

# **SUBCOMMITTEE NO. 4**

# **Agenda**

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Senator Gloria Negrete McLeod, Chair  
Senator Noreen Evans  
Senator Doug La Malfa



**Thursday, April 26, 2012  
9:30 a.m. or Upon Adjournment of Session  
Room 112**

**Consultant: Brady Van Engelen**

## **Item Number and Title**

0845	Department of Insurance
8620	Fair Political Practices Commission
0502	California Technology Agency
0840	State Controller's Office
0890	Secretary of State

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**Issues Proposed for Vote Only:**

	Issue	2012-13 Amount	Fund Source	Staff Recommendation
<b>Department of Insurance (0845)</b>				
1	Paperless Workflow	\$302,000 in 2012-13 and \$202,000 ongoing	Insurance Fund	APPROVE
<b>Secretary of State (0890)</b>				
1	SB 201 Flexible Purpose Corporation	\$64,000	Business Fees Fund	APPROVE
2	SB 636 – Personal Information – Safe at Home	\$42,000	General Fund	APPROVE
<b>California Technology Agency (0502)</b>				
1	Prior Year Adjustments	\$8.79 million reduction in 2011-12 and \$12.47 million in 2012-13	Technology Services Revolving Fund	APPROVE

**Issues Proposed for Vote Only – Issue Descriptions****California Department of Insurance****Issue 1 – Paperless Workflow System Project Post-Implementation**

**Department and Budget Overview.** The California Department of Insurance (CDI) regulates the California insurance market and enforces the California Insurance Code, including conducting examinations and investigations of insurance companies and producers and responding to consumer inquiries. CDI reviews and approves insurance rates to enforce the statutory requirement that rates are not excessive or unfair. CDI also administers the conservation and liquidation of insolvent and delinquent insurance companies and fights insurance fraud in conjunction with local and state law enforcement agencies. The January Budget provides CDI with 1,269.5 authorized positions and \$225.3 million (Insurance Fund, federal funds, and reimbursements).

**Governor's Budget Request.** The Governor requests increased expenditure authority of \$302,000 million (Insurance Fund) in 2012-13, and \$202,000 ongoing, and the conversion of two limited-term positions to permanent status, to provide ongoing maintenance of the Paperless Workflow System Project (PWSP), which is intended to replace the current paper process with an electronic-based system. Of the 2012-13 resources, \$100,000 is designated to fund one-time post-implementation consulting services.

**2011-12 Budget.** Approved increased expenditure authority of \$2.6 million (Insurance Fund) to complete the final year of implementation of the PWSP.

**Staff Comment.** This request converts two limited-term positions that have supported the development of the PWSP into permanent positions, at a cost of \$202,000 annually. CDI has calculated workloads related to the development and operation of the PWSP and asserts the two positions are needed to ensure the maximum benefits of the PWSP are fulfilled. CDI also seeks \$100,000 in 2012-13 to continue payments to vendors who will assist in the final implementation of the PWSP and operations in its first year. All monies are derived from the Insurance Fund, which is anticipated to end 2012-13 with a \$24.6 million balance.

**Staff Recommendation:** Approve the request.

**California Secretary of State****Issue 1 – SB 201 Flexible Purpose Corporations**

**Governor's Budget Request:** The Governor's Budget includes \$64,000 from the Business Fees Fund and authority for .5 positions to implement SB 201 (DeSaulnier), Chapter 740, Statutes of 2011. The legislation created a new type of corporation called "Flexible Purpose

Corporations," and the new position will review new filings for legal compliance and handle other legal issues related to this new entity.

**Staff Comment:** SB 201 created a new type of corporation that can include as part of its purpose charitable or public purpose activities that benefit the corporation's employees, suppliers, customers, and creditors; the community and society; and/or the environment. This request would allow for the creation of incorporation documents for this new type of corporation and for legal review of filings associated with flexible benefit corporations. SOS anticipates 150 hours of Staff Counsel time and is seeking .5 PY authority for a Staff Counsel position, as well as \$13,000 in operational and equipment expenses to develop new documents.

The request is in line with the analysis of the legislation by the Assembly Appropriations Committee, which suggested implementation would cost about \$50,000 annually in personnel costs and \$10,000 to create new filing forms and instructions and update the SOS website.

<b>Issue 2: SB 636 Personal Information: Internet Disclosure Prohibition – Safe at Home Program</b>
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**Governor's Budget Request:** The Governor's Budget proposes .5 new positions and \$42,000, General Fund, to implement SB 636 (Corbett), Chapter 200, Statutes of 2011. The legislation prohibits Internet search companies from providing confidential address information of Safe at Home participants to third parties to incite or aid in the commission of violence or threat of violence. The new Program Technician II position will implement the legislation by:

- Providing expert technical customer assistance on the procedures for notifying Internet search providers to withdraw the personal information from their websites; and,
- Coordinating with the Office of Privacy Protection and local and state law enforcement agencies on steps to identify and prosecute search providers who are out of compliance.

**Staff Comment:** First created in 1998, the Safe at Home program allows victims of domestic violence, sexual assault and stalking, as well as reproductive health care employees, to keep their addresses and other personal information confidential. The program has served more than 3,600 families. SB 636 creates a new crime, and allows the state to quickly stop and prosecute individuals and associations that post "hit" websites that post information about reproductive health care professionals.

According to the Secretary of State, the new position will be an important communications lynch pin between the SOS, the Office of Privacy Protection, and Safe at Home participants. The request is in line with the analysis of the legislation by the Assembly Appropriations Committee, which suggested implementation would cost less than \$50,000.

This proposal could be altered in the future should the Legislature adopt the Governor's proposal to eliminate the Office of Privacy Protection. If that office is eliminated, it is possible that workload associated with implementing this legislation could increase for the Secretary of State.

**Staff Recommendation:** Approve as Budgeted.

## California Technology Agency

### Issue 1 – Prior Year’s Project Adjustments

**Governor’s Budget Request:** The Governor’s 2012-13 Budget includes a request to adjust the California Technology Agency’s expenditure authority to align previously approved budget actions with the ongoing costs of related projects. The adjustments requested a net reduction of \$8.79 million dollars (Technology Services Revolving Fund) in Fiscal Year 2011-12 and \$12.47 million (Technology Services Revolving Fund) in Fiscal Year 2012-13.

**Background:** This request reflects a technical adjustment to the Office of Technology’s budget. The adjustments are made for a number of reasons ranging from one-time reductions, project cost reductions due to favorable contract negotiations, or project completions. The purpose of these adjustments is to align the ongoing Office of Technology budget with actual expenditures for these projects in order to maintain a connection between the spending authority level of the Office of Technology and the actual expenditures required to support the needs of its customers.

**Staff Comment:** Staff does not have any issues with this request.

**Staff Recommendation:** Approve as Budgeted.

<b>8620 FAIR POLITICAL PRACTICES COMMISSION</b>
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**Department Overview:** The Fair Political Practices Commission (FPPC) has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974, as amended by the voters and Legislature. The overriding purpose of the Act is to restore confidence in governmental processes. The major objectives of the Commission are to:

- Provide education about the Act and its requirements to the public and the regulated community including public officials, candidates, and lobbyists, and assist with compliance.
- Ensure that election campaign contribution and expenditure data is fully and accurately disclosed so that the voters may be fully informed.
- Enforce the provisions of the Act and regulations fairly and with due process.
- Regulate the activities of lobbyists and disclose their finances to prevent any improper influencing of public officials.
- Provide for the disclosure of assets and income of public officials, which may affect their official actions, to avoid any conflicts of interest, or appearances of impropriety.
- Provide adequate mechanisms to public officials and to private citizens to ensure vigorous enforcement of the Act.

**Budget Overview:** The Governor's Budget proposes total spending of \$8.79 million (\$8.79 million General Fund) for the Fair Political Practices Commission in 2012-13. Proposed staffing totals 81.4 personnel years (PYs), an increase of 3 PYs compared with the current year.

<b>Fund Source</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
<b>General Fund</b>	\$7.31	\$8.30	\$8.79
<b>Expenditures</b>	\$7.31	\$8.30	\$8.79
<b>Personnel Years</b>	74.9	78.4	81.4

<b><i>Issues Proposed for Discussion / Vote</i></b>
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<b>Issue 1 – Durkee Case Additional Workload Impact</b>
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**Governor's Budget Request:** The Governor's budget includes a request for \$767,000 in the 2012-13 fiscal year and \$384,000 in the 2013-14 Fiscal Year to fund 6.0 limited-term positions through January 1, 2014. This request reflects an unanticipated workload stemming from the Kindee Durkee embezzlement case. Durkee, a high-profile political campaign treasurer, plead

guilty on March 30, 2012, to numerous counts of mail fraud that amounted to more than \$7 million dollars in campaign funds.

**Background:** The FPPC anticipates audits will grow from 35 per year to 53 per year, and workload for the Legal Division will grow by 10 percent or more. Based on this increased workload, the FPPC is seeking to add 6 positions for Fiscal Year 2012-13 and half of Fiscal Year 2013-14. If this Budget Change Proposal is granted, the position authority would expire on January 1, 2014. The six new positions are:

- Political Reform Consultant II, who would work in the Technical Assistance Division and help provide advice and training;
- Program Specialist II, who would work in the Enforcement Division;
- Two Senior Special Investigator positions, who would work in the Enforcement Division;
- One Staff Counsel IV position, who would work in the Legal Division, and;
- .5 PY for an Information Officer II position and .5 PY for an Associate Information Systems Analyst position.

**Staff Comment:** It is worth noting that in addition to this request, the Joint Legislative Budget Committee approved the Fair Political Practices Commission request of \$426,000 in the current year to address deficiencies stemming from the Durkee case. The FPPC states that the additional funding will allow them to perform more audits, conduct more investigations and respond to a greater number of advice calls.

The FPPC notes it currently does not have a written instructional manual for Political Action Committees, or campaign accountants, and may need to create these manuals. The FPPC also is contemplating creating new regulations regarding bookkeeping and whether contribution limits should be eased if campaign funds are embezzled or otherwise misused.

**Staff Recommendation:** Approve as Budgeted.

**Vote:**

<b>0502 CALIFORNIA TECHNOLOGY AGENCY</b>
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**Department Overview:** The California Technology Agency establishes and enforces statewide information technology strategic plans, policies, standards, and enterprise architecture, and oversees information technology projects and public safety emergency communications systems for all state departments.

In August 2010, the California State Legislature passed AB 2408 (Chapter 404, Statutes of 2010) to reestablish the Office of the State Chief Information Officer (OCIO) as the California Technology Agency and to rename the State Chief Information Officer as the Secretary of the California Technology Agency. While Senate Bill 90 (Chapter 183, Statutes of 2007) had already made the OCIO a cabinet level-agency with statutory authority over strategic vision and planning, enterprise architecture, IT policy, and project approval and oversight for the state in 2007; AB 2408 codified into law significant functions, duties, and responsibilities of the office that had been assigned to the Office of the Chief Information Officer. In addition to consolidating statewide IT functions under one cabinet-level agency, the legislation passed in 2010 was also responsible for coordinating the activities of agency and department CIOs and promoting the efficient and effective use of IT in state operations.

The Office of Technology Services (OTech), within the California Technology Agency, provides the Information Technology processing platforms for over 500 customers, including the Executive Branch and public entities. OTech is accountable to its customers for providing secure services that are responsive to their needs and represent best value to the state. The OTech is a fee-for-service organization and operates as a 100 percent reimbursable department. OTech's Service Level Agreements with its customers include a 99.9 percent service availability goal for IT services. The OTech must continue to provide sufficient processing capacity to deliver their performance and service agreed to in the Service Level Agreements.

The Governor's 2012-13 Budget proposes \$504.71 million dollars (\$4.16 million General Fund) and 1,266.5 Personnel Years. The Governor's 2012-13 Budget request reflects an increase of \$29.3 million dollars (\$595,000 General Fund increase) and an increase of 4.7 Personnel Years that were approved in the Fiscal Year 2011-12 Governor's Budget.

**Government Operations Agency:** The Governor's 2012-13 Budget includes a proposal to create the Government Operations Agency. Major components of administering state operations, such as procurement, information technology, and human resources, are currently dispersed throughout government. The Technology Agency would be housed under the Governor's proposed Government Operations Agency as a department and would retain statewide authority to centralize and unify the State's information-technology projects. In the Governor's letter to the Little Hoover Commission, he notes that aligning the proposed department of technology with CalHR will ensure that the state will be able to better address the need to recruit and retain qualified information-technology professionals. It is worth noting that the Legislature has made multiple changes during the past decade to information technology oversight, in an effort to improve procurement and implementation of increasingly complex projects.

**2012-13 California Technology Agency Budget Overview**

<b>Funding</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
General Fund	\$3.23	\$3.56	\$4.15
State Emergency Telephone Number Account	\$120.02	\$124.93	\$113.01
Federal Trust Fund	\$502	\$1.93	\$1.93
Reimbursements	\$4.20	\$3.18	\$3.18
Technology Services Revolving Fund	\$307.63	\$338.41	\$379.30
Central Service Cost Recovery Fund	\$3.20	\$3.67	\$3.14
<b>Total Expenditures</b>	<b>\$438.78</b>	<b>\$475.67</b>	<b>\$504.71</b>
<b>Personnel Years</b>	<b>1,149.7</b>	<b>1,261.6</b>	<b>1,266.6</b>

**Rate Reduction:** The Governor's 2012-13 Budget reflects a \$13 million dollar revenue reduction that will result from a planned rate reduction from data center services. On April 4, 2012, the Technology Services Board approved a rate reduction that is expected to save state entities \$21.5 million in the current year budget and \$13 million dollars in Fiscal Year 2012-13.

<b><i>Issues Proposed for Discussion / Vote</i></b>
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<b>Issue 1 – Midrange Server Capacity</b>
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**Governor's Budget Request:** The Governor's 2012-13 Budget requests increased expenditure authority of \$15.288 million in spending authority (Technology Services Revolving Fund). The request stems from the Office of Technology Services need for additional hardware, operating system software, applications software, Statewide E-mail, and Database software to ensure adequate midrange service capacity to meet the needs of customer driven workloads. This request also includes resources to meet the disaster recovery requirements of customers.

**Background:** Increased demand on services by customer departments at a variety of state entities. This increased demand, largely stemming from increased population and use of services, results in the growth of customer applications and the need for additional server capacity. Examples of customer departments with increased midrange capacity due to growth are:

- **Department of Motor Vehicles (DMV)** – appointment system, vehicle registration, and vehicle internet renewal.
- **California Department of Public Health (CDPH)** – Woman Infant Children (WIC) integrated statewide information system and Medi-Cal/Point C of C Sal (POS) are supported by OTech. In California, 82 WIC agencies provide services locally to over 1.5 million women, infants, and children annually at over 600 sites throughout the state. Caseload for 2010 has increased over 2.5 percent from 2009.
- **Employment Development Division** – Unemployment Insurance (UI) and Disability Insurance (DI) are supported by the OTech. Federal extension of benefits has required that additional claims are processed.
- **State Controller's Office (SCO)** – State's fiscal system, state employee's retirement payments, the state employee's Employment History System, payroll system, lottery payments, California Automated Travel Expense Reimbursement System, and Medi-Cal disbursement checks are supported by OTech.

OTech continues to experience a substantial increase in the midrange computing workload, database instances, Disaster Recovery, and web services.

**Staff Comment:** Staff has no concerns with this request.

**Staff Recommendation:** Approve as Budgeted.

**Vote:**

## **Issue 2 – Mainframe CPU Processing Capacity**

**Governor's Budget Request:** The Governor's 2012-13 Budget includes a proposal to increase expenditure authority of \$6.34 million (Technology Services Revolving Fund) in Fiscal Year 2012-13 to allow the Office of Technology Services to purchase 1,927 millions of instructions per second (MIPS) of mainframe processing capacity to meet projected customer needs.

**Background:** In 2009-10, the Office of Technology Services relocated its raised floor computing operations and infrastructure from the Cannery Campus and South Annex building to the State Compensation Insurance Fund (SCIF) Vacaville building to provide ongoing lease cost savings, identified in the 2009-10 Data Center Relocation Budget Change Proposal. As a result of this relocation, the Office of Technology Services has two major mainframe data centers: Gold Camp and Vacaville.

After completing all installation upgrades in 2011-12, the Office of Technology Services mainframe environment will have a capacity of 13,764 millions of instructions per second. According to the Office of Technology's assumption of a fourteen percent growth rate which is achieved by analyzing historical growth rates of the six CPUs, each of which have unique growth patterns. Of the Office of Technology Services current total of 500 customers, approximately 250 are mainframe processing customers. New state anti-fraud initiatives, federal reporting requirements, and natural population increases have driven the customers' caseload growth.

**Staff Comment:** Staff does not have any issues with this request.

**Staff Recommendation:** Approve as Budgeted

### Issue 3 – Enterprise Data Storage

**Governor's Budget Request:** The Governor's 2012-13 Budget includes a request to increase the spending authority of the Technology Agency by \$5.53 million dollars (Technology Services Revolving Fund) in Fiscal Year 2012-13 for hardware, software, and connectivity components to ensure adequate data storage support to meet the needs from customer driven workloads, approved Information Technology (IT) projects, and Disaster Recovery.

**Background:** While providing for the increasing needs of current customers, the Office of Technology must provide resources for approved Information Technology projects supported by the Office of Technology. In order to achieve both normal growth and approved IT projects, the Office of Technology must increase the number and density of virtual servers in preparation of departments growing or migrating over to the Office of Technology. Virtual servers require large amounts of data storage to support their efficient and effective use of IT resources and data processing. Increased IT density allows the Office of Technology to support the migration of Information Technology workload from other agencies. In addition, the Office of Technology must provide for customers with Disaster Recovery data storage requirements that are currently located at the Office of Technology or relating them to the Office of Technology.

**Staff Comment:** Staff does not have any issues with this request.

**Staff Recommendation:** Approve as Budgeted.

### Issue 4 – Network Capacity

**Governor's Budget Request:** The Governor's 2012-13 Budget includes a request to increase the spending authority of the Technology Agency by \$5.09 million (Technology Services Revolving Fund) in Fiscal Year 2012-13 to expand and maintain ongoing costs for Network projects. These Projects are necessary to ensure that the Office of Technology Services data centers can provide the level of services that current, and the anticipated new customers expect when they migrate to data centers.

**Background:** AB 2408 (Chapter 404, Statutes of 2010) defined target goals and timeframes for Information Technology consolidation. The target goals included: reduction of energy consumption, reduction in data center square footage, and to close any existing data centers or server rooms that house non-network equipment by June 2013. The Office of Technology's data storage capacity was impacted by this due to the migration of some departments to the

data centers. The Office of Technology has had to not only meet normal growth patterns but also account for growth due to an unknown number of customers. The Office of Technology has initiated multiple projects in preparation to secure additional data storage which require the network telecommunications infrastructure to ensure the network can accommodate the increased demands. The Office of Technology currently manages two data centers located in Vacaville and Rancho Cordova, California.

This request includes several projects that the Office of Technology Services must address. Some of the projects are accumulated workload due to changes required by moving from the legacy California State Government Network to the new vendor managed California Government Enterprise Network. Additionally, this request would address the need to ensure data transmission is not delayed for Southern California customers and provides an additional path for data transmission should a major disruption occur at one of the Northern California data centers.

**Staff Comment:** Staff does not have any issues with this request.

**Staff Recommendation:** Approve as Budgeted.

#### **Issue 5 – Data Center Maintenance and Operations**

**Governor’s Budget Request:** The Governor’s 2012-13 Budget includes a request to increase the spending authority of the Technology Agency by \$1.89 million (Technology Services Revolving Fund) in Fiscal Year 2012-13 to replace cooling and power equipment that has reached the end of its useful life, are safety hazards, and are damaged.

**Background:** This Budget Change Proposal will allow the Office of Technology to continue supporting customer applications at the Gold Camp Data Center. The Office of Technology’s Data Center hosts and supports other state agencies’ Information Technology equipment. The Gold Camp Data Center is over twelve years old and several cooling and power components need to be replaced to continue supporting customer server, mainframe, storage, and network equipment. At the time the Gold Camp Data Center was constructed, its primary function for computing services was mainframe-centric and the existing cooling and power was sufficient. Since then, technology has evolved towards a server environment with high density computing equipment that requires more cooling and power.

**Staff Comment:** Staff does not have any issues with this request.

**Staff Recommendation:** Approve as Budgeted.

#### **Issue 6 – Software Support for EDD Identity Management**

**Governor’s Budget Request:** The Governor’s 2012-13 Budget includes a proposal to increase expenditure authority in Fiscal Year 2011-12 for \$989,000 and in Fiscal Year 2012-13 for \$2.51 million (Technology Services Revolving Fund) to provide new software support as requested by the Employment Development Department (EDD) for their Information Technology modernization projects. Specifically, this request includes support for 6.0 positions for six months and a total of \$989,000 in Fiscal Year 2011-12. This Budget Change Proposal requests

6.0 ongoing positions in Fiscal Year 2012-13 and a total of \$2,508 million to support both the positions and the requested software support.

**Background:** As part of the effort to modernize and expand electronic services to its customers, the Employment Development Department has implemented a series of projects which utilizes new software products. Some of the Employment Development Department programs and services include: (1) Job Service, (2) Employment and Training Programs, (3) Disability Insurance, (4) Unemployment Insurance, (5) Payroll Tax and Labor Market Information. The Office of Technology Services provides the common technical needs for the Executive Branch agencies and the public entities and is accountable to the customer for providing secure services that are responsive to their needs and represent best value to the state. According to the Technology Agency's Office of Technology Services the current Employment Development Department resources are limited and do not provide the resources necessary to support the new software components. Current contracted services provide a very limited amount of support for the software.

**Staff Comment:** Staff does not have any issues with this request.

**Staff Recommendation:** Approve as Budgeted.

#### **Issue 7 – Elimination of the Technology Service Board**

**Background:** The Governor's 2012-13 Budget includes a request via trailer bill language to eliminate the Technology Service Board. The Board is responsible for the oversight and approval of the Office of Technology Services budget and rates. The Board was originally created as part of the Governor's Reorganization Plan that was approved in 2005. The Board is currently composed of eleven Agency Secretaries, the Department of Finance, and the Controller.

**Staff Comment:** The Technology Service Board provides a forum for various state entities to provide feedback and insight into the development of future Information Technology policy. Therefore, if the Administration requests that the Board no longer exists it should be their prerogative.

**Staff Recommendation:** Staff does not have any issues with this request.

**Staff Recommendation:** Approve elimination of the Technology Services Board.

#### **Issue 8 – Elimination of the Electronic Funds Transfer Task Force**

**Background:** The Governor's 2012-13 Budget includes a request via trailer bill language to eliminate the Electronic Funds Transfer Task Force. The Task Force is responsible for devising a plan on the development and implementation of a new payment dispersal system using electronic funds transfer technology. The Task Force is comprised of representatives from the Board of Equalization, the State Treasurer, and the State Controller's office. AB1585 (Chapter 7, Statutes of 2010) defined the report as obsolete and removed it from the list of reports to be maintained by Legislative Counsel.

**Staff Comment:** Staff does not have any issues with this request.

**Staff Recommendation:** Approve elimination of the Electronic Funds Task Force.

### **Issue 9 – Elimination of the 9-1-1 Advisory Board**

**Background:** The Governor's 2012-13 Budget includes a request via trailer bill language to eliminate the 9-1-1 Advisory Board. The State 9-1-1 Advisory Board is responsible for providing the Telecommunications Office with the proper policies, practices and procedures for the California 9-1-1 Emergency Communications Office. The Governor's 2012-13 Budget has stated that the policies and procedures considered by the Board will be performed by the State's administrative process.

**Staff Recommendation:** Staff does not have any issues with this request.

**Staff Recommendation:** Approve elimination of the 9-1-1 Advisory Board

## **0840 STATE CONTROLLERS OFFICE**

**Department Overview:** The State Controller is the Chief Fiscal Officer of California. The State Controller's Office (SCO) is a separately established constitutional office. The Controller chairs or serves on 81 state boards and commissions, and is charged with duties ranging from participating in the oversight of the administration of the nation's two largest public pension funds, to protecting the coastline, and helping to build hospitals. The Controller provides fiscal control for, and independent oversight of, more than \$100 billion in receipts and disbursements of public funds. In addition, the Controller offers fiscal guidance to local governments, and performs audit functions to uncover fraud and abuse of taxpayer dollars. The SCO's primary objectives are to:

- Account for and control disbursement of state funds.
- Determine legality and accuracy of claims against the State.
- Issue warrants in payment of the State's bills.
- Administer the Uniform State Payroll System.
- Audit and process personnel and payroll transactions for state civil service, exempt employees, and state university and college system employees.
- Audit state and local government programs.
- Inform the public of the State's financial condition.
- Administer the Unclaimed Property Law.
- Inform the public of financial transactions of city, county, and district governments.

The SCO is funded through the General Fund as well as over 300 special funds and accounts and reimbursements. The Governor's Budget requests \$245.8 million (\$88.6 million General

Fund) and 1,544 personnel years to support the SCO. This represents a substantial increase from the current year, due largely to the 21<sup>st</sup> Century Project described below. In addition, several other initiatives and workload increases are budgeted for 2012-13.

**2012-13 State Controller's Budget**

<b>Funding</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
General Fund	\$71.92	\$75.42	\$88.63
Unclaimed Property Fund	\$26.81	\$27.91	\$33.33
Central Service Cost Recovery Fund	\$20.10	\$20.52	\$20.40
Other Special Funds and Accounts	\$45.0	\$40.0	\$44.8
Reimbursements	\$53.1	\$59.3	\$58.4
<b>Total Expenditures</b>	<b>\$216.90</b>	<b>\$223.15</b>	<b>\$245.78</b>
<b>Personnel Years</b>	<b>1,276.9</b>	<b>1,451.3</b>	<b>1,544.5</b>

**Issue 1 – 21<sup>st</sup> Century Project**

**Governor's Budget Request:** The Governor's 2012-13 Budget includes a request for 181.0 one-year limited-term positions and \$81.36 million (\$46.87 million General Fund, \$1.0 million reimbursements authority, and \$33.49 million in Special Funds) to fund additional 21<sup>st</sup> Century Project costs in 2012-13. The 21<sup>st</sup> Century Project will result in an integrated human resource management system that will replace the existing payroll, employment history, position management, and leave accounting systems. Of the 181 positions requested in this Budget Change Proposal 111 are a continuation of positions approved in a 2011-12 Budget Change Proposal. An additional 70 positions will address new project workload

**Background:** The State Controller's Office pays approximately 249,000 employees, including state civil service, California State University and Judicial Council Employees, judges and elected officials. The 21<sup>st</sup> Century Project (Project) will replace the existing statewide human resource management systems in order to improve management processes and fulfill payroll and reporting obligations accurately and on time. The Project, with approval from the Legislature was started in 2004.

The additional 70 positions will address new project workload as described in greater detail below: 16.0 positions in project management, 41.0 positions in business operations, 49.0

positions in technical operations, 50.0 positions in organizational change management, 10.0 positions in business transition, and 15.0 positions in other administrative functions.

- **Project Management** – The Project Management Office is composed of teams with the objective of implementation. The office’s day-to-day activities include administrative support with budgets, funding and contracts, and ensuring reporting and compliance requirements are met. A quality assurance team performs its duties using methodologies designed to measure the accuracy and success of the project implementation. Advisors with expertise in large-scale Information Technology are accessible for guidance when needed.
- **Business Operations** - The Business Operations team monitors Project functional deadlines, milestones, work products, and deliverables. Staff manages and performs day-to-day operations for time, payroll, benefits, and configuration functions. The team also performs gap analysis and leads business processes reengineering activities including interface coordination and control agency reporting.
- **Technology Operations** – The Technology Operations team support’s technology design, development, and the implementation of the MyCalPAYS system. Technical staff is also responsible for leading Data Conversion, Reporting, Development, Infrastructure, and Security activities.
- **Organizational Change Management** – The Organizational Change Management team is responsible for the execution and planning of deployment, training, workforce transition, internal and external communications, mobilization and alignment, and stakeholder management.

**Staff Comment:** There clearly is a need to transition from a transaction based system to an enterprise database system that better supports the business needs of the state. Unfortunately, the state’s solution, the 21<sup>st</sup> Century Project, has been subject to a series of setbacks that have prolonged implementation. Upon termination with the original vendor (BearingPoint), the State Controller’s Office has awarded a new contract to SAP that was approved in February 2010. This project is currently subject to approximately a twelve month delay from the approved Special Project Report 4.

In 2005, the Legislature approved the project with an estimated total cost of \$130 million. Currently, total project costs, as noted in SPR 5, total \$370 million dollars. The table below represents the ongoing costs associated with the 21<sup>st</sup> Century Project. According to the chart below, 2012-13 will be the high-water mark, with yearly costs totaling \$81.4 million (\$46.9 million General Fund).

**21<sup>st</sup> Century Project Costs**

Year	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11	2011- 12	2012 -13	2013 -14	2014 -15	Total
Project Costs	1.4	4.9	11.6	35.8	19.1	19.6	31.4	65.6	64.0	81.4	33.2	5.1	370.2
General Fund	0.0	0.0	0.0	18.1	9.9	11.8	16.2	30.3	34.5	46.9	6.5	0.0	174.2

**Staff Recommendation:** The State Controller's Office has noted that it is likely that additional revisions will be made to the request for support of the 21<sup>st</sup> Century Project. Staff recommends holding this item open until those revisions are presented to the respective Budget committees for review.

**Vote:**

## **Issue 2 – Increased Accounting and Reporting Workload**

**Governor's Budget Request:** The Governor's 2012-13 Budget includes a request for 2.1 positions and \$200,000 in General Fund for a two-year limited-term through 2013-14, to enable the State Controller's Office Division of Accounting and Reporting (DAR) to effectively continue state-wide cash management and 1.1 positions and \$107,000 in reimbursement authority for 2012-13 and ongoing to perform County Cost Plan Reviews and to address increased workload related to federally mandated County Cost Allocation Plans.

**Background:** The State Controller's Office has an extensive audit program that the state relies on to monitor and evaluate the financial performance of various state programs.

- **Cash Management** – The 2012-13 Budget includes a request for 2.1 positions and \$200,000 for the continuation of two existing two-year, limited-term positions for an additional two years. The state's ongoing fiscal issues have increased workload requirements for daily cash management activities and the cash management team's activities have become increasingly important as the state's cash margins have narrowed. The State Controller's Office projects that workload requirements will increase from 9,342 hours to 14,510 hours in the current year. The expectation is that this level of increased workload will continue over the next few years.
- **County Cost Claims** – The State Controller's Office has authority for reviewing, negotiating, and approving countywide cost allocation plans for the Department of Health and Human Services. The activities include establishing principles for determining costs for federal awards, developing information for supplemental cost plan instructions, and reviewing procedures for direct billing of central services. The program is funded by reimbursements from the Department of Social Services (DSS) per an interagency agreement and consists of 5 positions. The increased workload reflected in this Budget Change Proposal addresses a need to conduct more timely desk and field reviews and approvals of procedures and methodologies for direct billing, pursuant to federal requirements. DSS has requested that the Controller's Office increase its reviews in order to comply with the federally-funded county cost allocation plans.

**Staff Comment:** Staff does not have any concerns with this request.

**Staff Recommendation:** Approve as Budgeted

**Issue 3 – Unclaimed Property Insurance Workload**

**Governor’s Budget Request:** The Governor’s 2012-13 Budget includes a request for \$1.30 million from the Unclaimed Property Fund and 13.7 positions in 2012-13, and \$1.12 million from the Unclaimed Property Fund and 11.6 positions in 2013-14 to address workloads resulting from holders (businesses) failing to meet requirements necessary to properly provide the rightful owners the opportunity to be reunited with their property.

**Background:** Under current law, the State Controller’s Office is responsible for safeguarding unclaimed property until it is returned to the lawful owner. In most cases, after three years, the property is transferred to the state. There are a variety of ways throughout the process for property owners to be notified of property being held. For example, property owners may receive mailed notifications, that website information exists, and that the state has established a toll free number. Recently, there have legislative and administrative changes that have increased workload in the areas of financial accountability and corporate actions, and the collection of securities. According to the State Controller’s Office, the goal of this program is to expedite the return of the property to owners by increasing the ability of the State Controller’s Office to preserve the integrity of the ownership trail.

**Insurance Companies** – Recently, the State Controller’s Office has been conducting audits on life insurance companies to determine the industry’s compliance with the state unclaimed property laws. According to the State Controller’s Office, they have discovered that insurance companies often fail to pay death beneficiaries on their life insurance policy. Instead, companies draw-down the policies’ cash reserves in order to continue collecting premium payments from the deceased policy holder. Once the cash reserves are depleted, the companies cancel the policy. Owners of such benefits are often not notified and the State Controller’s Office has not been notified either. Since notice has not been given and the State Controller’s Office does not have the property on file, the property is seldom conveyed to the lawful owner.

**Holder Remit Reports** – Holders of property have, on occasion, submitted unclaimed property to the State Controller’s Office without a Holder Remit Report that details information about the individual owners and the total amount of property. In the most recent three-year period, approximately 1,582 remittances and \$116 million have been made without the required report. Without such a report, the State Controller’s Office is unable to take effective and necessary steps to locate the owner. The reporting requirements have been further clarified by the Legislature last year.

**Staff Comment:** Staff does not have any concerns with this request.

**Staff Recommendation:** Approve as Budgeted.

**Issue 4 – Fraudulent Claims Detection and Prevention Program**

**Governor’s Budget Request:** The Governor’s 2012-13 Budget includes a request for 17.9 permanent positions and \$2.28 million in 2012-13 and ongoing from the Unclaimed Property Fund to establish a unit within the Unclaimed Property Program designed to detect and prevent fraudulent unclaimed property from being paid.

**Background:** Under current law, the State Controller's Office is responsible for safeguarding unclaimed property until it is returned to the lawful owner. The Unclaimed Property Division (UPD) of the State Controller's Office reunites owners with their lost or abandoned property when the owner files a paper claim following a search for property on the State Controller's website or after calling the Unclaimed Property Division call center to request a claim form. A claim may be filed by either the owner or the heir of the owner as reported by the holder.

**Staff Comment:** According to the State Controller's Office there has been an inconsistent pattern of fraudulent claims filed over the past four years; ranging from 2 in 2007-08 to 1,017 in 2010-11. Given the wide variation in claims filed and amounts awarded over each year it may be more feasible to develop a scaled-down pilot that will allow the State Controller's Office to develop a more thorough approach.

**Staff Recommendation:** Hold Open – Recommend the State Controller's Office revise request to a scaled down pilot plan version that could be authorized on a limited-term basis.

#### **Issue 5 – Integrated Data Management System Cost Increase**

**Governor's Budget Request:** The Governor's 2012-13 Budget includes a request for \$988,000 (\$224,000 General Fund, \$475,000 reimbursements and \$281,000 Special Funds) for 2011-12 and \$1.14 million (\$262,000 General Fund, \$522,000 reimbursements and \$326,000 Special Funds) in 2012-13 to fund increased Office of Technology Data Center costs to support Computer Associate Integrated Data Management System (IDMS) Technology services. The request for 2011-12 resource allocation was received through the Section 28.50 process in December 2011.

**Background:** The State Controller's Office has requested the additional support to maintain an existing information system for three departments (State Controller's Office, California Highway Patrol, and California State Teachers Retirement System) while these departments complete their own information technology improvements. The Office of Technology will no longer offer IDMS as a shared service as of March 31, 2012. The service will be offered as a dedicated service to the three agencies continuing to use this system. As part of the State Controller's Office ongoing technology improvements, the IDMS capabilities will be transitioned in the future.

**Staff Comment:** Staff does not have any concerns with this request.

**Staff Recommendation:** Approve as Budgeted.

#### **Issue 6 – Increased Audit Workload**

**Governor's Budget Request:** The Governor's 2012-13 Budget includes a request for \$2.09 million (\$1.42 permanent and \$673,000 one-year limited-term) in reimbursement authority to support 12.6 existing positions and 7.4 new positions (1.1 permanent positions and 6.3 one-year limited term) beginning in 2012-13.

**April 1 Finance Letter:** In addition to the original positions requested to support the audit workload, the State Controller's Office has requested an additional \$1.75 million (\$856,000 one-year limited-term and \$899,000 five year limited-term) in reimbursement authority to support 8.0 existing positions and 7.4 new positions (8.0 one-year limited-term and 7.4 five year limited term) beginning in 2012-13. Included within this request was the request for support of 8.0

positions and \$856,000 in reimbursements in 2012-13 to perform federally-mandated audits of the Disproportionate Share Hospital program, administered by the Department of Health Care Services.

**Background:** Both proposals would either maintain or, in some cases, increase the presence of auditing the following programs.

- **Women, Infants and Children (WIC)** – Vendors participating in the program administered by the California Department of Public Health (CPDH). The January Budget request was for 12.6 positions with \$1.3 million in reimbursements in order for CPDH (which contracts with the State Controller's Office) to maintain the increased auditing requirements of the US Department of Agriculture (USDA) which runs the WIC program. The April 1 Finance Letter requested an additional \$899,000 and 7.4 positions for five years for federally mandated audits of the WIC program to ensure that the state is in compliance with the requirement that five percent of the vendors be audited annually. The April 1 Finance letter also included a request for \$23,000 in one time costs for minor equipment (laptops, mobile printers).
- **California Department of Public Health (CDPH)** – CDPH financial statements, single audits of the Safe Drinking Water Revolving Fund, and the CDPH's federally funded Public Water System Supervision grant. This request is to continue the funding for 1.1 positions and \$92,000 in reimbursements to continue to permanently maintain this position. The auditing presence will continue to be required in order for the state to receive the federal grant funding of \$75 million annually for the program.
- **Disproportionate Share Hospital Program** – Federally ran program established to assist hospitals that serve a large number of Medicaid (Medi-Cal) and low-income patients. Through the DSH Program, the State pays a qualifying hospital a DSH payment that is an addition to the standard Medicaid payment. The State then submits a reimbursement claim to the federal government.
- **California Department of Transportation (Caltrans)** – It is anticipated that there will be additional ARRA construction costs incurred through 2012-13, which would require an auditing presence in order to comply with federal standards. This request is for the continuance of 6.3 positions and \$673,000 in reimbursement authority to perform audits of the projects funded through ARRA.

**Staff Comment:** Staff does not have any concerns with this request.

**Staff Recommendation:** Approve request included in Governor's 2012-13 Budget, approve request submitted on April 1.

#### **Issue 7 – Redevelopment Dissolution Related Workload**

**Governor's Budget Request:** The Governor's 2012-13 Budget includes a request through the Section 28.00 process to address increased workload responsibilities of the State Controller's Office associated with the dissolution of the redevelopment agencies across the state. The request was for a \$646,000 increase in reimbursement authority and 25 audit, 1 accounting and

1 legal positions. The State Controller's Office indicates that it will be required through the end of the 2012-13 budget year.

**April 1 Finance Letter:** The State Controller's Office requests 27.0 permanent positions and \$3.01 million in reimbursement authority (\$640,000 for 2011-12 through Section 28.00 request and \$3.01 million for 2012-13 and ongoing) to address workload from ABX1 26 (Statutes of 2011-12) as modified by the California Supreme Court decision. The workload includes a one-time review of transfers of assets to identify and return any improper transfers from RDAs and ongoing work to provide County Auditor/Controller actions regarding RDAs, and ensuring the timely receipt, review and follow up on new and ongoing documents. Additionally, there were reporting requirements associated with this request and the Department of Finance would be granted the authority to reduce future positions and funding to reflect workload conditions.

**Background:** As a result of the legislation adopted last year and the subsequent decision by the State Supreme Court, RDAs were dissolved as of February 1, 2012. Between the time, the Governor proposed elimination of RDAs as part of his 2011-12 Governor's Budget, and dissolution, RDAs engaged in activities including the transfer of assets that need to be reviewed. The State Controller's Office is responsible for determining the validity of such transactions and preserving public assets. The State Controller's Office will be responsible for numerous activities related to the dissolution process including disposal of assets and establishing accounts for payments due on RDAs debts.

**Staff Comment:** Staff recognizes the need to provide the requested positions to the State Controller's Office to ensure that the legislative intent of RDA dissolution is adequately addressed. The purpose of the legislation was to redirect property taxes to local governments in a manner that best suits their needs. There are a substantial amount of assets at stake and the original request for temporary positions is reasonable. However, staff does not think that there is a need to authorize these positions on a permanent basis. It is reasonable to believe that the dissolution of RDAs will be revisited on several occasions over the next couple of years and assessments on needs will be made at that point.

**Staff Recommendation:** Approve original Section 28.00 request. Approve April 1 Finance Letter requested positions on a 3-year limited-term and provide Department of Finance with authority to adjust positions/reduce positions in third year.

## 0890 CALIFORNIA SECRETARY OF STATE

The Secretary of State (SOS), a statewide elected official, is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The SOS is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, preserving documents and records having historical significance. The SOS is the filing officer for lobbying and campaign registration and disclosure documents filed under the Political Reform Act. The SOS also operates the Safe At Home program, maintains the Domestic Partners and Advanced Health Care Directives Registries, and is home to the California Museum for History, Women and the Arts.

The Governor's Budget proposes total spending of \$101.9 million (\$31.6 million General Fund) for the SOS in 2012-13. Proposed staffing totals 451 personnel years (PYs), an increase of 2.8 PYs compared with the current year. The large decrease in proposed expenditures is due to a decrease in Federal Trust Fund monies, which largely reflects counties' use of federal voting improvement funds and the VoteCal Project funding schedule. Counties' use of this money fluctuates annually.

### 2012-13 California Secretary of State Budget

Funding	2010-11	2011-12	2012-13
General Fund	\$70.06	\$30.99	\$31.56
Secretary of State's Business Fees Fund	\$36.88	\$38.65	\$40.23
Federal Trust Fund	\$4.78	\$82.31	\$18.85
Reimbursements	\$24.20	\$9.52	\$9.62
Victims of Corporate Fraud Compensation Fund	\$0.03	\$2.49	\$1.59
<b>Total Expenditures</b>	<b>\$135.97</b>	<b>\$163.97</b>	<b>\$101.86</b>
<b>Personnel Years</b>	<b>462.3</b>	<b>448.2</b>	<b>451.0</b>

#### Issue 1 – California Business Connect Project

**Governor's Budget Request:** The Governor's 2012-13 Budget proposes authorization of \$2.4 million in Reimbursement authority to continue the California Business Connect project, which will automate the filing and retrieval of business documents and create a centralized database for all business records. The project, expected to be completed in June 2016, will allow for improved services to new and existing businesses.

**Background:** The Secretary of State is the filing officer for the state, responsible for filing commerce and trade documents such as business formations, state and federal tax lien notices, and keeping records of key persons or entities operating corporations and limited liability companies. The office receives more than one million business filings annually, and current systems rely on antiquated and paper databases, such as index cards, to process and maintain

records. Many business services must be done in-person or by mail. These processes lead to very slow service, preventing new businesses from opening their doors and creating jobs. Processing times for the office have been as high as 117 days, preventing new companies from beginning operations and creating uncertainty for existing companies. (Issue 2 is SOS' short-term proposal for addressing slow turn-around times.)

California Business Connect will automate these processes to allow for faster, more reliable services to businesses. Once completed, the project will allow for real-time filing of business records, allow government agencies to access information about businesses in a timely manner, and allow for more secure and timely processing of payments.

Activities in 2012-13 include developing the Request-for-Proposal to select a vendor and to continue contracting for other services, including a Procurement Support Consultant (RFP Writer) and Project Manager.

**Staff Comment:** The project is expected to cost \$23.8 million to complete, with annual ongoing maintenance and support costs of \$1.8 million. SOS believes that once the project is complete, it will provide a net benefit to the state of \$5.8 million annually by allowing the office to eliminate 48 positions and creating a faster process to collect business fees, and potentially provide a greater source of revenue to the General Fund.

The project will be funded through a portion of a \$5 disclosure fee that is paid at the time domestic stock and foreign corporations file their annual Statements of Information, and expedited fees paid by businesses to ensure a quicker turnaround time. The use of this money is in compliance with California Corporations Code sections 1502 and 2117, which requires that one-half of disclosure fees must be utilized to enhance program services, including the development of an online database to provide public access to all information contained in the Statement of Information filing.

SOS states that it will not need to increase filing fees or seek General Fund monies to pay for this project. SOS will request expenditure authority each year.

**Staff Recommendation:** Approve as Budgeted.

## Issue 2 – DGS Rate Increase

**Governor's Budget Request:** The Governor's Budget includes an increase of \$1.1 million (\$817,000 General Fund) in Fiscal Year 2012-13 and ongoing to pay for increased printing costs related to the Voter Information Guide and other documents published by the SOS. SOS notes that the Department of General Services' Office of State Printing has instituted a 20 percent increase in printing costs, necessitating this augmentation.

**Background:** In every statewide election, SOS prepares voter information pamphlets in ten languages that are mailed to voters' homes and available throughout the state. In addition, SOS must print documents such as Voter Registration Cards, brochures for the Safe at Home program, and handbooks for notaries. The General Fund pays for election-related publications; the Business Fees Fund pays for business-related publications.

SOS receives an annual appropriation for printing costs of \$2.6 million. This appropriation is based in part on an 80-page Voter Information Guide (VIG) for each statewide election. While

the June 2012 primary election should be within that range, SOS is predicting a larger VIG – far in excess of 80 pages - for the November 2012 election.

On August 24, 2011, DGS' Office of State Printing (OSP) issued a memorandum stating it was increasing printing rates by 20 percent. DGS states that an analysis of its internal costs showed that revenues were not supporting its costs, prompting the increase.

SOS is the second-largest customer for OSP, behind only the Franchise Tax Board. Based on this rate increase, SOS is requesting an ongoing augmentation of \$558,000 for the VIG and \$518,000 for other printing jobs.

**Staff Comment:** This request would require \$817,000 from the General Fund and \$259,000 from the Business Fees Fund.

**Staff Recommendation:** Approve as Budgeted.

### Issue 3: Supporting Business in California

**Governor's Budget Request:** The Governor's Budget proposes a two-year limited-term augmentation of \$1.1 million from the Business Fees Fund to keep existing but unfunded positions filled, hire more temporary help, and allow for paid overtime, to process business filings in a more timely manner. This is SOS' short-term solution to addressing slow turnaround times for processing business documents.

**Background:** The Secretary of State (SOS) receives more than one million business filings annually, and current systems rely on antiquated and paper databases, such as index cards, to process and maintain records. Many business services must be done in-person or by mail, and processing documents is a labor-heavy endeavor for the office. Until the end of Fiscal Year 2008-09, SOS used overtime and temporary help to process the workload. Due to budget cuts, SOS closed three of four regional offices (the Los Angeles office remains open) and eliminated overtime and temporary help.

This led to a significant backlog of documents, which prevents businesses from opening and slows a revenue source for the state's General Fund. Turnaround times for many documents soared to as much as 115 days. The table below illustrates the backlog related to business formations; just one of the documents the SOS is responsible for processing.

To address the backlogs, SOS was allowed in Fiscal Year 2010-11 and 2011-12 to use an additional \$500,000 from the Business Fees Fund for overtime and temporary help, and the state Assembly contributed \$1.2 million in 2011-12 from its internal savings to address the backlogs. This funding helped SOS reduce its turnaround time on many documents to 71 days.

This funding request would allow SOS to continue paying overtime and using temporary help. SOS states that its goal will be to reduce turnaround times on documents received by mail to 15 days.

**Staff Comment:** SOS plans to split the funding requested, spending \$550,000 on filling vacant positions more quickly, and \$599,000 on overtime and temporary help. This funding request will not require raising fees on businesses.

Addressing the backlog in processing business documents will help businesses open their doors or make other changes more quickly, benefiting the state's economy. In addition, faster turnaround times will help generate revenue more quickly for the General Fund.

**Staff Recommendation:** Approve as Budgeted.

#### **Issue 4: Help America Vote Act spending Plan**

**Governor's Budget Request:** The Governor's 2012-13 Budget includes \$4.4 million in spending authority from the Federal Trust Fund to continue implementing the Help America Vote Act of 2002 (HAVA). The funds will be used to continue voter accessibility programs, voter education, voting system testing and approval, and post-election auditing.

**Staff Comment:** On October 29, 2002, President Bush signed into law the Help America Vote Act of 2002. This legislation requires states and localities to meet uniform and nondiscriminatory election technology and administration requirements applicable to federal elections. To date, California has received \$433.9 million in federal HAVA funds, including interest earned.

HAVA has, so far, allowed the state and counties to replace punch-card voting systems and improve voter outreach, poll worker training, county security measures, and voter access for persons with disabilities. Activities in 2012-13 include voting system testing and approval, voter education programs and post-election auditing. Grants to counties account for \$1.7 million of the funding. In addition, the Secretary of State is continuing work on the VoteCal project. Continuing to fund the HAVA program is critical to meeting federal mandates.

**Staff Recommendation:** Approve as Budgeted.

#### **Issue 5: Help America Vote Act - VoteCal**

**Governor's Budget Request:** The Governor's budget requests \$14.4 million in expenditure authority from the Federal Trust Fund to continue work on the VoteCal system, an information technology project that will create a statewide database of voter registration information. The project is in line with the Help America Vote Act of 2002 (HAVA), which requires states to have a single system for storing and managing lists of registered voters.

**Background:** Section 303 of HAVA mandates that each state implement a uniform, centralized, interactive, computerized voter registration database that is administered at the state level. The state-managed system also must provide an interface for counties that are charged with conducting elections to allow counties to access and update registration data.

Currently, counties maintain voter registration data autonomously with their own Election Management Systems. Data from these systems is uploaded to the state at varying intervals into a state database called CalVoter 1. This system has been approved by the federal government on a temporary basis until VoteCal is fully implemented.

The VoteCal project will create a new, interactive database and update county systems to allow interconnectivity. VoteCal also will allow connections to various databases in order to confirm voter identity (such as the Department of Motor Vehicles, and the Social Security Administration), and to vital records and criminal justice records in order to validate information on deaths and felony convictions.

The current estimated cost for VoteCal is \$53.5 million. To date, SOS has spent \$10.7 million and is authorized to spend \$11.6 million in the current fiscal year. SOS currently estimates the project will be completed by May 2015. The project is completely funded by the federal government. Operating costs – which SOS estimates will be \$4 million annually and will eventually be assumed by the state.

Proposed activities in FY 2012-13 include the procurement process and vendor selection, which is currently planned for January 2013. Of the \$14.4 million requested, \$1.3 million is for personal services and \$13.1 million is for operating expenses related to consultant support services and other costs, such as software customization.

**Staff Comment:** The VoteCal project has experienced several setbacks during the past three years, and the current completion date is more than two years later than originally expected. SOS originally contracted with a vendor in 2009 to implement the voter registration database, but that contract was terminated in May 2010 after the vendor failed to provide a required performance bond. A new Request for Proposal was released in June 2011, but various factors have played a part in delaying the procurement and awarding of the contract from October 2012 until January 2013.

**Staff Recommendation:** Approve as Budgeted.