Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Agenda Part B

Wednesday, May 20, 2015
10:00 AM
State Capitol - Rose Ann Vuich Hearing Room 2040

Consultant: Brady Van Engelen

Item Number and Title

0650	Office of Planning and Research
0690	Office of Emergency Services
0840	State Controller's Office
0890	Secretary of State
1110/1111	Department of Consumer Affairs
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AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only – Issue Descriptions

Office of Planning and Research

Issue 1 – Federal Grant Administration

Governor's May Revision Proposal: The Governor's May Revision includes a proposal to increase the Office of Planning and Research's (OPR) budget by $155,000 for fiscal year 2015-16.

Background: In March 2015, OPR signed a grant agreement with the Department of Defense (DOD), Office of Economic Adjustment, to support the Advanced Manufacturing Partnership of Southern California. The University of Southern California's Center for Economic Development is the lead sub-applicant for the program and will act as the manager of the local community planning and economic diversification efforts. The program is designed to provide aerospace and defense manufacturers with tools to become more competitive abroad.

Staff Comment: A Control Section 28.00 letter, which is a reporting requirement for the increase or decrease of federal funds, was submitted and approved for the current year. The current year increase totaled $77,369 in state operations, and $3.4 million in local assistance. Given the timing, it is most appropriate for the proposal to be considered through the budget process.

Staff Recommendation: Approve May Revision proposal.

Vote:

Issue 2 – Technical Adjustment Related to Affordable Housing and Sustainable Communities Program

Governor' May Revision Proposal: The Governor requests a technical adjustment to decrease the local assistance grant amount by $1.2 million such that both the state operations and local assistance funding taken together equal 20 percent of the Greenhouse Gas Reduction Fund (GGRF) proposed for expenditure for the Affordable Housing and Sustainable Communities (AHSC) program, as authorized by SB 862 (Committee on Budget and Fiscal Review), Chapter 36, Statues of 2014. This proposal includes provisional language to specify that the funds in this item shall count towards the share of annual proceeds continuously appropriated to the Strategic Growth Council.

Background: SB 862 requires SGC to develop and administer the AHSC program and beginning in 2015-16, continuously appropriates 20 percent of the annual proceeds of the GGRF to SGC for the program.

Staff Comment: The proposed change ensures that the total funds appropriated to OPR do not exceed the 20 percent specified in SB 862.

Staff Recommendation: Approve as proposed.

Vote:

Department of Consumer Affairs

Issue 1 – BreEZe Revised Costs

Governor's May Revision Proposal: The Governor's May Revision includes a proposal for an augmentation of $1.195 million (special funds) to be provided to the Department of Consumer Affairs (DCA) Office of Information Services in order to fund the increased contract costs which were due to a two-month schedule delivery extension.

Background: For a number of reasons, the original scope and cost of the BreEZe project has been modified multiple times. The most recent revision was SPR 3.1, which increased the project cost to $96.1 million. According to SPR 3.1, the project was not moving in the timeframe that had been originally forecast, nor was it achieving the results that had been originally assumed. Due to the timing of the contract agreement, DCA was required to submit a notification to the Department of Finance (DOF), who submits a notification that they intend on approving the request to the Joint Legislative Budget Committee (JLBC) that DCA had entered into a contract that will either increase the cost by $5 million or twenty percent, whichever is less. SPR 3.1 proposed to increase project costs from the previously approved SPR 2 by $17.5 million, which clearly exceeded the notification threshold. Furthermore, the scope of the project was proposed to be reduced significantly; according to SPR 3.1, nineteen boards and bureaus originally planned to be a part of the BreEZe project are excluded from the implementation plan. In reviewing the request, the JLBC initially chose not to concur with the request for additional resources until further legislative review, in a more transparent setting, could occur. Following hearings of this subcommittee and a joint hearing of the Senate and Assembly Business and Professions Committee, the JLBC concurred with the DOF decision to approve SPR 3.1 primarily because no better option was available given the status of the project.

The JLBC letter duly noted that there might be some project delays due to not concurring with the request. Specifically, the running cost of the vendor ($1.3 million) and the costs associated with DCA staff that support the project ($400,000). In discussions with DCA, they stated that every effort would be made to reduce the cost to the greatest extent possible.

Staff Comment: The costs associated with this request will be applied to the boards and bureaus contained in Release 1 and Release 2, which is a reasonable approach. As noted in the JLBC letter, running costs of the vendor and costs associated with the DCA staff who support the project would need to be assumed due to necessary oversight that resulted in project delays.

Staff Recommendation: Approve May Revision proposal.

Department of Housing and Community Development

Issue 1 – Extension of Liquidation Period for BEGIN Program Funds

Proposal: Extend the liquidation period for appropriations from the Begin Equity and Growth in Neighborhoods (BEGIN) Program that have liquidation periods that expire June 30, 2015 or June 30, 2016 for two years. Provisional language is proposed to allow for this extension.

Background: The BEGIN program provides grants to cities and counties (grant recipients). The grant recipients then make deferred-payment, second mortgage loans to qualified buyers of new homes, in projects where the affordability has been enhanced by local regulatory incentives or barrier reductions. In certain cases, this can include mobile homes, provided they are on permanent foundations.

Staff Comment: The extension of the liquidation period for BEGIN funds would allow cities and counties additional time to use funds that have previously been awarded. There are nine active projects that have not fully liquidated their encumbrances. The loss of these funds would potentially result in the loss of some units of affordable housing.

Staff Recommendation: Adopt budget bill language to extend the liquidation period for the BEGIN program.

Vote:

Department of Technology

Issue 1 – Reestablishment of Two Vacant Positions

Governor's May Revision: The Governor's May Revision includes a request for a technical adjustment to reestablish to vacant positions that were inadvertently eliminated as part of the Governor's Budget. .

Background: Two positions that should have not been included on the vacant position report were inadvertently added, and subsequently deleted in error. The Department of Finance, in coordination with the Department of Technology, has requested that the 2.0 positions be reestablished.

Staff Comment: This request would only modify positional authority, not adjust the Department of Technology's budget.

Staff Recommendation: Approve May Revision proposal.

Vote:

Department of General Services

Issue 1 – Office of Public School Construction

Governor's May Revision: The Governor's May Revision includes a request for a technical adjustment to the Office of Public School Construction's (OPSC) budget that will align administrative resources with the expected workload for the School Facilities Program.

Background: As noted above, the requested reduction will align OPSC's resources with the expected workload. As available resources, which in this case are various bond funds, are exhausted, reductions to the program become necessary. The reductions to OPSC total $4.47 million and 37.0 personnel years.

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

Staff Recommendation: Approve May Revision proposal.

Vote:

California Military Department

Issue 1 – Increased Federal Trust Fund Authority

Background: On May 6, 2015, the Joint Legislative Budget Committee (JLBC) received two notifications for an increase in federal trust fund authority for the current fiscal year from the Military Department. Control Section 28.00, which governs the increase and decrease of federal funds, is a process that is typically utilized when an item could not be considered during the normal legislative budget process. The JLBC has notified the Department of Finance that the notifications would be rejected and, should be considered as part of Subcommittee No. 4's May revision hearing. The notifications totaled $9.85 million in increased federal trust fund authority. $3.0 million would be dedicated to maintenance and construction activities at Joint Forces Training Base, Los Alamitos, the San Bernardino Readiness Center, and the Ontario Armory. The remaining $6.85 million would be utilized to renovate buildings at the Sunburst Youth Challenge Academy, establish a third Youth Challenge program in Stockton, recruit, mentor and support minority mentors, and vocational education training programs.

Staff Comment: As noted in the JLBC response, the Administration had ample time to incorporate the requested federal trust fund authority into the legislative budget process. Staff has no concerns with the requested increase in federal trust fund authority.

Staff Recommendation: Approve increase in Military Department's federal trust fund authority by $9.85 million.

Vote:

California Department of Veterans Affairs

Issue 1 – Delays in Greater LA and Ventura County Veterans Home

Governor's May Revision Proposal: The Governor's May Revision includes a request for a one-time reduction of $10.415 million (General Fund) for fiscal year 2015-16.

Background: The requested reduction in resources is a reflection of the continued delayed opening of the skilled nursing facility located at Veterans Home of California (VHC) – West Los Angeles, and a proposed one year delay in the opening of the Community-Based Adult Services in VHC- Lancaster and VHC-Ventura. According to the California Department of Veterans Affairs (CDVA) the delayed opening of the skilled nursing facility at the VHC-West Los Angeles results in of $5.31 million, and the delayed opening of the Community-Based Adult Services in VHC-Lancaster and VHC-Ventura, will result in a reduction of $5.104 million, totaling $10.415 million.

Staff Comment: CDVA has noted that admissions to the West Los Angeles skilled nursing facility will begin in January 2016, and admissions to the community-based adult services will begin in July 2016.

Staff Recommendation: Approve May Revision proposal.

Vote:

Issues Proposed for Discussion / Vote

0650 OFFICE OF PLANNING AND RESEARCH

Issue 1 – Precision Medicine

Governor's May Revision Proposal: The Governor's May Revision includes a proposal for trailer bill language that would make exclusions specifically for the purpose of developing and/or researching precision medicine.

Background: Most medical treatments have been designed for the "average patient." As a result of this "one-size-fits-all-approach," treatments can be very successful for some patients but not for others. This is changing with the emergence of precision medicine, an innovative approach to disease prevention and treatment that takes into account individual differences in people's genes, environments, and lifestyles. Precision medicine gives clinicians tools to better understand the complex mechanisms underlying a patient's health, disease, or condition, and to better predict which treatments will be most effective.

Advances in precision medicine have already led to powerful new discoveries and several new treatments that are tailored to specific characteristics of individuals, such as a person's genetic makeup, or the genetic profile of an individual's tumor. This is leading to a transformation in the way we can treat diseases, such as cancer. Patients with breast, lung, and colorectal cancers, as well as melanomas and leukemias, for instance, routinely undergo molecular testing as part of patient care, enabling physicians to select treatments that improve chances of survival and reduce exposure to adverse effects.

Staff Comment: The proposed trailer bill language would, until January 1, 2019, provide that an interagency agreement that is reached between the Office of Planning and Research and the University of California Regents or an auxiliary organization of the California State University, may include subcontracting that would otherwise be subject to limitation and bidding requirements that otherwise would have been a requirement in accordance with statute, specifically for the purpose of researching and/or developing precision medicine.

Staff Recommendation: Approve proposed trailer bill language.

Vote:

0690 OFFICE OF EMERGENCY SERVICES

Issue 1 – California Disaster Assistance Act

Governor's May Revision Proposal: The Governor's May Revision includes a proposal for $22.2 million General Fund to support local jurisdictions utilizing the California Disaster Assistance Act (CDAA) program to respond and recover from the ongoing drought.

Background: The California Office of Emergency Services (OES) serves as the state agency responsible for coordination of disasters in support of local government. Additionally, OES is responsible for readiness efforts to respond and recover from natural and man-made disasters, and for assisting local governments in the emergency preparedness, response and recovery efforts. Given their similar roles, the state has tried to align OES functions as closely as possible to those of the Federal Emergency Management Agency (FEMA), which in the event of a federally-declared disaster, serves as the chief coordinating agency at the federal level. The alignment assists OES' efforts to serve as the "grantee" for federal disaster assistance, and serve as the central agency in the recovery process.

OES also has the authority to serve as the grantor of the CDAA program. The application process for the CDAA program requires that a local agency submit an application to OES within 60 days of the date of the local proclamation. Additionally, the applicant must have incurred a minimum aggregate total damage of $2,500 in order for costs to be eligible under CDAA.

The fiscal year 2014-15 budget provided the disaster assistance fund, which is the fund source for the CDAA, with approximately $39 million. The figure fluctuates, depending on the amount that local agencies are seeking for reimbursement each fiscal year. Essentially, the amount reflected in the budget represents work conducted by local agencies in prior years that are now seeking reimbursement. The disaster assistance fund is designed to provide eligible projects with a cost share of 25 percent. The state share for eligible projects may not exceed 75 percent, unless specified in statute. CDAA funding is not available to other state agencies and is only available to local (county and city) resources.

On January 17, 2014, Governor Brown proclaimed a drought state of emergency and, on September 19, 2014, proclaimed that the OES shall provide local government assistance as it deems appropriate for the purposes of providing temporary water supplies to households without water under the authority of the CDAA. Eligible costs include, but not limited to:

- Bottled and potable water for health and safety
- Public notification
- Desalination plants
- Above ground pipelines to convey water from one source to another
- Installation of facilities to chemically treat water from non-potable water sources
- Installation of piping and pumping salt water into the aquifer to prevent subsidence
- Deepening a well owned by a single applicant, which has run dry due to the drought
- Fund for extraordinary costs for the operation of local assistance centers
- Emergency operation centers extraordinary costs

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

Staff Recommendation: Approve May Revision proposal.

Vote:

Issue 2 – Drought Response Activities

Governor's Budget Request: The Governor's budget includes a request for $4.4 million General Fund to support OES efforts to provide local agencies with technical assistance and drought response and recovery related activities.

Background: In January 2014 OES activated its state and regional operations centers to assist local government agencies with local assistance centers. The state and regional operations offices facilitate assistance to local jurisdictions and local assistance centers that provide local communities with technical guidance and disaster recovery support. For example, in East Porterville, a community severely affected by the drought, OES helped coordinate the delivery of potable water for drinking and sanitation purposes.

OES has projected that the coordination efforts will require twenty-five staff working full-time to support OES drought response related activities. Many of the employees that work at OES are supported by federal funds, but the drought has not been declared a federal disaster. Therefore, the state is required to fund workload associated with drought response and recovery related activities at OES. In fiscal year 2013-14 the state provided OES with $1.8 million (General Fund) and the state provided OES with $4.4 million (General Fund) in fiscal year 2014-15.

Staff Comment: This item was originally heard on March 19th. At that time, the LAO had raised concerns that OES had not fully utilized the $4.4 million that was provided as part of the 2014-15 budget. Since then, OES, and the Department of Finance, have reassured subcommittee staff that they will likely spend down the remaining funds over the next few weeks on drought-related activities. Any unspent funds would revert to the General Fund.

Staff Recommendation: Approve as budgeted.

Vote:

0840 STATE CONTROLLER'S OFFICE

Issue 1 – 21st Century Project

Governor's Budget Request: The State Controller's Office (SCO) requests 8.0 one-year, limited-term positions and $12.544 million ($4.397 General Fund, $1.685 reimbursements, and $6.462 in special funds) in fiscal year 2015-16, to support on-going legal activities associated with the 21st Century Project (TFC). This request also includes trailer bill language that would extend the sunset date of the 21st Century Project until June 30, 2016.

Background: The SCO is responsible for disbursement of pay to the state's 275,000 employees. In 2004, the Department of Finance (DOF) approved the justification documents submitted by the SCO requesting an updated payroll system that would provide a greater level of integration known as the 21st Century Project. The SCO procured Commercial Off-the-Shelf (COTS) software in 2005 and intended on utilizing that COTS software to update the state's payroll system.

The Department of General Services (DGS) awarded the second contract to a different vendor, SAP, on February 2, 2010. An updated Special Project Report (SPR 4), issued prior to the contract being awarded, identified the method that would eventually be utilized to implement the new MyCalPAYS system. The first, and smallest phase, would consist of converting payroll for the approximately 1,300 SCO staff to the new payroll system.

The initial pilot was deployed in June of 2012, and revealed a significant volume of errors. The SCO issued a cure letter to SAP in October of 2012, requesting that the vendor deliver the resources necessary to correct the identified errors. SCO was not satisfied with the response and subsequently terminated the contract with SAP in February 2013. Due to the contract being terminated, the Department of Technology had little choice but to suspend the 21st Century Project.

In June 2013, the SCO and SAP participated in contractual mediation. The mediation process did not provide an acceptable outcome and, on November 21, 2013, the SCO filed a lawsuit against SAP for breach of contract. According to SCO, the state has the potential to recoup 1.5 times the contract amount, or up to $150 million. Alternatively, SAP could be awarded $50 million. The Budget Act of 2014 provided the SCO with 5.0 positions and $6.529 million to support the legal efforts associated with the TFC.

Request Detail:
A more specific cost breakdown of the SCO's request for $12.544 million to support ongoing legal costs is provided below.

- $1.123 million for 8.0 one-year positions (5.0 continuing and 3.0 new). These positions will be responsible for pertinent document retrieval, developing a project history and timeline, and maintenance of the MyCalPays system in support of the legal team.

- $996,000 for the project management advisory contract. SCO has contracted with Flagship Advisors to provide two advisors who provide assistance with business processes, integration, coordination, configuration, customization, testing, training, installation, data conversion, and work force transition.

- $7.3 million for legal counsel to defend the state against claims made by SAP. This request may only reflect a portion of total legal costs, as there is provisional language in the budget and a budget control section that provide for additional funding for legal costs, if necessary.

- $1.075 million for costs associated with leasing a facility, of which $928,000 will be reimbursed to the SCO through sub-leasing to accommodate project staff and house documents related to the lawsuit.

- $2.05 million for software contracts and data center services that support the environment which are needed to support the lawsuit filed against SAP.

Proposed Trailer Bill Language - Government Code §12432 authorized the State Controller, beginning in FY 2006-07, to assess special funds within the state treasury for costs attributable to the replacement of the state payroll disbursement system, also known as the 21st Century Project. This code section also notes that costs assessed to the 21st Century Project will be evenly split between the General Fund and special funds within the state treasury.

This section was set to expire on June 30, 2011; however, AB 119 (Blumenfield), Chapter 31, Statutes of 2011, extended the original sunset date by three calendar years, moving it to June 30, 2014. The requested trailer bill language would once again extend the sunset date by one additional calendar year, until June 30, 2016.

Staff Comment: This item was originally heard by this subcommittee on April 16th. At that time, a request for an analysis to better understand the overall costs associated litigation was requested; the SCO has provided details related to that request. The information is provided below:

21st Century Project Litigation Costs

	Fiscal Year	**Outside Legal Counsel**	**SCO Costs**	**Total**
Actuals	2012-13	$1,470,000	$690,000	$2,160,000
Actuals	2013-14	$4,930,000	$1,217,000	$6,147,000
Projection	*2014-15*	*$10,750,000*	*$4,029,000*	*$14,779,000*
Projection	*2015-16*	*$7,600,000*	*$5,244,000*	*$12,844,000*
Projection	*2016-17*	*$762,000*	*TBD*	*$762,000*
Total		**$25,512,000**	**$11,180,000**	**$36,692,000**

As noted above, the proposed trailer bill will sunset on June 30, 2016. This proposal will continue to provide the Legislature with the opportunity for continued oversight of the 21st Century Project legal costs, and provide the Legislature an opportunity to make an assessment on the continued funding of the litigation costs on an annual basis. Approval for fiscal year 2015-16 should not be interpreted to mean that legal costs will be funded on an annual basis beyond fiscal year 2015-16

Staff Recommendation: Approve as budgeted, adopt proposed trailer bill.

Issue 2 – California Automated Travel Expense Reimbursement System (CalATERS) Replacement Study

Governor's May Revision Proposal: The Governor's May Revision includes a request for $492,000 ($199,000 General Fund, $150,000 Central Cost Recovery Fund, and $143,000 Reimbursements) and 3.0 positions for fiscal year 2015-16 to identify alternatives to the California Automated Travel Expense Reimbursement System (Cal ATERS), which will need to be replaced due to a lack of vendor support.

Background: The State Controller's Office (SCO) personnel and payroll services division is responsible for the operation and maintenance of the CalATERS, which allows state employees to electronically submit claims, and for those claims to follow an automated review, approval, and payment process. SCO has been utilizing Cal ATERS, which was designed by International Business Machines (IBM), for claims processing since 2000. To date, there are 93 agencies, with 138,893 individual customers, that utilize the CalATERS platform. In May 2014, IBM notified the SCO that it will discontinue support for the CalATERS platform, effective March 31, 2016, which coincides with the completion of the current contract. IBM has informed SCO that they could provide the state with an alternative solution, but that solution would come at an increased cost to the state. To address this, the SCO has identified the following four options:

- Replace the current system. The SCO has released an RFI to survey the information technology vendor community.

- Allow current vendor to create a duplicate of the current system at a cost 650 percent higher than the current contract. The state currently pays IBM $83,000 per year for maintenance costs, under this proposal the state would be required to pay IBM $572,000 for its current level of services.

- Outsource travel expense reimbursement to a third-party vendor.

- Discontinue services and revert to the pre-2000 process of utilizing a paper-centric reimbursement filing process.

Of the requested $492,000, $349,000 in General Fund/Central Service Cost Recovery Fund will fund 3.0 additional staff that will be responsible for the research and alternative analysis portion of this request. The remaining $143,000 in reimbursement will be utilized to maintain the current system. The additional $143,000 in reimbursement authority to maintain the system from April 1, 2016 to June 30, 2016 will result in an increase in the transaction fee from $4.00 to $4.31 for client departments.

Staff Comment: Given the limited alternatives that are currently available it would be appropriate to approve the requested resources in order for the SCO to better understand the capacity of the information technology vendor community's capacity to provide an alternative at a more reasonable rate.

Staff Recommendation: Approve May revision proposal.

Issue 3 – Unclaimed Property

Governor's May Revision Proposal: The Governor's May Revision includes a request for 4.0 permanent positions, and $581,000 (Unclaimed Property Fund) in fiscal year 2015-16 and $857,000 (Unclaimed Property Fund) in 2016-17 and ongoing, to enhance the State Controller's Office (SCO) online unclaimed property claim process.

Background: The SCO is responsible for the administration of the state's unclaimed property program, which is designed to reunite lost and/or abandoned property with its rightful owner. In accordance with the Unclaimed Property Law, banks, corporations, businesses financial institutions, and insurance companies (referred to as holders), are to transfer property considered abandoned by owners. When there has been no activity on an account for a specified period, usually three years, the holder is required by law to remit the property to the SCO. The Governor's budget proposed $39.2 million (Unclaimed Property Fund) for the administration of the SCO's unclaimed property program. The unclaimed property program has 273 permanent staff supporting a variety of functions that support the state's efforts to reunite property with its rightful owner. The SCO estimates that the state currently has over $7.6 billion of unclaimed property available to be claimed in accordance with the state's unclaimed property laws.

In January 2014, the SCO launched the eClaim filing system, which allows for an owner of unclaimed property to file electronically. To date, the system has resulted in an 85 percent increase in the number of properties returned to owners, with an estimated value of $10.6 million more than the prior year's return of unclaimed property. Due to the success of the program, the SCO raised the eClaim dollar threshold from $500 to $1,000. The requested resources will allow for the SCO increase the claimable threshold to $3,000 to further reduce the number of paper claims that would need to be processed. Additionally, the SCO has requested resources for 4.0 positions to perform online reviews of 85,000 claims that have been filed electronically that have the potential to be approved through the eClaim process. The SCO estimates that the back-end review is expected to reunite 38,000 pieces of property with their owner and will result in an additional $3.0 to $5.2 million returned to property owners.

LAO Comment: Earlier this year, the LAO reviewed the SCO's unclaimed property program and recommended, among other things, that the state place a greater emphasis on reuniting property with its rightful owner. One mechanism suggested by the LAO was to increase the eClaim claimable threshold. Additionally, the LAO noted that the burden placed on the rightful property owner is often onerous. Requiring additional documentation at the outset of the process may prove to be too time consuming, causing some property owners to abandon the process. The SCO's May Revision proposal is in response to that concern.

Staff Recommendation: Approve May revision proposal.

Vote:

Issue 4 – Other Postemployment Benefits (OPEB

Governor's May Revision Proposal: The Governor's May Revision includes a request to modify budget bill language in order to clarify the process related to the accounting and reporting standards for OPEB.

Background: The SCO has requested that Provision 7 of Item 0840-001-0001 be amended for clarification in reporting and accounting standards for OPEB. The proposed amendment is below:

> *"7. The Controller shall obtain actuarial valuation services to comply with governmental accounting and reporting standards for other postemployment benefits (OPEB). Controller's estimate of the state's liability and trust assets for other postemployment benefits prepared to comply with all Governmental Accounting Standards Board (GASB) reporting standards for other postemployment benefits, shall include, inIn addition to all other items required under the accounting and reporting standards, the report shall include statements: (a) an identification and explanation of any significant differences in actuarial assumptions or methodology from any relevant similar types of assumptions or methodology used by the Public Employees' Retirement System to estimate state pension obligations, and (b) alternative calculations of the state's OPEB liability for other postemployment benefits using different long-term rates of investment return consistent with a hypothetical assumption that the state will begin to deposit 100 percent or a lesser percent, respectively, of its annual required contribution under GASB governmental reporting standards to a retiree health and dental benefits trust fund. and, (c) breakouts of the actuarial data including but not limited to liability and trust assets, unfunded liability, normal costs, implicit subsidy costs, and annual required contributions attributable to each of the state's collective bargaining units. To avoid duplication of effort and promote efficiency and cost effectiveness, the Controller and the Department of Finance will coordinate in obtaining additional actuarial valuation services related to OPEB plan liabilities and assets attributable to each of the state's collective bargaining units or other state entities or groups. This provision shall not obligate the state to change the practice of funding health and dental benefits for annuitants currently required under state law."*

Staff Comment: Staff does not have any issues with this proposal.

Staff Recommendation: Approve May revision proposal.

Vote:

0890 SECRETARY OF STATE

Issue 1 – Online Motor Voter Registration System

Governor's May Revision Proposal: The Governor's May Revision includes a proposal for $2.35 million (General Fund) to provide the Secretary of State (SOS), in coordination with the Department of Motor Vehicles (DMV) one-time funding to enhance the Online Motor Voter Registration System. Additionally, this proposal includes a request to require the SOS to reimburse the DMV in the amount of $1.25 for expenses related to the driver/identification card system upgrades in fiscal year 2015-16.

Background: The National Voter Registration Act (NVRA) requires that registering to vote be a simultaneous part of applying for or renewing a driver license. The Secretary of State (SOS) and Department of Motor Vehicles (DMV) can improve California's compliance with the NVRA by streamlining the process through the enhancement of existing systems and the scheduled refresh of equipment. This request will fund upgrades to SOS and DMV voter registration systems that electronically transmit voter registration information, captured on driver license/identification card applications, from the DMV to the SOS.

DMV field office equipment will be upgraded to allow the signature capture tablet connected to the camera station to prompt in-person applicants to provide voter-specific information. The current driver license/identification card (DL/ID) contract is in need of a refresh to both software/hardware. As part of the refresh, the signature capture tablets can be replaced with a larger tablet that will better enable applicants to provide voter registration-specific responses. Upon completion of the driver license signature and photo, the information will be processed and sent electronically to the SOS.

Additionally, this proposal will modify DMV's online driver license renewal process by using an SOS-provided application that will pre-populate DMV-related information to an online voter registration form. By enhancing the online driver license renewal process, applicants will be able to complete their driver license renewal and subsequently register to vote. The information that will be pre-populated will assist applicants in completing the voter registration process. Once the voter registration process is complete, the information will be submitted electronically to the SOS.

Staff Comment: The Secretary of State anticipates this project to be complete by June 30, 2016.

Staff Recommendation: Approve May revision proposal.

Vote:

1110/1111– DEPARTMENT OF CONSUMER AFFAIRS

Issue 1 – BreEZE

Spring Finance Letter: The Department of Consumer Affairs (DCA) has submitted a spring finance letter requesting $23.248 million (Special Funds) in fiscal year 2015-16, and $24.433 million (Special Funds) in fiscal year 2016-17, to support the continued implementation of the BreEZe information technology project. DCA has also requested an increase of 29.8 personnel years (PY's) for fiscal year 2015-16, and 34 PY's for fiscal year 2016-17, and ongoing.

Background: DCA is comprised of 37 regulatory boards, bureaus, committees, commissions, and programs, all of which regulate more than 100 businesses and 200 industries and professions. While these entities are responsible for the day-to-day regulatory activities related to their specific professions and do have some autonomy, DCA is responsible for establishing general administrative policies and provides administrative support, when needed. The DCA-regulated use of computer systems to conduct their day-to-day regulatory functions has created a large network of legacy computer systems, under the DCA umbrella, that aren't compatible with one another, and lacked some basic case management functionality that could assist staff with licensing and enforcement efforts.

Historically, the regulatory entities housed under DCA have utilized either one, or both, of the Applicant Tracking System (ATS) and Consumer Affairs System (CAS) to perform many of the day-to-day duties that they are required to perform. The ATS was created to track and monitor cashiering-related activities and accept license applications. The ATS was originally developed in the early 1990's, and has not been upgraded for over a decade. The CAS was designed to track license-related activities, such as complaints, investigations, and enforcement. According to the November 2009 Feasibility Study Report (FSR) the legacy computer systems have led to excessive turnaround times for licensing and enforcement-related activities, which is one of the primary objectives of the regulatory entities housed within DCA.

Modernization of the licensing and enforcement process had been attempted on a number of occasions prior to the BreEZe project; most recently with iLicensing, which was abandoned in 2009. DCA's interest in revisiting the concept of automating its licensing process can be attributed to the Consumer Protection Enforcement Initiative (CPEI), which DCA noted would enhance the enforcement capacity of the DCA's healing arts boards. In 2008, a series of investigations conducted by the Los Angeles Times found that the Board of Registered Nursing had been allowing nurses to continue to practice even though there were pending enforcement related activities, and that the enforcement backlog had grown to over three years. DCA responded by proposing the CPEI, which would overhaul the enforcement process. This new enforcement initiative was largely dependent on the implementation of BreEZe into the healing arts boards, and DCA has noted that the targeted turnaround time for enforcement related activities would be reduced from over three years, as noted by the investigation, to eighteen months.

The November 2009 Feasibility Study Report (FSR) proposed not just to transition the healing arts boards, but all 37 boards and bureaus, to the BreEZe platform. According to the FSR, the 37 boards and bureaus were scheduled for transition to BreEZe over five phases, which would be completed by fiscal year 2014-15. The FSR noted that DCA chose a modifiable commercial off-the-shelf (COTS) system that was to provide DCA organizations with applicant tracking, monitoring, licensing, enforcement, renewal, cashiering, and data management capabilities.

DCA envisioned the BreEZe system to be web-enabled, which would allow the public to file complaints and review licensee information through the Internet. The 2009 FSR projected that the BreEZe project would cost approximately $27.5 million. The procurement model proposed in the FSR included a two-stage procurement process to award up to $250,000 to multiple bid winners, which elongated the procurement timeline. Affording the vendors to familiarize themselves with the business processes of the DCA boards and bureaus by working alongside their state counterparts. The second stage would have involved the submission of final proposals that might more accurately reflect the business needs of DCA's boards and bureaus, followed by selection of a single vendor to complete the implementation of BreEZe.

After consulting with the (then) Technology Agency and the Department of General Services (DGS), DCA chose a slightly different procurement approach than what was proposed in the FSR. The modified approach eliminated the first stage of the bid process, and instead relied on "working sessions" to inform the selected vendor or vendor candidates on the business requirements of the DCA entities. Through this process, DCA selected Accenture as the vendor for BreEZe implementation, and submitted a Special Project Report (SPR) that reflected the costs associated with the selected bid. According to SPR 1, which was submitted June 22, 2011, costs for the BreEZe project had grown to $45.8 million, an $18 million increase. Additionally, according to SPR 1, DCA chose to accept the vendor's proposed timeline, which reduced the schedule to three releases, rather than the five that had been a part of the November 2009 FSR.

In July 2013, DCA submitted SPR 2, which increased the overall project cost to $77.9 million. The need for an amended project report was due to the system testing taking much longer than originally anticipated. According to SPR 1, system testing was anticipated to take approximately 30 business days, but instead took 138 business days initially. SPR 2 realigned the schedule to allow for a greater level of testing, which in turn increased the project's timeline by approximately two years, and increased cost by $50.4 million from the November 2009 FSR.

DCA was required to further adjust the cost and scope of the BreEZe project, first proposing SPR 3, which increased the cost by $118 million, and further revised the approach under SPR 3.1, which increased the project cost by $96.1 million. According to SPR 3.1, the project was not moving in the timeframe that had been originally forecast, nor was it achieving the results that had been originally assumed. In SPR 3.1, project staff proposed re-scoping the project due to significant cost increases and staffing needs. The revised SPR proposed Release Two, which consists of eight boards and bureaus, for March 2016. Nineteen regulatory entities, to be included in Release Three, will now be excluded from the current design contract. DCA has noted that after implementation of Release Two, it will reassess how best to approach the remaining nineteen entities no longer a part of the BreEZe system.

LAO Recommendation: Earlier this year, the LAO provided the Legislature with a recommendation on the spring finance letter. Specifically, the LAO recommended modifying the Governor's proposal to (1) approve the requested maintenance positions on a two-year limited term rather than permanent basis and (2) allocate the costs of the proposed maintenance positions as well as consulting and professional services, so they are not borne by Release 3 entities.

- The LAO has recommended two-year limited term positions because they found that it is likely that the level of workload will decrease over time. Maintenance demands should decrease as the number of BreEZe defects decline and maintenance activities can be focused on more ongoing routine maintenance activities. The LAO notes that limited-term positions are appropriate because there is likely to be a lower level of ongoing workload.

- The LAO has also recommended modifying the proposal to reallocate the proposed costs for the requested maintenance positions as well as consulting and professional services to the Release 1 and 2 entities that will benefit from these activities. They estimate that this will shift approximately $3.2 million in costs from Release 3 entities to Release 1 and 2 entities.

Staff Comment: This request includes a significant increase in permanent positions, totaling 34.0 by fiscal year 2016-17. DCA has noted that the requested positions will support the ongoing maintenance and operations associated with the regulatory entities included in Release One and Release Two, work that is currently being performed by 10.0 vendor staff. Staff does not concur with DCA that the entire workload associated with this request, will be ongoing. Furthermore, costs associated with the requested 34.0 positions will be distributed to every entity housed under DCA, including the nineteen regulatory entities that were intended to be included in Release Three and are now excluded from inclusion in the BreEZe project. To that end, staff would recommend slightly modifying LAO's recommendation to allow for the funding associated with the positions to be available for a limited-term rather than providing two-year limited-term positions. However, due to administrative limitations, DCA does not have the authority to create the positions, unless the authority is specified in statute or budget bill language. Staff would recommend adopting the following budget bill language to accommodate this proposal:

Add items 1110-405 and 1111-404

> *"For the release 1 and 2 boards (1110) and bureaus (1111) that were provided with an augmentation for BreEZe-related costs in the Budget Act of 2015, the Department of Consumer Affairs may administratively establish up to 34.0 positions to address maintenance demands stemming from the continued implementation of the BreEZe project. The 34.0 positions shall expire on June 30, 2017."*

Staff Recommendation: Approve spring finance letter with modified budget bill language that will distribute costs only to boards and bureaus that were a part of release 1 and release 2. Limit funding for requested positions to two years.

Vote:

Issue 2 – Controlled Substance Utilization Review and Evaluation System (CURES) Ongoing Funding

May Revision Proposal: The Governor's May Revision includes a proposal to provide the Department of Consumer Affairs (DCA) with a $1.112 million (Controlled Substance Utilization Review and Evaluation System Fund) appropriation for fiscal year 2015-16, and ongoing. The appropriation will be utilized to reimburse the Department of Justice (DOJ) for the ongoing maintenance and operation of the new CURES platform.

Background: DCA has contracted with DOJ on behalf of the Medical Board of California, the Dental Board of California, the California State Board of Pharmacy, the Veterinary Medical Board, the Board of Registered Nursing, the Physician Assistant Board, the Osteopathic Medical Board of California, the State Board of Optometry, the California Board of Podiatric Medicine, and the Naturopathic Medicine Committee to upgrade and maintain CURES for the purpose of regulating licensees.

The 2013 Budget Act appropriated a total of $3.941 million from the ten special funds that support the healing arts boards noted above. The funds were used to reimburse DOF for upgrades to CURES over two years. The upgrades allowed for integration with major health information systems to maximize physician and pharmacist participation, provided timely patient activity reports to prescribers and dispensers, and provided law enforcement agencies and DOJ with reporting and crime analytics.

SB 809 (DeSaulnier), Chapter 400, Statutes of 2013 created the CURES fund, with DCA acting as the administrator of the fund. Effective April 1, 2014, a fee of $6.00 has been assessed on each renewed licensee that has the capacity to prescribe or dispense controlled substances within DCA's healing arts boards and bureaus. DOJ has estimated that total costs associated with the maintenance of the upgraded CURES platform will not exceed $1.112 million. The requested appropriation against the CURES fund will facilitate the reimbursement.

Staff Comment: This proposal includes budget bill language that specifies the funding only be made available upon the Department of Technology's (CalTech) approval of DOJ's maintenance and operations plan. Staff does not have any issues with this proposal.

Staff Recommendation: Approve May Revision proposal, adopt provisional budget bill language that would specify the funding only be made available upon the Department of Technology's approval of DOJ's maintenance and operations plan.

Vote:

Issue 3 – Bureau for Private Postsecondary Education (BPPE)

May Revision Proposal: The Governor's May revision includes a proposal for a $1.03 million (Private Postsecondary Administration Fund) in fiscal year 2015-16 and $903,000 (Private Postsecondary Administration Fund) in fiscal year 2016-17 and ongoing to fund 10.0 permanent positions with the Bureau of Private Postsecondary Education (bureau) The bureau has requested that 17.0 existing three-year limited-term positions be converted to permanent status, which requires $628,000 in fiscal year 2016-17, and $1.845 million in 2017-18, and ongoing. Additionally, the bureau has requested provisional budget bill language that would provide the bureau with $1.0 million in 2015-16, $1.5 million in 2016-17, and $1.0 in 2017-18 to increase the bureau's overtime and temporary help blanket expenditure authority.

Background: AB 48 (Portantino), Chapter 310, Statutes of 2009, requires the bureau to provide oversight and regulation of California's private postsecondary educational institutions. This includes licensing institutions, conducting compliance inspections, and investigating and acting upon complaints received against private postsecondary educational institutions. Currently, the bureau regulates approximately 1,200 main locations, 300 branch locations, and 379 satellite locations.

In March 2014, an audit, conducted by the California State Auditor, found that there were significant backlogs of institution license applications and student complaints. Additionally, the audit found that the bureau had not been adequately inspecting institutions or enforcing compliance. As a result of the audit, the bureau hired a public human resources consulting firm to perform a baseline workload staffing assessment and to examine the bureau's current workflow process. The report was provided to the Legislature on March 13, 2015, and the requested resources reflect many of the recommendations provided in the report. The report provided extensive workload detail and data to justify providing additional resources to meet the bureau's statutory requirements. The bureau is currently required to report its licensing and enforcement statistics to the Department of Consumer Affairs on an annual basis, which allows the bureau to gauge effectiveness of the positions being requested.

Staff Comment: This subcommittee heard a request from the bureau on March 12th. At that hearing the subcommittee adopted a proposal to provide the bureau with resources for 10.0 permanent positions and 5.0 two-year limited-term positions, which reflected additional workload created by SB 1247 (Lieu), Chapter 840, Statutes of 2014. Staff has no issues with this request.

Staff Recommendation: Approve May Revision proposal.

Vote:

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 1- Drought Relief—Relocation Assistance

Governor's May Revision Proposal: The Governor requests $6 million General Fund to work with impacted counties to provide assistance to households faced with uninhabitable housing caused by the state's persistent drought. Of this amount, HCD estimates that $2.1 million will be used for state staff and/or contractors and $3.8 million in local assistance to fund individuals moving costs and rental assistance. Trailer bill language and budget bill language are proposed to implement the program.

Background and Detail: The current drought is having a significant impact on the state's water supply and some households not served by a public water system face water shortages. For example, as reported by the Fresno Bee on March 10, 2015, an estimated 6,000 to 7,000 people live in East Porterville (Tulare County), a largely low-income rural residential area where an estimated 600 wells have gone dry. Furthermore, based on information from the Office of Planning and Research, as of mid-January 2015, there were an estimated 1,760 household water shortages in 36 counties. The majority of those households were in Tulare County. According to HCD, water tanks are being funded and connected to some of these homes so that people can remain in their homes. However, it is anticipated that this solution will not address the needs of all those impacted, especially renters living in single family homes or other housing situations.

This proposal is based on an initial estimate of 500 households being relocated. The funding requested for the proposal is based on covering the cost of a household's first and last month's rent and providing rental assistance because new rents may be greater than the previous cost of housing.

The trailer bill language (TBL) being proposed would establish the program and minimum eligibility requirements, and sunset the program by June 30, 2017. In addition, the TBL would allow families impacted by the drought that are rendered homeless, or at risk of becoming homeless, to rent from the Office of Migrant Services centers. In addition, provisional language would allow for the transfer of funds to administer this program.

There are numerous uncertainties about the drought situation and what housing options are available to those who are in relatively poor areas of the state that are being the hardest hit by the drought. As a result, this proposal provides flexibility to enable HCD to use the mix of state staff and contractors that might best address this problem. Actual costs will vary based on demand, the individual needs of households, rent costs of available housing, and the degree to which contractors are used to administer the program.

Staff Comments: This proposal may help to address the short-term housing needing of families that are being critically affected by the drought. However, staff is concerned about the lack of detail regarding how the program will be administered. It is uncertain exactly how this program will be designed to ensure that it meets the needs of these households and that funds are used as intended. Requiring HCD to develop program guidelines and submit them to the Legislature for review prior to the local assistance funds being available for expenditure would help to ensure program success.

Staff Questions for HCD:

1. It seems like the demand for this program may greatly exceed the available funding, what is the Administration's strategy for ensuring that those households most in need of this critical funding receive it?

2. Why are families in rental housing most likely to be in need of this type of financial assistance? Who would receive the financial assistance—the family or the owner of the new housing? How would the state ensure that these funds are spent by individuals on their housing needs?

3. Do all of the minimum requirements in the proposed trailer bill language have to be met for someone to receive relocation assistance?

4. The proposed administrative costs are high relative to other programs—35 percent compared to 10 percent—please explain why the administrative costs are expected to be so high.

Staff Recommendation: Approved as proposed and adopt provisional language that requires the submission of program guidelines to the Joint Legislative Budget Committee prior to the $3.8 million in local assistance funding being available for expenditure.

Vote:

7760 – DEPARTMENT OF GENERAL SERVICES

Issue 1 – Water Conservation at Statewide Facilities

Governor's May Revision Proposal: The Governor's May Revision includes a proposal to provide the Department of General Services (DGS) with a one-time $10 million (General Fund) augmentation in order to provide grants for water conservation projects at state-owned facilities.

Background: The Budget Act of 2014 provided DGS with $5.4 million in expenditure authority from the Service Revolving Fund to perform water conservation projects in state buildings that are managed by DGS. The rental rate charged to building tenants increased by $0.05 per square foot; a similar proposal will be considered as part of the Governor's May Revision for fiscal year 2015-16. However, DGS only manages a portion of the state's facilities. DGS, the Government Operations Agency, and the Office of Planning and Research will create a competitive grant program to distribute the requested resources. Examples of projects that would be considered include replacing or modifying toilets, faucets, and kitchen equipment with new water saving devices, removing grass lawns and replacing with artificial turf, installing weather-based irrigation controllers, and fixing leaking pipes or equipment. Given the compressed timeframe – DGS anticipates completing by June 2016 – projects would likely have to be shovel-ready in order to be considered.

Staff Comment: Staff concurs with the Administration that all of the state's facilities, not just those managed by DGS, should be performing water conservation projects during the state's severe drought. However, staff would note that the Capitol and its grounds, with nearly

1,000,000 visitors on an annual basis, has not been highlighted as a likely candidate for water conservation projects. Staff would recommend that the top priority should be to ensure that the capitol grounds can be modified to a drought-tolerant landscape rather than simply discontinuing to water the north, west, and south lawns, which is the current practice. Given the high level of foot traffic on the capitol grounds, staff is concerned that the state may be missing out on the opportunity to showcase a drought-tolerant landscape to many of the state's residents. This subcommittee may wish to seek a commitment from DGS that additional steps will be taken to ensure that a drought-tolerant landscape will considered amongst the many other projects that DGS will be considering.

Staff Recommendation: Approve May revision. Request that DGS coordinate with Capitol grounds staff to incorporate a drought-tolerant landscape into the project portfolio.

Vote:

Issue 2 – Water Conservation/Drought Response

Governor's Budget Request: The Governor's May Revision includes a request for a one-time increase in the Service Revolving Fund expenditure authority of $5.4 million so the Department of General Services (DGS) can implement water efficiency and conservation measures.

Background: On January 17, 2014, Governor Brown issued a declaration for a drought emergency that established DGS as the lead agency for developing and implementing water use reduction measures for all state agencies. According to DGS, the requested funds will support the purchase and installation of approximately 3,718 plumbing fixtures, 60 irrigation controllers, and 4,500 sprinkler heads in 58 DGS-controlled state-owned buildings. These adjustments will result in a reduction of 73.2 million gallons of water usage by state-owned facilities annually. The requested funds from the Service Revolving Fund will result in an increase of $0.05 per square foot for building rental rates.

Staff Comment: Staff has no concerns with this request.

Staff Recommendation: Approve Governor's May Revision request; authorize a one-time increase of DGS expenditure authority by $5.4 million (Service Revolving Fund) to implement water efficiency and conservation measures.

Vote:

Issue 3 – State Property Inventory

Governor's Budget Request: The Governor's budget includes proposed trailer bill language, to require agricultural district associations to report their real property information to the Department of General Services.

Background: Within DGS, the Real Estate Services Division is responsible for managing statewide real estate functions for the state. The Real Estate Services Division is comprised of five branches: Asset Management, Business Operations, Policy and Planning, Building and Property Management, Professional Services, and Project Management. The Asset Management branch often serves as the first point of contact for agencies or departments seeking new services. One of the primary functions of the Asset Management branch is to assess proposed projects and determine whether or not they are consistent with regional facility plans. Additionally, the branch is responsible for making tenant/property improvements to underutilized state-owned properties.

In accordance with statute, state agencies, departments, boards and commissions, are required to submit their property holdings to DGS on an annual basis. The Surplus Property Inventory (SPI) serves as the state's main record keeping system for tracking statewide surplus assets. The SPI contains information related to the state's real property assets, including land, structures, improvements and leased space, as well as state-owned leased space to other tenants.

AB 2490 (Eggman), Chapter 342, Statutes of 2014, realigned certain responsibilities associated with district agricultural associations. Including the requirement that district agricultural associations annually report property holdings to DGS. The requested language would reinsert the requirement that agricultural associations report their land holdings to DGS.

Staff Comment: This issue was first heard by this subcommittee on March 19th. At that time, the subcommittee learned that, after the Legislature has deemed certain property surplus, the Legislature plays a limited role in the disposition of surplus property. A prime example of this is the Lanterman Developmental Center land transfer, which is also being discussed by Subcommittee No. 3 and Subcommittee No. 2.

In Subcommittee No. 3, staff has learned that the Lanterman Developmental Center (LDC), which is comprised of over 300 acres, located its last resident back to the community in December 2014. Subsequent to its closure, the Administration has proposed transferring the LDC property to the California State University (CSU) system on July 1, 2015. Subcommittee No. 3 held this item open the first time it was heard on May 7th, and have since recommended that Subcommittee No. 4 adopt trailer bill language that would require a minimum of 20 percent of any housing developed by the CSU or one of its affiliates, auxiliaries, or other party through transfer, lease or sale, shall be available and affordable to individuals with developmental disabilities served by a regional center pursuant to WIC 4500 et al. The requirement stems from a report issued by the state Health and Human Services Agency, which included a recommendation that the state *"should enter into public/private partnerships to provide integrated community services on existing State lands, where appropriate."*

As noted earlier, Subcommittee No. 2 has considered a proposal related to the closure of LDC as well. Subcommittee No. 2 rejected the Administration's proposal to consolidate the Air Resources Board (ARB) motor vehicle and engine emission testing and research facility. Subcommittee No. 2 found the proposal to be lacking in alternatives, and raised concern with the determination process utilized by the Department of Finance (DOF) and DGS. Staff understands that revisions have been made that will place a greater emphasis on programmatic efficiencies, but the bigger picture is that the state is now in possession of a large parcel of land that could serve to benefit a number of programs within the state, and, the Legislature, which provides direct representation to the affected communities, has had little to no input.

Under current statute, how this space will be utilized is a decision that will be made by the Administration. As noted earlier, members of the Legislature, who directly represent the communities where these large state-owned property dispositions occur, have few mechanisms to provide input. To address this, staff would recommend adopting placeholder trailer bill language that will provide for greater legislative input on parcels that exceed a certain size or value. As evidenced above, Subcommittee No. 3 identified a recommendation that would provide significant public benefit, but may not have been incorporated into the Administration's land use plan.

Staff Recommendation: Approve proposed trailer bill language with modifications to address the suggestion raised by Subcommittee No. 3 that would require a minimum of 20 percent of any housing developed by the CSU or one of its affiliates, auxiliaries, or other party through transfer, lease or sale, shall be available and affordable to individuals with developmental disabilities served by a regional center pursuant to WIC 4500 et al, and incorporate language that would provide the Legislature with greater input on parcels that exceed a certain size or value.

Vote:

8260 – CALIFORNIA ARTS COUNCIL

Issue 1 – Increased funding for local assistance

Governor's Budget Request: The Governor's May Revision includes a proposal to provide the California Arts Council (CAC) with a General Fund augmentation totaling $5.0 million in fiscal year 2015-16, and ongoing.

Background: In 1975, the California Arts Council was created and signed into law by Governor Jerry Brown. The largest General Fund allocation included in the California Arts Commission's budget occurred in 2000-01, at a level of $32 million. During the fiscal crisis of 2003-04, the California Arts Council lost 94 percent of its funding, which resulted in cuts to arts council programs and staff. Over the past decade, the General Fund allocation to the Arts Council has hovered at about $1 million.

In 2003-04 the California Arts Council's core programs were eliminated and a limited number of grants were targeted to select organizations serving K-12 school children, seniors, at-risk youth, multicultural communities and local arts agencies. Since then, the California Arts Council has re-established several of its core efforts including support for local art agencies (State-Local Partnership) and Artists in Schools, and has designed other programs to serve rural and inner city communities, and statewide service networks. These grant-making efforts are supported with revenues from the Sale of the Arts License Plate and Federal funds received from the National Endowment for the Arts.

On July 15, 2013, the CAC received $2 million in savings from the State Assembly operating budget. With the one-time support, the Council was able to fund 34 grant projects and two major arts education initiatives, reaching 43 counties across California.

On June 20, 2014, the Governor signed a state budget that includes a one-time $5 million increase in General Fund support for the California Arts Council. This is the first time in over ten years the arts have seen an increase of General Fund support, after the support for the Council was cut by 94 percent in 2003.

Staff Comment: Staff has no concerns with this request. The subcommittee may want to consider appropriating additional funds to support the Arts Council. Staff would recommend appropriating an additional $5 million in General Fund to support the Arts Council.

Staff Recommendation: Adopt May Revision proposal. Appropriate, on additional $5 million, ongoing, to the Arts Council.

Vote:

8940– CALIFORNIA MILITARY DEPARTMENT

Issue 1 – Sustainable Armory Renovation Program

Governor's May Revision Proposal: The Governor's May revision includes a request for $3.645 million (General Fund) in order to complete preliminary plans, working drawings, and construction for three armory renovation projects. This proposal also includes provisional language that would allow for the appropriations to be available for encumbrance until June 30, 2018.

Background: Over 75 percent of the state's 115 armories are over 50 years old, structurally deficient, and do not meet current access, training, or equipment requirements. The requested resources will provide funding to renovate three armories located in California:

- **Bakersfield Armory** – The California Military Department is requesting $911,000 (General Fund), which will be matched with $911,000 in federal trust fund, for a total of $1.822 million. The scope of the renovation project will include HVAC, electrical energy upgrades, plumbing upgrades, lead and asbestos abatement, energy efficient window installation, paint, kitchen upgrades, and regulatory upgrades to kitchen and latrine areas. The Bakersfield armory is located in Kern County, and was built in 1953.

- **San Bernardino Armory –** The California Military Department is requesting $1.64 million (General Fund) and $1.64 million in federal trust fund authority, for a total of $3.28 million. The requested resources will fund the renovation of the San Bernardino armory's HVAC, electrical energy upgrades, rewiring, plumbing upgrades, lead and asbestos abatement, reroof, painting, kitchen equipment, and regulatory upgrades to the kitchen, latrines, and vault area. This facility was originally constructed in 1969, is located in San Bernardino County. Many of the required upgrades are due to vandalism, which destroyed the plumbing, roofing, electrical and HVAC components of the building.

- **Ontario Armory** – The California Military Department is requesting $1.094 million (General Fund) and $1.094 million in federal trust fund authority, for a total of $2.188 million. The requested resources will provide resources for the preliminary plans, working drawings, and construction phase of the armory renovation. The scope of the renovation will include HVAC, electrical energy upgrades, rewiring, plumbing upgrades, lead and asbestos abatement, energy efficient window replacement, reroof, painting, kitchen equipment installation, and required regulatory upgrades to the kitchen and latrine areas. The Ontario armory, which was constructed in 1950, is located in San

Bernardino County. The facility was chosen due to the high number of guard members that live and work in the surrounding area.

Staff Comment: All three projects are expected to be complete by September 1, 2017. Staff has no issues with this request.

Staff Recommendation: Approve May revision request.

Vote:

Issue 2 – San Diego Readiness Center Renovation

Governor's May Revision Proposal: The Governor's May Revision includes a request for $856,000 (General Fund) and $856,000 in matching federal trust funds, totaling $1.712 million in order to renovate the California Military Department's San Diego Readiness Center.

Background: The San Diego Readiness Center, which was constructed in 1955, is one of the largest National Guard training sites in Southern California. The current facility is not Americans With Disabilities Act (ADA) compliant, and does not meet Department of Defense (DOD) anti-terrorism/force protection standards. Additionally, the facility lacks the space required to properly store or maintain modern military equipment. The proposal would renovate the facility to meet ADA building codes and meet the minimum anti-terrorism/force protection standards for an existing structure.

Staff Comment: Overall costs associated with this project are expected to total $11.554 million, and the project is expected to be complete by June 1, 2019.

Staff Recommendation: Approve May revision request.

Vote:

Issue 3 – Provisional Loan Language

Governor's May Revision Proposal: The Governor's May Revision includes a request for provisional budget bill language that will authorize the Director of Finance to loan up to $30 million from the General Fund to the California Military Department for cash flow purposes.

Background: Due to changes in the federal government's accounting system, advance payments are no longer an option for operating costs, which include salaries and services provided by vendors to the California National Guard and Air National Guard. Historically, the Military Department has been able to mitigate cash flow issues, which arise during the second half of the fiscal year, by receiving federal reimbursements. The Department of Finance, in coordination with the Military Department, has proposed including provisional language that would:

1) Meet the cash flow needs resulting from the delay in receiving reimbursements.

2) Be considered short-term and shall be repaid by the Military Department by October 31 in the fiscal year following that in which the loan was authorized.
3) Interest charges may be waived.
4) May only be approved in writing and submitted to the Joint Legislative Budget Committee for notification 30 days prior to the effective date of the approval.

Staff Comment: Similar provisional language has been provided to several other state agencies. Staff does not have any concerns or issues with the proposed language.

Staff Recommendation: Approve May revision request.

Vote: