (a) the BOE should minimize the total annual cost of physical office space while satisfying the other requirements and that (b) the headquarter offices of all of the members of the Board of Equalization should be located in the same physical office space as the plurality of other BOE headquarters employees.*
> *(4) A detailed strategic plan for satisfying the physical office space requirements.*

Staff Comment. In a prior hearing on April 28, the agency's presentation regarding district and field office lacked sufficient detail regarding the approval process for office space. Subsequent budget staff conversations with both BOE staff and board members indicated that the current approval process lacks clarity and may be ambiguous. BOE staff has indicated that the policies regarding such approval (and other district related activities) will considered by the Board at its meeting this month.

Staff Recommendation. Approve the proposed SRL.

Vote.

ITEMS FOR DISCUSSION AND VOTE

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

Issue 1: Establishing the Department of FI$Cal (TBL)

Governor's Proposal. The proposed trailer bill language (TBL) establishes the Department of FI$Cal effective July 1, 2016; establishes the director of the Department of FI$Cal, to be appointed by the Governor, who will oversee the day-to-day functions of the department and the implementation of the FI$Cal project documents; change the interim cost allocation plan to fund the FI$Cal project and Department of FI$Cal; make all automated accounting systems referred to in Government Code Section 13000 inoperative after required data and departments using the system have transitioned to the FI$Cal System

Background. Initially, FI$Cal was established as a statewide information technology (IT) project, approved through a Department of Finance (DOF) Feasibility Study Report (FSR) in 2005. Since then, it has gradually transitioned away from the DOF, becoming its own entity, with increasingly more authority, effectively transitioning to a fully-functioning state department. Total project costs include departmental functions such as human resources, accounting, budgeting, contracts and procurement, business services. During the development of SPR 6, existing positions and costs were re-evaluated and redirected to align with project or departmental functions. Additional resources are needed to fully staff the units where existing staff cannot be redirected.

LAO Comments. The LAO noted in its report that there may be alternative options to creating a new department at this time, including maintaining the current FI$Cal Service Center (FSC) or delegating responsibility for the project to one of the four participating state offices. The analysis indicates issues and potential difficulties with each of the three options. The analysis notes that accountability may continue to be a problem under the Governor's proposal and recommends additional steps to improve this regardless of the particular organizational structure chosen. It addition, LAO points out two potential solutions for accountability: (1) shift the role of the control agencies to one of advisory rather than formal decision-making and (2) elevate the project leader to the steering committee.

Staff Comments. Given the number of state entities responsible for fiscal and other control functions in the state, the design of the administrative structure with responsibility for FI$Cal is not likely to resemble that of a typical state department. The challenge is to design an organizational structure that maximizes the positives associated with the different control agencies and minimizes the potential drawbacks associated with multiple lines of authority and responsibilities. The committee discussed this proposal at previous hearing, and raised concerns regarding governance, accountability and reporting. The Administration has continued to make progress on the proposal, provided additional clarity regarding the organizational structure for the department, and briefed staff regarding the governance model envisioned. The design of the particular organization best suited for the FI$Cal project may well benefit from further discussions and analysis, but the current proposed framework is a suitable one. Staff recommends that FI$Cal brief the committee on further progress of the proposal and suggests the proposal be brought back for a vote once the revised language is final.

Staff Recommendation. Hold open pending receipt of revised TBL.

Vote.

0981 CALIFORNIA ACHIEVING A BETTER LIFE EXPERIENCE ACT

Issue 1: Program Administration Costs (SFL and BBL)

Governor's Proposal. The Administration proposes funding and budget bill language (BBL) to allow for implementation of the California Achieving a Better Life Experience (ABLE) program. AB 449 (Irwin), Chapter 774, Statutes of 2015, created the ABLE Act and conforms the personal income tax law to the federal ABLE Act. SB 324 (Pavley), Chapter 796, Statutes of 2015, establishes the ABLE Act board and the California ABLE Program Trust for the purpose of creating a statewide program known as the Qualified ABLE program. The requested resources will be used for one staff services manager, one associate governmental program analyst, executive director, and external consulting services. Funding for startup and administrative costs for the board is in the form of a loan of $850,000 from the General Fund, sufficient to cover the board's projected administrative costs for its first two years of implementing the program. The loan will be repaid once revenues from the program are sufficient to cover the ongoing costs, within five years, including interest.

Background. AB 449 and SB 324 establish in state government the ABLE Program Trust for purposes of implementing the federal ABLE Act. The federal ABLE Act provides a tax incentive to individuals with disabilities and their families to save private funds for the purpose of assisting persons with disabilities maintain their health, independence, and quality of life. The federal ABLE Act is, in part, modeled after 529 educational savings accounts. The primary financial benefits of the program are that funds placed in a qualified account grow tax-free, and distributions, when made for qualifying educational expenses, are federal and state income tax-free. The federal ABLE Act allows individuals with disabilities and their families to save their own funds for the purpose of maintaining health and independence, with a goal of allowing those individuals to transition away from government assistance and benefits. President Obama signed the federal ABLE Act in 2014. The State Treasurer is to administer ABLE accounts on behalf of qualified Californians.

Staff Comments. The General Fund loan is expected to be repaid once the pool of contributions meets a minimum threshold and generates earnings in excess of administrative expenses. Staff has no concerns with the proposal.

Staff Recommendation. Approve as proposed and BBL.

Vote.

0968 CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Issue 1: Modification of Low-Income Housing Tax Credit (TBL)

Budget Proposal. Proposed trailer bill language (TBL) would allow for the sale of low-income housing tax credits (LIHTC), allocated by the California Tax Credit Allocation Committee (CTCAC), under certain conditions, thus increasing the efficiency of these tax credits available under the personal income tax, corporation tax and insurance tax. The language would allow credits allocated to one low-income housing developer to be sold to another low-income program participant. After the initial sales, the credit can be resold once more. For the sale of a credit to occur: (a) sellers of the credit must receive funds of not less than 80 percent of the credit value; (b) purchasers of the credit are restricted to those who currently or previously provided project capital for other LIHTC projects in the state; and (c) purchasers of the credit can use it in the same manner as the entity allocated the credit.

Background. Current federal law allows tax credits for investors who provide project capital to low-income housing projects. Taxpayers claim LIHTCs equal to either nine percent or four percent of the project cost over 10 years, and may start claiming the credit in the taxable year in which the project is placed in service. Projects must remain as affordable housing for 55 years. The CTCAC allocates the federal credits based on a formula in federal law. Housing developers design projects and apply for credits from CTCAC, which reviews the application, and either denies or grants credits. Housing developers form partnership agreements with taxpayers that provide project capital for the low-income housing project in exchange for the credits at a discount.

The Legislature in 1987 authorized a state low-income housing tax credit program designed to leverage the federal credit program. State taxes are generally deductible from federal taxes, meaning that investors claiming the state LIHTC must then pay taxes on their higher federal income. Based on a federal marginal corporate tax rate at 35 percent, this means that investors claiming state LIHTC's might pay no more than 65 cents for each dollar. In other words, for every dollar the state invests in this critical program, the federal government currently taxes a portion. The proposed language would seek to increase the impact of the state's existing LIHTC, with minor fiscal impact on the state, by structuring the credits in a way that is subject to lower, or no, federal taxation. This revision could significantly increase the value of state LIHTCs and potentially the public benefit of the state credits. It could increase the efficiency of the program and allow more affordable housing units to be built for the same level of state tax expenditure.

Staff Comments. The TBL is based on SB 873 (Beall) and is supported by the State Treasurer's Office. The language in the bill was also in SB 377 (Beall) which was vetoed by the Governor in October, 2015 with the accompanying message: "I cannot support providing additional tax credits that will make balancing the state's budget even more difficult. Tax credits, like new spending on programs, need to be considered comprehensively as part of the budget deliberations."

In general, tax credits are an inefficient means of encouraging investment or other economic behavior, especially compared to direct budget outlays. In this particular case, however, the efficiency of the state tax credit may be increased because of the particular tax treatment by the IRS of "allocated" versus "purchased" tax credits. Unlike allocated credits, which are treated as a reduction in state taxes, purchased credits are treated as a pre-payment of taxes. The treatment of purchased credits as tax pre-payments avoids additional federal taxation that resulting from a reduction in state liabilities and federal deductions. As a result of this differential treatment, the value of the state credits is likely to increase. Franchise Tax Board (FTB) estimates minor revenue gains of $300,000 in 2016-17, and revenue losses of $100,000 in 2017-18, $700,000 in 2018-19, which gradually increases to $2 million by 2021.

Staff Recommendation. Approve placeholder TBL.

Vote.

0950 STATE TREASURER'S OFFICE

Issue 1: Debt Management System (SFL)

Governor's Proposal. In a spring finance letter, the State Treasurer's Office (STO) has requested an augmentation of $6.3 million (bond funds) in the budget year to continue the Debt Management System II (DMS II) project that was originally authorized in the 2013 Budget Act. The amount estimated pursuant to the Special Project Report 1 (SPR 1) for 2016-17 and the revised amount requested in this finance letter and the SPR 2 for 2016-17 consists of: $4.0 million for the vendor; $810,000 for continued state staff funding; $628,000 for consulting services; $620,000 for hardware and software licensing; and, $208,000 for oversight by the Department of Technology, agency facilities costs, and other costs. Staffing for the project includes the continuation of four positions: data processing manager (project manager); senior programmer analyst (technical architect); senior information systems analyst (business/data architect), and treasury program manager (program staff). The two new positions are associate information systems analyst (test analyst) and systems software specialist (network administrator).

Background. The STO received funding for the debt management system in 2013-14 and 2014-15. In the current year, the STO received continued funding, and in conjunction with this funding, changed the procurement strategy for the DMS II Project from what was as previously submitted in SPR 1. The change was based on vendor feedback provided to the STO and subsequent staff analysis. Initially, the STO had determined that replacing the existing debt management system with a solution-based procurement using a systems integrator was the preferred approach, due to available staffing expertise. However, STO subsequently determined, based on potential vendor feedback, that it would be very difficult to completely satisfy business requirements at an acceptable cost and within a reasonable timeframe using this approach. Following more in-depth vendor conversations, STO explored alternative procurement strategies and models and determined the debt management system replacement could be better addressed by using certain core functions of the existing debt management system and expert-level technicians rather than STO staff. CalTech agreed with this decision.

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

Staff Comments. The debt management system is an essential component for the STO to follow through on its essential services. The STO has adjusted its procurement plan in response to concerns raised through the interested parties' process, as well as a result of concerns voiced by the Legislature, including this committee. The efforts of the STO's Debt Management System should continue to be monitored by the committee in order to help ensure that the project is delivered in a satisfactory manner.

Staff Recommendation. Approve as proposed.

Vote.

CONTROL SECTION 6.10

Issue 1: Funding for Deferred Maintenance Projects (BBL)

Governor's Proposal. Budget Control Section 6.10 gives the Department of Finance the authority to allocate $500 million General Fund in the amounts identified below for deferred maintenance projects for the following state entities:

Department of Water Resources	100,000,000
Department of State Hospitals	64,000,000
Judicial Branch	60,000,000
Department of Parks and Recreation	60,000,000
Department of Corrections and Rehabilitation	55,000,000
California State University	35,000,000
University of California	35,000,000
Department of Developmental Services—Porterville Facility	18,000,000
Department of Fish and Wildlife	15,000,000
California Military Department	15,000,000
Department of General Services	12,000,000
Department of Veterans Affairs	8,000,000
Department of Forestry and Fire Protection	8,000,000
State Special Schools	4,000,000
Network of California Fairs	4,000,000
California Science Center	3,000,000
Hastings College of the Law	2,000,000
Office of Emergency Services	800,000
California Conservation Corps	700,000
Department of Food and Agriculture	300,000
San Joaquin River Conservancy	200,000

In addition, the control section allows for DOF to allocate $18 million from the Motor Vehicle Account for deferred maintenance projects for the California Highway Patrol and Department of Motor Vehicles.

Under this proposal, departments would provide DOF a list of deferred maintenance projects for which the funding would be allocated. The DOF would review and provide the approved list to the Chairperson of the Joint Legislative Budget Committee (JLBC) 30 days prior to allocating any funds. The amounts specified above would be available for encumbrance or expenditure until June 30, 2018. If departments make a change to the approved list after the funds have been allocated, DOF's approval is required and quarterly the JLBC would be notified of any changes.

Background. The proposed control section is virtually identical (except for the amounts and departments) to that proposed last year as part of the Governor's budget. Outside of this program, most deferred maintenance is funded through the baseline support budget provided to individual departments. Departments have some discretion to use these funds for maintenance projects or other higher priority needs within the department.

The Legislative Analyst Office (LAO) continues to express concern regarding the Legislature's abrogation of its authority for capital outlay and deferred maintenance and recommends steps that would reinsert the legislative perspective in this process. For the current deferred maintenance proposal, the LAO recommends: (1) requiring lists of proposed projects to be funded by each department by April; (2) requiring individual departments to report at budget hearings regarding the projects; (3) modifying departments' funding levels based on project reviews; and (4) requiring that funded projects be listed in a Supplemental Report to the 2016 Budget Act.

Staff Comments. This issue was heard in this Subcommittee on April 7, 2016 and held open. A listing of deferred maintenance projects was provided by the Administration to the Legislature at the end of April, and these identified projects are being heard in the respective budget subcommittees. Staff recommends that the quarterly notification related to any project changes be altered to require a 30 day notice to JLBC. Staff also recommends supplemental reporting language (SRL) suggested by LAO.

Staff Recommendation. Approve proposed Control Section 6.10 with the change noted below in subdivision (d) and SRL.

> *(d) Prior to making a change to the list, a department shall obtain the approval of the Director of Finance. The Director of Finance shall notify the Chairperson of the Joint Legislative Budget Committee ~~quarterly~~ of any changes to the list of deferred maintenance projects 30 days prior approving any changes. The ~~quarterly~~ notification to the Joint Legislative Budget Committee shall identify the projects removed or added, the cost of those projects, and the reasons for the changes.*

Vote.