SUBCOMMITTEE NO. 4 Agenda

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

Thursday, May 11, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

PART A

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION AND VOTE

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS PROPOSED FOR VOTE-ONLY

0690 OFFICE OF EMERGENCY SERVICES (OES)

Issue 1: Child Victims of Human Trafficking Fund - SFL

Budget. OES requests $268,000 (Child Victims of Human Trafficking Fund) local assistance authority in fiscal year 2017-18, to continue the allocation of contributions collected pursuant to Assembly Bill 764 (Swanson), Chapter 465, Statutes of 2011, and to exhaust the fund.

Background. AB 764 authorizes taxpayers to designate on their tax returns that a specified amount in excess of their tax liability be transferred to the Child Victims of Human Trafficking Fund established in the State Treasury. All monies contributed to the fund pursuant to these provisions, upon appropriation by the Legislature, will be allocated to OES. OES then administers the funds to community-based organizations which serve minor victims of human trafficking. In FYs 2015-16 and 2016-17, OES allocated these funds to two projects to provide mandated services to minor victims of human trafficking.

Issue 2: Nuclear Planning Assessment CPI Adjustment - SFL

Budget. OES requests an adjustment to the Nuclear Planning Assessment Special Account appropriations of $9,000 for state operations and $51,000 for local assistance.

Background. The Nuclear Planning Assessment Special Account authorizes OES to bill the utilities operating nuclear power plants, with a capacity of 50 megawatts or greater, for the costs to perform the mandated off-site preparedness activities of the local jurisdictions and state agencies. OES manages the Nuclear Planning Assessment Special Account and collects funds annually from the operating utilities and provides the funds to the local jurisdictions in proximity to the nuclear power plants and to the California Department of Public Health. The Diablo Canyon Power Plant operates in San Luis Obispo County and is the sole remaining participant for the Nuclear Planning Assessment Special Account.

Government Code Section 8610.5(e)(1) provides that the amounts available for disbursement for state and local costs shall be adjusted and compounded each fiscal year by the percentage increase in the California Consumer Price Index (CPI) of the previous fiscal year. Government Code provides that, for the Diablo Canyon site, the amounts available for disbursement shall be adjusted and compounded each fiscal year by the larger of the percentage change in the prevailing wage for San Luis Obispo County employees, not to exceed five percent, or the percentage increase in the California CPI from the previous fiscal year.

0845 CALIFORNIA DEPARTMENT OF INSURANCE

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

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

Budget. The budget includes $269.7 million ($263 million Insurance Fund, $6.4 million General Fund, $18,000 Federal Trust Fund, and $250,000 in reimbursements) and 1,256.8 positions to support the department and its programs.

Issue 1: Enhanced Fraud Investigation and Prevention (Warner Chilcott Settlement) – SFL

Budget. CDI is requesting $1,864,000 (General Fund) in Fiscal Year (FY) 2017-18 and $728,000 in FY 2018-19 through FY 2020-21. These funds will provide resources to implement a fraud data analytics tool and support two positions to analyze the data generated from the data analytics tool.

Background. On December 18, 2015, CDI and whistle blowers reached a $23,250,000 settlement with pharmaceutical company Warner Chilcott to resolve a lawsuit alleging drug marketing fraud in violation of state law. The settlement resolved allegations contained in a pay-for-play qui tam health insurance lawsuit filed by three former Warner Chilcott employees. As required by the state's insurance whistle blower law, the Warner Chilcott settlement payment was divided between the whistle blowers and California. The state's share was $11,852,000, which was paid to the General Fund for enhanced fraud investigation and prevention efforts; upon appropriation by the Legislature. As a result, CDI submitted a FY 2016-17 BCP seeking General Fund resources for enhanced fraud investigation and prevention efforts and the Legislature approved an appropriation of $6,460,000 for a five-year period, leaving an available balance of $5,392,000. As part of that BCP, CDI requested funding of $450,000 for the planning phase of a Software-as-a-Service (SaaS) solution for enhanced fraud investigation and prevention efforts. CDI is now requesting the necessary resources to implement the SaaS and, in FY 2018-19 through FY 2020- 21, for maintenance and operations.

Implementation. The CDI is currently in the planning phase that includes market research via a Request for Information and a Proof-of-Concept that has demonstrated the capability of the available SaaS products and the amount of configuration that will be necessary to meet the business needs. In addition to researching the technical solution, CDI is planning and implementing organizational change management strategies to ensure that the SaaS software users receive the new software tool positively, facilitating the acceptance and use of the new tool. The implementation will be phased, starting with the intake and assignment of functional workflows, and the detectives and case documentation functions will be added once all functionality has been configured.

Staff Comment. The California Department of Technology (CDT) conditionally approved CDI's Stage 1 Business Analysis on April 1, 2016. CDT approved the Stage 2 Alternative Analysis on March 8, 2017. Stage 3 Solution Development is being completed and is anticipated to be approved by May 2017 and once Stage 4 Project Readiness and Approval is formally approved by CDT, the department will procure the solution, complete organizational change management, implement the solution, and train the users on the software system.

0890 SECRETARY OF STATE

Issue 1: Safe at Home Program Address Confidentiality – TBL

Budget. The budget provides trailer bill language (TBL) that would make implementation of the changes made by AB 2263 (Baker), Chapter 881, Statutes of 2016, to the Safe At Home (SAH) program subject to an appropriation.

Staff Comment. The subcommittee considered this item at its March 23, 2017, hearing. Assembly Bill 2263 (Baker), Chapter 881, Statutes of 2016, standardized the confidentiality protections for SAH Program participants, and requires the SOS to provide SAH enrollees with information about how to protect their privacy on real property records. When AB 2263 went through the legislative process it was determined to have no cost as the SOS believed that the additional workload could be absorbed. However, according to SOS, the workload cannot currently be absorbed and the proposed TBL would address this issue. The proposed changes potentially have the effect of making the actions required by the SOS permissive.

2240 California Department of Housing and Community Development

Issue 1: National Housing Trust Fund Workload Adjustment

Budget. The budget proposes three positions and $10.4 million in federal funds ($423,000 State Operations and $10 million Local Assistance) to administer the National Housing Trust Fund (NHTF) Program for this year and ongoing. Additionally, this proposal includes trailer bill language to clarify that HCD is authorized to expend up to 10 percent of the federal award on administrative costs.

Staff Comment. This request is generally reasonable based on workload data and the likelihood of future rounds of federal funding for this program. The Assembly made non-significant changes to the proposed trailer bill language to clarify allowable uses of funds. This item was first heard in Subcommittee 4 on April 27th.

Staff Recommendation. Approve three positions and $10.4 million in federal funds. Adopt the Assembly amendments to the trailer bill language.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 1: Building Standards Commission – Model Water-Efficient Landscaping Ordinance (AB 2515) - BCP

Budget. The DGS, California Building Standards Commission (CBSC), requests an augmentation in expenditure authority of $208,000 (Building Standards Administration Special Revolving Fund) and one permanent position to meet the ongoing workload associated with Assembly Bill 2515 (Weber), Chapter 576, Statutes of 2016.

Staff Comment. The subcommittee considered this item at its March 30, 2017, hearing. It is unclear whether DWR will choose to update the MWELO guidelines. If the guidelines are not updated, this position will not be necessary.

Issue 2: Building Standards Commission - Exterior Elevated Elements (SB 465) - BCP

Budget. The Department of General Services, California Building Standards Commission (CBSC) requests an augmentation of $208,000 (Service Revolving Fund) and one permanent position to meet the legislative mandates enacted by Senate Bill 465 (Hill), Chapter 372, Statutes of 2016.

Staff Comment. The subcommittee considered this item at its March 30, 2017, hearing. The workload associated with this request does not seem sufficient to justify a permanent position.

Issue 3: Stale Dated Warrants – TBL

Budget. The budget provides trailer bill language (TBL) that authorizes departments to pay expired warrants from any funds that are legally available to the department for that purpose. The TBL also allows departments to submit a request to include a claim for reimbursement of a warrant in a claims bill if it is unable to issue a replacement warrant from its current appropriation or other available funds.

Background. The Government Claims Program (GCP) processes claims for money or damages against the state. In 2016, the GCP was moved from the Victim Compensation and Government Claims Board to DGS. As part of that transfer, responsibility for stale dated warrants was delegated to departments. Section 905.2(B) of the Government Code was amended to provide that payments for these warrants, if allowed, shall be paid from the issuing entity's current appropriation. Since then, departments have been receiving these claims and working with the State Controller's Office to ensure that the checks are valid and that they have never been cashed. However, at least one warrant has been presented that cannot be paid from the issuing entity's appropriation. This was a check written by the Department of Motor Vehicles (DMV) in

2001 that was paid from a special deposit fund that has since reverted to the General Fund. Because the DMV does not have any General Fund, and the original check was from a fund source that has since reverted, it cannot be paid with DMV's existing appropriation. As a result, there is no legal mechanism to re-issue this check.

This technical change is proposed to allow for stale dated warrants that cannot be paid from existing departmental appropriations to be included in the annual equity claims bill. The GCP at is required to present claims needing a legislative appropriation annually; the TBL proposes including these types of warrants in the DGS claims bill.

Staff Comment. The TBL is a technical change to allow for the payment of stale warrants. These warrants constitute about 600 claims out of a total workload of around 6600 claims. Most stale warrants of all types are for relatively small dollar amounts. Additionally, by allowing for these warrants to be included in a claims bill, the Legislature will get an opportunity to review the payment.

8940 California Military Department (CMD)

Issue 1: State Active Duty Compensation Increase - SFL

Budget. The CMD requests $1,237,000 ($541,000 General Fund, $651,000 Federal Trust Fund, $23,000 reimbursement authority, and $22,000 Mental Health Services Fund) to align the pay of its state active duty employees to the pay of service members of similar grade in the United States Army, United States Air Force, and United States Navy.

Background. Compensation for service members of the United States Army, United States Air Force, and United States Navy is set forth annually by the federal government in the National Defense Authorization Act (NDAA). The NDAA is usually signed into law in late December. Military and Veterans Code sections 320 and 321 provide that the CMD must pay its state active duty employees at the same rate as service members of similar grade in the federal armed forces. Due to the timing of the NDAA, CMD had to wait until the spring to request funding to match the service member compensation codified in the NDAA.

Issue 2: Capital Outlay Proposals

Budget. The Governor's January budget includes two capital outlay proposals, totaling $146.8 million ($150,000 General Fund, $150,000 federal funds, and $146.5 million lease revenue bond funds). The CMD also proposes five capital outlay proposals in spring finance letters, totaling $41.1 million ($6.8 million General Fund, $6.8 million federal funds, $2.6 million Armory Fund, and $24.7 lease revenue bonds). The proposals include:

- **Advanced Plans and Studies.** CMD seeks $300,000 ($150,000 General Fund and $150,000 federal matching funds) for architect-engineering services to develop conceptual designs and validated cost estimates for future capital projects. The subcommittee considered this item at its March 9, 2017 hearing.

- **Consolidated Headquarters Complex.** CMD requests $141,884,000 lease revenue bond funds for the design-build phase of the continuing consolidated headquarters complex project in Sacramento. The subcommittee considered this item at its March 9, 2017 hearing.

- **Santa Cruz Armory Renovation.** A re-appropriation of $4 million ($2 million General Fund and $2 million federal funds) for the performance criteria and design-build phases of the Santa Cruz armory renovation. The armory, which was built in 1955, sits on 1.3 acres. The renovation would allow 50 additional soldiers to train, and will include HVAC replacement and upgrades to electrical, energy, plumbing, roofing, fencing, and code-compliant doors. The department anticipates this renovation will alleviate pressure on Seaside and Gilroy armories. Total project costs are estimated to be $4 million ($302,000 for performance and $3.7 million for the design-build phase).

- **Escondido Armory Renovation.** A re-appropriation of $4.1 million ($2 million General fund, $2 million matching federal funds) for the performance criteria and design-build phase for the Escondido Armory renovation. The armory, which was built in 1961, does not have the capacity to serve all the units currently assigned. Renovations would include upgrades to the HVAC, electrical, plumbing, security fencing; and will repurpose 1,450 square feet of space, originally intended as an indoor rifle range, for administrative and classroom space. With the renovation, the existing 133 soldiers and an additional 25 soldiers will be accommodated. Total project costs are estimated to be $4.1 million ($326,000 for performance and $3.8 million for the design-build phase).

- **Eureka Armory Renovation.** A re-appropriation of $5.6 million ($2.8 General Fund, $2.8 million matching federal funds) for the performance criteria and design-build phase for the Eureka Armory renovation. The armory, which was built in 1956, sits on 4.4 acres. It is the only facility within a 100 mile radius and is deemed, by the department, to be a "critical asset" for the Northwest California region. Because the department is unable to expand the armory (the surrounding areas hold the field maintenance shop and secure parking lot for military vehicles and equipment), interior design renovations could be repurposed and used for administrative, storage, and vault space. It is estimated that an additional 17 soldiers can train at the site, following the HVAC, electrical, plumbing, security fencing, among other renovations. Total project costs are estimated to be $5.7 million ($390,000 for performance and $5.3 million for the design-build phase).

- **Discovery ChalleNGe Academy Dining Facility.** A re-appropriation of $2.6 million (Armory Fund) to construct a joint-use dining facility at the Army National Guard Base in Lathrop, California. The project will provide a 9,800 square foot dining facility that will serve 200 cadets enrolled in the new National Guard Youth ChalleNGe Program, the Army National Guard units stationed on the base, and soldiers stationed at the nearby Stockton Airfield. Total project costs are estimated to be $2.6 million ($295,000 for performance criteria and $2.3 million for the design-build phase).

- **Southern Region Emergency Operations Center.** $24.7 million lease-revenue bond funds for the construction phase of the continuing Southern Region Emergency Operations Center (REOC) project at the Joint Forces Training Base in Los Alamitos. The new 30,000 square foot, joint-use Southern REOC will house the Governor's Office of Emergency Services and serve as the California National Guard Command and Control Headquarters. The facility will allow for coordinated response efforts between federal agencies, state agencies, and local partners in the critical Southern California region. Total project costs are estimated to be $26.6 million ($570,000 for preliminary plans; $1,284,000 for workings drawings; and $24,705,000 for construction).

Background. CMD's statewide facilities include 97 active armories, four aviation centers, 24 field maintenance shops, two combined support maintenance shops, and two maneuver area training equipment sites. The total real property assets of the Military Department encompass an area of 7.8 million square feet. These facilities are used to house and train the California National Guard and provide emergency public safety support. The Military Department also operates three major training facilities consisting of troop lodging, administration, warehouse, maintenance, firing ranges, and maneuver training areas.

Issue 3: Design-Build Authority – TBL

Budget. The budget provides trailer bill language that would authorize CMD to procure design-build contracts for specified public works projects by awarding the contract using either the low bid or best value procurement methodology.

Background. Design-build is a project delivery system in which the design and construction services are contracted by a single entity.

The proposed TBL is below.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 10187.5 of the Public Contract Code is amended to read:

10187.5. For purposes of this article, the following definitions and the definitions in subdivision (a) of Section 13332.19 of the Government Code shall apply:

(a) "Best value" means a value determined by evaluation of objective criteria that relate to price, features, functions, life-cycle costs, experience, and past performance. A best value determination may involve the selection of the lowest cost proposal meeting the interests of the department and meeting the objectives of the project, selection of the best proposal for a stipulated sum established by the procuring agency, or a tradeoff between price and other specified factors.

(b) "Construction subcontract" means each subcontract awarded by the design-build entity to a subcontractor that will perform work or labor or render service to the design-build entity in or about the construction of the work or improvement, or a subcontractor licensed by the State of California that, under subcontract to the design-build entity, specially fabricates and installs a portion of the work or improvement according to detailed drawings contained in the plans and specifications produced by the design-build team.

(c) (1) "Department" means the Department of General ~~Services~~ Services, the Military Department, and the Department of Corrections and Rehabilitation.

(2) For the purposes of projects at the Salton Sea, "department" means the Department of Water Resources.

(d) "Design-build" means a project delivery process in which both the design and construction of a project are procured from a single entity.

(e) "Design-build entity" means a corporation, limited liability company, partnership, joint venture, or other legal entity that is able to provide appropriately licensed contracting, architectural, and engineering services as needed pursuant to a design-build contract.

(f) "Design-build team" means the design-build entity itself and the individuals and other entities identified by the design-build entity as members of its team. Members shall include the general contractor and, if utilized in the design of the project, all electrical, mechanical, and plumbing contractors.

(g) (1) "Director" means, with respect to procurements undertaken by the Department of General Services, the Director of General ~~Services~~ Services; with respect to procurements undertaken by the Military Department, the Adjutant General; or, with respect to procurements undertaken by the Department of Corrections and Rehabilitation, the secretary of that department.

(2) For purposes of projects at the Salton Sea, "director" means the Director of Water Resources.

8955 Department of Veterans Affairs

Issue 1: Capital Outlay Proposals – Yountville Veterans Home Upgrades – SFL

Budget. CalVet proposes three capital outlay proposals in spring finance letters, totaling $40.1 million ($23.9 million federal funds, $5.5 million Veterans Home Bond fund, and $10.6 lease-revenue bonds). The proposals include:

- **Yountville Veterans Home – Steam Distribution System Renovation.** $14.2 million ($6.2 lease-revenue bonds funds and $7.9 federal funds) for the working drawings and construction phases for renovation of the steam distribution system. This project will renovate the antiquated underground steam distribution system and replace the badly deteriorated underground lines. In addition, the hazardous asbestos-containing insulating material will be replaced with insulation that meets current industry standards. As part of this request, CalVet also requests a reversion of the unencumbered balance of working drawings and construction funds for this project, which were re-appropriated in 2016-17 at a cost of $6.9 million ($2.8 lease revenue bond funds and $4.1 million federal funds). Project costs have been updated to reflect current conditions in the construction services market. The proposed increase in project costs will allow the project to proceed to the construction phase in October 2019.

- **Yountville Veterans Home – Chilled Water Distribution System Renovation.** $11 million ($4.4 million lease-revenue bond funds and $6.6 federal funds) for the construction phase of renovation of the chilled water distribution system. As part of this request, CalVet also requests a reversion of the unencumbered balance of the construction funds for this project, which was re-appropriated in 2016-2017 at a cost of $5.4 million ($1.7 lease-revenue bond funds and $3.7 million federal funds). Project costs have been updated to reflect current conditions in the construction services market. The proposed increase in project costs will allow the project to proceed to the construction phase in April 2018.

- **Yountville Veterans Home – Central Power Plant Renovation.** $14.9 million ($5.5 million Veterans' Homes Bond Fund and $9.4 federal funds) for the working drawings and construction phases of the renovation of the central power plant. The project will renovate the central power plant, built in 1932, that has exceeded its expected useful life and is experiencing an increasing failure rate along with increase in maintenance costs. The plant is the focal point for the chilled water and steam used in the home. Critical systems including the boiler, antiquated electrical distribution system, and failing de-aerator system will be upgraded. All lines, pumps and valves in the plant that are failing and/or have exceeded their useful lives will be replaced as necessary. Project costs have been updated to reflect current conditions in the construction services market. The proposed increase in project costs will allow the project to proceed to the construction phase in April 2018. Project completion is anticipated by August 2019.

Background. These projects were originally appropriated in 2011, but had difficulty proceeding due to contracting issues and design delays related to the complexity of the projects. In February 2017, the Department of General Services provided updated cost analyses for these projects, which identified budget deficiencies resulting from increased costs and the current conditions in the construction services market. This request incorporates the updated cost estimates.

PROPOSED FOR VOTE AND DISCUSSION

0690 OFFICE OF EMERGENCY SERVICES

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

Budget. The budget includes $1.4 billion ($173.4 million General Fund, $998.7 million Federal Trust Fund, $232 million special funds and $4.5 million reimbursements) and 905.4 positions to support the office and its programs.

Issue 1: Public Assistance – BCP and BBL

Budget. OES requests $3.5 million ongoing (General Fund) state operations and reduction of $3.5 million federal trust fund authority to realign the funding with workload in the Public Assistance Program which provides assistance during disaster recovery.

Staff Comment. The subcommittee considered this item during its March 23, 2017, hearing. After that hearing, the Legislative Analyst's Office (LAO), OES, and the Department of Finance (DOF) met to develop potential budget bill language to address concerns with the proposal. Together, they propose the following language.

1. Of the amount appropriated in Schedule (1) of this item, $9,800,000 shall only be available for the Recovery Public Assistance Program.

2. Funds appropriated in this item may be reduced by the Director of Finance, after giving notice to the Chairperson of the Joint Legislative Budget Committee, by the amount of federal funds made available for the purposes of this item in excess of the federal funds scheduled in Item 0690-001-0890.

3. The Office of Emergency Services, in consultation with the Department of Finance, shall provide a report to the Joint Legislative Budget Committee and both budget committees of the Legislature by January 10, 2018, with the following Public Assistance Recovery program information for the prior fiscal year. The report shall identify the amount of state expenditures by the department, identified by disaster, including the date of the disaster. For each disaster identified, the notification shall identify expenditures as state or federal funds and if the disaster is state-only or federal. If the disaster is federal and some or all of the costs were not reimbursable,

the notification shall also identify the amount of costs that were not reimbursable and a description of why these costs were not reimbursable. The report shall initially identify the total number of projects by disaster by state only and federal match, for the five prior fiscal years, with identification of projects opened and closed out during each fiscal year. In future years, Cal OES will provide same report for the prior fiscal year.

0890 SECRETARY OF STATE

Overview. The Secretary of State (SOS) is the chief elections officer and administers and enforces election laws. The SOS also administers and enforces laws related to corporations, limited liability companies, partnerships, limited partnerships, unincorporated associations, and bonds and perfecting security agreements. The secretary is the filing officer for lobbying and campaign documents under the Political Reform Act, and operates the Safe At Home Program.

Budget. The budget includes $101.2 million ($11.4 million Federal Trust Fund, $49.3 million Secretary of State Business Fees Fund, $36.5 million General Fund, and $4 million other special funds) and 571.3 positions.

Issue 1: Vote Centers (SB 450) – SFL

Budget. The SOS requests three positions and a three-year limited-term funding increase of $463,000 (Special Deposit Fund) from the proceeds from a settlement agreement with Election Systems and Software, Inc. This expenditure authority is requested for staff needed to implement the provisions set forth in SB 450 (Allen), Chapter 832, Statutes of 2016.

Specifically, the three requested positions are:
- One Program Director
- One Senior Information Systems Analyst (SISA)
- One Associate Governmental Program Analyst (AGPA)

Background. The SOS received proceeds from a settlement agreement with Election Systems and Software, Inc. (ES&S) in the amount of $3,250,000. The settlement was agreed upon after the SOS filed a lawsuit alleging that ES&S had sold ballot-marking machines that contained hardware changes that had not been authorized by the SOS. The settlement expressly requires the funds to be used "for the purposes of voting system review, approval, security measures and election administration." The requested funding increase will come from the proceeds of the settlement, to implement SB 450.

SB 450 creates a new election model. Every registered voter will be delivered a vote-by-mail (VBM) ballot before election day and will be able to either vote in-person at a vote center or mail his/her VBM ballot in or drop it off at a vote center or ballot drop-off location. Polling places as we currently know them will be replaced by vote centers, where voters will have the freedom to cast a ballot at any vote center in their county beginning 10 days before the election. Voters will also have the option of returning their ballots at a drop-off location starting 28 days before election day. The new voting options will begin on or after January 1, 2018, for 14 specified counties that may conduct any election as an all-mailed ballot election, as long as all designated requirements under SB 450 are met. On or after January 1, 2020, Los Angeles County has the option to conduct special elections as an all-mailed ballot election and the remaining 43 counties will be eligible to conduct any election using this model.

In order to implement the provisions of SB 450, the SOS will be required to review and perform certification of accessible vote-by-mail ballot systems, electronic poll books, and ballot on demand systems, as well as new voting systems. This will also require the SOS to conduct a significant amount of work to update current guidelines and processes, as well as create new guidelines and processes. The SOS will also have to provide ongoing guidance in the administration of elections conducted under the provisions of SB 450, and will need to work closely with the county elections officials to assist with the development of standards and best practices. The SOS will be required to establish a task force to review all-mailed ballot elections pursuant to the provisions of SB 450 and to provide comments and recommendations to the Legislature within six months of each all-mailed ballot election or vote center election. This will all need to be done while ensuring that the remaining 44 counties run their elections as usual (until January 1, 2020), requiring the SOS to oversee two differently administered elections simultaneously. The SOS will need to provide ongoing support and advice to counties regarding the administration of elections conducted pursuant to SB 450 in order to ensure the uniform application of election laws statewide.

LAO. The LAO recently released a report on elections administration in California. In that report the LAO recommends the Legislature develop a new financial relationship between the counties and state to fund elections. Counties administer most elections in California and bear the cost of administering state and federal elections. Despite these mandates being suspended, counties continue the activities associated with the suspended laws—costing counties roughly $30 million in general election years. In addition, the Secretary of State estimates the total costs to replace counties' voting equipment to be around $400 million. The LAO also recommends the subcommittee consider four key questions when considering this proposal:

1. **Why are estimated SOS costs higher than estimated when the Legislature was considering SB 450?** The requested annual is 65 percent higher than the estimated costs that SOS provided the Legislature when it was considering SB 450. The Secretary of State indicates that the increase is due to (1) bill changes toward the end of session and (2) discussions with county elections officials since the enactment of the legislation.

2. **Should this funding end five months before the 2020 general election?** Under SB 450, most counties first have the opportunity to implement the new voting model in the 2020 election cycle—a presidential election year. Potentially more than 15 million registered voters in the state will be using the vote center model for the first time when they cast their ballots in the June 2020 primary or November 2020 general elections. Under the administration's proposal, the SOS's funding for overseeing the rollout of this new voting model would end June 30, 2020. Although many problems with the new voting model likely will be identified and resolved following the 2018 elections and the 2020 primary election, it seems potentially unwise to defund the entity responsible for overseeing the rollout of the new voting model before the system has been in place for a majority of counties in a presidential general election. In addition to not disrupting the oversight Secretary of State provides leading up the November 2020 election, extending the appropriation through 2020-21 could allow the Secretary of State to assess the successes and shortcomings of the new voting model. The Legislature could formally require the

Secretary of State to report its findings and recommend possible improvements to SB 450 following the state's experience with the new voting model.

3. **How should the state use the remaining 2009 settlement funds?** The Administration's request appears to be an appropriate use of the settlement funds as it (1) funds the Secretary of State's elections administration—one of the possible uses of the money under the terms of settlement agreement—and (2) uses one-time funds to pay for limited-term activities. That being said, California needs to invest more money into its elections administration—for example, most voting equipment across the state needs to be replaced. Even if the Legislature were to extend the requested appropriation through 2020-21, there would be more than $1 million of the settlement funds remaining at the end of the period. It is not clear if the administration has plans for how to use these remaining funds. The Legislature could explore possible uses for this money, including combining it with other funds to help pay the state's share of purchasing new voting equipment.

4. **Could SOS need ongoing funding for SB 450-related activities?** A number of counties have indicated that they plan on implementing the new voting model allowed under SB 450. To the extent that other counties do not implement the new voting model, the SOS will need to provide continued oversight of two very different voting models. It is possible that SOS will need some level of ongoing funding beyond 2020-21 to support these activities. Money from the General Fund—rather than onetime settlement money—likely will need to be the funding source for any ongoing oversight activities in the future.

Staff Comment. The enactment of SB 450 does not address the SOS's need for adequate staffing to meet the new responsibilities created under SB 450. Adequate funding is necessary in order for the SOS to comply with its new statutorily required duties without significantly diminishing the conduct of other statutorily required critical election programs. The costs of the request are significantly higher than when the Legislature was considering the bill. According to SOS, the cost is greater because, after discussions with county election officials, it was decided that it was necessary to elevate one of the positions initially requested to a project management position. A program director will be necessary to oversee development, implementation, and oversight of elections under this model. Staff also echoes the LAO's concerns with funding being eliminated prior to the 2020 election. The department has indicated that it will revisit the request to determine if additional funding is needed after three years.

8940 CALIFORNIA MILITARY DEPARTMENT (CMD)

Overview. The CMD oversees and manages the California Army National Guard, the California Air National Guard, the California State Military Reserve, and the California Cadet Corps. CMD has federal, state, and community functions. Soldiers and airmen are deployed by the Department of Defense in support of military operations overseas, activated to protect lives and property after state disasters, and provide various community services.

Budget. The budget includes $164.6 million ($49.6 million General Fund, $108.6 million federal funds, $4.6 million reimbursements, and $1.8 million special funds) to support the department and its various programs. In addition to these funds, the department receives other federal funds, which are not deposited in the State Treasury, totaling $617 million for the Army – National Guard, Air – National Guard, and the Adjutant General.

Issue 1: Special Fund for Federally Funded Workers' Compensation Claims – SFL and TBL

Budget. The CMD requests that a special fund be established for the one-time deposit of $4.5 million in federal funds, ongoing authority to receive federal monies into the special fund for workers' compensation premiums that are charged to federal cooperative agreements, and ongoing expenditure authority from the special fund to pay workers' compensation claims filed by employees who are funded through federal cooperative agreements. Trailer bill language is proposed to establish this fund.

Background. The California Military Department (CMD) receives federal funds through cooperative agreements with the National Guard Bureau (NGB) for Air and Army National Guard facilities, security, fire protection and environmental programs. The CMD has approximately 647 federally-reimbursed employees that are paid through a Master Cooperative Agreement (MCA). The National Guard Bureau (NGB) reimburses the CMD a percentage (50-100 percent) of the cost of employees based on type of job classification and mission supported.

These federally-reimbursed employees historically were covered for workers' compensation by a policy administered by the State Compensation Insurance Fund (SCIF). The federal government was billed monthly for the premiums charged by SCIF based on the type of job classification and number of employees. The premiums charged by SCIF have increased over the past three years from $3.9 million to $5.3 million with actual claims paid out dropping from $1 million to $133,000. The United States Property and Fiscal Office for California has notified the CMD that this workers' compensation policy administered by SCIF is no longer a reasonable cost and that the increase in premiums threatens the ability for NGB to continue funding California's programs.

NGB has provided a model for the CMD to follow in establishing a process to self-insure those federally-reimbursed employees for workers' compensation costs. The model would require California to self-insure state employees and have a workers' compensation fund that holds federal funds indefinitely to pay for the federal share of claims. Premiums would be charged to NGB through the MCAs in order to keep the fund at a level that is acceptable to both the USPFO and the State Comptroller to minimize the risk of catastrophic injuries. NGB has recommended that California collect through billings up to $4.5 million as an initial deposit to the special fund. By establishing this special fund, the CMD will be able to collect and retain federal funds in order to pay for those workers' compensation claims filed by federally-funded employees, which also eliminates delays in reimbursement for such claims.

Proposed TBL is below.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 329 is added to the Military and Veterans Code, to read:

329. The Military Department Workers' Compensation Fund is hereby created within the State Treasury. Notwithstanding Section 13340 of the Government Code, all moneys in the fund are continuously appropriated to the Military Department for purposes of subdivision (a).

(a) The moneys in the fund shall be expended for workers' compensation claims that are wholly or partially reimbursed by the federal government for personnel within the Military Department.

(b) The fund may receive and deposit any moneys received from the federal government for the sole purpose of paying workers' compensation claims of current employees or service members.

(c) Moneys in the fund may only be expended by the Military Department for workers' compensation claims.

8955 DEPARTMENT OF VETERANS AFFAIRS

Overview. The California Department of Veterans Affairs (CalVet) serves nearly two million California veterans and their families, helping present claims for entitled state and federal benefits or direct low-cost loans to acquire farms and homes; and providing the veterans, who are aged or have disabilities, with residential and medical care in a home-like environment at the Veterans Homes.

The department facilities include eight veterans homes on 776 acres of land and 2.4 million gross square feet of building space; three state cemeteries (Igo, Seaside in Monterey County, and in Yountville) with 24,000 gravesites on 91 acres; and two office buildings.

Budget. The budget provides $454.1 million ($377.6 million General Fund, $2.6 million federal funds, and $67.3 million special funds) and 3,196 positions to support the department and its programs.

Issue 1: Reduce Funding for Veterans Services Division Support

Budget. The budget requests a reduction of $1.701 million (General Fund) ongoing for the California Department of Veterans Affairs, Veteran Services Division. The reduction reverses the 2016-17 Spring Finance Letter that funded 16 existing, but unfunded, positions, and reclassified four positions that assist in processing claims for federal veteran benefits and increase oversight of county veterans service officers. The funding supports positions in the district offices in Los Angeles, Oakland, and San Diego.

Background. The Veterans Services Division (VSD) within CalVet is tasked with connecting California veterans and their families with earned benefits and services. To perform this mission, the VSD provides advocacy, education, and service assistance to veterans as they attempt to access their state and federal benefits.

The CalVet manages three district offices throughout the state, which are co-located within the United States Department of Veterans Affairs (USDVA) Regional Offices in Los Angeles, Oakland, and San Diego. The district offices assist veterans with claims. When a veteran or family member chooses to provide the CalVet with power of attorney (POA) over a claim, one of the three CalVet district offices will represent the veteran or family member in the submission and appellate process for a USDVA benefit claim. The CalVet maintains POA for about 40 percent of USDVA claims in California, which amounted to approximately 59,000 claims in fiscal year 2014-15 filed by County Veteran Service Offices (CVSO) and the CalVet. The CalVet's role as the POA representative for the veteran claimants is to ensure the veterans and their families receive competent claims representation. In addition to these basic functions, the CalVet district office staff provides a wide variety of support to California's veterans, their families, CVSOs, USDVA, and veteran service organizations.

The Budget Act of 2013 included a $3 million General Fund allocation and 36 limited-term positions for three years to the CalVet to initiate the Joint Claims Initiative. The Joint Claims

Initiative is a partnership between the USDVA and the CalVet, which formed a 12-person "Strike Team" in each of the three district offices, designed to reduce the backlog of pending initial entitlement claims. Strike teams have helped reduce the first initial entitlement claims backlog at USDVA from about 70,000 to 7,000. The Budget Act of 2015 made permanent the 36 limited-term positions due to the lengthy claims process. Funding for these positions was on a limited basis, thus continued funding for 16 of the 36 positions, as well as funding to reclassify four existing positions, was requested in a spring finance letter and approved last year.

Staff Comment. The subcommittee considered this item at its March 9, 2017, hearing. Last year's request to fund these positions on an ongoing basis emphasized the importance of these positions and noted that, "without these positions only 11 staff would be servicing the 1.8 million veterans in California". The loss of funding for these positions will result in delays in veterans receiving their federal benefits. These positions have resulted in more federal dollars coming into the state and are critical for connecting our veterans with other federal and state programs and benefits.

Issue 2: Veterans Homes Admissions – TBL

Budget. The budget proposes TBL that would revise provisions relating to Veterans Homes admissions.

Background. CalVet provides qualified veterans with long-term residential care at one of eight Veterans Homes of California (VHC). Veterans' homes are located in Barstow, Chula Vista, Fresno, Lancaster, Redding, Ventura, West Los Angeles, and Yountville. All eight homes have the combined resources to house and care for close to 3,000 veterans. The homes are a system of live-in, residential care facilities offering a comprehensive plan of medical, dental, pharmacy, rehabilitation services, and social activities within a community environment.

For the current budget year, projected General Fund expenditures for the operation of the VHCs are $306.8 million. This amount does not include the cost of headquarters operations which ranges between $30 and $40 million annually. $121.8 million of the projected costs is offset by revenues, depicted in the table below. In total, this amounts to about $71,000 per bed per year.

Cost of Operating the VHC (in Millions)

	2016-17	2017-18
Total Cost of VHCs	$312.4	$306.8
Estimated Revenue		
Federal Per Diem	$68	$70
Member Fees	$23.9	$24.3
Aid and Attendance	$3.3	$3.4
Medicare	$8.2	$9.1
Medi-Cal	$12.8	$14.2
Other	$0.7	$0.8
Total Revenues	$116.9	$121.8
Total General Fund Cost	$195.5	$184.9

VHCs offer up to four levels of care: domiciliary (independent living), residential, intermediate nursing, and skilled nursing. Some VHCs also offer memory care – skilled nursing beds for residents with memory loss. Wait lists exist for all levels of care but the waitlists for skilled nursing and memory care are the largest. As of October 11, 2016, the wait list for skilled nursing was 46 percent of the total capacity for skilled nursing facilities across the VHCs, and the wait list for memory care exceeded the capacity across the VHCs.

Current admissions guidelines for VHCs in state law are broad. Generally, residents of California who are aged or have a disability, and discharged from active duty without a dishonorable discharge are eligible. Once deemed eligible, veterans area admitted to the homes on a first-come, first-served basis. Further departmental guidelines generally restrict admission to veterans who are 55 or older – or, at any age, veterans who are homeless or have a disability. Non-veteran spouses may also be admitted to VHCs. State law does prioritize distinguished, wartime veterans for admission, and departmental guidelines prioritize veterans with various hardships.

Little Hoover Commission Report. In March 2017 the Little Hoover Commission released a report entitled, "A New Approach to California's Veterans Homes." The report examined current funding mechanisms for the homes and the mission and scope of care provided among the state's veterans homes given the changing nature and needs of the state's veteran population. Some of these recommendations, related to VHC admissions, are included in the TBL. The eight recommendations for redefining the role of the VHCs in the 21st century, and stabilizing funding for the VHCs are listed below.

- The Legislature should amend the Military and Veterans Code to clarify the homes admissions policies and ensure access for the neediest veterans.

- The Legislature should amend the Military and Veterans Code to eliminate domiciliary care from the state's veterans home program.

- To determine whether Calvet should repurpose or shutter one or any of the veterans homes, CalVet should establish a process to systematically evaluate and review each veterans home as it approaches its 20-year mark, and periodically thereafter, and make recommendations to policymakers regarding the future of the home.

- As CalVet repurposes its veterans homes program savings should be redirected to home- and community-based veterans services.

- CalVet should conduct an assessment to consider the needs of California's overall veteran population.

- To streamline and modernize the state's veterans home program, the Governor and Legislature should amend the Military and Veterans Code to:

    - Define the scope of benefits included for veterans home residents.
    - Empower CalVet to establish daily costs of care per resident, for each level of care.
    - Clarify that veterans home residents are charged fees based on the cost of care and may pay for those fees from various sources, including the U.S. Department of Veterans Affairs per diem and other reimbursements, health insurance or private income.
    - Require veterans home residents to maintain adequate health insurance throughout their residence in a veterans home.

- CalVet should amend regulations to specify consequences for residents who do not maintain adequate insurance coverage or otherwise pay their share of their costs.

- To enhance fiscal transparency, CalVet should make available, online in an accessible format, its financial reports to the Legislature, which should be augmented to include:

    - The amount of state funds budgeted to each home and the amount of revenue collected, and if necessary, the remaining amount of expected revenue, over a period of several years.
    - The costs of care per resident, by level of care for each veterans home.
    - The costs of facility maintenance, as well as projections for future maintenance costs, for each veterans home.

Trailer Bill. Major changes to admissions guidelines proposed by the TBL are summarized below.

- Clarifies that CalVet has the authority to adopt regulations related to the operations of the VHCs, and allows for the adoption of emergency regulations under specific circumstances.

- Allows for the prioritization of veterans with a service-connected disability rating of 70 percent or greater from the U.S. Department of Veterans Affairs (USDVA) over other veterans for admission to the VHCs.

- Allows the department secretary to establish needs-based criteria for VHC admission.

- Gives CalVet clear authority to investigate applicants' suitability for admission and accurately determine applicants' and members' income and assets.

- Authorizes department to clarify in regulations the expenses the residents can expect to be covered through monthly fees and those for which they may incur additional charges.

- Authorizes the department to establish and charge fees for outpatient services rendered at a VHC.

- Clarifies that members are required to maintain insurance coverage, and allows the department to create a clear structure for costs that are and are not covered by the state and to offset the cost of care by billing insurance.

- Several technical changes to conform statute to current VHC structure and federal law and regulations are also proposed.

The proposed changes are both technical and substantive in nature. According to CalVet, the proposed changes are intended to be foundational and, over the long term, would better align the types of care offered in the homes with veterans' needs and serve the most disabled veterans who gave our county the most, as well as reduce the homes reliance on the General Fund. CalVet estimates that the proposed changes relating to the prioritization of veterans with specific disability ratings could save result in tens of millions of dollars in savings – due to enhanced per diem payments from the USDVA for their care. Each additional 70 percent service connected veteran placed in intermediate care or a skilled nursing facility would generate about $115,000 in additional revenue compared to a resident without this service-connected disability.

Legislative Analyst's Office (LAO). In January 2017, the LAO released a report entitled, "Understanding the Veterans Services Landscape in California." The report reviewed federally and state-funded services for veterans related to mental and behavioral health, transitional housing, long-term care, and employment assistance. While the report did not comment on the proposed TBL (it had not been released yet) it did provide several recommendations about the VHCs, some of which are included in the TBL. Specifically, the LAO suggested prioritizing the wait-list for VHCs leading to increased federal reimbursements for care. The LAO also suggested that the Legislature consult with CalVet regarding any additional staffing needs and other budget requirements the new admissions rules could create.

Staff Comments. One of CalVet's primary goals is to address and improve the operational framework for its VHC program by standardizing practices, improving regulations, and updating and clarifying the Military and Veterans Code. The proposed TBL attempts to help accomplish that goal. There is significant overlap between the TBL, the Little Hoover recommendations, and recommendations by the LAO. The subcommittee may wish to consider how this proposal will affect those veterans who do not meet the prioritization criteria and how potential savings could be utilized, specifically whether the savings should remain in the CalVet budget.