Senate Budget and Fiscal Review

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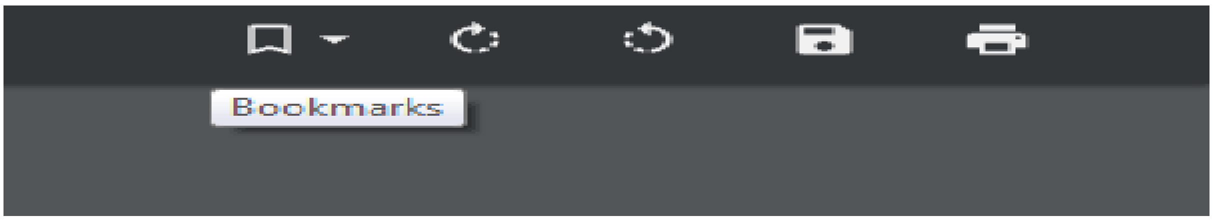

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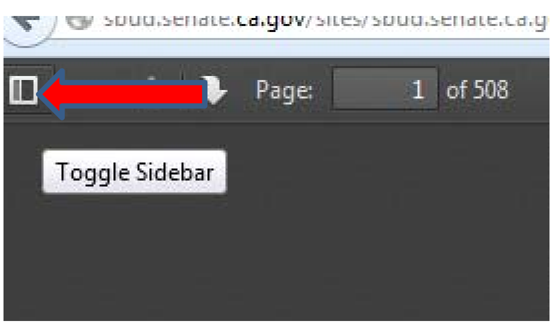

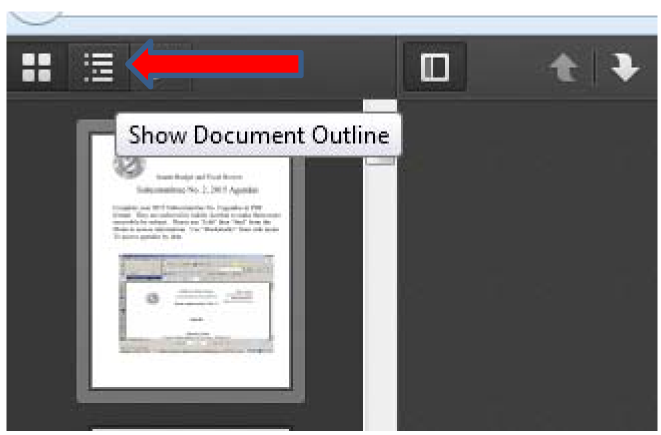

CALIFORNIA LEGISLATURE

STATE CAPITOL
SACRAMENTO, CA
95814

SENATE GOVERNMENTAL ORGANIZATION COMMITTEE AND SENATE BUDGET AND FISCAL REVIEW SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION AND GENERAL GOVERNMENT

SENATORS DODD AND PADILLA
CHAIRS

9:30 Wednesday, February 21, 2024
1021 O Street, Suite 1200

JOINT INFORMATIONAL HEARING

California at the Forefront: Steering AI Towards Ethical Horizons

I. Artificial intelligence in the public sector: Academic perspective

- Michael Karanicolas: Executive Director, UCLA Institute for Technology, Law & Policy
- Daniel Ho: Professor of Law, Stanford Law School; Director of the Regulation, Evaluation, and Governance Lab; Senior Fellow, Stanford Institute for Human-Centered AI; Senior Fellow, Stanford Institute for Economic Policy Research

II. Workforce and innovator perspective

- Addie Cooke: Global AI Public Policy Lead at Google Cloud
- Annette Bernhardt: Director, Technology and Work Program at the UC Berkeley Institute for Research on Labor and Employment

III. State entity perspective

- Liana Bailey-Crimmins: Director, California Department of Technology
- Angela Shell: Chief Procurement Officers, California Department of General Services
- Monica Erickson: Chief Deputy Director, California Department of Human Resources

IV. Public Comment

Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, March 7, 2024
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultants: Timothy Griffiths and Diego Emilio J. Lopez

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

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 FOR VOTE ONLY

0511 GOVERNMENT OPERATIONS AGENCY (GOVOPS)

Issue 1: Cradle-to-Career Data System Chief Information Security Officer Position Authority

Request. The GovOps, Office of Cradle-to-Career Data System (C2C) is requesting one position – Information Technology Manager II – in 2024-25, and ongoing, to manage workload related to the C2C system and to sustain the necessary information security capacity for the Office and the Data System.

Background. AB 132 (Committee on Budget), Chapter 144, Statutes of 2021, established the C2C to provide expansive public access to one of the most comprehensive data systems in the nation, linking existing public and private education data, as well as workforce, financial aid, and social service information to address disparities in opportunities and improve outcomes for all communities throughout California. A 21-person Governing Board overseeing the office and two 16-person Advisory Boards with public members provide implementation recommendations for the C2C.

Information Security. Statute requires that C2C keep the data system secure and protect individual privacy, in compliance with federal and state laws. C2C must also keep the trust of its data-sharing partners by implementing a best-in-class security plan and information security program for the data system. These efforts are informed by C2C's Security Policies Taskforce, which is comprised of representatives from the data providers, particularly people responsible for information security at those state agencies, as well as security experts identified by the Office.

According to the Department, the requested Information Technology Manager II will serve as a Chief Information Security Officer (CISO) to be responsible for ensuring security policies and procedures are reviewed and updated as needed to prevent new threats and vulnerabilities across media types. The C2C has met its short-term need for CISO services by leveraging the experience of a retired annuitant, but the position is requested to address ongoing CISO needs.

Staff Recommendation. Approve as budgeted.

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 2: Reductions to the California Experience Corps

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert $8.8 million previously allocated to the Experience Corps back to the General Fund.

Background. The 2022 Budget Act allocated $10 million in General Fund to the California Volunteers program within OPR for operation of an Experience Corps grant program. As described by OPR, Experience Corps grants were intended to support stipended volunteer positions for older adults to provide either one-on-one mentoring, nurturing, and support to children (Foster Grandparent) or peer-support services to older adults at risk of out-of-home placement due to chronic illness, disability, or isolation (Senior Companion).

As it turned out, interest in Experience Corps was lower than originally anticipated and OPR only issued Experience Corps grants totaling $1.2 million in 2022-23, leaving the unspent balance of $8.8 million that this proposed reversion would recapture and return to the General Fund.

Staff Comments: None.

Staff Recommendation. Approve as budgeted.

8955 DEPARTMENT OF VETERANS AFFAIRS (CALVET)

Issue 3: California State Approving Agency for Veterans Education Funding Increase

Request. The Governor's budget requests $265,000 Federal Trust Fund beginning in 2024-25 for CalVet to address the increased workload within the California State Approving Agency for Veterans Education (CSAAVE)/Title 38 program.

Background. The United States Department of Veterans Affairs (USDVA) administers the federal education benefit programs for veterans, including the Post 911 GI Bill, Montgomery G.I. Bill (MGIB), Reserve Education Assistance Program (REAP), and Veterans Education Assistance Program (VEAP). These programs provide for the college or vocational education of people who have or are currently serving in the US Armed Forces. Under the direction of the USDVA, eligible service members and veterans are able to receive funding to pay for their higher education costs.

Under contract with the USDVA, CSAAVE, under the authority of federal law (Title 38 United States Code), operates as part of the government of the State of California to approve or disapprove veterans' education and training programs, prevent abuses, and promote quality in veterans' education by evaluating and monitoring education and training programs. CSAAVE connects with school certifying officials, military education officials, training establishments and business officials, and select government officials in order to serve veterans and their families with regard to their education benefits and opportunities. CSAAVE conducts on-site Risk Based Compliance visits to approved institutions and schools seeking approval, provides technical assistance to all interested parties and is engaged in outreach activities to encourage eligible individuals to use the benefits provided by their service. The programs that can be approved by CSAAVE are institutions of higher learning (colleges and universities), non-degree institutions (vocational and technical schools), and licensing and certification exams.

According to CalVet, these resources are intended to address the increased workload within the CSAAVE program as a result of the passage of Public Law 116-315, Isakson & Roe, which changed how CSAAVE conducts compliance visits into what is now called Risk Based Surveys that requires reviewing a significantly increased amount of data.

Workload History

Workload Measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Applications Received, Applications Processed, Call Volume, Site Visits, Audits, Stakeholder Meetings, Hearings, etc. (NOTE: workload measures are based on federal fiscal year)	53,995	17,104	53,350	58,878	63,635	70,400

Staff Recommendation. Approve as budgeted.

Issue 4: CalVet Electronic Health Record Project

Request. The Governor's budget requests $902,000 General Fund ($618,000 for the final year of implementation and $284,000 for 11 months of maintenance and operating [M&O] costs) in 2024-25 and $415,000 General Fund beginning in 2025-26 for CalVet for full year M&O costs for its new long-term care electronic health record system in the Veterans Homes of California and Headquarters.

Background. In 2016, CalVet began to work with the Department of Technology to explore various options for an electronic health record system (EHR) to use in its Veterans Homes.
The 2020-21 budget provided a one-time augmentation of $1.2 million General Fund for the first phase of implementing the electronic health record system, which was installed at its Homes in Barstow, Chula Vista, Lancaster, and Ventura. The 2021-22 budget provided $10 million General Fund for the second year of implementation, and was used to enhance the system at the initial four Homes, and implementing the system at the remaining Homes in Fresno, Redding, West Los Angeles, and Yountville. At the time, the project was scheduled to be completed in December 2021.

However, due to the COVID-19 pandemic, subject matter experts were not available for the project for extended periods, leading to project delays. This triggered a Special Project Report to the CDT. While the scope of the project did not change, adjustments were made to project timelines and order of implementation, as well as applications. The project timeline expanded by 20 months. The 2022-23 budget provided for $433,000 General Fund for the third year of implementation. The project was then scheduled to be completed in September 2023.

Due to further project delays resulting from statutory requirements of implementing e-prescription functionality by January 2022, truncated financial requirements in contracts, and a need for additional testing time, a second Special Project Report (SPR #2) to the CDT was triggered. The schedule, cost, and scope impacts reported in SPR #2 expanded the project timeline by 13 months. The 2023-24 budget provided for $2.5 million General Fund for the fourth year of implementation and to begin Phase 3 of implementation.

Phase 3 will continue through 2023-24, with full implementation and enhancements for the Chula Vista, Barstow, Yountville, and Redding Homes. Implementation for the Fresno Home will occur on July 1, 2024, completing the project in calendar year 2024.

Phase 3 – Remaining Homes Implementation + Enhancements

Activity	Start Date	End Date
Chula Vista	11/1/2023	12/19/2023
Barstow	1/1/2024	2/14/2024
Yountville	3/1/2024	4/12/2024
Redding	5/1/2024	6/17/2024
Fresno	7/1/2024	8/15/2024

The project completion date is estimated to be October 18, 2024.

According to CalVet, Completing the CEHR Project Phase 3 will provide the Department with:

- A completely paperless EHR resulting in standardized processing of CalVet resident health records – implemented in all eight Homes.
- Standardized electronic physician order entry process.
- Compliance with regulations and accessibility needs.
- Accurate resident care billing submitted to HQ from the Homes.
- Accurate billing submitted to fiscal intermediaries, including CMS, by HQ.
- A solution that is current and responsive to the changing trends in technology.
- Participation in Health Information Exchange (HIE). Allowing CalVet healthcare providers to appropriately access and securely share a patient's vital medical information electronically—improving the speed, quality, safety and cost of patient care.
- Ensured compliance with privacy protections and security safeguards required by the Health Insurance Portability and Accountability Act of 1996 (HIPAA) Privacy Rules.
- Completion and closeout of the CEHR Project.

Staff Recommendation. Approve as budgeted.

Issue 5: Strategic Realignment for the Barstow Veterans Home

Request. The Governor's budget requests a reduction of 30 budgeted Domiciliary (Dom) beds, 2 positions, and $265,000 General Fund beginning in 2024-25 for CalVet as part of the census milestone reductions at the Veterans Home of California-Barstow (Barstow Home) as outlined in the 2021-22 Strategic Realignment of the Barstow Home.

Background. Opened in 1996, the Barstow Home has historically offered three levels of care: Domiciliary (Dom), Intermediate Care Facility (ICF), and Skilled Nursing Facility (SNF). Although the Barstow Home has a capacity for 400 residents, it has averaged fewer than 200 residents since the early 2000s.

CalVet conducted a full-scale appraisal of every Veterans Home of California, including levels of care offered, regional demand for services, hiring capabilities, infrastructure, and other characteristics necessary for strategic planning. The result was the Veterans Homes of California 2020 Master Plan (Master Plan). Contained in the Master Plan were specific recommendations that were intended to place each Home in the best possible position for success now and in the future. The recommendations for the Barstow Home included aligning the levels of care offered to more accurately reflect demand in the area. The proposed changes in levels of care included, through attrition over many years, closing the Dom program, converting the dual-occupancy 60-bed ICF to a single room 31-bed Residential Care Facility for the Elderly (RCFE), and reactivating 20 suspended SNF beds. It must be noted that no residents have been or will be discharged as a result of these level of care changes.

The proposed level of care changes were reflected in the 2021-22 Strategic Realignment for the Barstow Veterans Home Spring Finance Letter and the Barstow Home began realigning its levels of care accordingly. The planned closure of the Dom through attrition was anticipated to take many years. However, the COVID-19 Pandemic, combined with other operational challenges, has reduced the Dom census to milestone points outlined in the Strategic Realignment for the Barstow Home that was approved for implementation January 1, 2022. The milestones were for a census drop of 30 and 60 beds as well as full closure of the 120-bed unit. Each milestone included a corresponding reduction of positions. This proposal requests the implementation of the planned reduction.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

0511 GOVERNMENT OPERATIONS AGENCY (GOVOPS)

Issue 6: Cradle-to-Career eTranscript California Practical Tools Reappropriation

Request. The GovOps, Office of Cradle-to-Career Data System (C2C) is requesting to reappropriate $600,000 General Fund in 2024-25, to fund and manage workload related to the Cradle-to-Career Data System.

Background. AB 132 (Committee on Budget), Chapter 144, Statutes of 2021, established the C2C to provide expansive public access to one of the most comprehensive data systems in the nation, linking existing public and private education data, as well as workforce, financial aid, and social service information to address disparities in opportunities and improve outcomes for all communities throughout California. A 21-person Governing Board overseeing the office and two 16-person Advisory Boards with public members provide implementation recommendations for the C2C.

eTranscript California. eTranscript California is a secure electronic transcript system that currently supports California Community Colleges (CCC), California State University (CSU), University of California (UC), and select private and out-of-state postsecondary institutions. eTranscript California is designed specifically to address information unique to California student transcripts, such as Intersegmental General Education Transfer Curriculum (IGETC), CSU general education requirements (GE Breadth), Associate Degrees for Transfer, and community college district-level transcripts. The peer-to-peer exchange network delivers data in the California Electronic Transcript Standard, a statewide format recognized by the CSU and UC systems, and supports the work of the Student Success Act of 2012 (Chapter 624, Statutes of 2012 (SB 1456)). While there are currently 102 CCCs, 20 CSUs, 6 UCs, 3 independent colleges, and 3 out-of-state institutions participating in the eTranscript California exchange, not all colleges make full use of eTranscript California's features and have instead adopted a range of solutions for transmitting information about students' academic histories, including the use of third-party vendors whom students must pay to request and transmit transcripts.

eTranscript California Scaling. C2C has a statutory charge to bring two operational tools (known as "practical tools for students and families") for students to a state-wide scale. One of these is eTranscript California. In 2022–23, C2C conducted interviews and research to identify important insights for planning an expansion of eTranscript California. This included topics such as infrastructure specifications, content specifications, tools to support skills-based hiring, and social benefits eligibility as features. Based on these initial findings and recommendations, in 2023-24, C2C began a planning process to create a roadmap for how eTranscript California could become a seamless platform for transferring transcripts across post-secondary institutions and to employers, and could be adapted to include skills gained in non-academic contexts. This included conducting additional research to better understand the role of alternative transcript formats in skills-based hiring, how transcript data informs awarding credit for prior learning, transcript standards, and transcript issues pertaining to dual enrollment. Finally, in August 2023, the

Governor's Office released Executive Order N-11-23, announcing an effort to create a Master Plan for Career Education. The executive order highlights C2C's role in scaling eTranscript California as a key component for planning efforts. As a result, C2C will convene a task force between January-June 2024 that will generate ideas and recommendations for how eTranscript California could be rebuilt to meet Master Plan goals.

C2C is requesting to reappropriate $600,000 from 2023-24 to 2024-25 to engage a subcontractor to advance the recommendations identified in the current year task force as part of the Master Plan for Career Education. While the specific activities will not be finalized until the recommendations are developed, potential activities include:

- Providing project management support to CCC to make updates to eTranscript California and support its universal adoption
- Providing project management support to modify CCC, CSU, and UC application forms so students can give permission to share their community college transcripts
- Convening appropriate discipline experts from across the segments to establish clear guidelines for when dual enrollment counts toward a-g equivalencies or transfer
- Developing and vetting consistent postsecondary transcript standards that allow data to be seamlessly transferred across public segments, private entities, and out-of-state institutions
- Providing project management support to integrate eTranscript California into CaliforniaColleges.edu and CSU Transfer Planner to improve eligibility tools
- Convening appropriate discipline experts from across the segments to establish a process for including third party and military credentials in transcripts and developing equivalencies across public segments
- Convening appropriate discipline experts from across the segments to determine how to transcript workforce training programs, adult ed, and noncredit and developing equivalencies across public segments
- Engaging employers to identify how information on third party and military credentials and participation in workforce training programs, adult ed, and noncredit in a Career Passport could be used to for skills-based hiring
- Developing feature specifications for the Career Passport

Projected Outcomes – eTranscript California Scaling

Year	Projected Outcomes
CY	Create a roadmap for how eTranscript can become a seamless platform for transferring student transcripts across post-secondary institutions; assess possibilities for integrating competency-based education and supporting skills-based hiring; assess possibilities for integrated social services applications
BY	Background research and report writing; planning meetings to develop standards, application integration, and adoption requirements; stakeholder engagement
BY+1	Stakeholder engagement; technical assistance to adopt standards and new processes for skills integration into academic transcripts and hiring; support implementation of new tools

Staff Recommendation. Hold Open.

Issue 7: Various Reductions

Request. The Governor's budget proposes to revert approximately $7.3 million across various GovOps programs.

Background.

Census Carryover. The Governor's budget proposes to revert $2.2 million, originally appropriated in 2019, from Chapter 23, Statutes of 2019 (AB 74), for census workload. According to the Administration, as the 2020 census is largely complete, it is anticipated that the unencumbered balance will no longer be needed.

Language Access Pilot Program. The Governor's budget proposes to revert $4.6 million, originally appropriated in 2023, from Chapter 249, Statutes of 2022 (AB 179), for GovOps to operate a language access pilot program. Of the original $5 million appropriation, $434,000 is proposed to be retained to support one position for language access workload at GovOps.

Leadership Initiatives. The Governor's budget proposes to revert $500,000, originally appropriated in 2023, from Chapter 38, Statutes of 2023 (AB 102), for leadership initiatives. $1.5 million is proposed to be retained.

Staff Recommendation. Hold Open.

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 8: Departmental Reorganization

Governor's Budget Proposal. The Governor January 2024 Budget includes a general proposal to reorganize the Office of Planning and Research (OPR). While the Governor's Budget provides few specifics about what this reorganization would entail – instead promising to release a "detailed proposal for this transition as part of the spring budget process" – it does offer the following broad concepts:

- Establish California Volunteers as an entity separate from OPR.
- Transfer related programs from other departments to the new California Volunteers entity.
- Review programs within OPR to determine if they should be moved to other state departments that are better suited to administer them.

Background. OPR has grown rapidly in recent years, both in terms of its size and the scope of its mission. Numerous and varied new initiatives have been assigned to OPR, including CalVolunteers, the Office of Community Partnership and Strategic Communication (OCPSC), the Racial Equity Commission (REC), and the Youth Empowerment Commission (YEC), among others. Reflecting this expansion, OPR's budget has risen from just $54 million in 2016-17 to a proposed $1.1 billion in 2024-25.

In light of this expansion, the Administration has already begun a process of rethinking how OPR should be structured. As part of last year's budget, for example, OPR received authority to convert most of OPR's staff to civil service positions. OPR also obtained resources for the purpose of establishing its own internal information technology office, allowing it to break away from its former reliance on the Governor's Office for these services. According to the Administration, the latest round of organizational changes now under development are meant to "further streamline efforts and enable OPR to focus on its core responsibilities." The Administration indicates that it does not anticipate releasing its detailed transition proposal for OPR until the May Revise.

LAO Comments: In commentary provided to the Committee, the LAO stated that "reorganizing OPR could have merit," but emphasized that "providing a significant reorganization proposal in May gives the Legislature little time to review." Ultimately, the LAO has "significant concerns with the administration's stated plans" and recommends that the Legislature "defer any major decisions about changes to OPR and the delivery of state services until it has sufficient time and capacity to consider all the potential options and ramifications."

SBFR Staff Comments: As the LAO points out, dropping a detailed department reorganization plan in May leaves only a short period for the Legislature to review and respond at a time when myriad other budget proposals and negotiations will be taking place.

In light of these concerns, the Subcommittee may wish to press for any additional information that the Administration can provide now about what the Legislature should expect from the eventual proposal. The Subcommittee may also wish to inquire why the Administration believes it is necessary to pursue the proposed reorganization under this compressed timeline.

Staff Recommendation. Information only at this time.

Issue 9: California Environmental Quality Act Judicial Streamlining

Governor's Budget Proposal. Through the Governor's January 2024 Budget, the Office of Planning and Research (OPR) seeks authority for nine positions and an annual allocation of $2.3 million from the General Fund from 2024-25 through 2033-34 to "implement the newly adopted and newly renewed judicial streamlining provisions in the Public Resources Code for certain infrastructure and environmental leadership development projects."

Background. The California Environmental Quality Act (CEQA) establishes a system for the study, consideration, and mitigation of the impacts associated with proposed development projects in California. (Pub. Resources Code § 21000 *et seq.*)

OPR plays a key role in CEQA's operation. OPR runs the state CEQA Clearinghouse, a bureaucratic hub where lead agencies must file specified notices and environmental documents for review, storage, and appropriate distribution. In addition, OPR provides key guidance on the application of CEQA through the regular publication of CEQA guidelines, the provision of technical assistance to state and local government agencies; and acting as the arbiter of disputes regarding the CEQA obligations of various public agencies.

Last year, SB 149 (Caballero, Ch. 60, Stats. 2023) provided for judicial streamlining for lawsuits challenging development projects meeting specified environmental requirements and contributing critical infrastructure to the state. In addition, SB 149 extended existing CEQA judicial streamlining for certain defined "environmental leadership" projects for an additional ten years.

OPR indicates that it needs the additional staffing and resources set forth in the Governor's January 2024 Budget in order to implement these aspects of SB 149. Although the underlying legislation permits OPR to charge user fees in relation to these CEQA streamlining programs, OPR states that the fees will not be sufficient to cover its anticipated costs for at least three reasons: (1) there will be a regulatory delay before some of the fees can be approved; (2) housing development projects are exempt from the fees; and (3) it is difficult for OPR to predict the number of applications it will receive.

LAO Comments: In commentary provided to the Subcommittee, the LAO acknowledges that OPR "likely will need some level of additional resources to implement SB 149," but points out that "the extent of new workload the legislation will generate remains unclear." Additionally, the LAO observes that:

> the administration's proposal to fund this workload is inconsistent with its approach to other recently chaptered legislation. Specifically, with the exception of this SB 149 proposal, the administration is deferring the consideration of resource requests associated with recently chaptered legislation to the May Revision when updated statewide revenue estimates will be available.

Ultimately, the LAO recommends that the Legislature:

1) consider providing resources for a shorter duration than the 10 years proposed by the administration to allow for a better understanding of the program's long-term needs; and

2) consider this proposal as part of a larger overall approach and plan for implementing recently chaptered legislation.

Staff Comments: OPR's justifies the need to fund implementation of SB 149 on the imminent arrival of infrastructure development proposals:

> Because SB 149 was designed to give California greater access to once-in-a-generation federal funding for these critical infrastructure projects – with anticipated federal and state funding of $180 billion at issue – it is imperative that the program is up and running as quickly as possible and has capacity to operate properly to assist the state in getting access to those funds.

The value of leveraging historic levels of one-time federal funding for infrastructure investments may offer a valid rationale for prioritizing implementation of SB 149 over other recently enacted legislation. Still, the Subcommittee may wish to inquire further about the policy and legal basis for the Administration's apparent choice to fund implementation of some enacted statutes while postponing others.

The Subcommittee may also wish to inquire why the Administration is proposing a ten year allocation of a specific quantity of money for staffing this program when it is not yet clear how many applications will be received and how much the program may generate in fees. If the Administration is open to a shorter allocation until this information becomes clearer, the Subcommittee may wish to ask about what length of time would be needed.

Staff Recommendation. Hold open.

Issue 10: Reductions to the Office of Community Partnerships and Strategic Communications

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert $5 million originally allocated to the Office of Community Partnerships and Strategic Communications (OCPSC) in 2023-24 back to the General Fund, and to reduce OCPSC's 2024-25 and 2025-26 General Fund allocations by $8 million in each year.

Background. Housed within OPR, OCPSC "manages the State's highest priority community engagement and public awareness efforts." In particular, OCPSC conducts public messaging campaigns related to COVID-19 vaccination, participation in the Census, the use of Individual Tax-Payer Identification Numbers (ITIN) to access earned-income tax credits, water conservation, and protection against the dangers of extreme heat. OCPSC's messaging campaigns operate through partnerships with trusted, culturally and linguistically competent community-based organizations in order to ensure that the information communicated reaches all Californians effectively.

The 2022 Budget established the OCPSC and allocated $65 million in General Fund to it annually through 2025-26. Of the annual total, $15 million was for state administration of the program, while OCPSC was to disburse the remaining $50 million balance to the community-based organizations with which it partners. The Administration highlights that, even after its proposed reductions, OCPSC would still have $60 million in 2023-24 and $57 million in 2024-25 and 2025-26 "to continue the state's top priority outreach campaigns."

It should be noted that, in addition to the OCPSC budget, some of the same public education campaigns have also received support from separate budget items. For example, the Department of Water Resources' received $75 million in the 2022 Budget for water conservation communications, while OPR has received a distinct $20 million ($6 million in 2022-23 and another $14 million in 2023-24) toward a public awareness campaign related to protection against extreme heat.

Staff Comments. OCPSC conveys important messages in a manner strategically designed to get reach all Californians. In light of the state's current budget challenge, however, the Subcommittee may wish to inquire whether additional reductions to OCPSC programming – beyond those proposed by the Governor – are worth considering. Among other things, the Subcommittee may wish to ask the Administration about the following:

- What is the spending breakdown between the four primary messaging campaigns: COVID-19, participation in the Census, water conservation, and protection against extreme heat?

- Do all of these topics retain the same urgency as they did when funding for OCPSC was initially approved? If not, could additional savings be achieved by winding down or reducing the scope of these campaigns?

- How much of the reductions proposed by the Governor will come out of OPCSC operational budget and how much will come out of grants to community-based partners?

- What impact does OCPSC anticipate the Governor's proposed reversion and reductions will have on OCPSC's mission? Why were those particular reversion and reduction amounts chosen?

- Is additional funding available for reversion in 2023-24? If so, what impact would such a reversion have on OPCSC's mission?

- What impact would further reduction to OPCSC's 2024-25 and 2025-26 allocations have on OPCSC's mission?

- In those circumstances in which other budget line items appear to support the same public education mission, could those funds be drawn upon to continue the overall messaging strategy while achieving further savings within OCPSC's budget?

Staff Recommendation. Hold open.

Issue 11: Other Possible Sources of Savings within the OPR Budget

Background. In light of the significant budget shortfall confronting the state and the difficult decisions that the Legislature and the Governor will have to make in achieving a balanced budget in 2024 and the years that follow, the Subcommittee may wish to examine other areas within OPR's budget as potential sources of savings.

In addition to the reductions proposed in the Governor's January 2024 Budget, the following programs involve discretionary spending that was recently increased and could potentially be pulled back in whole or in part. Where allocations for 2023-24 remain unspent, funds from some of these sources may also be available for reversion. For example:

- Youth Jobs Corps. This program provides structured employment and related wraparound services to high-risk youth, through population-based grants to California's largest cities and competitive grants to other local jurisdictions. The program was established in 2021 as a two-and-a-half year pilot using federal funds. In 2023, the Governor proposed a new, ongoing state General Fund allocation of $78.1 million to continue the program indefinitely. At the time, the LAO recommended rejecting the proposal citing the existence of other youth employment programs, the lack of data to assess the success of the pilot phase, and the lost opportunity to spend the funds on other commitments. Nonetheless, after initially considering a more modest amount for the program, the Legislature ultimately acquiesced to the full proposal. Given the intervening deterioration in the budget condition, the Subcommittee may wish to revisit this decision.

- Climate Action Corps. This program places an annual cohort of "climate action fellows" with tribal communities, nonprofits, public agencies and educational institutions where they conduct urban greening, organic waste and edible food recovery and wildfire resiliency projects. The program pays its fellows a $33,000 living allowance and offers them job training in addition to a $10,000 scholarship, among other benefits. The program also operates a shorter, summer fellows program and facilitates climate-related voluntarism more generally. In 2023, the Governor proposed converting the program from a pilot phase to permanent status and doubling its size in 2026. Specifically, the Governor requested $4.7 million in General Fund annually from 2023-24 through 2025-26 (a continuation of the existing funding level) followed by $9,300,000 from 2026-27 on. The LAO recommended rejecting this proposal on the ground that the pilot phase of the program had not produced sufficient data to justify the expansion and concern that the additional funding would take away from other spending priorities. There are also other, similar programs such as the Youth Conservation Corps. In light of these considerations and given the intervening deterioration in the budget condition, the Subcommittee may wish to revisit this decision.

- Neighbor-to-Neighbor. This program builds a network of community leaders willing to check in on neighbors and help educate them about disaster preparedness and climate response. In 2022, the Governor sought $10 million in annual General Fund allocations through 2025-26 for the program. At the time, the LAO questioned the need for the program:

> California's local governments, nonprofits, and CBOs have a great deal of experience in developing service opportunities and recruiting, training, and managing volunteers. The longstanding model of California Volunteers supporting—and not duplicating—these organizations' efforts is reasonable and appropriate. The administration has not articulated a clear and compelling need for the state to provide the various new coordination, outreach marketing, and training services proposed by the Neighbor-to-Neighbor proposal.

In light of the current budget condition, the Subcommittee may wish to inquire further about what concrete outcomes the Neighbor-to-Neighbor program has been able to achieve and whether those outcomes warrant the current level of expense.

Staff Comments: The inclusion of these programs in this agenda as potential sources of savings reflects the seriousness of the budget challenge and the importance of surfacing a wide range of possible solutions. It should not be taken as a critique of the value of the programs themselves absent the difficult spending choices facing the state.

Staff Recommendation. Information only.

1115 DEPARTMENT OF CANNABIS CONTROL (DCC)

Issue 12: Increased Program Workload and Legal Services

Request. The Governors' budget proposes an increase in expenditure authority of $8.2 million Cannabis Control Fund in 2024-25, $8.1 million in 2025-26 and 2026-27, $1.3 million in 2027-28 and ongoing, and 7.0 positions for DCC to address the workload of the Department's Legal Affairs and Laboratory Services Divisions.

Background. DCC was established in July 2021 with the passage of AB 141 (Committee on Budget, Chapter 70, Statutes of 2021). AB 141 consolidated three cannabis programs in a single department: the Department of Consumer Affairs' Bureau of Cannabis Control, California Department of Food and Agriculture's CalCannabis Cultivation Licensing Division, and California Department of Public Health's Manufactured Cannabis Safety Branch.

Laboratory Services Division. The Laboratory Services Division is responsible for the regulatory oversight of California licensed cannabis testing laboratories. This includes the review of license applications, conducting routine inspections, investigating complaints, taking enforcement actions, and conducting investigative sample analysis. The Laboratory Services Division also works closely with other divisions in the review and evaluation of data and scientific literature to enhance the regulatory framework and identify best practices for product testing and consumer safety. Lastly, the division directs and monitors the contract for California's cannabis reference laboratory.

Currently, there are a minimum of nine state mandated testing requirements for all cannabis and cannabis products – cannabinoid profile, heavy metal contaminants, residual solvent contaminants, terpenes, mycotoxins, foreign materials, contaminants/toxins, moisture content, and water activity. Six of these nine methods require a chemistry background and 3 methods require a microbiology background to develop, maintain, and conduct investigatory sample testing. DCC requests the following positions within the Laboratory Services Division to meet the workload needs of cannabis testing.

- Quality Assurance – 1 Research Scientist IV (Chemical Sciences)
- Chemical Science – 2 Research Scientist II (Chemical Sciences)
- Microbiological Science – 1 Research Scientist Supervisor I and 1Research Scientist I (Microbiological Sciences)

Legal Affairs Division. The Legal Affairs Division is responsible for providing legal services for the Department's twelve divisions and executive office. This includes conducting legal research, providing counsel to programs, drafting, and reviewing legal documents and responses, responding to Public Records Act (PRA) requests, drafting regulations, representing Department programs in administrative actions and appeals, and liaising with the Attorney General's office on Department litigation. The Legal Affairs Division also houses the DCC's internal audits office.

DCC requests the following 2 positions to maintain and improve current level of service from the Legal Affairs Division:

- Attorney Service Branch – 1 Assistance Chief Counsel
- Legal Support Office – 1 Associate Governmental Program Analyst

Office of the Attorney General Expenses. DCC requests an increase in expenditure authority of $2.7 million Cannabis Control Fund in 2024-25 through 2026-27 for litigation expenses with the Office of the Attorney General.

Office of Administrative Hearings Expenses. DCC requests an increase in expenditure authority of $4.1 million Cannabis Control fund in 2024-25 through 2026-27 for anticipated Office of Administrative Hearings costs.

Legal Services Augmentation Provisional Language. DCC requests provisional language allowing the Department of Finance (DOF) to augment DCC's budget from the Cannabis Control Fund for litigation and administrative hearings costs. The language specifies that DCC must demonstrate to DOF a need for additional resources and that the augmentation shall be authorized no sooner than 30 days after notification to the Joint Legislative Budget Committee. DCC indicates that the provisional language would give the department flexibility should additional Department of Justice or Office of Administrative Hearings costs materialize, as the department indicates there is uncertainty over the level of these costs it will incur in the near term.

Legislative Analyst's Office.

Background.

Department of Justice (DOJ) Provides Legal Services for DCC. Under the direction of the Attorney General, DOJ provides legal services to state agencies. State agencies can request—and are generally billed for—DOJ services to initiate legal action, defend or represent them in legal actions filed by others, or provide legal advice. DOJ provides legal services to DCC, including representing the department in administrative law cases and civil cases. Currently, DOJ charges an hourly rate of $220 for attorney services, $205 for paralegal services, and $195 for analyst services. State agencies, including DCC, generally pay for these costs from their own budgets. The 2021-22 Budget Act provided DCC with $2.7 million annually for three years to support its costs for DOJ legal services.

Office of Administrative Hearings (OAH) Hears Cannabis-Related Cases. OAH provides administrative law judges to hear administrative disputes for over 2,500 state and local agencies, including DCC. These judges conduct adjudicatory hearings, prehearing and settlement conferences, and mediations. OAH charges fees to state and local agencies for the services it provides. Currently, OAH charges state and local agencies an hourly rate of $373, as well as other filing and recording fees. OAH is responsible for hearing four primary types of cannabis-related cases: (1) appeals of a denial of an initial annual license or a renewal license, (2) discipline of an annual licensee, (3) citations for unlawful activity by an annual licensee, and (4) administrative citations and civil penalty actions for unlicensed activity. State law limits the ability of those who do not hold an annual license from appealing DCC decisions. For example, those denied a provisional license renewal are not entitled to a hearing before OAH. Accordingly, as provisional licenses are phased out and more annual licenses are in effect, the department anticipates referring more cases to OAH. This could result in increased OAH costs from the new case filings, case management responsibilities, hearings, and decisions, as well as related licensing and disciplinary activities. The 2021-22 Budget Act provided DCC with $8.6 million annually for three years to support its costs for OAH hearings.

Assessment.

Proposed DOJ and OAH Funding Significantly Higher Than Past Expenditures. As shown in Figure 1, the Governor's proposal for DOJ and OAH costs is significantly higher than DCC's expenditures on these services in 2021-22 and 2022-23.

Figure 1

Governor's Proposal for DOJ and OAH Costs Significantly Higher Than Past Expenditures

	2021-22 Actuals	2022-23 Actuals	Average from 2021-22 to 2022-23	2024-25 Governor's Proposal
DOJ	$773,079	$529,791	$651,435	$2,700,000
OAH	14,907	4,506	9,707	4,100,000

DOJ = Department of Justice and OAH = Office of Administrative Hearings

Recommendation.

Approve Provisional Language, but Reduce DOJ and OAH Funding to More Closely Align With Past Expenditures. We recommend that the Legislature approve the proposed provisional language but reduce the proposed funding to $1.2 million for DOJ costs and $23,000 for OAH costs. We acknowledge that there will be some uncertainty in these costs going forward, in particular, as the department continues to transition from provisional to annual licenses. Accordingly, we believe that these funding levels—which allow for an increase in costs approximately 50 percent above the maximum amount spent in any prior year—should be sufficient to account for this uncertainty. However, the Legislature could choose to approve a different amount that it believes more appropriately accounts for past expenditures and potential growth in the future. In the event that the actual costs exceed the reduced funding amounts we recommend, the administration could use the proposed provisional language to augment its expenditure authority, as needed. This would also allow the Legislature to oversee additional expenditures from the Cannabis Control Fund, which is particularly important given the significant decline in the fund's balance. Moreover, when the limited-term funding for DOJ and OAH costs expires, the administration will have another opportunity to submit a request for ongoing resources for legislative consideration as part of the Governor's 2027-28 budget.

Staff Recommendation. Hold Open.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL (ABC)

Issue 13: IT Maintenance and Operations and File Conversion

Request. The Governor's budget requests 3 positions and an increase in expenditure authority of $2,278,000 Alcohol Beverage Control Fund in 2024-25 and $1,345,000 in 2025-26 for the Department of Alcoholic Beverage Control to provide continued support of existing modernization efforts related to the Business Modernization and Responsible Beverage Service (BizMod/RBS) project and to begin the eRecords project, which will convert licensing files from paper to a digital format that can be efficiently accessed by staff statewide, including licensing and enforcement staff in the field.

Background. The BizMod/RBS project consists of two primary components, which were previously independent efforts called eServices and Responsible Beverage Service.

eServices. In May 2010, ABC launched the Alcoholic Beverage Information System (ABIS). The primary function of ABIS is to register, manage, and maintain licenses for ABC. During the ABIS implementation project, ABC found that more work was needed to support core functions than originally anticipated. As a result, non-core functionality, such as providing the option of electronic payment or functionality supporting online applications, was removed from the scope of the project. ABC operated within this system limitation for nearly a decade.

Licensees and ABC staff alike continue to operate manually. For example, process for accepting new applications is for applicants to download, complete, and submit forms that are then input into ABIS by ABC staff. Payment for this application is made by check or money order. ABC initiated the Project Approval Lifecycle (PAL) process for eServices and received funding for project planning in the 2018-19 Budget.

Responsible Beverage Service. The Responsible Beverage Service Training Program Act of 2017, Chapter 487, Statutes of 2017 (AB 1221) requires that alcohol servers receive training on responsible beverage service within 60 days of their employment date beginning July 1, 2021. The statute is intended to educate alcohol servers about a variety of dangers related to the service of alcohol to patrons and to curb alcohol-related harm within local communities, particularly regarding drunk driving, under-age drinking, and other alcohol-related crimes.

This statutory change created a new mandate for licensees and a new training requirement for alcohol servers. ABC initiated the PAL process to develop an online examination service that allows for independent verification of learning and allows ABC to monitor the quality of training providers. It also created a portal for a certificate database where servers, licensees, and law enforcement can lookup certificates.

BizMod/RBS Project Update. In March 2021, ABC went live with the RBS minimum viable product (MVP) and met the project objectives by the project end date of June 30, 2021. The scope of the formal project portion of the BizMod/RBS project did not include the full implementation of all eServices functionalities. Over the term of the development contract included in the 2022-23 budget proposal, the services created in RBS (electronic payment, notification, and application) will be extended to ABC's core licensing processes. As of the end of December 2023, the RBS system had 476,881 servers certified, 95,070 of which were added to rosters within the system that licensees can use to manage and track their compliance, and the BizMod system as a whole had 23,887 license administrator account established to take advantage of ABC's evolving online services, including the renewal of approximately 48,581 licenses online. Over the balance of the current contract, all existing services will continue to be supported and the MVPs for various reporting and application processes will be put into production, including winegrower's annual reporting, and the applications for one-day and permanent licenses.

eRecords. According to ABC, due to modernization efforts beginning only relatively recently, the Department has over nine million pages of paper in licensing files stored in over 23 different locations statewide, which are associated with the following risks and inefficiencies:

- The inability of ABC staff to access files except in the district office within which it resides - this includes licensing and enforcement staff working in that office who might need to access the file while working in the field.
- The need to either mail or scan and email documents to share with other offices and headquarters when needed.
- The risk of physical destruction, damage, or misplacement of paper documents and inability to efficiently create backup copies.
- The inefficiency related to responding to Public Records Act (PRA) requests related to licensing files.
- The inefficiency that will be created if these paper files are retained while the LSP transition to online services creates a separate digital repository for similar licensing information, creating two different filing systems for the same types of information.

According to ABC, the eRecords project will be used to convert ABC's existing licensing files to a digital format and make licensing records accessible to the appropriate staff online regardless of their location, increase the security of these documents, make some forms accessible to the public, and provide a more efficient process for being responsive to PRA requests.

In summary, this proposal requests the following resources:

- $669,000 in 2024-25 and $746,000 in 2025-26 and ongoing for maintenance and operations for the RBS and Licensing Services portals. This also includes funding for one Information Technology Specialist II (ITS II) position to support the portals in-house.

- $1,609,000 in 2024-25, $598,000 in 2025-26, and $420,000 in 2026-27 and ongoing for the eRecords project. This funding includes $1,251,000 in 2024-25 and $260,000 in 2025-26 for the scanning and document management of all licensing files, $179,000 in 2024-25 and $170,000 in 2025-26 for one ITS I (two-year limited term) position to provide project and organizational change management, and $179,000 in 2024-25 and $169,000 in 2025-26 for one ITS I position to serve as system administrator for the digital file management system and scanning operation on an ongoing basis.

Staff Recommendation. Hold Open.

2320 DEPARTMENT OF REAL ESTATE

Issue 14: Addressing Workload Costs and Fund Solvency and Real Estate Fee Increase Trailer Bill Language

Request. The Governor's budget requests an increase in expenditure authority of $3,231,000 Real Estate Fund in 2024-25 and 2025-26 and $2,446,000 in 2026-27 and ongoing for the Department of Real Estate to address a funding shortfall across various categories necessary to support the mission of DRE. The Department also requests statutory changes to adjust fees, address the structural fund imbalance of the Real Estate Fund, and to maintain fund solvency.

Background. DRE requests an increase in expenditure authority of $3,231,000 in 2024-25 and 2025-26 and $2,446,000 in 2026-27 and ongoing to address several funding deficits in the areas of salaries, expiring limited term funding for five Licensing Division positions, facilities, administrative costs from outside agencies, external contracts for mission critical functions, and information technology equipment.

Salaries and Benefits for Licensing Positions. According to DRE, the Department currently has 14 vacancies in the Licensing Division that are held open to achieve savings and remain within the approved budget authority. This impacts the ability of DRE to process applications for examinations, licensure, renewals, and conduct background investigations. DRE has identified a $341,000 budget shortfall due to long-term staff retention and the reclassification of vacant positions for operational efficiency. According to DRE, the requested resources will allow the Department to address a backlog of unprocessed applications for exams and licensures. As recently as September 2023, the backlog for application was approximately 7,000.

Limited-Term Funding Expiration – Call Center. DRE currently has five Program Technician II positions with $444,000 of limited-term funding expiring at the end of 2023-24. The Department is requesting ongoing funding for these positions to address increased call volume and call wait times.

Attorney General (AG) and Office of Administrative Hearings (OAH) Expenditures. According to DRE, the Department spends an average of $1 million annually with the OAH. These charges are reflective of DRE's operations in administrative prosecutions by its Legal Division. Unlike most state departments that use the AG's Office to take disciplinary action against their licensees, DRE has its own division of prosecutorial attorneys and is, in turn, charged by OAH for these administrative hearings. DRE spends an average of $300,000 annually for AG expenditures, related to representation on appeals.

DRE is requesting $257,000 to address Attorney General and Office of Administrative Hearings costs. Current baseline funding of $732,000 for these costs leaves DRE deficient in the amount of $257,000. According to DRE, without this augmentation, the Department will be faced with discontinuing enforcement actions or making other mission critical cuts, since annual expenditures approach exhausting the budget authority.

External Contracts. In 2021, DRE's budget for external contracts was approximately $1.4 million. According to DRE, ongoing contracts for exam proctoring completely exhaust this funding, leaving no room for other essential contracts such as credit card processing and enforcement related resources, among others. DRE is requesting $1.5 million to fully fund the exam proctoring contract.

> *Exam Proctoring Services.* DRE administers the real estate broker and salesperson license exams from five different locations across California, including Fresno, Oakland, La Palma (Orange County), Sacramento, and San Diego. In DRE's history of administering licensing exams, it has used both temporary and contracted staff to operate these facilities.
>
> According to DRE, the pandemic caused staffing limitations resulting in difficulties in recruitment, retention and attendance of proctor staff. Subsequently, the Department engaged in a vendor contract for proctoring services with a company called PSI, paying approximately $1.5 million annually to maintain the contract.

Equipment. According to DRE, the Department's current allocation for IT and non-IT equipment is $14,000, while actual annual costs are on average $542,000. The Department is requesting $528,000 on an ongoing basis to have baseline funding for equipment purchases.

Facilities. DRE began paying rent for its new San Diego location in October 2022. The current lease states the total annual rent for the San Diego Office will be $528,000 beginning in 2024-25. This is an increase of $161,000 above the annual rent of the previous San Diego offices. Additionally, the San Diego Office lease has a scheduled 5.3 percent increase in rent in 2025 and 2.4 percent increase in 2026. DRE requires an additional $161,000 annually to fund these rent increases.

Fund Solvency and Real Estate Fee Increase Trailer Bill Language. According to DRE, in 2022-23, the Department's financial projections identified a declining fund balance. The Department contracted with a vendor to conduct a fee study to evaluate the fee amounts to support the operations of the department, regulate the profession, and protect consumers.

Fee levels were determined by examining the calculated cost of recovery data from the point-in-time 2022 fee study, as well as by what percentage a fee would increase to reflect cost recovery. In some instances, the calculated cost recovery level was well beyond a 250 percent increase of the current fee. In many cases, these are fees that have not been raised since initial enactment or are charged far less often than typical licensing and renewal fees. In some cases, DRE determined that such a steep increase would not be reasonable and a lessor amount is proposed for the fee.

In addition to the proposed fee levels, DRE is also proposing that a statutory cap be placed on these fees approximately 50 percent higher than the current level needed. This is intended to allow DRE to modify fees through the regulatory process as expenditures change incrementally. Attachment A includes a proposed fee schedule. The Department proposes trailer bill language to provide statutory authority for these proposed changes to their fee schedule.

If the requested resources and trailer bill language is approved, DRE estimates the following projected outcomes:

Projected Outcomes

Workload Measure	2023-24	2024-25	2025-26	2026-27	2027-28
Licensing Call Volume	202,321	198,618	194,914	191,210	187,506
License Population	441,788	442,140	449,571	449,923	457,354
Examination Applications	41,873	43,703	45,533	47,363	49,192
Original License Applications	29,142	29,670	30,198	30,726	31,254
Renewal Applications	88,436	93,477	92,769	97,810	97,102
Call Wait Times	40 min 54 sec	35 min 23 sec	28 min 18 sec	21 min 08 sec	14 min 52 sec
Call Handle Times	5 min 30 sec	5 min 19 sec	5 min 08 sec	4 min 57 sec	4 min 46 sec
AskDRElicensing Emails	25,445	26,109	26,773	27,437	28,101

Source: Department of Finance

Staff Recommendation. Hold Open.

8940 MILITARY DEPARTMENT (CMD)

Issue 15: Drug Interdiction Continuation

Request. The Governor's budget requests $15 million General Fund in 2024-25 and $15 million in 2025-26 for the California Military Department to provide continued support for the CMD's state funded drug interdiction efforts.

Background.

The National Guard Counterdrug Program. In 1985, the California, Florida, New Mexico, and Texas National Guards began to provide counter-narcotics operations support to law enforcement agencies. The federal National Guard counterdrug program was authorized by Congress in 1989, with the mission to combine military capabilities with federal, state, and local agencies to combat illegal drug trafficking and distribution.

USC, Title 32, Chapter 1, Section 112 'Drug Interdiction and counter-drug activities' authorizes the National Guard, as a component of the Department of Defense (DoD), to conduct counterdrug operations. States request federal funds annually for National Guard drug interdiction and counterdrug activities.

Each state or territory must annually submit a Drug Interdiction and Counterdrug Activities Plan (State Plan) to the National Guard Bureau (NGB) and DoD. The State Plan must be approved by the Governor, the Attorney General, the Adjutant General, and the Counterdrug Coordinator (CDTF Commander). State Plans are forwarded to the Secretary of Defense for authorization, with each state's approved federal funding administered through NGB. The State Plan ensures missions and activities in the Plan are authorized and consistent with state law.

Previous Funding. The 2022 Budget Act included $15 million in 2022-23 and $15 million in 2023-24 to support the drug interdiction efforts of the CMD's state CDTF. Prior to the 2022 Budget Act, CDTF was fully funded by federal resources. Specifically, this proposed funding is intended to support an additional 150 Servicemembers to expand the existing federal CDTF's program by supporting federal, state and local law enforcement efforts to interdict drug distribution and hamper drug-trafficking criminal organizations operating throughout the state.

According to CMD, during 2022-23, these Servicemembers provided 310,000 support hours to High Intensity Drug Trafficking Areas and assisted over 40 federal, state, and local law enforcement agencies to interdict over 365,300 pounds of illegal drugs, with an estimated street value of $969,733,163 (see table below). Now in their second year of operation, the additional state funded Servicemembers, serving in an Emergency State Active Duty (ESAD) status, are assigned to four districts and two aviation teams spread throughout the state and aligned with California's four High Intensity Drug Trafficking Areas (HIDTA).

Value of Seized Drugs in 2022-23

Drug Type	Seizure Amount	Street Value
Fentanyl	18,825 lbs.	$211,877,165
Heroin	472 lbs.	$4,117,388
Methamphetamine	49,836 lbs.	$85,196,022
Cocaine	8,590 lbs.	$71,267,192
Illicit CA Cannabis	265,081 lbs.	$557,219,796
Other	22,495 lbs.	$40,055,598
Totals:	**365,301 lbs.**	**$969,733,163**

Source: Department of Finance

Additionally, the CDTF includes a Drug Demand Outreach (DDRO) program that supported approximately 117 California elementary, middle and high schools and educated about 52,000 students on drug free education.

CMD's requested resources are intended to provide funding for an additional two years for the state funded CDTF program.

Staff Recommendation. Hold Open.

Issue 16: Emergency State Active Duty (ESAD) Management System

Request. The Governor's budget requests $280,000 General Fund in 2024-25 and ongoing for CMD to fund the Activate, Respond Recover Operate (ARRO) system which will serve as the system of record utilized to manage administrative functions of the Emergency State Active Duty (ESAD) mission and facilitate invoicing and reimbursement to the Department.

Background. According to CMD, ARRO is utilized during every ESAD mission for Personnel Status Report (PERSTAT) + accountability, payroll, workers compensation calculations, logistics tracking and purchase requests. Once ESAD operations conclude, the system is utilized to generate invoices and backup documentation to reimburse the CMD's expenditures from numerous federal and state partners including Federal Emergency Management Agency (FEMA), California Governor's Office of Emergency Services (Cal OES), California Department of Forestry and Fire Protection (Cal Fire) and the United States Forest Service (USFS). ARRO is also utilized to generate daily cost reporting requirements requested by Cal OES and periodic ESAD cost estimates and spending forecasts requested by the Department of Finance. The CMD has historically paid for the development and maintenance of CAESADS, RAPTR and current licensing of ARRO through administrative indirect funds collected as a percentage of overall cost from conducting wildfire suppression missions pursuant to the Reciprocal Fire Protection Cooperative Agreement with Cal Fire. Though the CMD remains an active resource in fire suppression, Cal Fire's acquisition of fire suppression aircraft has reduced the frequency of activation of CMD aircraft, resulting in less administrative indirect costs each year. There is no guarantee the CMD will receive any wildfire indirect funds in any given year, which requires the CMD to identify and divert savings from program areas to support ARRO.

Staff Recommendation. Hold Open.

Issue 17: State Active Duty Compensation Adjustment & Deputy Adjutant General Rank Adjustment Trailer Bill Language

Request. The Governor's budget requests $3,153,000 ($1,488,000 General Fund, $1,512,000 Federal Trust Fund authority, $53,000 Mental Health Services Fund, and $100,000 Reimbursement authority) for CMD to align the pay of its State Active Duty (SAD) employees to the pay of service members of similar grade in the federal armed forces.

Background. Military and Veterans Code (MVC), sections 320 and 321 require that the CMD must pay its SAD employees at the same rate as service members of similar grade in the federal armed forces.

Compensation for service members in the federal armed forces is set forth annually by the federal government in the National Defense Authorization Act (NDAA). As of this writing, the NDAA has yet to be ratified by Congress and signed into law. The current version of the NDAA under consideration in Congress proposes a 5.2 percent pay increase for all service members, an average of 3.9 percent increase for the Basic Allowance for Housing (BAH) across all localities across the United States, and a 3.4 percent increase for the Basic Allowance for Subsistence (BAS). However, the final approved salary, BAS, BAH, and any allocated Cost of Living Adjustment (COLA) will not be available until the NDAA is signed into law and formally published by the Defense Finance and Accounting Services in January 2024. According to CMD, this proporsal will be revised at a later time in the budget process to reflect the approved increases/decreases in salary and BAS, as well as the approved BAH rates by locality that are authorized in the NDAA.

Deputy Adjutant General Rank Adjustment Trailer Bill. Additionally, CMD requests trailer bill language to adjust the rank of the Deputy Adjutant General to major general. According to CMD, this is to reflect the military chain of command where it is appropriate for the Deputy Adjutant General to be authorized a higher rank than the than the Army National Guard and Air National Guard Commanders (Assistant Adjutant Generals) and the Chief of Staff/Director of Joint Staff. If this trailer bill language is approved, the CMD will include the upgraded position in the SAD pay adjustment Budget Change Proposal in the 2025-26 budget.

Staff Recommendation. Hold Open.

8955 DEPARTMENT OF VETERANS AFFAIRS (CALVET)

Issue 18: Yountville Skilled Nursing Facility Support

Request. The Governor's budget requests $5,389,000 General Fund and 40.2 positions in 2024-25, and $12,129,000 General Fund and 108 positions annually thereafter for CalVet, for staffing of a new Skilled Nursing Facility at the Veterans Home of California – Yountville.

Background. The Yountville Home currently provides four levels of care: Domiciliary (Dom), Residential Care Facility for the Elderly (RCFE), Intermediate Care Facility, and SNF. The SNF level of care provides around-the-clock nursing support to residents with significant care needs. Residents in the SNF unit require assistance with all activities of daily living, may be bedridden, or suffer from other significant physical or mental health limitations. SNF residents often receive physical, occupational, and/or speech therapy, as well as other clinically intensive services. Staffing levels are high in the SNF unit, which must have a minimum of 3.5 direct-care staffing hours per patient per day. SNF Memory Care (SNF MC) carries identical licenses to typical SNFs, but provide specialized care for residents with cognitive disabilities.

As a subset of the SNF program, the Yountville Home has a SNF MC building. Although SNF MC is technically not a distinct level of care from SNF, it does have a distinct programmatic and staffing structure. All the residents in the SNF MC unit have dementia or similar impairments typically associated with aging. Staff closely supervise these residents in restricted units to ensure they do not wander away or do anything that may pose a risk to themselves or others. In addition, CalVet tailors SNF MC programming for dementia residents, with specific activities and therapeutic services designed to limit cognitive decline.

The current SNF is located in the Holderman Building on the southern end of the campus. Constructed in 1932, the Holderman Building also houses most of the medical support staff, as well as the various ancillary units, including the pharmacy, medical records center, and ambulatory care clinic, where Dom and RCFE residents receive outpatient care. The aging infrastructure of the Holderman Building has resulted in significant costs over the years to meet health and safety and licensing standards.

In close proximity to the Holderman Building is the Franklin Delano Roosevelt (FDR) Building, which houses the SNF MC. While the FDR Building was renovated in 2008, according to CalVet, it also has design challenges. The typical SNF MC room is shared by two residents with one shared restroom. Although the rooms are newer and provide better accommodations in general, they are not ideal for dementia patients. The split-level building has a long, winding indoor ramp to access part of the SNF MC; this type of layout can be difficult to navigate for residents with mobility limitations due to cognitive impairments, possibly resulting in confusion or falls. In addition, the SNF MC is located across the street from the Holderman Building, which makes it difficult to bring MC residents to necessary appointments.

The 2020-21 Budget approved funding $317 million from the Public Buildings Construction Fund for the construction of a new SNF at the Yountville Veterans Home. In June 2020, the US

Department of Veterans Affairs additionally approved a construction grant for the new SNF facility on the Yountville Campus.

Construction is underway for the new SNF and is expected to be completed in 2024-25, after which the building will need to be certified for occupancy and licensed by the California Department of Public Health and certified by the Center for Medicare and Medicaid Services (CMS) and the USDVA. Once the building is licensed, CalVet will relocate the residents from the existing Holderman and FDR Buildings into the new SNF.

The new structure will feature 240 SNF beds (150 SNF; 90 SNF MC), replacing the existing 231-bed SNF program (156 SNF; 75 SNF MC). The new layout will be very different compared to the Holderman and FDR buildings, with private bedrooms and private restrooms, more personal space, and a modernized food service program. The new SNF building will be a stand-alone, self-contained operation having its own boiler room, main and satellite kitchens, dining rooms, warehouse, clinic space, and mailroom, among other things.

CalVet requests $5,389,000 General Fund and 40.2 positions in 2024-25, and $12,129,000 General Fund and 108 positions annually thereafter, in support of operating the new SNF building. The breakdown of requested resources is as follows:

<u>Operating Expenses and Equipment (OE&E)</u>
CalVet requests $1,464,000 in 2024-25, and $2,367,000 ongoing for non-employee driven OE&E costs for the new SNF building. The Holderman Building that currently houses SNF residents, the Ambulatory Care Clinic, and some administrative functions will not be closed after the residents are moved to the new SNF building. Because the Holderman building will continue to house certain operations, there will not be measurable offsets of OE&E expenditures.

<u>Direct Care</u>
CalVet requests 6 Certified Nursing Assistants (CNAs), 1 Licensed Vocational Nurse (LVN), 2 Registered Nurses (RNs), and 1 Supervising Registered Nurse (SRNs) for direct care staffing in the new SNF Building.

<u>Indirect Care</u>
CalVet requests 2 CNAs, 1 Rehabilitation Therapist, 1 Activity Coordinator, and 1 Office Technician for indirect care staffing in the new SNF Building.

<u>Food and Nutrition</u>
CalVet requests 1 Supervising Cook II, 2 Supervising Cook Is, 1 Food Service Supervisor, 7 Food Service Technician IIs, 33 Food Service Technician Is, 7 Cook Specialist IIs, 7 Cook Specialist Is, 3 Stock Clerks, 1 Materials and Stores Supervisor, and 1 Office Technician for Food and Nutrition staffing in the new SNF Building.

Plant Operations, Custodial Services, and Information Services

CalVet requests 23 Custodian Is, 1 Custodian Supervisor II, 1 Carpenter, 1 Electrician, 1 Painter, 1 Plumber, 1 Information Technology (IT) Associate, and 1 IT Specialist I, all pertinent to the new SNF Building.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, March 14, 2024
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultant: Timothy Griffiths

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment.

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 FOR VOTE ONLY

1700 CIVIL RIGHTS DEPARTMENT

Issue 1: Reduction in Community Conflict Resolution and Conciliation Funding

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to eliminate $883,000 General Fund previously committed to the Civil Rights Department's (CRD's) Community Conflict Resolution and Conciliation efforts in 2024-25.

Background. As part of the 2022 Budget Act, CRD requested and was allocated temporary funding to conduct Community Conflict Resolution and Conciliation efforts. Specifically, CRD asked for "$889,000 General Fund in 2022-23 and $883,000 General Fund in 2023-24 and 2024-25 to provide resources and training to communities facing hate incidents or other conflict over discriminatory practices."

In its proposal, CRD wrote that:

> [T]he temporary funding would allow [CRD] to fund 3 positions and operational funding to develop and run a community conciliation program, modeled in part on the U.S. Department of Justice's Community Relations Service. These staff members would, among other responsibilities, identify opportunities for intervention and travel around the state to provide conciliation services to communities facing hate incidents or other conflict over discriminatory practices. Specifically, [CRD] would provide – free of charge to communities – facilitated dialogue, mediation, training, and consultation to assist these communities to come together, develop solutions to the conflict, and enhance their capacity to independently prevent and resolve future conflict.

CRD reports that the resulting Community Conflict Resolution Unit (CCRU) has exceeded its initial goals:

	BCP Goal 2022-2023	BCP Goal 2023-2024	October 2022-Present
Community Conciliation Opportunities Explored	5	10	**23**
Community Conciliation Sessions Conducted	2	5	**8**
Community Engagement Sessions/ Meetings Conducted	10	15	**52**
Trainings for Local Leaders	2	4	**4**
Facilitated Meetings	N/A	N/A	**21**
Technical Consultations	N/A	N/A	**10**

As examples of CCRU's work, CRD notes that the CCRU has:

- provided facilitation services to the California Truth and Healing Council Subcommittee on Status & Identity twice a month;

- assisted in designing, planning, and facilitating dialogue for community leaders of a city to improve human relations, especially among LatinX and Black residents

- provided consultation for the head of a university related to responding to a campus tensions related to Israel/Gaza;

- worked with rural communities to address concerns related to disability access;

- assisted the Commission on the State of Hate with community forums and listening sessions, such as one with religious leaders; and

- published or will soon publish: a guide for human relations commissions, a university student resource guide, and de-escalation strategies for transit users confronted by hate speech, among other resources.

Although the Governor's January 2024 Budget proposes to eliminate the final year of the funding for these efforts, CRD indicates that it hopes to fund CCRU activities in 2024-25 using savings achieved in other areas.

Staff Comments: In an era in which diatribe seems to trump dialogue in civil discourse, the CCRU's mission arguably takes on heightened importance, and the unit's track record so far suggests that it is over-performing its targets. Although it appears that the CCRU will be able to continue its work next year in spite of the budget reduction proposed by the Governor, it remains unclear what will happen to the unit in the years beyond that.

Staff Recommendation. Approve as budgeted.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 2: Additional Staffing to Administer Federally-Funded Programs

Governor's Budget Proposal. As part of the Governor's January 2024 Budget, the Housing and Community Development Department (HCD) requests authority to add 10 staff positions in 2024-25 and ongoing which would be assigned to administer U.S. Department of Housing and Urban Development (HUD)-funded programs.

Background. One of HCD's key functions is to operate as the state-level manager of a variety of federally-funded housing programs. HCD has a special unit dedicated to administering these programs called Division of Federal Financial Assistance (DFFA).

Within DFFA, the Home Investment Partnership Program (HOME) has been "the primary federal housing program in the state of California since its establishment in 1992," according to HCD. The HOME program:

> provides formula grants to states and localities that communities use—often in partnership with local nonprofit groups—to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership, or providing direct rental assistance to low-income people. HOME is the largest federal block grant to state and local governments designed exclusively to create affordable housing for low-income households. HCD awards HOME funds annually as formula grants to participating jurisdictions. The program's flexibility allows states and local governments to use HOME funds for grants, direct loans, loan guarantees or other forms of credit enhancements, rental assistance, or security deposits.

Currently, 13 staff operate the HOME program from within DFFA: seven in the HOME Program Unit and six in the HOME Projects Unit.

HCD reports that recent developments have increased the HOME Project Unit's workload, leaving it understaffed. Specifically, those developments include:

- changes to the program's federal regulations in 2013;
- a realignment of duties in 2015;
- changes to HOME's Notice of Funding Availability (NOFA) in 2017-18;
- a HUD monitoring audit and subsequent findings in 2018; and
- increased federal allocations.

To address these workload challenges, HCD now seeks authority to hire 10 additional staff in the DFFA unit. Seven would be detailed to the HOME Project Unit, where they would establish a Loan Closing and Transactions Unit. The other three would support the administration of DFFA more generally.

HCD explains that all of the new positions would be funded through the federal programs that DFFA administers.

According to HCD, these new positions will enable DFFA "to make timely NOFA awards and provide DFFA with the necessary resources to effectively handle complications and unexpected workload additions."

Staff Comments: As the additional staffing proposed by this item is federally funded, approval will not negatively impact the state's General Fund.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

1700 Civil Rights Department

Issue 3: Reduction in Enforcement, Investigation, and Conciliation Enhancements

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to eliminate $1.4 million in 2024-25 General Fund previously committed for the enhancement of the Civil Rights Department's (CRD's) enforcement, investigation, and conciliation capacities.

Background. As part of the 2022 Budget Act, CRD requested and was allocated temporary funding to enhance its enforcement, investigation, and conciliation capacities. Specifically, CRD asked for "$1.4 million General Fund in 2022-23, 2023-24, and 2024-25 to decrease the wait time between complaint intakes and investigative appointments, and to increase the number of complaints successfully conciliated and settled by investigators."

At the time, CRD explained that these temporary enhancements were needed because a surge in discrimination complaints had pushed up the average wait time from complaint submission to intake interview. While these delays do not impact CRD's statutory deadlines for investigating cases because those deadlines only begin to run after the intake interview, having to wait can be disillusioning for victims of civil rights violations and may jeopardize the availability of witnesses or evidence. In addition, CRD hoped that temporarily supplementing intake resources would free up capacity for CRD to resolve more of the discrimination complaints it receives through mediation.

CRD data appear to indicate that its initiative has been successful thus far:

CRD Enforcement Division Team	FY 2022-23	FY 2023-24
Employment	Wait time – Goal: 60 days Wait time – Actual: 113 days Conciliations – Actual: 92	Wait time – Goal: 30 days Wait time – Actual: 98 days Conciliations – Actual: 150 (thus far)
Housing	Wait time – Goal: 50 days Wait time – Actual: 103 days Conciliations – Actual: 132	Wait time – Goal: 30 days Wait time – Actual: 70 days Conciliations – Actual: 149 (thus far)

Nonetheless, in light of the budget shortfall, the Governor's January 2024 Budget now proposes to eliminate the final year of the funding for these enhancements.

Staff Comments: Given the demonstrated success of this modest infusion of resources in reducing waiting times, the Subcommittee may wish to inquire whether CRD believes that it can maintain its progress if the last year of funding is rescinded. If not, the Subcommittee may also wish to ask

CRD whether it might be able to make alternative budgetary, staffing, or logistical adjustments to prevent the loss of this progress.

Staff Recommendation. Hold open.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 4: The Governor's Proposed Housing Spending Reductions in Context

Governor's Budget Proposal. The agenda items that follow this one provide detail on a series of reductions and reversions in the state's spending on housing proposed in the Governor's January 2024 Budget. Specifically, if adopted, the Governor's January 2024 Budget would:

- Revert $952.5 million in General Fund dollars previously allocated to several of the state's housing programs including the Multifamily Housing Program, the Infill Infrastructure Grant Program, CalHome, and the Regional Early Action Planning Grants 2.0, and the Veterans Housing and Homelessness Prevention Program.

- Reduce a total of $261.2 million in General Fund previously committed to other state housing programs for allocation in future years including the Foreclosure Intervention and Housing Preservation Program and the Housing Navigators program.

Background. Taken together, these proposals represent about a $1.2 billion drop in state spending on housing. In light of the state's affordable housing crisis, this number is concerning. Combined with the exhaustion of existing housing bond resources, the absence of any new allocation to the state's supplemental Low Income Housing Tax Credit program, the cuts will almost certainly lead to an eventual decrease in affordable housing production in the state. In a letter to the Subcommittee opposing these proposed cuts, a "broad multi-sector coalition of affordable housing, homelessness, and housing justice Advocates" estimates that the overall impact would include the loss of $1.6 billion in federal housing resources that the state dollars would otherwise leverage and, ultimately, the production of 4,600 fewer units.

At the same time, a nuanced assessment of these proposed cuts requires consideration of a number of contextual factors. These contextual considerations cut both ways: some of them will likely mitigate against the impact of the proposed cuts; others are likely to exacerbate the cuts' effect.

Specifically:

- **Exhaustion of Existing Bond Funds.** The proposed cuts coincide with the exhaustion of existing housing bond funding. The last state housing bond, SB 3 (Beall, Ch. 365, Stats. 2017) was approved by the voters in 2018. Among other things, money from that bond provided $1.5 billion to the Multifamily Housing Program, $300 million to CalHome, and $300 million to the Joe Serna Farmworker Housing Program. HCD is currently awarding the last of these bond funds as well as vestiges of housing bonds from 2006 (Prop. 1c) and even 2002 (Prop. 46). Consequently, absent passage of a new housing bond – such as that proposed by AB 1657 (Wicks, 2023), for example – the amount of bond money available to support affordable housing production will shrink close to zero next year. While the exhaustion of previous housing bond money is independent of the Governor's proposed cuts and would have taken place regardless, the potential convergence of the two would result in more precipitous drop in state affordable housing funding than either would cause by itself.

- **Absence of Further Funding for Supplemental LIHTC.** At the same time that the Governor's January 2024 Budget proposes to cut various affordable housing funding programs, it also proposes to break a five year streak in which the state invested an additional $500 million into its state LIHTC program annually. The state LIHTC program attracts private investment to low-income housing production by offering tax incentives to investors. This enables developers to secure what is often a critical portion of the funds they need in order to make affordable housing construction financially viable in spite of the low rents that will be charged. By statute, the California budget includes a baseline allocation to support the state LIHTC program each year. (Rev. & Tax Code § 17058). Set initially at $70 million per year in 2001, the baseline statutory LIHTC allocation grows each year in to reflect inflation. The 2023 allocation was about $120 million. Since the 2019-20 budget, California has supplemented the statutory baseline state LIHTC allocation with a further General Fund augmentation of $500 million. The Governor's January 2024 budget does not include any such augmentation for 2024-25.

- **Other Sources of State Housing Funds.** There are two other sources of state funding for affordable housing production. The Greenhouse Gas Reduction Fund (GGRF) pays for the Affordable Housing and Sustainable Communities program (AHSC). GGRF funding for AHSC fluctuates annually. In recent years, it has ranged between a low of $394 million and a high of $865 million. Separately, SB 2 (Atkins, Ch. 364, Stats. 2017) funds affordable housing through a fee assessed whenever someone records certain documents associated with real estate transactions. SB 2's contribution to the state's support for affordable housing also varies each year, recently ranging between about $234 million and $467 million. The Governor's January 2024 Budget leaves both AHSC and SB 2 fund funds untouched for now, meaning that some these sources of state affordable housing development money will continue to flow even if General Fund allocations fall away almost entirely, as the Governor's Budget proposes.

- **Federal, Local, and Philanthropic Inputs.** State funding is only one source of government support for affordable housing production. Federal and local resources are also major contributors. While the exact amount fluctuates somewhat annually, federal sources have accounted for roughly two thirds of state-administered affordable housing spending over the past five years, factoring in the impact of tax credits. It is reasonable to anticipate that California will continue to receive at least the same level of federal support in the coming years and the Administration states that it is exploring additional ways to draw down federal support for the state's affordable housing efforts. Local and philanthropic spending also contribute to affordable housing and there are some indications that local spending may soon increase, at least in some areas. For example, the Bay Area is currently exploring the possibility of putting a $10-20 billion local bond to support affordable housing projects before its voters.

- **Timing.** There is a lag of several years between the availability of government assistance for affordable housing and the actual production of units. For this reason, the impact of the proposed cuts on the number of affordable units available will not be felt immediately in most instances. Indeed, since the state has made historic levels of investment in affordable housing in recent years and existing housing bond resources have been available until now, the overall number of affordable housing units coming online will probably continue to increase for roughly two years. Only after that time would the impact of the Governor's proposed cuts begin to show up in terms of fewer new affordable units becoming available for immediate occupancy.

- **Other Factors.** The rate of affordable housing production is not exclusively determined by the availability of government financial support for affordable housing. Interest rates, the speed at which projects can be built (including the potential for bureaucratic or legal delays), the expense of materials, and labor costs all influence how much affordable housing gets built. However, government subsidies are particularly important for the production of housing for extremely and very low-income households, which are those most at risk for homelessness.

The bottom line is that, although production of affordable housing in California will continue to take place even if the proposed cuts are adopted, those cuts, combined with the exhaustion of existing housing bond funding, would almost certainly result in a decrease in affordable housing production in California within a two or three year timeframe – particularly production of units for especially low-income households. How significant the impacts of the cuts would be depends on a variety of factors including to what degree federal and local resources help to fill the void.

Staff Comments: Before taking up the next items on this agenda, the Subcommittee may wish to request that the witnesses address the following points:

LAO:

- Please provide an overview of the Governor's proposed housing cuts within the broader context of overall state spending on affordable housing in California.

- Does the LAO have thoughts about how the Legislature should assess these proposed cuts?

- Does the LAO recommend that the Legislature consider any particular alternatives to these proposed cuts?

DOF:

- What was the rationale behind the Administration's choice to propose cuts to these particular housing programs?

- Did the Administration consider any particular alternatives?

- Why did the Administration elect not to include an augmentation to the state LIHTC program in its budget proposal this year?

HCD:

- Aside from the funds proposed for reversion or reduction in the Governor's January 2024 Budget, what other General Fund dollars within HCD's housing programs have not yet been encumbered or spent and may therefore potentially still be available for reversion or reduction? Please indicate what program the money is associated with, approximately how much is left at this time, and how soon that money will be spent or otherwise become unavailable as a potential source of budget savings.

Staff Recommendation. Information only.

Issue 5: Reductions to the Regional Early Action Planning Grants (REAP) 2.0.

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert back to the General Fund $300 million of the $600 million that was previously allocated to the Regional Early Action Planning 2.0 (REAP 2.0) grant program in the 2021 Budget Act.

Background. The original REAP program, established in the 2019 Budget Act, allocated $250 million in grants to regions, cities, and counties to support planning activities designed to accelerate housing production.

As a follow up to the original REAP, the 2021 budget dedicated $600 million to a second iteration of REAP. REAP 2.0 differs from the original in at least three key respects. First, REAP 2.0 does not just fund planning efforts; it also funds implementation projects such as the installation of communal infrastructure and the construction of residential complexes. Second, REAP 2.0 more comprehensively integrates housing, climate, and civil rights goals. Specifically, REAP 2.0 is intended to facilitate the creation of infill housing, reduce vehicle miles traveled, and affirmatively further fair housing consistent with regional and local plans.

Finally, REAP 2.0's funding distribution differs from its predecessor and breaks down as follows:

- $510 million in population-based formula awards to Metropolitan Planning Organizations (MPOs). The MPOs may then further suballocate their awards to cities, counties, transit/transportation agencies in their respective regions.

- $30 million in competitive Higher Impact Transformative (HIT) Awards for place-based projects that "have a high impact in disadvantaged and historically underserved communities."

- $30 million for competitive awards to Tribal entities and rural communities not covered by an MPO.

- $30 million for administration of the program.

HCD reports that it has awarded about $536 million of these funds to date. Recipients have until June 30, 2026 to spend the money. Not all REAP 2.0 recipients are at the same point in the REAP 2.0 process. While some have advanced to the point of starting construction on some projects; others have only recently received approval for their REAP 2.0 plans from HCD.

REAP 2.0 funding operates on a reimbursement basis, meaning that grant recipients must spend the money themselves first, and then bill the state for those expenditures. According to HCD, REAP 2.0 recipients had only requested reimbursement around just five percent of the amount awarded to them as of early 2024, though HCD anticipates a greater inflow of reimbursement requests in the coming months.

The Governor's January 2024 Budget now proposes to pull back $300 million from REAP 2.0 – half of the original 2021 allocation.

Several MPOs have written to the Subcommittee urging it to reject this proposed reversion. In summary, the MPOs assert that the proposed cut would have the following detrimental impacts:

- The MPO and the local entities to which the MPOs have suballocated REAP 2.0 funds will have to scale back the scope of intended projects, reducing housing production and their ability to meet local sustainability goals. Some of the MPOs report that the proposed cuts, combined with HCD advisories limiting reimbursements to 25 percent of the total award until the state budget situation is clarified, have already some caused developers to halt work on projects that were underway out of fear that they will not be fully reimbursed for any further expenditures they incur.

- Reducing the amount allocated to REAP 2.0 at this stage would likely have a particularly negative impact on implementation projects. Many administrative costs have already been sunk and planning initiatives have ramped up quickly. Accordingly, early spending and the resulting reimbursement requests are more concentrated on those uses of REAP 2.0 funds. Since implementation projects like infrastructure installation and housing construction take additional time to get underway, they are more likely to be dropped if the proposed cuts are approved.

- Where MPOs or others have already committed to spending more than 50 percent of the funding allocated to them, they or the entities to which they promised suballocations could potentially be left holding the bag for those additional amounts. It is not yet fully clear how much of a problem this might be, however. Although several of MPOs who wrote to the Subcommittee indicated that they have already "suballocated," "awarded," or "programmed" all of the resources promised to them under REAP 2.0 grant, the key question is whether it is still possible to avoid the actual expenditure of the money. That depends on how far the particular project has advanced, something that appears to vary greatly both between MPOs and among individual projects funded by REAP 2.0.

Staff Comments: In light of concerns raised by REAP 2.0 recipients that they have already taken action in reliance on their REAP 2.0 allocations, the Subcommittee may wish to ask the Administration why it selected the REAP 2.0 program for proposed cuts. In general, the Administration has indicated that its proposed cuts to housing spending align with discretionary funding that is unspent and has not yet been noticed as being available. The cuts to REAP 2.0, by contrast, involve funding allocations that have already been made.

The Subcommittee may also wish to inquire about the Administration's plans for how it would implement the proposed cuts if they are approved. Would all REAP 2.0 recipients be limited to receiving reimbursement for 50 percent of their allocation? Or would reimbursements be processed on a first-come, first-served basis until the $300 million in remaining REAP 2.0 funds are exhausted? If cuts do take place, is there a way to prioritize the use of the remaining funds on implementation projects?

Staff Recommendation. Hold open.

Issue 6: Reductions to the Multifamily Housing Grant Program (MHP)

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert back to the General Fund $250 million previously allocated to the Multifamily Housing Program (MHP) for expenditure in 2023-24.

Background. MHP is the Housing and Community Development Department's (HCD's) flagship affordable housing program. Among HCD's portfolio of affordable housing programs, MHP funds the broadest scope of possible projects. Under MHP, HCD provides low-interest, long-term deferred payment loans on a competitive basis to applicants proposing projects consisting of new construction, rehabilitation, and preservation of permanent and transitional rental housing for lower-income households. HCD administers MHP through its "SuperNOFA" system – an application process that combines several competitive affordable housing programs into a single application.

Until 2022-23, MHP was funded through the 2018 housing bond, which provided $277.3 million annually to the program. The 2022 Budget Act included a General Fund augmentation of $100 million for MHP. The 2023 Budget Act also contained a General Fund augmentation for MHP, this time in the amount of $325 million, but HCD has not yet noticed the availability of all of the money allocated to MHP for 2023-24. The Governor's January 2024 Budget now proposes to revert $250 million of that remaining money to the General Fund, leaving a balance of $75 million that would still be available for distribution in the form of future MHP awards.

Staff Comments: MHP funds the broadest variety of affordable housing projects, so should the Subcommittee eventually wish to consider partially or fully rejecting some of the housing cuts proposed in the Governor's January 2024, MHP may make sense as a priority among HCD's housing programs.

The Subcommittee may also wish to bear in mind that MHP is currently among the programs that would receive funding in the event that the Legislature approves the housing bond set forth in AB 1657 (Wicks, 2023) and voters pass it. In its current form, that bill and the resulting bond would direct $7 billion to MHP.

Staff Recommendation. Hold open.

Issue 7: Reductions to the Infill Infrastructure Grant (IIG) Program

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert back to the General Fund $200 million that was previously allocated to the Infill Infrastructure Grant program (IIG) for expenditure in 2023-24.

Background. As its name implies, the IIG program provides competitive grants to help fund the installation of infrastructure necessary for the construction of high-density affordable and mixed-income housing in locations designated as infill. Thus, IIG does not necessarily fund the production of housing units directly. Rather it provides the necessary funding to enable infill housing projects that might not be financially viable otherwise.

The legislative framework for the IIG program was established by SB 86 (Com. on Budget, Ch. 179, Stats. 2007) but the program was not initially funded until the 2019 Budget Act. From there, IIG received General Fund allocations of $300 million 2019-20; $250 million in 2021-22; and $200 million in 2022-23. The 2023 Budget Act also provided $225 in General Fund for IIG in 2023-24, but HCD has yet to notice its availability for award. To help address the budget shortfall, the Governor's January 2024 Budget now proposes to pull $200 million of that amount back, leaving a balance of $25 million available for award under the IIG program.

Staff Comments: The Subcommittee may want to note that IIG is not currently among the programs that would receive funding in the event that the Legislature approves the housing bond set forth in AB 1657 (Wicks, 2023) and voters pass it.

Staff Recommendation. Hold open.

Issue 8: Reductions to the CalHome Program

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert back to the General Fund a total of $152.5 million that was previously allocated to the CalHome program: $102.5 from 2022-23 and $50 from 2023-24.

Background. As described by HCD, the CalHome program "supports homeownership programs aimed at low and very low-income households, and in the case of a disaster, households at or below moderate income, and operated by private nonprofit and local government agencies, to increase homeownership, encourage neighborhood revitalization and sustainable development, and maximize use of existing homes."

More specifically, CalHome awards support each of the following activities:

- First-Time Homebuyer Mortgage Assistance (MA)
- Owner-Occupied Rehabilitation (OOR)
- Accessory Dwelling Unit and Junior Accessory Dwelling Unit Assistance (ADU/JADU)
- Homeownership Project Development Loans (HDPL)
- Shared Housing Technical Assistance (Shared Housing TA)
- Self-Help Housing Technical Assistance (Self-help TA)

HCD reports the following CalHome award distributions through March 10, 2024:

- CalHome
    - 38 awards (the award counts in the table below will not add up to 38 because some applicants were awarded for multiple activities)
    - Approximately 1,300 households assisted

	MA	OOR	ADU/JADU	HDPL	Shared Housing TA	Self-help TA
Awards	27	21	5	8	0	5
Total	$48.5 million	$32 million	$9 million	$34.9 million	$0	$1.8 million

The 2022 Budget Act authorized $250 million in General Fund for CalHome in 2022-23 and committed an additional $100 million in General Fund to the program in 2023-24. However, in the face of financial constraints in 2023, the Governor initially proposed pulling back the $100 million commitment to CalHome. After negotiations with the Legislature, the cut was reduced to $50 million in the final 2023 Budget Act. HCD has yet to notice the availability of this remaining

$50 million. In light of continued budgetary challenges, the Governor's January 2024 Budget now proposes to pull back those funds entirely. Although this would leave leave no further General Fund available for the CalHome, HCD reports that it still has about $146 million in leftover bond funds for the program.

Stakeholders writing to the Subcommittee in opposition to the proposed cut argue that:

- The proposed housing cuts are distributed inequitably. CalHome is the only homeownership-related housing program that the Governor's 2024 Budget proposes to cut.

- The cuts would result in up to 2,000 units of affordable owner-occupied housing going unbuilt in the state.

- Recent CalHome Notices of Funds Available have been oversubscribed, demonstrating that more funding is needed for CalHome, not less.

Staff Comments: The Subcommittee may wish to bear in mind that CalHome is presently among the programs that would receive funding in the event that the Legislature approves the housing bond set forth in AB 1657 (Wicks, 2023) and voters pass it. In its current form, that bill and the resulting bond would direct an unspecified share of $1 billion to the CalHome program.

Staff Recommendation. Hold open.

Issue 9: Reductions to the Veterans Housing & Homelessness Prevention Program (VHHP)

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert back to the General Fund $50 million that was previously allocated to the Veterans Housing and Homelessness Prevention program (VHHP) for 2023-24.

Background. VHHP began in 2008 as a $900 million, bond-funded program that helped veterans to purchase single family homes, farms, and mobile homes through the California Department of Veterans Affairs (CalVet) Home Loan Program. Demand for the program was not as strong as anticipated, however, so in 2014, $600 million in bond funds were redirected to fund multifamily housing for veterans. (AB 639, Perez, Ch. 727, Stats. 2013.)

Today, VHHP provides "long-term loans for the acquisition, construction, rehabilitation, and preservation of affordable multifamily housing for veterans and their families to allow veterans to access and maintain housing stability." Fifty percent of funds awarded must serve veteran households with extremely low incomes, meaning that their income falls below 30 percent of the area median. Of the units available to extremely low-income veteran households, 60 percent must offer supportive housing services. Such services offer wraparound case management intended to ensure that the recipients successfully maintain their housing over time.

HCD administers VHHP as part of its broader "SuperNOFA" program which allows developers to seek funding from multiple HCD sources through a single application.

Though VHHP was historically funded through bonds, the 2022 Budget Act included General Fund allocations of $50 million for VHHP in both 2022-23 and again in 2023-24. HCD has not yet noticed the availability of the 2023-24 funds. In light of the overall budget shortfall confronting the state, the Governor's January 2024 Budget now proposes to revert those 2023-24 VHHP funds back to the General Fund. If the Legislature approves this proposal, there will be no further General Fund currently allocated to VHHP.

Staff Comments: California's March 5, 2024 state primary election asked voters whether they wanted to approve Proposition One. Among other things, approval of Proposition One would result in the issuance of just over $1 billion in general obligation bonds to finance permanent supportive housing for homeless veterans who have mental health or substance abuse disorders. The outcome of the vote on Proposition One is not final, but as of March 12, 2024, opponents of the measure reportedly conceded that it would pass by a narrow margin.

The Subcommittee may wish to ask the Administration how the outcome of the Proposition One vote will affect future state spending on housing veterans and how this should factor into deliberations over the Governor's proposed cuts to VHHP.

Staff Recommendation. Hold open.

Issue 10: Elimination of the Housing Navigation and Maintenance Program

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to eliminate an ongoing, annual allocation of $13.7 million for the Housing Navigation and Maintenance Program (HNMP) at the Housing and Community Development Department (HCD).

Background. The HNMP provides formula-based grants to counties to enable them to hire or devote staff to identifying and assisting young adults between 18 and 24 years old to obtain and retain housing. The size of each county's award is determined by its percentage of the total statewide number of young adults aged 18 to 24 years of age who are currently or formerly in the foster care system.

HCD staff describe the program as very flexible. Services under HNMP can include help applying for housing vouchers, identifying available units, communicating with landlords, filling out applications, making initial rent and security deposits, and avoiding problems that could otherwise lead to eviction. Many of the youth served by HNMP recently emancipated from the foster care system, though the program is not exclusive to that population.

One key rationale for HNMP is to help former foster youth successfully obtain and utilize one of two types of specialized federal housing vouchers available to them: the Family Unification Program (FUP) and the Foster Youth to Independence (FYI) program. Both programs offer up to three years of rental assistance coupled with supportive services. In 2021, approximately 870 California youth had such vouchers. Stakeholders have argued that even further uptake is possible through a more robust HNMP effort.

HCD administers HNMP as part of its Transition Age Youth Program, which also includes the Transitional Housing Program (THP), and the Transitional Housing Plus Housing Supplement Program (THPSUP). Only the HNMP program is proposed for cuts.

Staff Comments: The Subcommittee may wish to inquire whether the Legislative Analyst's Office and the Administration concur with stakeholders that HNMP offers a pathway for drawing down additional federal support in the form of housing vouchers for young adults who might otherwise be at risk of homelessness. If so, the Subcommittee may want to take that federal leverage into account when assessing whether to approve or reject the Governor's proposed cut. If not, the Subcommittee may wish to ask the Administration what other strategies California could pursue in order to maximize utilization of these vouchers.

Staff Recommendation. Hold open.

Issue 11: Reductions to the Foreclosure Intervention & Housing Preservation Program (FIHPP)

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to withdraw previous commitments to allocate a total of $247.5 million in General Fund to the Foreclosure Intervention and Housing Preservation Program (FIHPP) in the coming years: $85 million in 2024-25, $100 million in 2025-26, and $62.5 million in 2026-27.

Background. SB 1079 (Skinner, Ch. 202, Stats. 2020) created a procedural mechanism within California's non-judicial foreclosure system that enables prospective owner-occupants, current tenants, public entities, and specified non-profit housing organizations to acquire residential property by meeting or exceeding the winning foreclosure auction bid. FIHPP is designed to provide a pool of money that qualified non-profit housing entities can use to make purchases using the SB 1079 mechanism. The non-profit organizations must then operate the property as affordable housing for at least 55 years.

The 2021 Budget Act directed $500 million to FIHPP and HCD began the process of building the necessary systems to administer it. That effort included identifying and eventually entering into contract with a fund manager to operate FIHPP. Then, in the face of budget shortfalls in 2023, the Governor proposed to reduce funding for FHIPP and delay large parts of that funding until future years. After negotiations with the Legislature, the 2023 Budget Act ultimately included a $15 million reduction to FIHPP and allocation delays. Specifically, the 2023 Budget Act allocated $82.5 million to FIHPP in 2023-24, and expressed future commitments to FIHPP of $85 million in 2024-25, $100 million in 2025-26, and $62.5 million in 2026-27.

In light of continued budgetary challenges, the Governor's January 2024 Budget now proposes to eliminate those future commitments to FIHPP altogether, for total General Fund savings of $247.5 million. This still leaves $237.5 million of the original $500 million dedicated to the FIHPP program. Of this remaining amount, the Administration anticipates that at least $190 million will go out as grants for acquisitions, $35.6 million is available for the fund manager's administrative costs, and $11.9 is available to cover the state's administrative costs.

Writing to the Subcommittee in opposition to the Governor's proposed cuts to FIHPP, a coalition of community land trusts and other advocates for the program emphasize the follow arguments, among others:

- There is some evidence of a recent uptick in residential foreclosure rates in California, though currently those rates remain far behind what they were during the Foreclosure Crisis from roughly 2008 through 2012.

- HCD and many non-profit housing providers have sunk time and resources into preparations for utilizing FIHPP funds the moment acquisition grants become available.

- Since it involves preservation of existing housing, rather than new construction, FIHPP may be able to secure affordable housing units at a lower per-unit rate than other affordable housing programs.

Staff Comments: The concept behind FIHPP arose out of a 2020 incident in which two working mothers who could not find other affordable housing briefly took up residence in an Oakland home that an investment company had purchased at a foreclosure auction and then left vacant for a time. It is a relatively new initiative that may prove to be an effective model for mitigating the flow of foreclosed homes into the hands of speculators and institutional landlords. Though building the administrative infrastructure to support FIHPP proved challenging, the program is now close to issuing its first grants to support acquisitions. Some acquisitions will still be possible under the proposed cuts, but at a much smaller scale.

Staff Recommendation. Hold open.

Issue 12: Additional Staffing for Administration of the Permanent Local Housing Allocation Program

Governor's Budget Proposal. Through the Governor's January 2024 Budget, the Housing and Community Development Department (HCD) requests authority to add four staff positions in 2024-25 and ongoing, paid for out of the Building Homes and Jobs Trust Fund, to monitor the Permanent Local Housing Allocation (PLHA) Program, disburse funds, and report on affordable owner-occupied workforce housing outcomes paid for out of the Building Homes and Jobs Trust Fund.

Background. SB 2 (Atkins, Ch. 364, Stats. 2017) imposed a $75 fee on the recording of certain real estate documents and directed the proceeds into a new Building Homes and Jobs Trust Fund. SB 2 also specified how the money in the Fund must be spent. Thirty percent of the funding goes in state affordable housing production financing programs. The remaining 70 percent supports the PLHA.

Most of the PLHA portion of the fund (93 percent) goes to local jurisdictions based on a population-based formula. HCD awards the other seven percent of PLHA as competitive grants to non-entitlement jurisdictions.

According to HCD, the number of total PLHA contracts it manages has increased significantly in recent years, doubling from roughly 150 in 2020-21 to around 300 in 2022-23, and HCD forecasts that the PLHA program will reach at or close to its maximum possible number of contracts – 350 – in 2024-25. During this period of growth, staffing levels have not kept pace. As a result, the workload for the PLHA staff tasked with monitoring these contracts has risen to about 70 each. HCD explains that management of each contract entails regular "disbursement of funds, reviewing of loan documents, reviewing of annual reports for compliance, data analysis, annual contract amendments, and ongoing technical assistance."

With this proposal to add four additional staff to the team, HCD calculates it can reduce that figure to 44 contracts per assigned staff position in 2024-25. In 2025-26, when HCD expects further staff reinforcements to arrive after completion of their duties managing other existing programs, HCD projects it will be able to trim the PLHA staff workload to 32. According to HCD, that level is sufficient to "ensure the number of contracts per HCDR II remain at a manageable level, improve processing times, provide adequate resources for technical assistance."

Staff Comments: As the funding for these positions comes out of the Building Homes and Jobs Trust Fund, this staffing increase would not impact the General Fund. HCD also indicates that spending for the proposed positions would fall within the five percent of the Fund set aside for PLHA administrative costs. Accordingly, the staffing increase should not divert resources that would otherwise go toward housing production.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, April 4, 2024
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultants: Diego Emilio J. Lopez

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

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 FOR VOTE ONLY

1703 PRIVACY PROTECTION AGENCY

Issue 1: Annual COLA - Legal Workload

Request. The Governor's budget requests $177,000 General Fund and one position in 2024-25 and ongoing for the Privacy Protection Agency for a cost-of-living adjustment (COLA), as outlined in Civil Code 1798.199.95, and a graduate legal assistant.

Background. On November 3, 2020, California voters approved Proposition 24, the California Privacy Rights Act of 2020, creating the California Privacy Protection Agency (Agency). The Agency is vested with administrative power, authority, and jurisdiction to implement and enforce the California Consumer Privacy Act of 2018, as amended (CCPA), which is aimed at protecting Californians' personal information and the promotion of public awareness and understanding of the risks, rules, and rights related to the collection, use, sale, and disclosure of personal information, including the rights of minors.

The Agency is governed by a five-member board, including the chairperson. The chairperson and one member of the board are appointed by the Governor. The Attorney General, the Senate Rules Committee, and the Speaker of the Assembly each appoint one member. These appointments must be made from among Californians with expertise in the areas of privacy, technology, and consumer rights.

Cost-of-Living Adjustment. According to Civil Code 1798.199.95, the Privacy Protection Agency is annually appropriated $10 million from the General Fund, adjusted for cost-of-living changes, to support the operations of the Agency. The Governor's budget requests $177,000 General Fund in 2024-25 for these purposes. The baseline budget of the Agency is $11.72 million. If approved, the Agency's total appropriation with the COLA is $11.9 million.

Graduate Legal Assistant (GLA). According to the Agency, the COLA will be used to cover the cost of one Graduate Legal Assistant in the Legal Division. One of the Legal Division's primary responsibilities is to promulgate and update regulations on more than twenty complex and technical topics, involving consumer opt out preference signals, the treatment of consumer personal information and sensitive personal information, cybersecurity auditing, geolocation, and automated decision making. The Agency adopted its first major package of regulations in 2023, but already has two more major packages in development and anticipates significant rulemaking to be ongoing for the foreseeable future. According to the Agency, the GLA classification can be used to train and prepare candidates for attorney positions within the Agency.

Staff Recommendation. Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

Issue 2: Building Operations and Support Bateson Building

Request. The Governor's budget requests $4.21 million Service Revolving Fund and 36 positions in 2024-25, and ongoing, for the Department of General Services (DGS) to manage, operate, and maintain the newly renovated Gregory Bateson building located in Sacramento.

Background. The Gregory Bateson Building is located at 1600 9th St., Sacramento, CA. The building has been under renovation since 2021-22 and is nearing completion. When the building closed for renovation, Facilities Management Division (FMD) maintenance, operation, and management staff assigned to Bateson were redirected to the Allenby building. According to DGS, now that the Bateson building will be reopening, FMD requires additional staff to manage, operate, and maintain the newly renovated building.

In 2016, the Department of General Services (DGS) published a Ten-Year Sequencing Plan that proposed a strategy for addressing its aging portfolio. The Sequencing Plan, focusing on buildings in and around Sacramento, incorporated projections for long-term office space needs and established principles for DGS to follow in updating state office space. The Sequencing Plan recommended constructing three new state office buildings to expand the portfolio and accommodate the projected future growth. Doing so would allow DGS to relocate tenants from some of the most deficient buildings in the area and renovate the vacant building. This would continue, in a controlled sequence, until the portfolio's useful life was extended. The Bateson building renovation project was included in the plan and is nearing completion, creating the need for additional personnel and resources to effectively manage, operate, and maintain the newly renovated building.

The comprehensive renovation of the Gregory Bateson Building will incorporate a variety of improvements to the building. These include fire and life, safety, and accessibility, repairs to historic elements that are deteriorating or causing deterioration, hazardous materials removal, replacement of the plumbing and heating, ventilating and air conditioning systems, and replacement of the electrical, telecommunications and security systems. The project includes restoration of historic elements, provides a new office layout using modular furniture and optimizing occupant density, and will target Zero Net Energy. In 2019-20, DGS was authorized to begin establishing performance criteria, the initial step in Traditional Design-Build, for this renovation project. However, the project was put on hold due to the COVID-19 Pandemic in 2020. In 2021-22, the project was restarted, this time as Progressive Design-Build, allowing the design and construction team to collaborate during the earliest stages of project development. This change in delivery method reduced the project schedule and cost, with the renovation slated for completion in 2024-25 (tenants to move in beginning December 2024). Tenants will include:

- Energy Commission
- Department of Water Resources
- Department of Conservation
- Office of Energy Infrastructure Safety

DGS requests the following classifications to manage, operate, and maintain the newly renovated Gregory Bateson building. According to DGS, FMD Operations and Maintenance staff previously assigned to the Gregory Bateson building were redirected to the Clifford L. Allenby Office Building when the renovation project began. The Allenby Building is a new structure therefore, the staff redirected to that building are not available to be returned to the Gregory Bateson building.

Class Code	Classification	Positions
6675	Office Building Manager I	1.0
1138	Office Technician (General)	1.0
5393	Associate Governmental Program Analyst	2.0
6695	Chief Engineer II	1.0
6712	Stationary Engineer	2.0
6940	Maintenance Mechanic	1.0
0731	Groundskeeper	3.0
6533	Electrician I	1.0
6913	Electronics Technician	1.0
6526	Painter I	1.0
2001	Custodian Supervisor II	1.0
2002	Custodian Supervisor I	2.0
2003	Custodian II	1.0
2011	Custodian I	18.0
Total		**36.0**

Source: Department of Finance

Staff Recommendation. Approve as budgeted.

Issue 3: Increased Expenditure Authority for the Statewide Parking Program

Request. The Governor's budget requests $2.5 million Motor Vehicle Parking Facilities Money Account in 2024-25, $2.6 million Motor Vehicle Parking Facilities Money Account in 2025-26 through 2029-30, and $886,000 Motor Vehicle Parking Facilities Money Account in 2030-31, and ongoing, for the DGS, Office of Fleet and Asset Management to support the Parking Administration Unit's operational costs, facility maintenance and repair expenses.

Background. The Office of Fleet Asset Management (OFAM), Parking Administration Unit (PAU) currently manages 25 state owned parking facilities, located throughout California; it offers customer service for state employee parkers, oversees parking facility maintenance, and repairs, and implements parking policies. The parking facilities offer affordable parking opportunities and are available for use by individual state employees or state entities (i.e., departments or agencies). Parking can either be obtained via a monthly subscription or a daily rate; revenue is used to cover operational costs and fund facility maintenance and repairs.

Table 1: Motor Vehicle Parking Fund Resource History
(Dollars in thousands)

Program Revenue	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Revenues	$4,085	$5,122	$8,443	$7,454	$8,086	$8,570

Source: Department of Finance

Expansion of Daily Parking. As the impact of the COVID-19 Pandemic matured and stabilized, PAU identified an opportunity to better align their parking services with the needs of a teleworking/hybrid state workforce. The month-long access offered by monthly subscriptions was no longer needed by many state employees; daily parking has become a more reasonable parking solution. To accommodate this change, PAU has begun the installation of the Parking Access and Revenue Control system (PARCS) at many parking facilities; the system provides an automated payment mechanism that allows for daily parking at facilities where it was previously unavailable. PARCS has been installed and is currently active at five facilities; PAU intends to install the system at an additional two facilities in 2024-25 and two facilities in 2025-26. Each PARCS incurs a $4,500 monthly cost, necessitating an ongoing expense increase of approximately $486,000 annually once fully implemented for all nine facilities.

Fire Life Safety and Deferred Maintenance Project Backlog. PAU has an existing backlog of parking facility related Fire, Life, and Safety and deferred maintenance projects, dating back to 2017-18. At that time, $20 million in outstanding projects existed; several of the projects have since been completed, but an approximate $10.2 million in projects remain outstanding. Additional expenditure authority from this request will allow OFAM to further prioritize the completion of these projects and ensure that the program continues to provide quality and safe parking facilities to its customers.

The table below summarizes the PAU's anticipated allocation of the additional authority from this request. Allocating $1.7 million of additional parking revenue annually for deferred maintenance projects will allow PAU to eliminate the backlog in approximately 6 years.

PAU Supplemental Expense Summary

(Dollars in thousands)

Fiscal Year	2024-25	2025-26	2026-27
PARCS System	$378	$486	$486
Facility PM's[1]	$400	$412	$424
Facility Projects	$1,700	$1,700	$1,700
Total	**$2,478**	**$2,598**	**$2,610**

Source: Department of Finance

Staff Recommendation. Approve as budgeted.

Issue 4: Increased Maintenance and Repair Cost Expenditure Authority for Fleet Operations

Request. The Governor's budget requests $1.2 million Service Revolving Fund in 2023-24 through 2026-27 for the Department of General Services, Office of Fleet and Asset Management (OFAM) to address increased vehicle maintenance and repair expenses.

Background. OFAM's Fleet Operations Unit (Fleet Ops) administers the State Vehicle Leasing Program (SVLP), which provides a fleet of vehicles available for lease to support agencies' transportation needs. Leasing through OFAM allows state agencies to take advantage of several fleet management services, which provides many benefits and opportunities for cost savings. OFAM is obligated to pay for maintenance and repair expenses for all vehicles in its leased fleet.

According to DGS, prior to 2021-22, OFAM's annual maintenance and repair expenses were relatively stable and consistently remained between approximately $4.1 million and $4.7 million; this stability can be attributed to both low volatility in the cost of parts and services for vehicle maintenance and repair and low volatility in the total vehicles in OFAM's leased fleet. Beginning in 2021-22 (see table below), the cost associated with vehicle maintenance and repair increased by approximately 20 percent over prior years.

Prior Year M&R Data						
Fiscal Year	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**
Total M&R Expenses	$4,704,000	$4,124,000	$3,672,000[2]	$4,662,000	$5,399,000	$5,595,000
Fleet Size	4,615	4,393	4,367	4,557	4,477	4,568
M&R Per Vehicle[1]	$1,019	$939	$841[3]	$1,023	$1,206[4]	$1,225

Source: Department of Finance

OFAM is projecting future annual M&R expenses to reach $5.7 million–an increase of roughly $1.2 million relative to prior years (see table below). According to DGS, contributing factors to increased maintenance and repair costs include:

- Post-pandemic inflation.
- Shortages of skilled technicians necessary to service and repair complex vehicle systems.
- Increase in the volume and complexity of vehicles with advanced technology features, resulting in higher costs for replacement parts.
- More expensive materials used in manufacturing to make cars more fuel efficient such as aluminum, carbon fiber, and rare earth metals.
- Shortages of replacement parts due to supply chain challenges, resulting in higher part costs.

M&R Expense Projections				
Fiscal Year	**2023-24**	**2024-25**	**2025-26**	**2026-27**
Total M&R Expenses	$5,640,000	$5,700,000	$5,700,000	$5,700,000
Fleet Size	4,700	4,750	4,750	4,750
M&R Per Vehicle	$1,200	$1,200	$1,200	$1,200

Source: Department of Finance

Since 2021-22, due to the increase in the number of vehicles leased, mileage costs reimbursed by departments, and the increase in the resale value of retired fleet assets, Fleet Ops has generated revenue above program's expenditure authority. OFAM is anticipating the program's revenue sources will remain steady in future fiscal years (see table below).

Program Prior Year Revenue			
Fiscal Year	**2021-22**	**2022-23**	**Averages**
Expenditure Auth.	$32,714,000	$33,015,000	$32,865,000
Revenue	$33,954,000	$38,058,000[1]	$36,006,000
Difference	$1,240,000	$5,043,000[2]	$3,141,000

Source: Department of Finance

As a result of these projected increased maintenance and repair costs, the Governor's budget is requesting $1.2 million Service Revolving Fund in 2023-24 through 2026-27.

Staff Recommendation. Approve as budgeted.

Issue 5: Office of Sustainability Workload Adjustment

Request. The Governor's budget requests, requests $665,000 ($599,000 Service Revolving Fund, $66,000 various funds) and four positions in 2024-25, and ongoing, for the Department of General Services, Office of Sustainability, to provide support for increased contracting and analytical services for programs and external customers and to better respond to sustainable energy directives.

Background. The DGS, Office of Sustainability (OS) develops and constructs renewable energy projects for state agencies across the State of California. OS has contracted for approximately 80 megawatts (MW) which have generated over one billion kilowatt hours to date, under 40 separate contracts for on-site solar and wind.

The project development process includes site evaluation, job walks, bid evaluation, contract award, architecture, and engineering (A&E) feasibility evaluations, due diligence, adherence to the California Environmental Quality Act review, tax analysis, system A&E, utility interconnection, and construction management. OS coordinates with the State Fire Marshall on inspection, permitting, and oversees training (for facility management, technical personnel, local fire departments, police departments, etc.), performance testing, commissioning, and close out.

Once the projects are completed, OS can remain involved for the life of the contract and verifies the systems remain fully operational over the 20 to 25-year contract term. This continued engagement by OS is to assist agencies with contract amendments, assignments, sales, and contract review of deliverables. OS ensures systems are operated and maintained per contract by the developer, oversees all system upgrades, repairs, and maintenance as well as monitors the system performance, energy generation requirements, and billing evaluations. These costs can be absorbed and incorporated into the cost of electricity for each project.

OS is comprised of three operational units which provide construction project management services to client agencies, including DGS. The Energy Savings Unit engages in energy audits and existing building energy efficiency upgrades. The Clean Energy Generation Unit engages in the design, installation, and monitoring of solar arrays, wind farms, and microgrids. The Transportation Unit installs EV infrastructure and equipment. Within OS, the Executive Office of Sustainability (EOS) provides administrative, analytical, and research services to OS and client agencies statewide.

OS reports increased workload across existing programs as well as increased workload from statutory changes and Executive Orders mandating that state facilities have clean renewable energy systems, resiliency, and redundancy during power disruptions to reduce utility grid impacts. Examples of increased workload include an increase of closed projects in the Clean Energy Unit from five in 2019, generating 13.80 MW of power, to 13 closed projects in 2023, generating 27.25 MW of power.

The four positions requested will enable OS to provide administration and analytical capacity to support the ability to respond to sustainable energy legislation and Executive Orders for the 36 state agencies that own real estate and to all agencies statewide that are impacted by sustainability related initiatives.

- Associate Governmental Program Analyst (AGPA) – Three positions.
- Project Director – One position.

Staff Recommendation. Approve as budgeted.

Issue 6: Information Technology Workload Adjustment

Request. The Governor's budget requests $1.8 million (various funds) and 14 positions in 2024-25, and $1.6 million (various funds) in 2025-26, and ongoing, for the Department of General Services, Enterprise Technology Solutions, to ensure the evolving needs of customers are met and the department complies with existing Cal-Secure requirements for Disaster Recovery and Application Development.

Background. The Department of General Service (DGS), Enterprise Technology Solutions (ETS) must ensure the evolving needs of its customers are met and the department complies with existing Cal-Secure requirements for Disaster Recovery and Application Development. DGS serves as the State's business manager by providing services to other state agencies. As IT and business services evolve, DGS' client base and demand for services increases. ETS provides infrastructure, application, security, and privacy support for each of DGS' 24 unique business lines that support other state agencies, California businesses, and members of the public. According to DGS, in the past three years, the reliance on technology to achieve business success has significantly increased. This trend has been driven by several factors, including:

Cybersecurity (Cal-Secure). On October 22, 2021, Governor Newsom issued the State Government Cybersecurity memo, officially adopting Cal-Secure as the state's multi-year strategy and roadmap for cybersecurity, which directed state entities to implement specific security requirements within specific timeframes. According to DGS, the Department has met the Governor's Cal-Secure requirements in 2022-23 and 2023-24, but need the requested resources to meet the Cal-Secure requirements for 2024-25 and 2025-26. The table below shows the phased order of priority of Cybersecurity Capabilities mandated by Cal-Secure.

Cal-Secure Mandated Capabilities

Phase 1 (FY21-22)	Phase 2 (FY22-23)	Phase 3 (FY23-24)	Phase 4 (FY24-25)	Phase 5 (FY25-26)
• Anti-Malware Protection • Anti-Phishing Program • Multi-Factor Authentication • Continuous Vulnerability Management	• Asset Management • Incident Response • Continuous Patch Management • Privileged Access Management • Security and Privacy Awareness Training • Security Continuous Monitoring 24x7 • Cloud Security Monitoring	• Data Loss Prevention • Log Management • Network Threat Detection • Network Threat Protection • Threat Intelligence Program • Application Security • Operational Technology Security	• Disaster Recovery • Enterprise Sign-on • Mobile Device Management • Application Development Security • Application Whitelisting • Software Supply Chain Management	• Identity Lifecycle Management • Insider Threat Detection • Network Access Control • Enterprise Encryption • Mobile Threat Defense

Source: Department of Finance

Evolving Business Needs. Technology plays a critical role in DGS' ability to provide value to its customers and their evolving business needs. DGS and other state agencies are increasingly digitizing services and operations to improve efficiency, reduce costs, and enhance customer service. The COVID-19 Pandemic forced many government employees to work from home. As the pandemic response shifts to hybrid-work, the need for technology to enable remote collaboration, communication, and document sharing has become a permanent and essential need.

Additionally, customer expectations for simple engaging experiences, seamless transitions and instantaneous results continue to grow with new technologies and automation.

Project Management and Business Analysis. To keep up with these evolving business needs and new automation technologies, DGS reports that it must shift its business analysis and project management implementation methodologies to be more iterative—including hybrid-agile and Continuous Improvement/Continuous Development (CI/CD).

ServiceNow Platform Management. DGS has implemented the ServiceNow platform to standardize user experience, simplify public and agency registration and logins, provide reporting dashboards, and deliver polished user interfaces with a consistent look for DGS program services. DGS' implementation of ServiceNow has grown to support over 26,000 users, including DGS, other state departments, and public users. ServiceNow provides a platform to standardize user experience, simplify public and agency registration and logins, provide reporting dashboards, and delivers user interfaces that present a polished, consistent look for DGS program services. In ServiceNow, there are over 25 business applications currently in production, an increase of 10 from last year. Additionally, ServiceNow has a backlog of over 18 engagements in various stages of development. Ensuring the maintenance of applications on the ServiceNow platform is a significant workload that continues to increase.

Workload History

Workload Measure	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Project Requests Received	45	69	87	63	62	64
IT Projects Completed	12	7	14	14	11	15
ServiceNow Enhancements	N/A	266	370	411	390	413
IAA Incidents and Tasks	DATA NOT AVAILABLE	155	301	458	463	825
Request ticket total	N/A	6,448	14,930	32,249	30,785	39,035
Incident ticket total	N/A	21,982	21,855	17,901	16,174	13,706
Phone calls	DATA NOT AVAILABLE	DATA NOT AVAILABLE	DATA NOT AVAILABLE	6,961	13,276	11,109
Network and VOIP Tickets	DATA NOT AVAILABLE	561	462	738	640	1,022

Source: Department of Finance

According to DGS, the requested positions and funding will ensure that ETS is able to keep its enterprise applications current and support the needs of DGS programs and client agencies for technology and security. ETS will monitor the health of the application portfolio and ensure that updates and refreshes of technology are completed in a timely manner.

ETS monitors IT project requests and project completion through project portfolio management processes that are in line with California Department of Technology Project Approval Lifecycle. ETS will be better positioned to maintain compliance with updated IT security and privacy requirements resulting from the fiscal year 2024-25 Phase 4 of Cal-Secure. Compliance is measured through both internal and third-party security audits and mandatory security reporting to applicable oversight agencies.

Staff Recommendation. Approve as budgeted.

7502 DEPARTMENT OF TECHNOLOGY

Issue 7: Middle Mile Broadband Initiative Overview & Budget Change Proposal

Request. The Governor's budget requests $250 million General Fund (GF) in 2024-25, and $1.25 billion GF in 2025-26, for the Department of Technology (CDT), to fund completion of the Middle Mile Broadband Initiative (MMBI) network and make 36 administratively established positions permanent. CDT also requests provisional language allowing up to $500 million additional General Fund in 2024-25, to support MMBI.

Background. The COVID-19 public health emergency shifted a number of activities such as education, government services, health care, and human services from physical environments to remote alternatives facilitated by the internet. Increased use of these alternatives highlighted the disparities in internet access—that is, differences in the availability, affordability, quality, and reliability of internet service—across the state. The Public Policy Institute of California notes that, although broadband access has grown in recent years, a significant gap persists across racial groups, with 81% of Latino, 83% of Black, 87% of White, and 88% of Asian households reporting having broadband access at home in 2021. In addition, 76% of households with annual income below $50,000 are less likely to have broadband access at home.

The Federal Communications Commission (FCC) defines broadband as high-speed internet access that provides a minimum of 25 Megabits per second (Mbps) download speed and 3 Mbps upload speed. Internet access at these speeds allow consumers to use the internet for a variety of activities such as accessing information, studying online, and working remotely.

Unserved areas and households are generally defined as those without access to broadband (as defined by the FCC). Underserved areas and households can be defined as those with access to broadband but without access to broadband at faster Mbps download and upload speeds with higher reliability and/or lower latency. Federal and state broadband programs define unserved and underserved in different ways using various criteria. All of the major federal and state programs, however, estimate that there are hundreds of thousands of households in areas of the state without broadband access. The digital divide refers to this gap between households, communities, and geographic areas that have access to high-speed internet services and those that have limited to no access.

To address this digital divide, as part of the 2021-22 budget, the Administration and the Legislature agreed to spend $6 billion ($1.7 billion General Fund) over three fiscal years (starting in 2021-22) on broadband infrastructure. Of the $6 billion, $4.37 billion was to be appropriated in 2021-22—$4.32 billion in federal American Rescue Plan (ARP) fiscal relief funds and $50 million General Fund.

Changes to State's 2021 Spending Plan. Since July 2021, the Administration and the Legislature have changed the state's 2021 broadband infrastructure spending plan in the following ways:

- $1.4 billion shift from federal ARP Fiscal Relief Funds to General Fund in 2021-22. Pursuant to Control Section 11.96 of the 2022-23 Budget Act, the fund source for appropriations totaling $1.4 billion in 2021-22 shifted from ARP fiscal relief funds to the General Fund—$887 million for the middle-mile network and $522 million for last-mile projects. (This shift was made due to increased flexibility in the use of a portion of ARP fiscal relief funds.) After the shift, there is $2.9 billion in ARP fiscal relief funds (as compared to $4.3 billion in the 2021 spending plan) allocated in 2021-22 for broadband infrastructure.

- $550 million General Fund added across 2023-24 and 2024-25 for increased Middle-Mile network costs. In June 2022, the Legislature passed (and the Governor signed) Chapter 48 of 2022 (SB 189, Committee on Budget and Fiscal Review). In SB 189, the Legislature stated a goal to appropriate an additional $550 million General Fund ($300 million in 2023-24 and $250 million in 2024-25) for increased costs to build, lease, and purchase the state's middle-mile network.

- Appropriates an additional $73 million from the federal Enabling Middle Mile Broadband Infrastructure Program. On June 16, 2023, the National Telecommunications and Information Administration (NTIA) announced California will receive $73 million for the state's middle-mile network from the Enabling Middle Mile Broadband Infrastructure Program established pursuant to the IIJA. Chapter 189 of 2023 (SB 104, Skinner) appropriates this funding using a new federal expenditure item for the California Department of Technology (CDT) to receive and expend these funds.

The figure below from the Legislative Analyst's Office (LAO) provides the current spending plan for state broadband infrastructure programs and projects as of the 2023-24 Budget Act.

(Continued on the next page)

Figure 1

Broadband Infrastructure Spending Plan as of the *2023-24 Budget Act*

(In Millions)

Program or Project	Fiscal Year	Funding Source GF	FF	TF
Middle-Mile Network	Prior Years	$887[a]	$2,363[b]	$3,250
	2023-24	300	73[c]	373
	2024-25	250	—	250
	2025-26	—	—	—
	2026-27	—	—	—
Subtotals		($1,437)	($2,436)	($3,873)
Last-Mile Projects Grants	Prior Years	$647[d]	$550[e]	$1,197
	2023-24	253	—	253
	2024-25	200	—	200
	2025-26	200	—	200
	2026-27	150	—	150
Subtotals		($1,450)	($550)	($2,000)
LLRF	Prior Years	—	—	—
	2023-24	$175	—	$175
	2024-25	300	—	300
	2025-26	275	—	275
	2026-27	—	—	—
Subtotals		($750)	(—)	($750)
All Programs and Projects	Prior Years	$1,534	$2,913	$4,447
	2023-24	728	73	801
	2024-25	750	—	750
	2025-26	475	—	475
	2026-27	150	—	150
Totals		**$3,637**	**$2,986**	**$6,623**

[a] Pursuant to Control Section 11.96 of the *2022-23 Budget Act*, the Department of Finance shifted $887 million for the middle-mile network from ARP fiscal relief funds to GF in 2021-22.

[b] The remaining $2.363 billion in FF for the middle-mile network in 2021-22 is state ARP fiscal relief funds.

[c] Chapter 189 of 2023 (SB 104, Skinner) appropriated a $73 million award of federal funds in 2023-24 from the IIJA's Enabling Middle Mile Broadband Infrastructure Program.

[d] Pursuant to Control Section 11.96 of the *2022-23 Budget Act*, the Department of Finance shifted $522 million for last-mile projects from ARP fiscal relief funds to GF in 2021-22.

[e] The remaining $550 million in FF for last-mile project grants in 2021-22 is the state's allocation from the ARP's Coronavirus Capital Projects Fund.

GF = General Fund; FF = federal funds; TF = total funds; LLRF = Loan Loss Reserve Fund; ARP = American Rescue Plan; SB = Senate Bill; and IIJA = Infrastructure Investment and Jobs Act.

Broadband Infrastructure. Broadband infrastructure allows internet service providers (ISPs) and other entities to provide high-speed internet access to communities and households. This infrastructure can be categorized into three groups based on the distance covered, from longest to shortest distance:

- Backbone or Long-Haul. Backbone or long-haul infrastructure often uses high-capacity fiber-optic cables laid over hundreds or thousands of miles to connect different countries, states, and/or regions to the internet.

- Middle-Mile. Middle-mile infrastructure also often consists of fiber-optic cables laid over tens or hundreds of miles that, once connected to by an ISP, can deliver local internet access.

- Last-Mile. Last-mile infrastructure relies on antennae, cables, poles, wires, and other components to connect middle-mile infrastructure to individual communities and households.

Statewide Open-Access Middle-Mile Network. As of January 29, 2024, the total estimated length of the statewide open-access middle-mile network is 10,513 miles. The figure below, from the LAO, provides a summary of the middle-mile network miles by delivery method.

Figure 2

Middle-Mile Network Miles by Delivery Method[a]

Delivery Method	Number of Miles	Percent of Total Network Miles
Leases	4,584	44%
Caltrans Construction Projects	4,032	38
Joint-Build Construction Projects	1,420	14
Purchases	477	5
Total	**10,513**	

[a] Data as of January 29, 2024.

Caltrans = California Department of Transportation.

Leases and standalone Caltrans construction projects account for a majority of the network miles—8,616 miles or 82 percent of the total network. The remainder of the network miles are joint-build construction projects (that is, construction projects where the state is working with another party to build the network) and purchases.

As of February 6, 2024, the total estimated number of middle-mile network miles with encumbered funding (that is, appropriated funds that are committed to an unfilled purchase order or unfulfilled contract) is at least 6,500 miles. From responses provided by the Administration, it is understood that the amount of encumbered funding for joint-build construction projects, leases, and purchases (about 6,500 miles) is, in general, more precise than for the standalone Caltrans construction projects (about 1,800 miles). Caltrans is continuing to finish the pre-construction work (that is, design, environmental, and permitting work) on any of its projects. Caltrans expects to complete this work by the end of 2024, after which contracts and purchase orders will be finalized and more specific amounts of funding will be encumbered. Therefore, while some number of miles for the standalone Caltrans construction projects have encumbered funding, the exact number of miles is uncertain.

The figure below, provided by the LAO, provides a summary of the middle-mile network projects and related costs with at least some funding encumbered. The figure does not include about $665 million ($450 million General Fund and $215 million federal ARP fiscal relief funds) in appropriated, yet unencumbered, funding.

Figure 3

Middle-Mile Network Projects With Encumbered Funding

Project Name	Delivery Method	Miles	Estimated Cost (In Millions)	Encumbered Funding (In Millions)		
				TF	GF	FF
CVIN	Lease	2,522	$715	$715	$427	$288
Various	Standalone Caltrans Construction	1,800[a]	950	500[b]	—	500
Lumen	Joint-Build	1,186	257	257	—	257
Lumen	Lease	710	141	141	—	141
Digital 395	Purchase	435	31	31	31	—
Arcadian #1	Joint-Build	310	134	134	—	134
Arcadian #2	Joint-Build	280	171	171	—	171
Arcadian #3	Joint-Build	255	127	127	—	127
Zayo	Joint-Build	193	13	13	—	13
TPN	Lease	172	40	40	40	—
Siskiyou Telephone Company	Joint-Build	165	52	52	—	52
Arcadian #5	Joint-Build	117	38	38	—	38
Boldyn	Lease	81	79	79	—	79
Arcadian #4	Joint-Build	44	17	17	—	17
Vero	Joint-Build	24	7	7	—	7
Hoopa	Joint-Build	23	10	10	—	10
Subtotals		8,317	($2,782)	($2,332)	($498)	($1,834)[c]

Additional Costs	Estimated Cost (In Millions)	Encumbered Funding (In Millions)		
		TF	GF	FF
Administration	$250	$250	$8	$242
Conduit, Fiber and Vaults[d]	234	234	172	62
Electronics	215	—[e]	—	—
Huts[f]	69	69	61	8
Subtotals	($768)	($553)	($241)	($312)
Totals	**$3,550**	**$2,885**	**$739**	**$2,146**

[a] The exact number of miles of standalone Caltrans construction projects that can be funded with the $500 million in encumbered federal ARP fiscal relief funds is unknown. The 1,800-mile estimate also assumes at least $450 million GF, all of which is appropriated yet unencumbered, as well as an anticipated appropriation of $250 million GF in 2024-25.

[b] The $450 million difference between encumbered funding and the estimated cost of the standalone Caltrans construction projects is expected to be covered by appropriated yet unencumbered GF.

[c] This FF subtotal does not include the $73 million award of FF in 2023-24 from the IIJA's Enabling Middle-Mile Broadband Infrastructure Program.

[d] Conduit are physical tubes that encase fiber-optic cables. Vaults are protective shelters for network equipment that are close to the served area or household.

[e] Bids for network electronics remain under review, so no funding is encumbered yet for these purchase orders. CDT expects to encumber appropriated ARP fiscal relief funds for these costs once bids are reviewed.

[f] Huts are protective shelters for network equipment used for middle-mile broadband infrastructure.

TF = total funds; GF = General Fund; FF = federal funds; CVIN = Central Valley Independent Network; Caltrans = California Department of Transportation; IIJA = Infrastructure Investment and Jobs Act; ARP = American Rescue Plan; and CDT = California Department of Technology.

For the remaining 2,200 or so miles of standalone Caltrans construction projects, CDT issued a second Request for Innovative Ideas (RFI2) solicitation— that is, a procurement method that defines a department's business need or problem to solve and allows vendors to design their own solutions— on November 9, 2023. The main purpose of this RFI2 solicitation is to identify opportunities for joint-build construction projects, leases, and/or purchases in place of the remaining standalone Caltrans construction projects. This is because, in general, joint-build construction projects, leases, and/or purchases are less costly than standalone Caltrans construction projects. CDT also asked for ideas from vendors on the ongoing maintenance, management, and operation of the network. As of February 16, 2024, CDT received over 50 proposals from vendors. CDT expects to review these proposals over the next several months and incorporate any network changes (including in the length and number of standalone Caltrans construction projects) by mid-2024.

Middle-Mile Network Business Plan. CDT reports that it is also starting to conduct market research to develop a business plan for the maintenance, management, and operation of the middle-mile network as different segments are completed and activated. On February 12, 2024, CDT announced its market research will involve interviews with existing public middle-mile network administrators, large private middle-mile network operators, and potential state middle-mile network customers. According to CDT, their intent is to identify best practices to maintain and operate the network while minimizing the fiscal burden on the state. However, the third-party administrator Golden State Network expects forecasting revenues to be extremely challenging due to the scale and size of the network and the unknown number of customers in both unserved and underserved areas of the state.

Middle-Mile Broadband Initiative Budget Proposal. The Governor's budget requests $500 million General Fund in 2024-25. Of the $500 million, $250 million is included in CDT's state operations budget as an anticipated appropriation based on uncodified statutory language adopted in Chapter 48 of 2022 (SB 189, Committee on Budget Fiscal Review). The Governor's budget requests a new, additional appropriation of $250 million in 2024-25 as part of CDT's MMBI proposal CDT plans to use all $500 million requested on standalone Caltrans construction projects.

Provisional Budget Bill Language. The Governor's budget also requests provisional budget bill language that would allow the Department of Finance to increase CDT's $500 million appropriation in 2024-25 by up to an additional $500 million General Fund.

The Governor's budget also requests $1.25 billion General Fund in 2025-26 as part of CDT's MMBI proposal. CDT plans to use all $1.25 billion requested on standalone Caltrans construction projects.

The Governor's budget also proposes to make permanent 36 positions that were established on a temporary basis in 2022 to support middle-mile network efforts using existing funding. The figure below, from the LAO, provides a list of these positions by classification and working title.

(Continued on the next page)

Title	Classification
Deputy Director	CEA
Program Manager	IT Manager II
Assistant Program Manager	IT Manager I
IT Manager I - GIS	IT Manager I
Procurement Manager	IT Manager I
Senior Business Manager	IT Manager I
Assistant Business Technology Manager	IT Supervisor II
Business Manager	IT Supervisor II
Business Manager	IT Supervisor II
Senior Agreements Officer	IT Supervisor II
Senior Procurement Officer	IT Supervisor II
Senior Procurement Officer	IT Supervisor II
Senior Procurement Officer	IT Supervisor II
Senior Procurement Officer	IT Supervisor II
IT Specialist II - GIS	IT Specialist II
IT Specialist II - GIS	IT Specialist II
IT Specialist II - GIS	IT Specialist II
IT Specialist II - GIS	IT Specialist II
Financial Officer	IT Specialist I
Region 1 Business Manager	IT Specialist I
Region 2 Business Manager	IT Specialist I
Region 3 Business Manager	IT Specialist I
Region 4 Business Manager	IT Specialist I
Region 5 Business Manager	IT Specialist I
Staff Services Manager III	Staff Services Manager III
MMBI Legislative Manager	Staff Services Manager II
Assistant Delivery Manager	Staff Services Manager I
Stakeholder Engagement	Staff Services Manager I
Attorney III	Attorney III
MMBI Information Officer I	Information Officer I
Senior Accounting Officer - AP	Senior Accounting Officer
Senior Accounting Officer - AR	Senior Accounting Officer
Senior Management Auditor	Senior Management Auditor
Senior Telecommunications Engineer	Senior Telecommunications Engineer
AGPA - Administration	AGPA
AGPA - Financials	AGPA

CDT = California Department of Technology; MMBI = Middle-Mile Broadband Initiative; CEA = Career Executive Assignment; IT = information technology; GIS = Geographic Information Systems; AR = Accounts Receivable; AP = Accounts Payable; and AGPA = Associate Governmental Program Analyst.

Recommendations from the LAO.

Approve $250 Million General Fund in 2024-25 for Middle-Mile Network With New Provisional Budget Bill Language. The LAO recommends the Legislature approve the $250 million General Fund included in CDT's operating budget as a planned appropriation in 2024-25. This funding would meet the Legislature's stated goal in SB 189 to provide additional funding for increased middle-mile network costs and, as presented in July 2023, allow CDT to build, lease, and purchase enough miles to deliver an operational middle-mile network. However, given the lack of critical information about middle-mile network construction, the LAO also recommends the Legislature adopt provisional budget bill language that conditions this funding on more information about standalone Caltrans construction projects and other information that is deemed necessary for legislative oversight of middle-mile network implementation such as an initial draft of the business plan.

Reject Additional $250 Million General Fund in 2024-25, $1.25 Billion in 2025-26 for Middle-Mile Network. The LAO recommends the Legislature reject the $1.5 billion General Fund in CDT's MMBI proposal—$250 million in 2024-25 and $1.25 billion in 2025-26. The serious budget problem in 2024-25 and significant projected budget deficit in 2025-26 do not support the substantial General Fund investment in this proposal, particularly when detailed information is unavailable and alternative funding sources may be explored.

Reject Provisional Budget Bill Language Allowing for Increases in 2024-25 Appropriation. The LAO recommends the Legislature reject the provisional budget bill language that allows the Department of Finance to increase CDT's 2024-25 middle-mile network appropriation by up to $500 million. This is consistent with their recommendation on the $1.5 billion in CDT's MMBI proposal, as well as their assessment that the language does not reflect the administration's intent and complicates legislative oversight.

Approve Other Proposals as Budgeted. As the LAO has no concerns with them, the LAO recommends the Legislature approve the following other proposals:

- Funding for the 36 administratively created positions in CDT's MMBI proposal that support its middle-mile network implementation efforts.
- CDT's proposed provisional budget bill language that allows the Administration to authorize up to three additional permanent positions for CDT's middle-mile network implementation efforts.

(Continued on the next page)

Staff Comments. As part of the 2023-24 budget, CDT was required to submit a report to the Legislature by March 1, 2024, providing detailed information on project segments, expenditures, and updates on the MMBI. As of the writing of this report, CDT has not submitted this report to the Legislature. Additionally, CDT has not provided detailed information on any individual Caltrans pre-construction project segments for the MMBI, including the status within the pre-construction process, location, and the timing of projects transitioning from pre-construction to construction. Pending the RFI2 process, which could yield additional lease, purchase or joint-build options, the requested additional $1.5 billion GF across 2024-25 and 2025-26 is currently intended to fund Caltrans construction of the remaining miles. Without this, and other information, it is difficult for the Legislature to effectively evaluate the implementation of the MMBI and ensure that the statewide middle-mile network is completed in a manner that prioritizes connectivity in unserved and underserved communities. Staff notes that the Legislature may wish to consider including further accountability requirements to evaluate implementation of the MMBI before considering any additional GF appropriations, especially in light of the significant budget problem.

Staff Recommendation. Hold Open.

Issue 8: Information Security Compliance

Request. The Governor's budget is requesting $250,000 General Fund in 2024-25, for CDT, for consulting services to address compliance deficiencies with the Cal-Secure Roadmap and internal security program. The departmental security deficiencies that this request will address include vulnerability management, incident response, and compliance.

Background. The CDT, Departmental Information Security Office (DISO) is responsible for implementing the Department's Information Security Program (ISP). The department's ISP evaluates the Department's business needs, related technologies, and risks to develop and implement information security policies, standards, procedures, and subordinate programs that address security objectives. The ISP is coordinated with the policies and mandates of the DISO through relevant sections of the State Administrative Manual (SAM), the State Information Management Manual (SIMM), and federal directives.

According to CDT, internal security program deficiencies and compliance with the Cal-Secure Roadmap have demonstrated the need for one-time corrective action. CDT has reported 107 vulnerabilities with a median remediation period of 349 days in its Plan of Action and Milestones (POAM) submitted to the State ISO (April 2023). Approximately 50 percent are regarding internal processes, documentation, and systems. The chart below details the

Departmental Programs & Workload Functions	Estimated Annual Tasks	Estimated Hours Per	Estimated Total Hours
Vulnerability Management Program			
Vulnerability research, analysis, and assignment	136	4	544
Vulnerability research remediation assistance	136	2	272
Vulnerability research remediation monitoring and reporting	136	2	272
Remediation status tracking	50	4	200

Source: Department of Finance

According to CDT, the requested resources will be used by DISO for external security consultants to focus on eliminating the current backlog of internal vulnerabilities significantly reducing the overall number of POAM findings. These consultants will develop and document, and where needed, execute the missing processes and procedures. Contractors will also be used to perform consistent oversight of departmental vulnerability remediation efforts. This will reduce CDT's risk of potential vulnerabilities remaining undetected and un-remediated.

CDT's Information Security Office is requesting one-time, $250,000 GF in 2024-25 to remediate the Department's security compliance deficiencies.

Staff Recommendation. Hold Open.

Issue 9: Intrusion Detection and Prevention System (IDS and IPS) Replacement

Request. The Governor's budget requests $809,000 General Fund 2024-25, $374,000 in 2025-26, and $393,000 in 2026-27, and ongoing, for CDT, to replace Data Center Intrusion Detection Systems (IDS) and Intrusion Prevention Systems (IPS) hardware that will be reaching its end of supportable life. The requested IDS/IPS resources will be utilized to internally monitor and protect the East-West traffic security perimeter of state services maintained by the Office of Technology Service's (OTech) data centers.

Background. CDT currently provides data center services for multiple state entities at two data center locations. These data centers must maintain the highest degree of security possible against malicious actors operating on both North-South and East-West traffic. North-South traffic pertains to department connections to both the California Government Enterprise Network and the internet at large. East-West traffic pertains to connections between the various networks within the data centers. These include internal database zones, web servers, mainframe, and other state-provided services within both data centers. CDT reports that intrusion detection and prevention remains a critical component for safeguarding the state's data and IT infrastructure.

According to CDT, IDS and IPS hardware (North-South & East-West) continue to provide critical statewide benefits by serving as a frontline defense against cybersecurity threats. CDT reports that IDS and IPS devices block millions of malicious actions targeting the state's network hourly and were used to protect the DMV Motor Voter website from attack. Requested resources are also intended to support investigations of suspected malicious cyber activity and prevention. Maintaining the ability to block known malicious IP addresses and domain names is a key element to the state's cyber security posture.

The 2023-24 budget approved funding for replacement of end-of-life IDS/IPS infrastructure, which provided for enhancement of infrastructure supporting North-South traffic inspection.

The Governor's budget is requesting resources in 2024-25 to replace end-of-life IDS/IPS infrastructure inspecting East-West traffic within the data centers as well as ongoing funding for hardware support.

Staff Recommendation. Hold Open.

Issue 10: Statewide Technology Services

Request. The Governor's budget requests provisional language, for the Department of Technology, to allow the conversion of up to $10 million from the Technology Services Revolving Fund (TSRF) to the General Fund (GF) in 2024-25 to support statewide technology services.

Background. CDT provides many statewide technology services including securing Information Technology (IT) assets, providing oversight and infrastructure for many state departments, and serving as the custodian of information for mission-critical business applications. CDT's responsibilities and authority include policy formation, interagency coordination, IT project oversight, information security, technology service delivery, and advocacy. Additionally, CDT partners with local governments and educational entities to provide technology solutions.

Currently, CDT charges customers rates for services, depositing revenue into the Technology TSRF which funds much of CDT operations. According to CDT, many of the statewide services it provides lack designated departments to charge for services and associated workloads.

Some of the areas within CDT providing these types of statewide technology functions include:

> Strategic Initiatives – This area assists in setting IT policies and practices and statewide performance management as it relates to the State Information Technology Strategic Plan. Additionally, they are responsible for leading the development and implementation of policy, performance management, and communication relating to the state's strategies for emerging technologies such as artificial intelligence, block chain, and quantum computing.
>
> Office of Digital Services (ODS) – ODS is responsible for ongoing support for a number of statewide initiatives, including: CA.gov domain name efforts, enforcement of the Statewide Information Management Manual (SIMM) 40A, State Administrative Manual (SAM) 5195, and SIMM 25, data & Geographic Information Services, managed WordPress web hosting service & contracts, web analytics & search, and multiple web services & standards (including Web Standards, State Web Template, Design System, and CA.gov web portal).
>
> Office of Enterprise Architecture (OEA) – OEA provides services to statewide initiatives, programs, and departments to establish cohesive and consistent business-driven practices.
>
> Office of Statewide Project Delivery (OSPD) – OSPD is responsible for ensuring adherence to best practices and managing risk, through Project Approvals and Oversight, Statewide Technology Procurement, and the California Project Management Offices. Additionally, OSPD collaborates on various state policies (including SIMM 71B, Project Approval Lifecycle, State Contracting Manual, Categorization of All Technology, Telecom and Internet of Things Effort (CATTIE), Public Contract Code, Government Code).

Training and Education Center (TEC) – The Training and Education Center is responsible for providing training to cybersecurity professionals and IT staff, including leadership training.

Office of Governmental Affairs (OGA) – OGA creates graphic and web-based design, social media, and awards coordination for submissions to nationally recognized award programs, oversight, direction, and guidance for external event coordination, messaging, and remote meeting facilitation. Additionally, OGA supports the Directorate in public facing events such as conferences, speeches, and panels.

According to CDT, the Department implemented various service rate adjustments in 2023-24 to improve cost recovery within several areas, including Mainframe CPU, OSPD, TEC, and ODS. CDT has proposed several rate changes for 2024-25 to further strategic cost recovery efforts and is working closely with the Department of Finance to achieve full cost recovery.

CDT is requesting provisional language in 2024-25 for a GF conversion of up to $10 million from the Technology Services Revolving Fund.

Staff Recommendation. Hold Open

7760 DEPARTMENT OF GENERAL SERVICES

Issue 11: Office of State Publishing Material Purchase Authority

Request. The Governor's budget requests $4 million Service Revolving Fund in 2024-25, and ongoing, for the Department of General Services, Office of State Publishing (OSP), to support the increased cost and volume of paper and commodities ordered in response to the extended lead times and reduction in production capacity in the commodities market.

Background. The OSP was established by the California Governor's Office and assigned to DGS as a part of the Interagency Support Division in 1963. As outlined in Government Code section 14850, OSP is responsible for completing state printing jobs. OSP currently provides services to state, federal, county, and city agencies by providing printing, communication and document management solutions. Printing services include storage, mailing, and strategic marketing solutions. OSP also performs document remediation to ensure accessibility compliance with state and federal Americans with Disability Act standards. To fulfill printing service requirements, OSP must purchase and maintain appropriate stock of necessary specialized materials.

OSP reports that over the past few years, paper supply industry consolidations, COVID-19 pandemic supply chain issues, and geopolitical events increased the prices of raw material, core paper commodities, and related materials, such as pallets and ink. In addition, OSP reports that these events increased lead times for placing orders with suppliers.

Previously, OSP operated under a "just-in-time" ordering model whereby OSP received most paper deliveries directly from the supplier within two to four weeks from ordering. However, as a result of the increased lead times discussed above, OSP began making advanced supply orders to ensure adequate paper and printing materials were available for printing services, which required additional warehouse space for storage. Accordingly, OSP started a lease for a new warehouse facility in West Sacramento on July 1, 2022, with the option to renew or terminate the lease after 2025-26. The 2023-24 Budget Act included $1.3 million annually from the Service Revolving Fund for OSP to lease and operate this new warehouse facility.

According to OSP, paper suppliers estimate that ongoing market disruptions will continue for at least the next two to three years at a minimum. However, it is unclear if these issues will continue after this time and therefore if there will be a continued need to purchase and store an increased supply of paper and related materials. Moreover, OSP previously indicated that it plans to monitor the paper supply market, and if OSP determines that returning to a just-in-time ordering model is sustainable by the end of the new warehouse facility's lease term in 2025-26, then OSP would terminate the remainder of the lease and vacate the facility.

Comments from the Legislative Analyst's Office (LAO*).* *Approve Funding for Paper and Related Materials on a Limited-Term Basis.* The LAO recommends that the Legislature approve the funding on a two-year basis (rather than on an ongoing basis as proposed by the Governor). This would result in the funding expiring after the 2025-26 budget year when OSP will be reevaluating whether to return to a just-in-time ordering model as part of its decision of whether to renew or terminate the warehouse lease. If OSP determines it can return to the just-in-time ordering model, the requested funding would be unnecessary. If OSP determines it cannot do so, it can submit a request for legislative consideration to maintain this funding as part of the 2026-27 budget process. Additionally, this will ensure the state does not commit to ongoing expenditure authority that may be unnecessary, potentially leaving unspent funds that could be redirected without legislative oversight.

Staff Recommendation. Modify the Governor's budget proposal to $4 million Service Revolving Fund annually, beginning in 2024-25 through 2025-26.

Issue 12: Design-Build Sunset Repeal – Trailer Bill Language

Request. The Governor's budget requests trailer bill language to repeal the January 1, 2025 sunset for Design-Build authority in Public Contract Code (PCC) 10196. This statutory change would permanently authorize the use of design-build, in specified circumstances.

Background. Existing law requires, generally, under the State Contract Act, public entities to fully complete the design of a project prior to awarding a construction contract and must award that contract to the "lowest responsible bidder." This process, commonly known as design-bid-build, is intended to ensure that the project is built for the lowest possible cost. However, there are exceptions.

- The Department of Transportation (Caltrans), the Department of General Services, the Military Department, and the Department of Corrections and Rehabilitation have been authorized to use the design-build process. This is an alternative project delivery process in which both the design and the construction of a project is procured from a single entity. The Department of Water Resources (DWR) has also been granted the authority to use design-build for projects at the Salton Sea.

- Caltrans, regional transportation agencies, and the San Diego Association of Governments have also been authorized to use the Construction Manager/General Contractor project delivery method (CM/GC method). This method allows an agency to engage a construction manager during the design process to provide assistance to the design team, which can ultimately lead to a more constructible project. When design is nearly complete, the agency and the construction manager negotiate a guaranteed maximum price for the construction of the project based on the defined scope and schedule. If this price is acceptable to both parties, they execute a contract for construction services, and the construction manager becomes the general contractor.

- DWR is also authorized to use the design-build and CM/GC processes for project delivery for facilities of the State Water Project, excluding through Delta conveyance.

Per statute, the authority to utilize design-build would sunset on January 1, 2025. The Governor's budget is requesting trailer bill language to repeal the provision that would sunset the Design-Build authority on January 1, 2025. This statutory change would permanently authorize the use of design-build, in specified circumstances.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, April 18, 2024
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultant: Timothy Griffiths

ITEMS FOR DISCUSSION

Public Comment

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 FOR DISCUSSION

0515 BUSINESS, CONSUMER SERVICES, AND HOUSING SECRETARY
2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 1: The Current Status of Homelessness in California - Recent Data and Trends

Topics: This presentation is intended to open the hearing with an updated picture of the status of homelessness in California today.

- Key patterns and trends in the most recent data on homelessness in California.
- Comparison of California to other states and the nation as a whole.
- Trends in homelessness interventions and resources.

Witness: Dr. Ryan Finnegan, Associate Research Director, Terner Center for Housing Innovation, University of California, Berkeley

Dr. Finnegan's research focuses on homelessness in California as well as poverty and social policy across the United States and globally. He holds a Ph.D. and M.A. in Sociology from Duke University, and a B.A. in Sociology and B.S. in Mathematics from Indiana University.

Dr. Finnegan was one of the lead researchers on the 2023 Statewide Assessment of California's Homelessness Programs. His recent publications from the Terner Center include:

- Five Recent Trends in Homelessness in California (October 2023)
- The Importance of Well-Resourced and Targeted Homelessness (November 2023)
- Stretched to Capacity: The Challenges Facing California's Homelessness Service Providers (February 2024)

It should be noted that Dr. Finnegan frequently collaborates with the California Interagency Council on Homelessness (Cal-ICH) on data and research. Cal-ICH also sometimes provides funding to the Terner Center for projects and reports. Dr. Finnegan's testimony at this hearing is his own and does not represent the views of Cal-ICH.

Staff Recommendation. Information only.

Issue 2: Oversight on the Status and Future of Homelessness-Related Grant Programs Administered by the California Interagency Council on Homelessness and the Housing and Community Development Department

Topic: The California Interagency Council on Homelessness (Cal-ICH) operates three major grant programs that seek to address homelessness across California:

(1) the Homeless Housing Assistance and Prevention (HHAP) program;

(2) the Encampment Resolution Fund (ERF) program; and

(3) the Family Homelessness Challenge Grant (FHCG) program.

Pursuant to the Budget Act of 2023, Cal-ICH is in the process of transferring administration of all three programs to the Housing and Community Development Department (HCD). (See Item 3 of this agenda for more detail on this transition.)

The Governor's January 2024 Budget proposal, if adopted, would impact each of these programs in different ways, as detailed below. The purpose of this agenda item is to provide the Subcommittee with relevant information about each program in order to evaluate the respective budget proposals and assess whether any programmatic changes are warranted. Specially, for each program, Cal-ICH will address:

- the nature and intent of the program;
- the present status of program disbursements and expenditures;
- the most currently available outcome data;
- findings and recommendations from the recent State Auditor's report on Homelessness Programs in California.

Witnesses:

- Meghan Marshall, Executive Officer, California Interagency Council on Homelessness
- Sydney Bennet, Director of Research, California Interagency Council on Homelessness

Background:

Homeless Housing Assistance and Prevention (HHAP)

DESCRIPTION: HHAP provides large cities, counties, continuums of care, and tribal entities with formula-based funding through which they can address homelessness using a broad variety of strategies and services.

HHAP first emerged in 2019 as a new incarnation of the Homeless Emergency Aid Program (HEAP) program. Since that time, there have been five rounds of HHAP funding as follows:

Budget Year	HHAP Round	Amount	Initial Disbursal to Final Expenditure Window
2019	1	$650 million	Spring 2020 – June 30, 2025
2020	2	$300 million	Fall 2021 – June 30, 2026
2021	3	$1 billion	Winter/Spring 2022 – June 30, 2026
2022	4	$1 billion	Winter/Spring 2023 – June 30, 2027
2023	5	$1 billion	Summer/Fall 2024 – June 30, 2028

Only large cities, counties, and continuums of care were eligible to receive grants from HHAP Rounds 1 and 2. Rounds 3, 4, and 5 have also included a set aside of $20 million for Tribal HHAP. Unlike the HHAP allocations to large cities, counties, and continuums of care, Tribal HHAP grants are awarded on a competitive basis. HHAP also includes an overall percentage set aside for transition age youth (TAY) services. The TAY set aside for Rounds 1 and 2 was 8 percent. For Rounds 3-5, the TAY set aside has been 10 percent.

Additional details about the HHAP program can be found here:

https://bcsh.ca.gov/calich/hhap_program.html

CURRENT STATUS: Cal-ICH has already disbursed all of the funding for HHAP Rounds 1 and 2 to the recipients. It has also disbursed the initial HHAP 3 and 4 installments to recipients. The timing for the disbursal of the balance of those funds depends upon the speed in which recipients obligated and expend the initial amounts. The table above displays the window that recipients have to expend these funds fully.

HHAP Round 5 was approved as part of the 2023 Budget Act. As part of their application for their Round 5 allocations, HHAP recipients had to work together to develop regionally coordinated plans for addressing homelessness. These applications and the corresponding plans were due to Cal-ICH in late March 2024. Cal-ICH is now in the process of reviewing these applications. It has 90 days to approve the applications and make initial awards, or initiate an iterative process for ensuring that the recipient's plan complies with HHAP requirements.

Cal-ICH expects to release an annual report with HHAP performance data later in April 2024. Partial performance data from HHAP Rounds 1 and 2 shows that, as of September 2022, the program had served 74,286 individuals, including 17,506 households with dependent children. The same data set indicates that 23,958 of the individuals served were provided with emergency shelter while 13,406 obtained permanent supportive housing. Among the people leaving unsheltered homelessness, 15,125 individuals served by HHAP went on to permanent housing and 15,188 went on to temporary housing. Given the very early timeframe that this data reflects, the forthcoming Cal-ICH report should provide a more current and robust picture of what locals have accomplished with their HHAP allocations.

With regard to the Tribal HHAP program, Cal-ICH has made 35 awards totaling $40 million in funding to date. Cal-ICH reports that California tribal communities have played an extensive role in the implementation of Tribal HHAP.

PRESENT 2024 BUDGET OUTLOOK: The Governor's January 2024 Budget does *not* propose any funding for a sixth round of HHAP. (See Item 6 of this agenda for further detail.)

RECENT STATE AUDIT: On April 9, 2024, the State Auditor's Office released a report on Homelessness Programs in California. With respect to the HHAP program, the State Auditor concluded that it did not have sufficient information with which to evaluate the cost-effectiveness of the program due to limited and inconsistent data collection. The State Auditor's conclusion raises important questions about whether the state is adequately tracking the use and effectiveness of HHAP spending.

At the same time, some context for the State Auditor's conclusions may be warranted. The State Auditor's report is primarily based upon an examination of HHAP Round 1. Each successive round of HHAP has included greater data collection and accountability requirements. This is especially true for HHAP Rounds 3-5. Specifically, data collection and monitoring improvements in HHAP Rounds 3-5 include:

- HHAP recipients must report accountability metrics based on the United States Department of Housing and Urban Development's system performance measures and local homelessness action plans. These include:
    - the number of persons experiencing homelessness;
    - the number of persons who become homeless for the first time;
    - the number of people exiting homelessness into permanent housing;
    - the length of time people remain homeless;
    - the number of people who return to homelessness after exiting homelessness to permanent housing;
    - the number of successful placements from street outreach; and
    - data on how underserved populations and overrepresented populations disproportionately impacted by homelessness fare in relation to the outcomes listed above.

- Local homeless data collection (HMIS) has been integrated into a statewide database (HDIS), allowing Cal-ICH to begin engage in regular system performance monitoring, evaluation, and feedback.

- HHAP recipients must participate in the creation of regionally-coordinated plans for addressing homelessness, which must be memorialized in the form of officially-approved memoranda-of-understanding between the parties.

In regard to these changes, the State Auditor acknowledged that:

> The Legislature made significant changes to the program that began with Round 3, requiring that applicants establish measureable outcome goals, such as reducing the number of people experiencing homelessness and reducing the length of time that people remain homeless. To the extent CoCs establish meaningful outcome goals, the goals should provide better benchmarks against which the State can measure spending and evaluate cost-effectiveness.

Though these data collection and accountability mechanisms are now in place, HHAP recipients are still in the process of obligating and expending their HHAP funding. As a result, though HHAP data collection systems and requirements have gotten stronger, some lag remains between the implementation of these improvements and the availability of more detailed outcome data.

KEY QUESTIONS:

- Understanding that a report on HHAP is forthcoming, what performance data updates can you share at this time?

- Does the HHAP Round 5 requirement for recipients to develop and memorialize a regionally coordinated plan appear to be achieving the intended result of ensuring more effective and efficient collaboration?

- The State Auditor's recent report on Homelessness Programs in California concluded that it had insufficient information from which to determine whether HHAP is cost-effective. In relation to that finding:
    - Do you agree with the State Auditor's assessment?
    - Why is there still relatively little outcome data available for HHAP?
    - What steps is Cal-ICH taking to ensure data collection and monitoring improvements in the HHAP program?
    - When can the Legislature anticipate seeing significant improvements in this regard?

- The State Auditor's report also found some inaccuracies in the data that HHAP recipients did report. What steps is Cal-ICH taking to ensure that these sorts of inaccuracies cannot recur?

- The State Auditor's report on use of homelessness funding in San Diego and San Jose found that permanent housing solutions are more effective at addressing homelessness than interim housing solutions. Should the Legislature do more to require or encourage the use of HHAP dollars to build permanent affordable housing?

Encampment Resolution Fund:

DESCRIPTION: ERF provides grant funding to local entities on a competitive basis for the purpose of addressing specific homeless encampment sites within their jurisdictions. As part of the process of removing the targeted encampments, ERF grant recipients are supposed to transition encampment residents to alternative housing. The third round of ERF grants focus on addressing encampments located in state right-of-ways and includes a requirement for the applicant to collaborate with the California Department of Transportation.

As set forth in the following table, there have been three rounds of ERF grants to date. Because each round has been oversubscribed, Rounds 2 and 3 began with "lookback" awards that picked up qualifying applications from the previous round. Such "lookback" awards are indicated by an "L" below.

ERF Round	Amount Awarded	Number of Awards	Disbursal to Deadline for Expenditure Window
1	$48 million	19	Spring 2022 - June 30,2024
2L	$48 million	8	Spring 2023 - June 30, 2025
2	$199 million	30	Winter 2022/Spring 2023 - June 30, 2026
3L	$81 million	12	Fall 2023 - June 30, 2026
3	$299 million	Not yet known	Spring/Summer 2024 – June 30, 2027

Additional details about each round of ERF and the individual grants awarded can be found here:

https://bcsh.ca.gov/calich/erf_program.html

CURRENT STATUS: ERF Rounds 1 through 3L have already been awarded and the corresponding local work is underway. As indicated in the table above, even ERF Round 1 recipients have until June 30, 2024 to full expend their awards.

Cal-ICH released its request for applications for ERF Round 3 in November 2023 and will continue accept applications through June 30 2024. It will continue to make awards on a rolling basis through that time.

The most currently available ERF outcome data, reflected in the table below, is from September 2023. It is important to note that this data was reported while much of the ERF grant work was relatively nascent. At that time, ERF recipients reported the following:

ERF Round	Number of Encampments Designated for Resolution	People Served	People Still in the Encampments	Encampments "Resolved"
1	20	2948	970	3
2	37	965	484	3
3	Not yet awarded	Not yet awarded	Not yet awarded	Not yet awarded

PRESENT 2024 BUDGET OUTLOOK: The Governor's January 2024 Budget does not propose any cuts to the ERF program.

RECENT STATE AUDIT: On April 9, 2024, the State Auditor's Office released a report on Homelessness Programs in California. With respect to the ERF program, the State Auditor found that:

> We also could not determine the cost-effectiveness of the ERF program—which transitions people from encampments into safe and stable housing. Cal ICH has not collected complete outcome data for this program, and the expenditure data it has collected may be unreliable that it did not have sufficient information with which to evaluate the cost-effectiveness of the program due to limited and inconsistent data collection.

The State Auditor's conclusion raises important questions about whether the state is adequately tracking the use and effectiveness of ERF spending and whether changes to the program are warranted.

KEY QUESTIONS:

- Is Cal-ICH able to provide an update on the performance of the ERF program?

- What does Cal-ICH mean by "people served" in the ERF context and how does Cal-ICH track this information?

- What does Cal-ICH mean by encampments "resolved" in the ERF context and how does Cal-ICH track this information?

- The State Auditor concluded that there was insufficient data for it to assess whether or not the ERF program is cost effective. With respect to that finding:
    - What steps has Cal-ICH taken to improve data collection related to ERF?
    - When can the Legislature expect to see additional and/or more detailed outcome data for ERF?

- What assurance is there that actions taken under ERF are not just pushing encampments and their residents to other locations, rather than "resolving" them?

Family Homelessness Challenge Grants:

DESCRIPTION: FHCG provides competitive grants and technical assistance to local jurisdictions to "promote rapid innovation, accelerate nascent programs, and expand promising practices to create scalable solutions that can be shared across the state to address and ultimately end family homelessness."

As the following table illustrates, FHCG has consisted of two rounds to date and no further rounds are planned. Only the ten grantees who received FHCG grant Round 1 awards were eligible to apply for FHGC Round 2, but receiving a Round 2 award is contingent upon the awardee's performance in Round 1.

FHCG Round	Amount	Number of Awards	Disbursal to Deadline for Expenditure Window
1	$17 million	10	Summer 2022 - June 30, 2026
2	$15 million	TBD	Spring 2024 – June 30, 2026

Additional information about the FHCG grant program and specific awards made under it can be found here:

https://bcsh.ca.gov/calich/fhc_program.html

CURRENT STATUS:

Cal-ICH issued a request for applications for FHGC Round 2 in December 2023 and accepted applications until late February 2024. It is currently reviewing and scoring those applications. It will announce the FHGC Round 2 recipients on April 29, 2024.

PRESENT 2024 BUDGET OUTLOOK: The Governor's January 2024 Budget did not propose any cuts or other changes to the FHCG program.

RECENT STATE AUDIT: The April 9, 2024 report on Homelessness Programs in California did not specifically examine the FHCG program.

KEY QUESTIONS:

- How does Cal-ICH track FHCG outcomes and what data is currently available?
- What indicators can the Legislature look to in order to understand whether this program has been effective or not?
- How will Cal-ICH determine to which of the FHCG Round 1 recipients it will give FHCG Round 2 grants?

Staff Recommendation. Information only.

Issue 3: Transition of Homelessness-Related Grant Administration from the California Interagency Council on Homelessness to the Housing and Community Development Department and Related Staffing Increase Request

Governor's Budget Proposal. Through a budget change proposal and a related budget trailer bill, the Administration proposes to complete the statutorily-mandated transition of homelessness-related grants management from the California Interagency Council on Homelessness (Cal-ICH) to the Department of Housing and Community Development (HCD) by July 1, 2024. Specifically, the budget change proposal requests new position authority for 4.0 positions in 2024-25 and ongoing for HCD to subsume and administer the Homeless Housing, Assistance and Prevention (HHAP) program. Cal-ICH will also transfer to HCD 22.0 existing positions that currently support operation of HHAP, the Encampment Resolution Fund, and the Family Homelessness Challenge Grant program. The corresponding budget trailer bill proposal provides technical updates to the relevant statues.

Background. Cal-ICH was created in order to establish a central hub connecting and coordinating the activities of programs addressing homelessness throughout state government. As originally envisioned, Cal-ICH's role was also something akin to a specialized think-tank; it was supposed to gather data, conduct research, and provide an overarching strategic vision for the state's homelessness efforts. (SB 1380, Mitchell, Ch. 847, Stats. 2016.)

Not long after the establishment of Cal-ICH, the state also tasked it with the administration of three major homelessness grant programs: the Homeless Housing Assistance and Prevention (HHAP) program; the Encampment Resolution Fund (ERF); and the Family Homelessness Challenge Grants (FHCG). (See Item 2 of this agenda for details on each of these programs.) Institutionally, however, Cal-ICH had limited experience managing grants. Moreover, managing the homelessness grants pulled Cal-ICH away from its central mission of coordinating policy between government sectors. With these considerations in mind, the 2023 Budget Act directed Cal-ICH to begin the process of transferring administration of HHAP, ERF, and FHCG to HCD. (AB 129, Ting, Ch. 40, Stats. 2023.) By contrast with Cal-ICH, HCD has decades of experience managing grant programs. Moreover, transferring grant management duties to HCD was intended to free up Cal-ICH to focus on its core aptitudes. The transfer is scheduled to be complete by the end of this fiscal year, June 30, 2024.

According to the Administration, there are two staffing adjustments necessary to carry out this transition. The first involves the transfer of 22 existing position from Cal-ICH to HCD. This is the core Cal-ICH staff that has operated the HHAP, ERF, and FHCG grant programs and will continue to do so at HCD. The second adjustment is the subject of this Budget Change Proposal: the addition of four more staff to help carry out HHAP grant operations. The four additional staff will consist of an additional Staff Services Manager and three HCD Representatives. According to HCD, this staffing augmentation will enable the Department to "ensure an effective transition of the HHAP Program, timely delivery of future allocations, and responsive technical assistance to grantees […] to support local implementation, compliance, and risk mitigation."

Finally, transition of the programs requires some statutory clean up. These statutory fixes are provided by an accompanying budget trailer bill proposal. The proposed budget trailer bill language also corrects outdated references to HHAP "bonus" awards and would, if adopted as currently written, reflect the Governor's proposal to delay disbursement of $260 million in supplemental HHAP funding until fiscal year 2025-26.

Staff Comments: The additional position authority requested by this budget change proposal does not come with a corresponding request for increased funding. This is because the positions would be paid for as part of the existing administrative cost set-asides already included within each program. Of course, even if existing budgets accounts for the possibility of greater administrative costs, that does not mean they should be increased unnecessarily. Since Cal-ICH was able to administer the grant programs in question with the 22 staff positions that will now be transferred to HCD, the Subcommittee may wish to inquire further about the need for the four additional positions that this Budget Change Proposal requests. Some of the answer may be found in the criticism that Cal-ICH recently received from the State Auditor's Office over an alleged failure to collect and report data on its grant programs consistently enough. To the degree to which greater staffing of the programs could facilitate more regular data collection and reporting, this budget change proposal could be viewed as appropriately responsive to the State Auditor's concerns.

Staff Recommendation. Hold open.

Issue 4: Delays to the Supplemental Homeless Housing Assistance and Prevention (HHAP) Round 5 Funds Disbursement

Governor's Budget Proposal: The Governor's January 2024 Budget and related budget trailer bill language propose to delay the availability for distribution of $260 million in supplemental Homeless Housing Assistance and Prevention (HHAP) funding from 2023-24 to 2025-26. Because the $260 million in question comes from the General Fund, the delay would result in a current year General Fund savings of that amount, and a corresponding increase in General Fund commitments in 2025-26.

Background. As described in greater detail in Item 3 of this agenda, the HHAP program provides flexible funding to large cities, counties, continuums of care, and tribal entities to address homelessness. There have been five rounds of HHAP funding since 2019.

Rounds 3 and 4 of HHAP originally included $360 million in "bonus" funding ($180 million for each round). This bonus money was actually just money taken out of the initial HHAP allocation and held in reserve. Later, when performance data became available, those recipients who achieved specified homelessness reduction and prevention goals would receive a share of the bonus money while recipients who did not hit their targets would not. The idea was to provide a financial incentive for recipients to perform well.

In practice, however, the bonus funding concept proved problematic. For one thing, it encouraged recipients to set low performance goals for themselves in order to ensure that they would qualify for the bonus. Ultimately, the Governor stepped in to demand that recipients set higher targets. For another thing, the bonus system had a perverse impact: it took resources from places with increasing (or more slowly decreasing) need and redirected those resources to places with decreasing need. Finally, by holding money in reserve, the bonus system withheld distribution of some of the resources and services that communities and unhoused individuals needed to address immediate and critical needs.

With these drawbacks in mind, the 2023 Budget Act revised how the $360 million in HHAP Round 3 and 4 bonus money was to be handled. Specifically, the 2023 Budget Act directed Cal-ICH/HCD to distribute $100 million of the Round 3 and 4 bonus money together with the initial HHAP distribution, thus deploying this money more quickly. The 2023 Budget Act then directed Cal-ICH/HCD to disburse the remaining $260 million in HHAP Round 3 and 4 bonus money beginning in 2024-25.

The Governor's January 2024 Budget now proposes to delay the availability of that $260 million for distribution for another year, until 2025-26.

The Administration believes the delay will have limited programmatic impact. In support of this view, the Administration points out that most of the initial HHAP Round 5 distributions will not take place until 2024-25. Round 5 applications were due in late March 2024. Cal-ICH/HCD have up to 90 days to approve them or request additional information. Thus, even those recipients approved right away probably will not receive their initial disbursements of Round 5 funding until close to July 2024, and most will come after that. To be eligible for the second half of their HHAP

Round 5 funding, recipients will have to obligate 75 percent of their initial disbursement and fully spend 50 percent of it. They have until June 30, 2026 to meet those benchmarks. All of this means that recipients will already have half of their HHAP funding available to them during 2024-25 and will be under some time pressure to expend it. Thus, whether the recipients receive their share of the supplemental $260 million in that timeframe or the following year should not have significant programmatic impacts.

The HHAP recipients generally disagree. From their point of view, the homelessness crisis is urgent and any delay in HHAP funding detracts from their ability to address it. Their concern may also be motivated by an understanding that funding delays in this budget risk become funding cuts in future budgets, especially given that current forecasts project that California will continue to face budget deficits for the next few years.

Staff Comments: This proposal involves a delay, not a cut. Accordingly, it should not ultimately impact the amount or quality of service that unhoused Californians receive. If the Administration's assessment of the HHAP funding distribution timeline is correct, the delay would even have relatively little practical impact on when the funding actually gets disbursed. However, the recipients are justified in worrying that any delay in funding distribution leaves that funding at risk of being cut in the future. Any such cut would be especially harmful to the State's efforts to address homelessness in light of the absence, currently, of funding for a sixth round of HHAP. Thus, the Subcommittee may wish to consider whether, if it eventually elects to approve this proposed delay, it should seek commitments from the Administration regarding a sixth round of HHAP and/or some assurance that the Administration will not seek to cut the $260 million in question in future budgets.

Staff Recommendation. Hold open.

Issue 5: Reversion of Homeless Housing Assistance and Prevention (HHAP) Administrative Savings

Governor's Budget Proposal. The Governor's January 2024 Budget proposes to revert $100.6 million in administrative savings from the Homeless Housing Assistance and Prevention (HHAP) program back to the General Fund.

Background. Each allocation of funding to the HHAP program has included a set-aside for state administration of the program. Until recently, the California Interagency Council on Homelessness (Cal-ICH) has undertaken this administration. As detailed further in Item 3 of this agenda, the 2023 Budget Act initiated a year long process of transferring administration of the HHAP program to the Housing and Community Development Department (HCD).

In many instances, Cal-ICH has not utilized the full amount of its administrative set-aside to operate the program. In order to help address the deficit, the Governor's budget proposal pools these remaining administrative balances and redirects the total of $100.6 million back to the General Fund.

According to commentary accompanying the Governor's January 2024 Budget Proposal, Cal-ICH and HCD would still have $51.1 million for HHAP program administration even after reversion of these administrative savings. The Administration states that $51.1 million "matches the resources required to administer HHAP."

Staff Comments: The Senate's original Early Action plan included adoption of this proposed reversion but it was removed from the final Early Action agreement.

Because this proposal involves capturing administrative savings, adopting it should not result in decreased funding to locals nor any decrease in services to unhoused individuals. However, the Subcommittee may wish to consider whether these savings should be redirected toward funding a sixth round of HHAP, which would result in greater services for the unhoused, as opposed to directing these savings toward balancing the budget, which would not.

Staff Recommendation. Hold open.

Issue 6: Homeless Housing Assistance and Prevention (HHAP) Round 6 Funding

Potential Legislative Proposal: Provide funding of up to $1 billion in General Fund for a sixth round of the Homeless Housing Assistance and Prevention (HHAP) program.

Background. As detailed further in Item 2 of this agenda, there have been five rounds of HHAP funding providing a total of just under $4 billion to large cities, counties, continuums of care, and tribal entities to support regional efforts to address homelessness. Each of these HHAP Rounds was funded on a one-time basis, leaving no guarantee that this funding would be available in future years.

Nonetheless, the 2023 Budget included a statement from the Legislature expressing its intent to fund a sixth round of HHAP.

The Governor's January 2024 Budget Proposal does *not* include any funding for a sixth round of HHAP. However, in commentary accompanying that proposal the Administration indicated that:

> As part of the spring budget process, the Administration will commit to working closely with the Legislature on additional funding to support local governments' response to the homeless crisis—assuming local governments deliver on the performance commitments made under HHAP 3 and HHAP 4, and on the regional planning and coordination requirements of HHAP 5.

Staff Comments: In light of the statement above, the Subcommittee may wish to inquire of the Administration whether or not it considers that its prerequisites for initiating a conversation about a sixth round of HHAP funding have been met. Relatedly, the Subcommittee may want to ask whether the Administration sees any other obstacles to funding a HHAP Round 6, apart from the overall budget problem.

Though appreciative of the resources that HHAP has provided to date, local governments and homelessness service providers have been frustrated by the one-off character of the program. They point out that, in the absence of an ongoing commitment to the program, they cannot count on these resources beyond the short-term. Among other challenges, this dynamic complicates longer-range planning, discourages strategies that require investment over time, and makes it difficult to hire and retain staff.

Staff Recommendation. Information only.

Issue 7: Homeless Housing Assistance and Prevention (HHAP) Program – Recipient Perspectives

Background: As previously described, HHAP currently funds four categories of recipients: (1) large cities; (2) counties; (3) continuums of care; and (4) tribal entities. The purpose of this panel to hear from representatives of each type of recipient regarding what outcomes they have been able to achieve using HHAP resources, where there have been shortcomings, and how the Governor's proposed budget, including the absence of funding for a sixth Round of HHAP, would impact their ability to address homelessness going forward.

Witnesses: The panel consists of witnesses invited to represent the perspective of each category of HHAP recipient.

- **Large City Perspective:**
  - **Darrell Steinberg, Mayor, City of Sacramento**

- **County Perspective:**
  - **Graham Knaus, Chief Executive Officer, California State Association of Counties Representative**

- **Continuum of Care Perspective:**
  - **Tamera Kohler, Chief Executive Officer, Regional Task Force on Homelessness**

- **Tribal Perspective:**
  - **Annalee Trujillo, Director, Pala Band of Mission Indians/Pala Housing Resource Center**

Staff Recommendation. Information only

Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, April 25, 2024
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultants: Elisa Wynne & Timothy Griffiths

ITEMS FOR DISCUSSION
(All items are information only.)

ITEM 1 The Transformative Potential of Lithium Extraction for the Salton Sea and Imperial Valley: The Promise, The Vision, and Where We Stand Today

- *Dr. Michael McKibben, Professor, University of California, Riverside*
- *Silvia Paz, Chair, Lithium Valley Commission*
- *Noemí Gallardo, Commissioner, California Energy Commission*

ITEM 2 Investing in the Vision: Economic Support of the Lithium Extraction Industry and Surrounding Communities

- *Erik Stokes, Chief of Staff to Commissioner Gallardo, California Energy Commission*
- *Tyson Eckerle, Senior Advisor for Clean Infrastructure and Mobility, Governor's Office of Business and Economic Development*

ITEM 3 ***The Path Forward: Challenges and Opportunities***

- *John Gay, Director, Imperial County Department of Public Works*
- *Sylvia Priscilla Lopez, Director, Imperial County Workforce and Economic Development Department*
- *Genti Droboniku, Research Manager, California Department of Tax and Fee Administration*

Public Comment.

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.

Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, May 2, 2024
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultants: Elisa Wynne, Timothy Griffiths & Diego Emilio J. Lopez

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

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ITEMS FOR VOTE ONLY

0845 DEPARTMENT OF INSURANCE

Issue 1: eDiscovery Software

Request. The Governor's budget is requesting $400,000 General Fund ongoing beginning in 2024-25, for the Department of Insurance, to support costs associated with its eDiscovery Software as a Service (SaaS) subscription.

Background. In the 2021-22 budget, the California Department of Insurance (CDI) received a triannual appropriation of $640,000 to support eDiscovery SaaS, starting in 2023-24 and reoccurring every three years thereafter to support the renewal of the subscription. The solution significantly cuts CDI attorney time on data processing, allowing more time for independent investigations into large-scale fraud and lead roles in joint prosecutions.

CDI recently conducted an eDiscovery SaaS renewal procurement for the Legal Branch – Fraud Liaison Bureau (FLB). Unfortunately, the renewal had to be cancelled, primarily due to the appropriation amount not being sufficient to secure the necessary contract. After consulting with the manufacturer of the software, CDI determined that the required services would cost $400,000 per year, resulting in a funding shortfall starting in 2024-25 if additional funds aren't provided.

CDI is seeking a restructuring/increase of $400,000 ongoing to avoid service disruptions critical to Qui-Tam case litigation. The augmentation is supported by resources received as a result of the commonly referred to "whistle-blower law," California Insurance Code (CIC) section 1871.7 which is part of the Insurance Frauds Prevention Act (IFPA) (Chapter 12, Article 1, Section 1871 et seq.). Enacted in 1992, CIC Section 1871.7 allows a whistleblower to file a civil lawsuit in the name of the State against any individuals or companies that are alleged to be involved in the submission of false or fraudulent claims to an insurer. These civil actions are also called "Qui Tam" actions.

Under the IFPA, the Commissioner is authorized to use CDI attorneys to handle this civil litigation. CIC Section 1871.7 incentives the Commissioner to intervene in meritorious cases by allowing CDI to recover (1) assessments and fees (the State is entitled to 60-70 percent of the proceeds and the remainder goes to the whistleblower) and (2) the recovery of attorneys' fees and costs. If assessments and fees are awarded, CIC Section 1871.7 (g)(1)(A)(iv) mandates the funds be paid to the GF and provides for the Legislature to appropriate these funds to the CDI for enhanced fraud investigation and prevention efforts.

Staff Recommendation. Approve as budgeted.

Issue 2: Fraud – Worker's Compensation Program

Request. The Governor's budget, for CDI, is requesting an increase in expenditure authority of $2,561,000 for Local Assistance in 2024-25 and ongoing to fund its workers' compensation fraud investigation and prosecution efforts.

Background. The Governor-Appointed Fraud Assessment Commission (FAC) meets annually to determine the level of funding necessary to support CDI's State Operations and California District Attorneys (DA) in their investigation and prosecution of workers' compensation insurance fraud. On September 13, 2023, the FAC voted to approve a 5 percent increase to the assessment for 2024-25, equivalent to $2,561,000 for the DAs.

These efforts are funded through the Workers' Compensation Fraud Program (WCFP) which was established by SB 1218 (Chapter 116, Statutes of 1991) pursuant to California Insurance Code (CIC) Section 1872.83. The funding for the WCFP is collected from insured or self-insured California employers.

Staff Recommendation. Approve as budgeted.

0850 State Lottery Commission

Issue 3: Trailer Bill – Remove Department of Juvenile Justice from Lottery Statute

Request. The Governor's budget requests trailer bill language to remove references to the Department of Juvenile Justice from the statute governing disbursements from the California State Lottery Education Fund.

Background. In 1984, Proposition 37 amended the California Constitution to authorize the establishment of a statewide lottery. As an initiative statute, the California State Lottery Act (Act) of 1984 created the California State Lottery Commission and gave it broad powers to oversee the operations of a statewide lottery. The purpose of the Act was to provide supplemental monies to benefit public education. The Lottery is overseen by a five-person Commission appointed by the Governor and confirmed by the State Senate.

The Act initially required that 50 percent of total annual revenues be returned to the public in the form of prizes and at least 34 percent of total revenues be allocated to the benefit of public education. No more than 16 percent of total revenues were to be used for administrative costs.

In 2010, the Act was changed to allow the Lottery flexibility to pay out more money in prizes and reduce the administrative cost limit to 13 percent of total revenues. Along with that flexibility, the new law requires the Lottery to meet minimum levels of contribution to public education. Revenues to education are placed in a special fund, known as the California State Lottery Education Fund, which holds revenues until they are allocated on a per capita basis, using prior year certified Average Daily Attendance data, to the following categories: K-12 education, Community Colleges, the California State University, the University of California, and other educational entities, including the California Schools for the Deaf and Blind.

In the 38 years since sales began in October 1985 through June 30, 2023, the California State Lottery has raised $43.8 billion for public education, including approximately $2.2 billion in 2022-23.

The Department of Juvenile Justice (DJJ) ceased operations on June 30, 2023. According to the Administration, because of this, each remaining recipient's share is recalculated as part of the new total Average Daily Attendance amount.

Staff Recommendation. Approve as budgeted.

0890 SECRETARY OF STATE

Issue 4: Help America Vote Act - VoteCal

Request. The Governor's budget requests, for SOS, $11.3 million Federal Trust Fund authority in 2024-25 to cover the maintenance and operations vendor, data analysis consultant, Election Management Systems support and verification, data lines, and off-premises cloud costs for the VoteCal statewide voter registration system.

Background. The Secretary of State (SOS) is responsible for overseeing the administration of California elections. The statewide voter registration system, VoteCal, supports the registration of voters in California, administered by the SOS. The SOS ensures that state and federal elections laws are fairly and uniformly administered, that every eligible voter can participate in the electoral process, and that the process remains open and free from fraud. California's voter registration program is fundamental to that effort. Maintaining accurate records of all legally registered voters is critical to ensuring the integrity of all elections conducted in this state. To fulfill the purposes of the voter registration program, the state distributes voter registration cards through many channels, including local advocacy groups, other state and local agencies, and provides online access to registration materials.

VoteCal serves as the single system for storing and managing the official list of registered voters in the state. Additionally, HAVA mandates that the voter registration system utilize data that is contained in systems at the DMV, the California Department of Public Health (CDPH), and the California Department of Corrections and Rehabilitation (CDCR) for voter identification or verification and list maintenance purposes. The VoteCal system also interfaces with the Employment Development Department (EDD) to validate and correct address information against the U.S. Postal Service's National Change of Address system as required by state and federal law.

To ensure the ongoing success of California's statewide voter registration database, the SOS requests $11.3 million in one-time spending authority from the Federal Trust Fund to support the VoteCal maintenance and operations (M&O) vendor; data analysis consultant, security assessment, and Election Management System (EMS) support and verification contracts to analyze and support the VoteCal system for vulnerabilities and performance enhancements; increased connectivity costs with counties; and the maintenance of the VoteCal system on a California Department of Technology off-premise cloud environment.

Staff Recommendation. Approve as budgeted.

Issue 5: Help America Vote Act Spending Plan

Request. The Governor's budget requests, for SOS, one-time Federal Trust Fund expenditure authority in the amount of $15.01 million in 2024-25 to continue implementation of the statewide mandates of the Help America Vote Act of 2002.

Background. The requirements of HAVA include statewide modernization or replacement of voting equipment, education and training programs for election officials and poll workers, development, and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, and a statewide voter registration database.

On October 29, 2002, the President signed into law the Help America Vote Act of 2002 (P.L. 107-252) (HAVA). To date, California has received $476.6 million in federal funds to implement these mandates. Currently, including interest earned, total funds received equal $529.6 million. This amount includes the most recent appropriations in the Consolidated Appropriations Act of 2022 which was granted to the SOS in the amount of $5.827 million and the Consolidated Appropriations Act of 2023 which was granted to the SOS in the amount of $5.827 million.

The Administration requests one-time Federal Trust Fund expenditure authority in the amount of $15.01 million to continue implementation of the statewide mandates of the Help America Vote Act of 2002 (HAVA) (P.L. 107-252). The funding will support voter education and training programs for election officials and poll workers, development, and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, county assistance for improving voting systems, ensuring election assistance for individuals with disabilities, election auditing, and improving the secure administration of elections.

HAVA requires states and localities to meet uniform and nondiscriminatory election technology and administration requirements applicable to federal elections. Per the HAVA Spending Plan, expenditure authority (including re-authorization of funds not used in previous fiscal years) is requested in 2024-25 for the following activities:

HAVA Spending Plan for 2024-25

Activity	Amount	HAVA Citation
HAVA Activities		
Voting System Testing & Approval – Support	$ 700,000	HAVA Required – Section 301
Voter Education – Support	$ 500,000	HAVA Required – Section 302
Administration – Support	$ 1,509,000	HAVA Allowable – Sections 101, 251
Performance Measures – Support	$ 200,000	HAVA Allowable – Section 254
Ballot Tracking System	$ 1,100,000	HAVA Allowable – Sections 101, 251
Local Assistance - Support	$11,000,000	HAVA Allowable – Sections 101, 251
HAVA Activities Total	**$15,009,000**	

Staff Recommendation. Approve as budgeted.

1111 DEPARTMENT OF CONSUMER AFFAIRS

Issue 6: Business Modernization Cohort 2

Request. The Governor's budget requests, for DCA, an increase in expenditure authority of $3.0 million, from various special funds, in 2024-25 to continue implementation and support of Business Modernization Cohort 2.

Background. The DCA Business Modernization Cohort 2 (BMC 2) project received one-time funding of $3.5 million in 2023-24 and the Department is requesting an increase in expenditure authority of $3 million in 2024-25 to continue its project implementation for an additional year.
BMC 2 programs provide professional licensure and regulatory oversight to their respective professions. The Department and its 36 boards and bureaus fill an important role in state government protecting Californians by making sure licensees adhere to established professional standards and educational requirements. BMC 2 addresses business and technology needs that will increase efficiency and accuracy of work activities for five programs that currently rely on legacy technology solutions.

The Department, including the programs in this request, have historically been required to use multiple outdated and inadequate information technology (IT) systems to meet statutory requirements and respective business needs. However, because the IT systems are antiquated and disjointed, excessive turnaround times for licensing and enforcement activities have impeded these programs from meeting their goals and objectives. The systems these programs used also lack an intuitive online public-facing portal that licensees and consumers can use to submit complaints, applications, and license renewals.

By upgrading current systems to allow for a more substantial online presence, the Department, and some of its boards and bureaus, are integrating functionality to allow applicants and licensees to pay fees using credit card payments. A few BMC 2 programs are funding credit card processing fees on behalf of users of credit card payments. These programs believe that by funding these fees more individuals will utilize the online transactions, which eliminates error, creates efficiencies, and expedites the processes.

Staff Recommendation. Approve as budgeted.

Issue 7: Osteopathic Medical Board - Attorney General

Request. The Governor's budget requests, for the Osteopathic Medical Board, an increase in expenditure authority of $347,000 Osteopathic Medical Board of California Contingent Fund in 2024-25 and ongoing to address increased costs for Attorney General services.

Background. According to the Administration, over the last five fiscal years, the Osteopathic Medical Board's (Board) enforcement workload has significantly increased due to the population of licensed osteopathic physicians and surgeons substantially increasing. The significant population growth generated more complaints and ultimately more cases referred to the Attorney General's (AG) office. Similar to the growth in the Board's licensee population, the Board's AG cases have increased from 25 cases to 53 cases in the same time span, which is a 112 percent increase in enforcement cases referred to the AG. The Board is requesting an increase in expenditure authority for AG services to keep up with its growing AG caseload.

The Board notes the following:

- Since 2005, the number of osteopathic colleges in the United States have increased from 23 to 38, which creates additional opportunities for individuals to enter the profession.
- Since 2016, the population of licensed osteopathic physicians and surgeons in California increased from 7,440 to 13,509, which is an 82 percent increase.

According to the American Osteopathic Association, osteopathic physicians and surgeons are one of the fastest growing segments of health care professionals. Nationally, the osteopathic medical profession has grown 300 percent over the past three decades and 63 percent in the past decade. In addition to the Board's growing AG caseload, in 2019-20, the AG raised its hourly rates for its services, which contributed to the significant cost increase to the Board's AG expenditures as illustrated below.

Workload History

AG Workload/Costs	2018-19	2019-20	2020-21	2021-22	2022-23[1]
AG Hours	1,304	1,512	2,172	2,692	2,904
AG Cases (Referred)	25	28	26	35	53
AG Expenditures	$213,411	$317,379	$474,548	$585,584	$633,190
Appropriation	$324,000	$324,000	$394,000	$394,000	$394,000
Surplus/Deficit	$110,589	$6,621	-$80,548	-$191,584	-$239,190
Cost Percentage Increase	7%	49%	50%	23%	8%

[1]Based on an average of actual Attorney General costs through Fiscal Month 11.

Source: Department of Finance

The requested resources are intended to fully fund enforcement-related costs to adjudicate cases where violations of the law and regulations have been found.

Staff Recommendation. Approve as budgeted.

Issue 8: Veterinary Medicine – Enforcement

Request. The Governor's budget requests, for the Veterinary Medical Board, an increase in expenditure authority of $807,000 in 2024-25 and $799,000 in 2025-26 for one Staff Services Manager II and four Associate Governmental Program Analysts to address the Board's increasing complaint workload.

Background. The Veterinary Medical Board (Board) is experiencing a significant increase in its complaint and investigative workload that cannot be sustained with existing resources. The Board's intake of complaints has increased by 34 percent since 2018-19 and while the Board added additional staff to address the enforcement workload in 2020-21, complaints continue to increase beyond the Board's ability to process them timely. According to the Administration, the Board lacks a dedicated Deputy Executive Officer (Staff Services Manager II or SSM II) that can provide focused management of the Board's enforcement unit and provide timely direction and decisions on enforcement actions in the Executive Officer's absence.

Workload History

Workload Measure	2018-19	2019-20	2020-21	2021-22	2022-23
Complaints Received	1,338	1,308	1,645	1,705	1,797
Complaints Referred for Investigation	1,311	1,330	1,626	1,632	1,717
Investigations Completed	516	621	560	1,297	1,976
Pending Investigations	1,779	2,418	3,545	3,885	3,706

Source: Department of Finance

Currently, the Board has 33.7 authorized positions across three programs: 1) Administration Services; 2) Licensing/Examinations; and 3) Enforcement/Probation to make certain the veterinary profession is properly and safely regulated in the state. The Executive Officer (EO) is the sole person responsible for overseeing all day-to-day operations of the board, including the Board's licensing, examination, administrative, and enforcement activities. In addition, the EO is responsible for all administrative duties related to managing four SSM I's. The Board does not currently have personnel with the appropriate authority to act on behalf of the EO position. This creates delays and potential decrease in productivity.

This proposal requests two-year limited-term funding to support one SSM II and four AGPA positions that the Board administratively established. This allows the Board to reevaluate its ongoing resource needs as more workload data becomes available.

Staff Recommendation. Approve as budgeted.

1701 Department of Financial Protection & Innovation

Issue 9: Broker Dealer Investment Advisor Workload

Request. The Governor's budget requests two positions and an increase in expenditure authority of $456,000 Financial Protection Fund in 2024-25 and $432,000 in 2025-26, for DFPI, for the review of continuing education requirements related to the Broker-Dealer and Investment Advisor Program.

Background. Pursuant to the Corporate Securities Law of 1968, the Broker-Dealer and Investment Adviser Program (BDIA or Program) of the Department of Financial Protection and Innovation (Department) is responsible for licensing and regulating broker-dealers (BD), broker-dealer agents (Agents), investment advisers (IA), and investment adviser representatives (IARs). Regulatory oversight, safeguards that the investing public is protected from unethical and fraudulent activities. Resources are required to oversee the implementation and monitoring of the new annual Investment Adviser Representative continuing education requirements, which are in the rulemaking process.

The North American Securities Administrators Association (NASAA) has approved a model rule on investment adviser representative continuing education requirements for adoption by state regulators. There are currently no continuing education requirements for IARs in California statute. Current state regulations require all IARs that conduct advisory business with California residents to be registered. IARs are tested for knowledge and must meet qualification requirements before they are registered, but there is no mechanism to verify that their level of knowledge and competence is maintained or expanded. By comparison, most other financial professionals are subject to continuing education requirements including broker-dealer agents, insurance agents, certified financial planners, and real estate agents. Currently, the NASAA model rule has been adopted by thirteen state securities regulators and many others have rulemaking in progress.

The model rule establishes an annual continuing education requirement of six credits of IAR Ethics and Professional Responsibility content and six credits of IAR Products and Practices content from authorized/approved content providers. Beginning January 1, 2023, the Financial Industry Regulatory Authority's (FINRA) current continuing education compliance period for registered representatives is an annual requirement instead of the previous two-year requirement. Individuals registered as broker-dealer agents in California are subject to FINRA's annual continuing education requirements. California has sole regulatory authority over IAs and IARs.

California is adopting the NASAA model rule. Rulemaking is in process and the Department anticipates the final rule will be adopted around mid-2024. California's proposed regulation includes protecting consumers who use investment advisers to manage their funds by verifying that IARs remain competent and knowledgeable about current industry regulations, developments, and best practices when handling their clients' life savings. The proposed regulations will verify that IARs are receiving continuous education on the ethical issues related to investment advising.

The Administration is requesting one Senior Financial Institutions Examiner (SFIE) and one Financial Institutions Examiner (FIE) to oversee the implementation and monitoring of the new annual Investment Adviser Representative continuing education requirements. Limited term resources will allow the Department to reevaluate its ongoing resource needs based on workload actuals. The table below is the Department's estimate of projected outcomes after rulemaking.

Table 3: BDIA IAR CE Projected Outcomes

Workload Measure	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Number of Investment Adviser Representatives	57,740	58,606	59,485	60,377	61,282	62,201
Number of reviews with 75% compliance	43,305	43,955	44,614	45,283	45,962	46,651
Number of reviews with 25% non-compliance	14,435	14,651	14,871	15,094	15,321	15,550

Staff Recommendation. Approve as budgeted.

8260 ARTS COUNCIL

Issue 10: Trailer Bill – Teen Poet Laureate

Request. The Governor's budget requests technical trailer bill language to rename the California Youth Poet Laureate to the California Teen Poet Laureate and additional conforming changes.

Background. Existing statute establishes the position the California Youth Poet Laureate, who is appointed by the Governor from a list of three nominees 13 to 19 years of age, inclusive, provided by the Arts Council garnered through a prescribed process.

The Administration is requesting technical changes to rename references to "Youth Poet Laureate" in statute due to copyright issues.

Staff Recommendation. Approve as budgeted.

8620 FAIR POLITICAL PRACTICES COMMISSION

Issue 11: Local Agency Ethics Training System

Request. The Governor's budget requests $234,000 General Fund in 2024-25, and $227,000 ongoing and one position, for the Fair Political Practices Commission (FPPC), to continue to support the local agency ethics training.

Background. The FPPC has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974, as amended by the voters and Legislature. The major objectives of the Commission are to:

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

Cities, counties and special districts in California are required by law (AB 1234, Chapter 700, Statutes of 2005) to provide ethics training to their local officials. The law defines "local agency" and "local agency official" for these purposes and includes local agency officials (cities, counties, and special districts in California if the local agency provides monetary payments to the official).

To help local officials meet this essential ethics training requirement, shortly after the enactment of AB1234 in 2005, the Attorney General's Office, the Institute for Local Government, and the FPPC developed an online training course, the "AB 1234 Local Ethics Training" to satisfy the local officials ethics training requirement. Officials can use this course to satisfy their mandatory ethics training requirement on a cost-free basis if no additional training is required by their agency.

The FPPC has been hosting the Ethics Training System (ETS) with no additional resources provided. If an agency develops their own training, it must be done in consultation with the FPPC and the AG's office regarding the sufficiency an accuracy of the proposed course content to meet the requirements. The FPPC provides guidance on training requirements and has implemented Regulation 18371, which contains the local requirements to be included. In 2022, there were 14,249 individuals who used the FPPC free on-line training.

Workload History *(only include workload measures relevant to the request for resources.)*

Workload Measure	PY - 4	PY - 3	PY - 2	PY-1	PY	CY
e.g., Applications Received, Applications Processed, Call Volume, Site Visits, Audits, Stakeholder Meetings, Hearings, etc.	8,550	8,143	8,508	11,528	14,249	11,580 January – July

Source: Department of Finance

According to the Administration, the current ETS cannot meet today's security standards and staff have concerns about allowing the system to continue running as it stands. Additionally, the ETS cannot be updated to accommodate the increase in individuals anticipated to use the course to fulfill new law requirements. To continue providing mandatory ethics training on a cost-free basis for all local agencies, the FPPC concluded that the best solution is to replace the current ETS with a Learning Management System (LMS). The solution is to use a system-built application to achieve a training system that will meet security standards, be easy to use, more efficient to manage administrative tasks, support, and update the content of the training.

A replacement solution to the system would require a migration of the training to an LMS. This would allow for the appropriate infrastructure to support the local ethics training program. This proposal would add one permanent Information Technology Specialist position in the information technology unit to perform all functions necessary to develop and implement the new training platform since the number of users will increase drastically and to maintain the obligations under this new state mandate and annual subscription cost on procuring an LMS.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

0509 GOVERNOR'S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT

Issue 12: New Spending for CalCompetes Grant Program

Proposal: The Governor's January 2024 Budget proposes to allocate $60 million to the Governor's Office of Business and Economic Development (GOBiz) for an additional year of CalCompetes grants. The total allocation would consist of $50 million in new 2024-25 General Fund spending and $10 million left unspent from prior rounds of CalCompete grants.

Background: The CalCompetes program provides financial incentives to California businesses that might otherwise leave the state as well as to out-of-state businesses thinking about relocating here. GO-Biz states that "CalCompetes is the state's largest and strongest tool for attracting new and retaining existing employers in California."

In the first several years after it was established in 2014, CalCompetes offered all of its financial incentives to businesses in the form of non-refundable tax credits. Under the tax credit structure, CalCompetes gives businesses a reduction on their future state income tax bills in exchange for agreements to make certain capital investments and to hire a certain number of employees in California. If the business carries out the agreements, the business can utilize the tax credits to reduce or eliminate their future state tax bills. If the business does not comply with its agreements, the state recaptures the credits and recycles them back into the CalCompetes program.

For some businesses, however, the non-refundable tax credit structure does not work optimally. Newer companies and those still struggling to make money often do not owe enough in taxes to be able to utilize their tax credits before the credits expire. Similarly, businesses that reinvest earnings back into the company can wind up owing less in taxes than their CalCompetes credits are worth.

To address situations like these, the state added a grant-based component to CalCompetes beginning in 2021-22. Under the grant-based programs, CalCompetes provides up-front funding to businesses in exchange for their promise to make investments and to hire in California. Businesses that receive a CalCompetes Grant still have to carry out their investment and hiring agreements, but unlike what happens under the tax credit model, businesses that receive CalCompetes grants get their CalCompetes money even if they end up owing little or nothing in state taxes.

The 2021-22, 2022-23 and 2023-24 Budget Acts all included one-time allocations of $120 million to the CalCompetes Grant program. The 2022 Budget Act also directed GOBiz to prioritize making CalCompetes grant awards to companies in the semiconductor industry in order to capitalize on federal CHIPS Act funding, which requires some form of state-level match. According to the Legislative Analyst's Office (LAO), CalCompetes grants have been the state's "primary tool" in this area the last couple of years, with around one third of California Competes grants across 2022-23 ($30 million) and 2023-24 ($51 million) going to semiconductor companies.

The Governor's January 2024 Budget now proposes to extend the CalCompetes Grant program for another year but, in light of this year's shortfall, the proposal is limited to just $60 million for 2024-25. Of this amount, $50 million would come from new 2024-25 General Fund spending. The remainder is composed of prior year program savings that resulted when a CalCompetes grant applicant withdrew from contention late in the process.

As evidence of the program's overall success to date, CalCompetes reports that:

> In the last three rounds, CalCompetes awarded 23 businesses grants in exchange for their commitments to create over 18,000 new, quality, full-time jobs and make over $6.5 billion of capital investments in California over the next 5 years.

LAO Comments: The LAO recommends rejecting the Governor's proposal or considering alternatives. Although independent academic research showed that the CalCompetes tax credit model can be effective, the LAO characterizes the grant program as comparatively "new" and "unproven." Thus, the LAO concludes that in the current budget environment, further investment in the CalCompetes grant model is "not prudent."

In response to the potential concern that rejecting further expenditures on CalCompetes grants might harm California's ability to draw down federal CHIPS money for semiconductor manufacturing, the LAO suggests that "given the state's current fiscal situation, it makes sense for the state to look to other existing programs to provide incentives to CHIPS Act projects," including options like the CalCompetes tax credits, New Employment tax credits, Research and Development tax credits, and the California Alternative Energy and Advanced Transportation Financing Authority's sales and use tax exclusion program.

Alternatively, the LAO suggests that the Legislature could set up a contingent funding mechanism. Under this concept, GOBiz could provide grants to semiconductor businesses seeking to draw down federal CHIPS funding, but only after demonstrating that the business has sought funding through all other available sources without success.

Staff Recommendation. Hold open.

Issue 13: Potential Savings from Unused CalCompetes Tax Credits

Issue: The CalCompetes Tax Credit program currently receives an annual allocation of $180 million each year through 2027-28. When these tax credits go unused, they are recycled back into the program. This year, due to accumulated underallocation, underutilization, and recapture of prior awards, the CalCompetes Tax Credit program had $492 million available to award to businesses. Reverting some of this amount back to the General Fund could result in budget savings over the next several years.

Background: As explained in the previous agenda item, the CalCompetes program provides financial incentives for business to remain in, or relocate to, California. Under the tax credit program, CalCompetes gives businesses a reduction on their future state income tax bills in exchange for agreements to make certain capital investments and hire a certain number of employees in California. If the business carries out the agreements, the business can utilize the tax credits to reduce or eliminate their state tax bill.

Since 2018, the state budget has allocated $180 million in tax credits to GOBiz for award through the CalCompetes program. The state's current commitment is to maintain that level of funding through 2027-28.

Not all of the $180 million in CalCompetes tax credits gets used each year. CalCompetes tax credits can go unused in at least three different scenarios: underallocation; underutilization, or recapture. Underallocation happens when GOBiz awards fewer tax credits in a given year than were allocated to it in the budget. Underutilization takes place when a business' tax burden is too low for it to make use of all of the CalCompetes tax credits that were awarded to it. Recapture occurs when a business fails to comply with the investment or hiring agreements that were the prerequisites for obtaining the CalCompetes tax credit award.

The CalCompetes tax credit program is currently structured to recycle any underallocated, undertutilized, or recaptured tax credits back into the program. In other words, any CalCompetes tax credits that go unused one year become available for award again the following year.

This year, as the accumulated result of underallocation, underutilization, and recapture, GOBiz announced that the CalCompete Tax Credit program had over $492 million available to award. Of this amount, CalCompetes awarded $33.8 million in November 2023 and around $130 million in late April 2024. The final round of CalCompetes tax credits will be awarded in June 2024. GOBiz forecasts that it will award roughly $150 million in tax credits at that time, leaving a balance of approximately $180 million in unused tax credits.

If no action is taken, this balance will get recycled back into the CalCompetes Tax Credit program for award next year. Alternatively, the unused amounts could be treated, in effect, as savings, thus helping to address the budget shortfall. Such savings could be achieved without making any reduction to the annual expected allocation to the CalCompetes tax credit.

The precise impact of restricting the amount of recycling in the CalCompetes tax credit program is unknown, as it would depend on future tax credit utilization and recapture rates among other things. However, the Legislative Analyst's Office reached the following preliminary estimated impact if, beginning in 2024-25, CalCompetes tax credits were no longer recycled back into the program:

Revenue gain (millions)				
2024-25	2025-26	2026-27	2027-28	Ongoing
$5	$15	$25	$40	$45

Staff Comments: GOBiz points out that the existing recycling effect provides a larger pool of tax credits to award each year, thus enabling it to offer financial incentives to more businesses to relocate to, or stay in, California. $492 million goes a lot further than $180 million.

GOBiz also notes that since the maximum award to any one business is limited to 20 percent of the overall amount available for award, the bigger pool enables GOBiz to dangle larger incentives in front of companies. If the overall pool consisted of the annual allocation alone, the maximum grant would be just $36 million. This year's pool, including unused tax credits from prior years, allows GOBiz to offer individual companies up to the $98.4 million.

While both of GOBiz' points may be valid, the Subcommittee may wish to inquire whether they are consistent with the Legislature's original and ongoing intent for this program. When the Legislature set the annual CalCompetes tax credit allocation at $180 million, for example, it presumably intended the program to operate at approximately that scale each year. Due to the recycling effect, the program could instead dole out 2.7 times that amount this year. Similarly, in setting the maximum tax credit award to any one business at 20 percent of the total amount available for award, the Legislature presumably imagined that would mean 20 percent of roughly $180 million or $36 million. Instead, as previously referenced, the recycling effect means that CalCompetes can actually award up to $98.4 million in tax credits to any individual business this year. The Subcommittee may wish to ask whether a subsidy of that size to any individual business is desirable and consistent with the original design of the program.

Staff Recommendation. Hold open.

Issue 14: Recapitalization of IBank's Infrastructure State Revolving Fund

Proposal: The Governor's January 2024 Budget requests one-time spending of $50 million in 2024-25 General Fund to infuse additional capital into the Infrastructure State Revolving Fund (ISRF) Loan Program at the California Infrastructure and Economic Development Bank (IBank) within the Governor's Office of Business and Economic Development (GOBiz).

Background: The ISRF provides relatively low-interest loan financing to local governments for public infrastructure projects. Some examples of ISRF-financed projects include:

- A $40 million loan to the City of San Diego in 2024 to finance the Miramar Greenery organic waste processing facility that will assist the city in complying with state requirements to divert organic material from landfills.

- A $35 million loan to the City of Fresno in 2019 to finance construction of a parking garage at the Fresno/Yosemite International Airport.

- A $4 million loan to the City of Ukiah in 2017 to finance traffic and pedestrian improvements.

- A $3 million loan to the City of Alameda in 2015 to finance replacement of the former fire station with a new state of the art firehouse and to construct the a stand-alone Emergency Operations Center.

ISRF is able to finance these loans by leveraging a pool of capital provided by the state. Specifically, upon establishing the ISRF in 1999, the state provided an initial investment of $162 million. Since then, the ISRF has repeatedly leveraged that initial capital by selling revenue bonds and then loaning out the proceeds. By maintaining an excellent credit rating, the ISRF can issue these loans at rates that fall below what its borrowers would ordinarily pay on the open market. In this way, the ISRF reports issuing over $1 billion in loans, supporting over 100 projects and creating over 24,000 new jobs since its inception.

There is an outer limit on how far the ISRF can stretch its original capital, however. Without the infusion of further capital, the ISRF will eventually reach a point where it must either stop lending or risk the possibility that the bond markets will begin to view it as over-extended and downgrade its credit-rating accordingly. If the latter happened, the ISRF's increased borrowing costs would force it to charge higher rates to its local government customers.

The ISRF now projects that it has reached or is coming very close to the limit past which it can no longer stretch its original capital. Accordingly, the Governor's January 2024 Budget seeks an additional infusion of $50 million in capital for the ISRF. GOBiz projects that this amount will be sufficient to enable the ISRF to meet loan demands for another two years.

LAO Comments: The Legislative Analyst's Office (LAO) recommends rejecting this proposal. The LAO believes that ISRF could continue normal operations in 2024-25 without the additional infusion of capital, though it concedes that there is a possibility that the terms of ISRF loans might become slightly less favorable to the public agencies that depend on them. The LAO assesses that:

> Without this proposal, IBank currently anticipates having around $60 million in ISRF funds available to loan to public agencies in 2024-25. ISRF loans have exceeded $60 million multiple times in recent years ($95 million in 2018-19 and $86 million in 2022-23), which points to a need for additional cash, perhaps around $50 million, should they wish to avoid turning away eligible borrowers in 2024-25. Traditionally, IBank would meet this need by selling revenue bonds. IBank, however, has expressed reservations about selling revenues bonds at this time. They are concerned that their low cash on hand will prevent them for receiving the lowest possible borrowing costs on their bonds and, therefore, have requested $50 million General Fund to boost their cash on hand and ensure favorable borrowing terms. The extent to which IBank's concerns about selling revenue bonds are well founded is unclear to us. Regardless, taking the concerns as given, the primary consequence of selling revenue bonds without an additional $50 million General Fund cash cushion likely would be modestly higher borrowing costs. This, in turn, would result in slightly less favorable terms on ISRF loans to public agencies. In light of the state's fiscal situation, we do not view this consequence as significant enough to warrant a General Fund allocation in 2024-25.

Staff Comments: Measured against many other pressing demands for basic health, housing, and human services needs, it is difficult to prioritize a more indirectly beneficial budget item like recapitalization of a low-interest public infrastructure loan program. Yet, since each dollar of capital given to the ISRF effectively results in six times that amount in loans that back public infrastructure investments, this proposal extends the public purse in important and valuable ways. Moreover, the community benefit extends beyond the resulting public infrastructure improvements themselves; the projects create jobs and open up new economic opportunities.

In addition, while it is tempting to put off recapitalizing the ISRF in light of the current budget shortfall, the ISRF will eventually need a further infusion of capital in order to keep lending even if it can skate by this year by further leveraging its existing resources. Given that current projections forecast deficits in the next several years, postponing recapitalization of the ISRF now may simply be an exercise in delaying the inevitable. If that is the case, then the wait may not be worth the risk to ISRF's strong credit rating and the resulting low interest rates it is able to offer to its borrowers.

With all of these considerations in mind, the Subcommittee may wish to inquire:

- How does GOBiz respond to the LAO's suggestion that the ISRF could probably continue normal operations without this recapitalization proposal? Does GOBiz agree with the LAO's assessment that the primary risk is "slightly less favorable terms on ISRF loans to public agencies?"

- To what degree will public agencies be able to migrate to alternative sources of financing in the event that ISRF were to reduce its lending and/or charge higher rates?

- If the ISRF were forced to raise its rates, would the result be slightly higher costs for local agencies, or would they simply be unable to undertake the projects at all?

Staff Recommendation. Hold open.

Issue 15: Partial Delay of Downtown Fresno Infrastructure Funding

Proposal: The Governor's January 2024 Budget maintains $250 million in General Fund for the City of Fresno's Public Infrastructure plan, but it proposes to delay disbursement of $100 million of that amount by one year.

Background: The City of Fresno's Public Infrastructure Plan calls for investment in a high speed rail station, parking, green space, walkability, and water projects in the downtown area. Among other things, this infrastructure the City of Fresno expects these improvements to facilitate significant new residential housing development.

The 2023 Budget Act included an allocation of $250 million in General Fund to support implementation of this Plan, distributed according to the following schedule: $50 million in 202-24; $100 million in 2024-25; and $100 million in 2025-26.

The Governor's January 2024 Budget maintains the $50 million in 2023-24 spending as well as the overall total. In order to achieve 2024-25 General Fund savings, however, the Governor's proposal would push back the distribution schedule by one year, so that $100 million would be disbursed in 2025-26 and the final $100 million would go out in 2026-27.

Staff Comments: In light of the spending reductions proposed for other housing and related infrastructure programs, such as the Regional Early Action Planning (REAP 2.0) and Infill Infrastructure Grants (IIG), the Subcommittee may wish to inquire why only a delay, but no reductions, are proposed for the City of Fresno downtown project. At the same time, the Subcommittee may want to ask how the proposed delays will impact the project.

Staff Recommendation. Hold open.

0890 SECRETARY OF STATE

Issue 16: CAL-ACCESS Replacement System (CARS) Project

Request. The Governor's budget requests, for the Secretary of State (SOS), $16.8 million General Fund in 2024-25 to support the CARS Project and replace the outdated CAL-ACCESS system for electronic reporting of campaign finance and lobbying activities mandated by the Political Reform Act.

Background. The SOS requests continued funding for 33 prior approved positions to support both the second fiscal year of CARS Project planning activities and the Political Reform Division's backfill staff recruited to support ongoing program activities. The objective of the CARS Project is to replace the outdated CAL-ACCESS for electronic reporting of campaign finance and lobbying activities mandated by the Political Reform Act (SB 84 and SB 1349).

More specifically, continued funding is requested for 21 positions approved in 2022-23 (11 CARS Project staff and 10 non-project positions to backfill PRD program staff), and 12 CARS Project positions previously approved as ongoing in 2021-22. SOS estimates total costs of $22.2 million for 2024-25 to support the CARS Project—$5.4 million of which has been authorized by previously appropriated ongoing funding and an additional $16.8 million General Fund is needed to cover the remaining cost.

CAL-ACCESS is the state's current campaign and lobbying information system where candidates, political committees, and lobbyists file detailed financial disclosures. The SOS proposes to improve service to the public by replacing CAL-ACCESS with a modern and flexible architecture. The current mission critical system is a conglomeration of component applications developed at different times using multiple coding languages, platforms, and technologies (most of which are now obsolete).

Several factors make replacing CAL-ACCESS imperative, including:

- Program business operations are negatively affected by lack of data integrity.
- Program business operations are at risk due to an old, unsupported information technology platform.
- The SOS Political Reform Division (PRD) and stakeholders have limited information access and reporting capabilities.

In 2016, SB 1349 (Chapter 845, Statutes of 2016) required the development of an automated campaign and lobbying reporting and disclosure system to replace the then nearly 20-year-old CAL-ACCESS. SB 1349 created legislative oversight and reporting requirements for the original CARS Project. SB 1239 (Chapter 662, Statutes of 2018) required additional legislative changes needed for the CAL-ACCESS replacement system implementation. In 2019, SB 84 (Committee on Budget and Fiscal Review, Chapter 30, Statutes of 2019) established a deadline of February 2021 for deploying the new system. As the launch date neared, it was clear that the system needed more customization than anticipated and was not ready for production. In June 2021, the project was placed on hold for reevaluation. In partnership with the California Department of Technology (CDT), an independent third-party assessment of the CARS Project was completed in December 2021 that identified findings for a project restart that has guided the SOS in a new project effort.

The first full year of project execution in 2024-25 includes onboarding of the prime vendor, development of prime vendor project plans and schedule, requirements reconfirmation, technical architecture development, joint application design sessions, and start of the program increments in which the application modules are developed and tested. Design and development activities include external stakeholder data retrieval interfaces and application programming interfaces for the campaign finance and lobbying software vendor stakeholders to electronically file disclosure information with the SOS. This request is based on the current estimated project schedule and covers the first full year of the project execution phase.

The table below provides an overview of previously approved positions that would be funded by this request.

(Dollars in Thousands)

Personal Services Request on Previously Approved Positions	Cost
Political Reform Division	
3 Permanent Program Staff	$228
10 Temporary Program Staff (Non-Project PRD backfill positions) *	$759
Information Technology Division	
17 Permanent IT Staff (Project Management & IT)	$2,114
Management Services Division	
1 Permanent IT Staff (Contract Services)	$116
Executive Office	
2 Permanent Program Staff (Legal & Office of Risk Management)	$228
Subtotal Personal Services	**$3,445**
Total Benefits	**$2,033**
**Total Staff Operating Expenses and Equipment (OE&E) ** **	**$396**
Total Personal Services, Benefits, & OE&E	**$5,874**

*The 10 temporary program staff are non-project PRD backfill positions whose salary, benefits, and staff operating expenses and equipment costs are not reflected on the CARS Project Financial Analysis Worksheets (FAWs).
**Staff operating expenses and equipment costs for software are located under Information Technology costs.

Source: Department of Finance

Staff Recommendation. Hold Open.

Issue 17: Notary Automation Program Replacement Project (NAP 2.0)

Request. The Governor's budget requests, for SOS, $4.02 million Business Fees Fund in 2024-25 for the continuation of the Notary Automation Program Replacement Project (NAP 2.0).

Background. The SOS is responsible for the appointment of California notaries public. Prior to appointment, a notary public applicant must complete an education course and pass both a notary public examination and a background investigation from both the California Department of Justice and the Federal Bureau of Investigation.

The SOS currently utilizes a legacy NAP system to store and maintain notary public commission data and process apostille requests. The system is approximately 30 years old and needs replacing. It was developed utilizing the PowerBuilder application which makes it very difficult to update and to find qualified information technology (IT) staff or vendors to support the application. Current technology has evolved significantly since the system was created, thus integration of the legacy system with current and future technology, and possibly third-party systems, will be challenging. Creating a new system – NAP 2.0 - will allow the SOS to streamline business processes and offer more efficient online services to notaries and the public. In addition, updating the system will allow for easier amendments in the future should the notary laws change.

The SOS requests $4.019 million Business Fees Fund in 2024-25 for the continuation of the Notary Automation Program Replacement Project (NAP 2.0) for the following:

- $1.48 million for six new positions and continued funding for two existing positions approved in 2023-24
- $800,000 for continuing vendor and new vendor costs
- $325,000 in goods for planning resources
- $889,000 for California Department of Technology (CDT) services and fees and Department of General Service (DGS) fees
- $528,000 for temporary staff (and the corresponding DGS fees) to backfill staff positions redirected to the project.
- An additional $1.72 million in project costs will be funded with existing resources for a total project cost of $5.74 million

Staff Recommendation. Hold Open.

0950 State Treasurer's Office

Issue 18: Additional Funding for Banking Operations Item Processing Software Service

Request. The Governor's budget requests, for the State Treasurer's Office, $135,000 ($81,000 General Fund (GF) and $54,000 Central Service Cost Recovery Fund (CSCRF)) in 2024-25 and annual increases ongoing per the terms of the new eight-year contract signed with the vendor of STO's Item Processing software service. The STO also requests budget bill language (BBL) to facilitate vendor associated procurements related to the Treasurer's constitutional and legislative banking and investment responsibilities.

Background. The STO relies upon the FIS Image Vision Item Processing software to facilitate its daily check processing activities. The current version of the software employed by the STO had reached its designated end-of-life stage, and the vendor announced its end of support on December 31, 2022. In response, the STO secured an extension of support by a span of one year, extending the support until December 31, 2023. This extension aligns with the ongoing transition to an upgraded version. The cost increase is due to the shift of the vendor's operational paradigm from the on-premises legacy framework to a cloud-based architecture. This transition has a transformative alteration in the licensing model, moving to a volume-based annual subscription framework. This shift has entailed an increase in the annual maintenance and support cost, reflected in the revised licensing structure.

The vendor further increased the price after the original pricing information was provided to the STO in early 2022. Although inflation peaked in mid-2022 and rebounded in early 2023, the notable inflation trend was cited as a primary reason for the price increase. The vendor was firm on the new pricing during the license negotiations with the STO that started in August 2023. As a result, the cost of unit processing was raised, leading to a clear rise in the annual subscription and support expenses. After diligent attempts to negotiate costs down through the extension of the contract duration, the anticipated annual expense, based on the estimated processing volume of checks and warrants, has surpassed the previously estimated 2022 figure by a margin ranging from $135,000 to $340,000.

Budget Bill Language. The Governor's January budget included trailer bill language (TBL) to exempt STO from certain statewide contracting requirements overseen by the Department of General Services (DGS). The TBL was intended to address the challenges the STO has encountered with newer DGS purchasing requirements that slowed the STO's process of completing time-sensitive contracts with vendors that supply critical, daily data to them.

In recent discussions with DGS, it was learned that DGS will be developing and implementing a more permanent administrative solution for certain electronic subscription purchasing processes in the next year or two that will help not only the STO, but all departments. Therefore, instead of the proposed TBL, DOF has coordinated with DGS and STO on an alternative BBL proposal that limits the contracting exemption to two years (in effect until July 1, 2026) or upon implementation of an suitable updated purchasing process by DGS, whichever is sooner, and a per-contract dollar cap ($300,000). This short-term BBL, would provide the STO the flexibility to ensure the timeliness of these electronic subscription contracts and DGS the time to develop/implement their updates to the electronic subscription purchasing process.

Proposed new Budget Bill Language - Provision 3 is added to Item 0950-001-0001:

3. Notwithstanding any other law, the Treasurer may enter into agreements for proprietary economic data, financial market data, credit ratings, research and risk analysis as required in connection with the Treasurer's duties pursuant to Section 16480.3 of the Government Code. The total amount of any single agreement shall not exceed $300,000. This provision shall remain in effect through July 1, 2026, or shall become invalid upon implementation of a suitable updated electronic subscription purchasing process by the Department of General Services, whichever date is sooner.

Staff Recommendation. Hold Open.

0981 CalABLE

Issue 19: Administration of the California Achieving a Better Life Experience Act Board

Request. The Governor's Budget requests budget bill language to extend the repayment date of the General Fund loans made to the California Achieving a Better Life Experience (CalABLE) through June 30, 2032. In addition, CalABLE requests a waiver of interest fees, pursuant to Government Code Section 16314.

Proposed provisional language is as follows:

Notwithstanding Provision 1 of Item 0981-011-0001, Budget Act of 2016 (Ch. 23, Stats. 2016), Budget Act of 2017 (Chs. 14, 22, and 54, Stats. 2017), Budget Act of 2018 (Chs. 29 and 30, Stats. 2018), Budget Act of 2019 (Chs. 23,55, 80, and 363, Stats. 2019), Budget Act of 2020 (Chs. 6,7, and 40, Stats. 2020), or Item 0981-001-8101, Budget Act of 2021 (Chs. 21, 69, and 240, Stats. 2021), the loans to the California ABLE Administrative Fund shall be repaid to the General Fund when sufficient revenue is available, but no later than June 30, 2032. To the extent there is sufficient revenue, a loan repayment will be made each fiscal year based on the receipt of annual revenue. The Director of Finance may waive interest fees pursuant to subdivision (e) of Section 16314 of the Government Code.

Background. The federal Achieving a Better Life Experience Act of 2014 (ABLE), allowed individuals who become blind or disabled before reaching age 26 to create tax-free savings accounts. ABLE accounts generally follow the same rules as 529s: individuals can make nondeductible cash contributions to an ABLE account in the name of a specified beneficiary, and with tax-free earnings. ABLE account distributions are also not included in the beneficiary's income if they are used for qualified services for the beneficiary and distributions do not exceed the cost of those services. The ABLE Act directs states to establish one ABLE account for each eligible beneficiary. SB 324 (Pavley), Chapter 796, Statutes of 2015, and AB 449 (Irwin) Chapter 774, Statutes of 2015, implemented the ABLE Act in California and directed the CalABLE Board to administer ABLE accounts on behalf of qualified Californians. The ABLE Act, for taxable years beginning on or after January 1, 2015, encourages and assists individuals and families to save private funds for the purpose of supporting persons with disabilities to maintain their health, independence, and quality of life by excluding from gross income distributions used for qualified disability expenses by a beneficiary of a Qualified ABLE Program established and maintained by a state, as specified.

CalABLE has operated with GF loans, totaling $4.8 million since its inception, starting with the Budget Act of 2016 authorized the Board to receive up to $1.5 million as a General fund loan to support startup and administrative costs ($850,000 for 2016-17 and $650,000 for 2017-18).

General Fund Loan Amounts by Fiscal Year			
Loan #	Fiscal Year	Loan Amount	Loan Term
#1	2016/17	$850,000	June 30, 2022
#2	2017/18	$650,000	June 30, 2022
#3	2018/19	$1,750,000	June 30, 2023
#4	2019/20	$1.070,000	June 30, 2024
#5	2020/21	$500,000	June 30, 2025
	TOTAL	**$4,820,000**	

*General Fund loans are due by June 30, 2025.

Most recently, in July of 2021, AB 128 (Chs. 21, Stats. 2021) authorized a General Fund appropriation and extended the General Fund loans repayment until sufficient revenue is available, but no later than June 30, 2025, with interest calculated at the rate earned by the Pooled Money Investment Account at the time of transfer. In May 2023, the Board approved the collection of a new state administrative fee of 0.28% of account assets as a fee that is both affordable for participants while positioning the Board to repay its General Fund loans as quickly as possible.

In addition, commencing January 1, 2026, AB 339 (Irwin) Chapter 324, Statutes of 2023 raised the eligibility age limit for the onset of disability from age 26 to age 46 which would enable more disabled Californians to qualify for a CalABLE account.

The Program launched for public enrollment in December 2018. As of March 31, CalABLE had 11,104 accounts, with a total of $140,944,310 in assets under management. Under current growth and budget assumptions, CalABLE is expected to reach self-sustainability (revenue exceeds operating expenditures) when it reaches approximately 20,500 accounts.

The request notes that in 2024-25, CalABLE will work with the Department of Finance and the State Controller's Office to initiate a transfer of $1.2 million from the CalABLE Administrative Fund to the General Fund. The payment will reduce the balance of $4.82 million in General Fund loans to $3.62 million. Thereafter, CalABLE will continue to make annual payments to the extent there is sufficient revenue available.

Government Code 16314 refers to the establishment of interest charges on short term loans of state funds by the Pooled Money Investment Board. Stature specifically provides the Director of Finance with authority to waive interest charges on short-term loans of state funds when, among other things, loans are to cover temporary shortages of funds where anticipated reimbursements have not been forthcoming, or where the agency cannot recover interest charges in the reimbursement.

Staff Recommendation. Hold Open

0984 CalSavers Retirement Savings Board

Issue 20: CalSavers Retirement Savings Program – Additional Start-Up Loan Support

Request. The Governor's Budget includes a proposal to provide the CalSavers Retirement Savings Board (Board) with a General Fund loan of $12,000,000 total ($2,000,000 annually for fiscal years 2024-25 through approximately 2029-30), to provide resources for the Board and the CalSavers Retirement Savings Program (Program) to continue to operate, including funding for existing staff, employer compliance enforcement services through the Franchise Tax Board (FTB), external consultants, and marketing, administrative, and overhead costs

Background. The CalSavers Retirement Savings Program (CalSavers or Program) is overseen by the CalSavers Retirement Savings Board (Board) and provides a retirement savings program for private-sector workers who lack access to an employer-sponsored retirement savings plan. Employers that do not offer a qualified retirement plan, and have at least five employees are required to facilitate CalSavers for their employees by specified deadlines or face penalties for noncompliance. The Program is voluntary for employees, but is operated on an automatic enrollment opt-out basis. Chapter 734, Statutes of 2012 (SB 1234) and Chapter 737, Statutes of 2012 (SB 923) established the Board for evaluating the financial and legal feasibility of the Program. The Board retained Overture Financial LLC (Overture) to complete a Market Analysis and Feasibility Study, and submitted a final report to the Legislature in March 2016, paving the way for legislative approval in September 2016.

To date, loan funding of $16.9 million was been drawn down to support the program. CalSavers is currently in its rollout and scaling-up phase, and General Fund support of the program was anticipated when the program was initiated. The request notes that program growth depends on employer compliance and since its inception, a number of factors have slowed implementation, including legislative expansion of the program in 2022 to include employers with as few as one employee, an employer compliance deadline extension, a postponement of the imposition of employer penalties for non-compliance, and slower than anticipated growth due to the COVID-19 pandemic and other factors.

As the Program scales up to meet the needs of the quickly growing population of employers and participants, staffing and resource needs may change dramatically. Because program costs and revenue will be determined by the number of employers participating in the Program, the number of employees participating in the Program, the contributions made by participants into the Program, and the investment return earned on those contributions, the Board cannot determine with certainty the total Program funding needs for the early years of operation and will continue to reassess support needs. The most recent projections from CalSavers, shown below, provide for continuous growth over the loan period as employers come into compliance, and employees opt-in to the program.

Projected Outcomes

Workload Measure	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Employers Registered	140,000	182,000	236,600	307,580	400,000	400,000
Employers Fully Onboarded	65,000	84,500	109,850	142,805	186,000	200,000
Funded Accounts	600,000	780,000	1,000,000	1,300,000	1,690,000	1,800,000
Assets Under Management	$1,000,000	$1,900,000	$2,900,000	$3,700,000	$4,800,000	$6,240,000

Note: These projections are under development and will change as staff refines modeling.

The requested funds would specifically support the existing 13 Full-time Equivalents (FTEs), including one new analyst position, as well as provide the option to expand as needed. The funding will also support operational costs and contracts with external vendors and partners, including enforcement services through the Franchise Tax Board (FTB). The Program rollout is still underway, following legislative expansion of the program in 2022 to include employers with as few as one employee, an employer compliance deadline extension, a postponement of the imposition of employer penalties for non-compliance, and slower than anticipated growth due to the COVID-19 pandemic and other factors. This loan drawdown is necessary for the continued operation of the CalSavers Program.

Staff Recommendation. Hold Open.

1111 DEPARTMENT OF CONSUMER AFFAIRS

Issue 21: BreEZe System Maintenance and Credit Card Funding

Request. The Governor's budget requests, for the Department of Consumer Affairs (DCA), an increase in expenditure authority of $14.7 million, from various special funds, in 2024-25 and ongoing for the continued support of BreEZe's maintenance and operations. Of the total amount requested, $5.7 million in 2024-25 and ongoing will fund credit card processing fees on behalf of users of credit card payments.

Background. The DCA BreEZe system received funding in the amount of $12.7 million in 2022-23 and 2023-24 for maintenance and operations (M&O). This request provides permanent, ongoing resources in the amount of $14.7 million to support the Department's costs to operate and maintain the BreEZe system.

DCA protects Californians by providing oversight and administrative support to 36 licensing and regulatory programs, which regulate and license more than 100 business types, over 300 professional categories, and over 3.4 million licensees in the state. The programs fill an important role in state government and protect Californians by making sure licensees adhere to established professional standards and educational requirements. The Department's staff of legal, technical, and administrative professionals provide support services to the programs. The Department's Office of Information Services is responsible for maintaining and updating the primary licensing and enforcement information systems of the Department: The Applicant Tracking System, Consumer Affairs System, Connect, and BreEZe.

The BreEZe project began with approval of a Feasibility Study Report (FSR) on November 30, 2009, and a subsequent Special Project Report (SPR) 1 approval on July 20, 2011. The project was proposed to be completed in three separate releases (Release 1, 2 and 3). The Department submitted several SPRs through the course of the project, and the final SPR, 3.1, was approved by the California Department of Technology (CDT) on January 22, 2015. With the approval of SPR 3.1, the project was ended upon the completion of Release 2, and the third planned release was removed from the scope of the BreEZe project. The project team completed a Post Implementation Evaluation Report (PIER) in June 2017 that evaluated the project's degree of success, using the business objectives provided in the FSR and SPRs.

BreEZe supports applicant tracking, licensing, renewal, enforcement, monitoring, cashiering, and data management requirements for 18 programs within the Department. BreEZe continues to offer significant business process efficiencies through its online application portal.

In 2021-22, 95 percent of all revenue received for the program's using BreEZe was accepted via the online application portal. Renewal applications, one of the highest volume application types, represent one of the most significant efficiencies of the BreEZe system. Only in exceptional circumstances would an online-submitted renewal application require manual staff review. Approximately 95 percent of online renewal application submissions in any given period are processed in less than one day.

The Administration requests $9.0 million to support 37 positions and software purchases, which makeup the core M&O services of business requirement analysis, configuration, development, testing, and software release management. This is the same level of staffing that has been supporting BreEZe M&O since July 2019.

This proposal also requests ongoing funding of $5.7 million for payment of credit card processing fees on behalf of users of credit card payments. BreEZe interfaces with third party payment processors that provide DCA the ability to accept electronic payments while meeting compliance with Payment Card Industry (PCI) Security Standards. This request also incorporates funding for two programs not currently on BreEZe that have implemented an interim online payment solution in advance of their business modernization efforts.

Staff Recommendation. Hold Open.

Issue 22: Pharmacy – Enforcement and Compounding Workload

Request. The Governor's budget requests, for the State Board of Pharmacy, five positions and an increase in expenditure authority of $1,265,000 in 2024-25 and $1,225,000 in 2025-26 and ongoing, Pharmacy Board Contingent Fund, Professions and Vocations Fund, to address increased workload related to desk investigations, sterile compounding renewals, and growth in program operations.

Background. The California State Board of Pharmacy (Board) is experiencing an increase in workload in sterile compounding renewals and a growth in program operations. The Board is requesting additional pharmacy inspector positions to meet statutorily mandated inspection requirements for facilities performing sterile compounding for California consumers.

The Board's sterile compounding program was initially established in 2014-15. At that time, the Board was provided expenditure authority for four positions. In response to actual workload, the Board transitioned two inspectors from other areas to the sterile compounding program in January 2015. The Board received two additional staff in 2018-19 and one additional staff in 2020-21 to address program growth. Regulation in sterile compounding has proven very dynamic over the years with the Federal Food and Drug Administration (FDA) becoming very active in oversight, continuously referring matters to state boards to investigate, and issuing guidance on its expectations regarding provisions of federal law and rulemakings. During the past five years, the Board experienced a 25 percent increase of compounding licensees on probation for violating state and federal law and placing consumers at risk. Currently, the board has eight compounding probationers, and each requires quarterly inspections by the Board's inspectors. Growth in this area is expected to continue as there are several cases pending final resolution at the Office of the Attorney General (AG) and additional investigations are pending.

Further, national standards have undergone significant revision and new standards have been developed. These new standards became effective on November 1, 2023, and the Board will be promulgating regulations to implement the new standards in California. The changes in national standards and the Board's clarifying regulations will fundamentally change many aspects of nonsterile and sterile compounding, hazardous compounding, and the compounding of radiopharmaceuticals. With these foundational changes, the Board needs to have the appropriate resources to provide oversight of compounding facilities to confirm compliance and prevent harm to patients.

In addition to the changes described, the Board has also realized overall growth in the number of sterile compounding inspections it performs annually. This increase is attributed to joint inspections with other agencies including the FDA, investigations of facilities, probation monitoring activities as well as inspections performed as part of the licensing and renewal process. To address this program growth, the Board is currently redirecting inspectors from its compliance, drug diversion and fraud, probation, prescription drug abuse and outsourcing inspection teams to the sterile compounding program. Redirection comes at a cost, most notably, preventing redirected staff from inspecting and investigating Board licensees in other areas of pharmacy compliance.

Furthermore, the Board has seen an increase in desk investigation review times that has impacted enforcement operations. The Board is requesting additional to take full management responsibility of reviewing desk investigations in order to decrease review times.

Below is the list of requested positions:

- Sterile Compounding Inspector Staff – Three Inspectors and One Supervising Inspector
- Enforcement Manager – One Staff Services Manager II

The requested resources and positions are intended to address this increased workload related to desk investigations, sterile compounding renewals, and growth in program operations.

Staff Recommendation. Hold Open.

1701 Department of Financial Protection & Innovation

Issue 23: Continuation of California Consumer Financial Protection

Request. The Governor's budget requests, for the Department of Financial Protection and Innovation (DFPI), requests an increase in expenditure authority of $14.0 million Financial Protection Fund in 2024-25 and in 2025-26 to continue funding for 55 positions for the implementation of the California Consumer Financial Protection Law (CCFPL).

Background. AB 1864 (Chapter 157, Statutes of 2020), established the California Consumer Financial Protection Law (CCFPL), which expanded the Department of Financial Protection and Innovation's (Department) authority to oversee financial products and services previously not regulated by the Department. The 2020 Budget Act included $8.3 million Financial Protection Fund and 44 positions in 2020-21 and the 2021 Budget Act included $9 million and 45 positions in 2021-22, growing to $12.1 million and 55 positions in 2022-23, and $12 million and 55.0 positions in 2023-24. The Department requests an increase in expenditure authority of $14 million Financial Protection Fund in 2024-25 and in 2025-26 to continue funding for 55.0 positions for the implementation of the California Consumer Financial Protection Law.

The CCFPL gives the Department broad authority over covered persons, as defined in Financial Code section 90005(f), engaged in the business of offering and/or providing consumer financial products or services. Pursuant to Financial Code section 90009, the Department is allowed to prescribe rules regarding registration requirements for specified covered persons. Meaning, while the Department has authority over a larger universe of covered persons, only some will be subject to registration under the CCFPL. Covered persons required to register will be identified through consumer complaint analysis, market monitoring and research, and stakeholder input. The Department has the authority to investigate, examine, and require annual reporting for both registered and non-registered covered persons. The Department can also require an annual assessment or registration fee for registrants. The Supervision and Registration of New Covered Persons (NCP) program has been established to implement the CCFPL and perform these supervisory functions.

With the implementation of the CCFPL, the Department was authorized resources for the following:

- The Financial Technology Innovation Office, which is to encourage innovative financial products and services.
- The Consumer Financial Protection Division, which is focused on research, education, and outreach.
- The New Covered Person program, which is to register and supervise new classes of covered persons offering financial services to Californians.
- The Office of the Ombuds, which is to make certain complaints about the Department receive a confidential, full, and impartial review and resolution.
- Enhancements to the Department's enforcement, legal, public affairs, administrative and information technology divisions to support the CCFPL.

According to the Administration, the requested two years of limited-term funding will allow the Department to further reevaluate the program's workload and resource needs based on additional years of registration and enforcement data. The table below provides an overview of the positions related to this request.

Positions Overview

Classification	Existing Authorized Positions	Current Request	Change
Deputy Commissioner – NCP (CEA)	1.0	1.0	0.0
Deputy Commissioner – Sec and Fran Reg (CEA)	1.0	0.0	-1.0
Financial Institutions Manager	1.0	2.0	1.0
Senior Financial Institutions Examiner	2.0	2.0	0.0
Financial Institutions Examiner	4.0	4.0	0.0
Program Total	**9.0**	**9.0**	**0.0**
Research Data Manager	1.0	1.0	0.0
Research Data Specialist III	5.0	5.0	0.0
MMCRIA Total	**6.0**	**6.0**	**0.0**
Deputy Commissioner (CEA B)	1.0	1.0	0.0
Attorney IV	0.0	1.0	1.0
Attorney III	1.0	0.0	-1.0
Research Data Specialist III	1.0	1.0	0.0
Associate Governmental Program Analyst	1.0	1.0	0.0
OFTI Total	**4.0**	**4.0**	**0.0**
Staff Services Manager II (Managerial)	1.0	1.0	0.0
Ombuds Total	**1.0**	**1.0**	**0.0**
Attorney V	1.0	1.0	0.0
Attorney III	1.0	1.0	0.0
Investigator	1.0	1.0	0.0
Enforcement Total	**3.0**	**3.0**	**0.0**
Attorney IV	0.0	2.0	2.0
Attorney III	5.0	3.0	-2.0
Legal Total	**5.0**	**5.0**	**0.0**
Information Officer II (Specialist)	1.0	1.0	0.0
Information Officer I (Specialist)	1.0	1.0	0.0
Staff Services Manager II (Supervisor)	1.0	1.0	0.0
Staff Services Manager I (Specialist)	6.0	6.0	0.0
Associate Governmental Program Analyst	2.0	2.0	0.0
OPA Total	**11.0**	**11.0**	**0.0**
Associate Governmental Program Analyst (BOO)	2.0	2.0	0.0
Business Services Assistant (BOO)	1.0	1.0	0.0
Accounting Officer (FMO)	1.0	1.0	0.0
Senior Accounting Officer (FMO)	1.0	1.0	0.0
Associate Budget Analyst (FMO)	1.0	0.0	-1.0
Senior Personnel Specialist (HRO)	2.0	2.0	0.0
Staff Services Manager I (HRO)	0.0	1.0	1.0
Associate Personnel Analyst (HRO)	2.0	2.0	0.0
Administration Total	**10.0**	**10.0**	**0.0**
Information Technology Specialist II	3.0	3.0	0.0
Information Technology Specialist I	3.0	3.0	0.0
Information Technology Services Division Total	**6.0**	**6.0**	**0.0**
Total	**55.0**	**55.0**	**0.0**

Source: Department of Finance

Staff Recommendation. Hold Open.

Issue 24: Continuation of Debt Collector Licensing and Regulation

Request. The Governor's budget requests an increase in expenditure authority of $11.8 million Financial Protection Fund in 2024-25 and 2025-26, for DFPI, to support 51 positions authorized to license, regulate, and examine debt collectors pursuant to SB 908 (Chapter 163, Statutes of 2020), the Debt Collection Licensing Act (DCLA).

Background. DFPI is continuing the implementation of the Debt Collection Licensing Act (DCLA), which became effective January 1, 2021, and requires the Debt Collector Program (Program) to license, regulate, and examine debt collectors. The 2021 Budget Act included $10.2 million Financial Protection Fund in 2021-22 and 43.0 positions, $10.7 million in 2022-23 and 51.0 positions, and $10.6 million in 2023-24 and 51.0 positions to support the Program. While the funding for the initial years of the program is limited-term, the position authority for the 51.0 positions is ongoing. The first years of the Program were based on an estimated 3,500 licensees, which the Department projected based on data from industry experts and other states. While implementing the program, the Department identified additional key functions that were not included in the initial proposal and some areas where position needs are lower than anticipated. The Department requests $11.8 million Financial Protection Fund in 2024-25 and 2025-26 to support 51 positions authorized to license, regulate, and examine debt collectors. The position classifications and reporting areas have been adjusted in the first three years of the Program based on operational need as outlined in this BCP, but the requested funding will continue to support a total of 51 authorized positions. Limited-term resources will allow the Department to further reevaluate the program's workload and resource needs based on additional years of licensing and enforcement data.

It was expected the initial 3,500 anticipated applications would be processed within the first three fiscal years and the primary funding source would come from assessments beginning in 2022-23. Delays resulting from issues with access to background checks have impacted the ability to process applications and initiate assessments. Some delays also impacted the number of applications submitted. To date 1,400 of the expected 3,500 applications have been received. The Program continues to anticipate an increase in applications as regulations are implemented to clarify licensing requirements. Based on the most recent estimates, the adjusted licensee count is expected to be 2,150. This estimate is based on the number of applications received to date, the average number of applications received per month, the number of unlicensed activity cases waiting to be investigated, and the number of inquiries received regarding pending regulation. The most significant impact will occur with the finalization of the regulation package which will provide clear definitions of which entities need to be licensed.

Due to the lack of specificity of the DCLA, the Department was denied access to Federal Bureau of Investigation background checks, which was required to approve applications. As a temporary solution, AB 156, (Chapter 569, Statutes of 2022) allowed the Department to conditionally approve applicants to operate pending approval or denial of their application as the Program works to resolve the background check issue. The long-term solution required a legislative change which was approved. The Department has applied for approval with the NMLS and should be able to start implementation in February 2024.

Without the ability to approve applications for the first twelve months, the Program experienced a backlog. As of December 31, 2023, there are 1,053 approved licensees and 264 applications in the backlog that still need to be processed. Program projects to have the backlog cleared by March 2024 based on 100 applications processed per month including the on-average ten new applications that are received per month. This backlog has subsequently resulted in a delay in examinations as all resources have been redirected to application review. In addition, the delay in application approval is a contributing factor in not being able to initiate assessments to provide the expected income for the Program. The next obstacle with the assessment is the need to define the terms from 3 the original legislation associated with the assessment. An additional rule making package is in process to define the terms of the assessment and the first assessment invoices are planned for September 2024.The table below is an overview of previously authorized positions and those currently requested.

Overview of Positions

Positions	2021-22 Authorized	(2021-22 – 2023-24) Established	(2024-25 – 2025-26) Requested Resources	Change from 2021-22 Authorized
Calculation	**A**	**B**	**C**	**C-A**
Program	-	-	-	-
Deputy Commissioner (CEA B)	1	1	1	0
Regional Deputy (CEA A)	2	0	0	-2
Financial Institution Manager	2	3	4	2
Senior Financial Institution Examiner	8	6	10	2
Financial Institution Examiner	13	13	9	-4
Associate Governmental Program Analyst	4	4	4	0
Executive Secretary	1	1	0	-1
Office Technician	1	1	0	-1
Program Total	**32**	**29**	**28**	**-4**
Enforcement	-	-	-	-
Assistant Chief Counsel	1	1	1	0
Attorney IV	2	2	2	0
Attorney III	4	4	4	0
Senior Financial Institutions Examiner	0	2	2	2
Financial Institutions Examiner	1	0	0	-1
Supervising Special Investigator I	1	1	1	0
Investigator	1	1	1	0
Legal Analyst	1	1	1	0
Enforcement Total	**11**	**12**	**12**	**1**
Legal	-	-	-	-
Legal Analyst	1	1	1	0
Assistant Chief Counsel	1	1	1	0
Attorney III	1	1	1	0
Attorney IV	1	1	1	0
Attorney V	1	1	1	0
Legal Total	**5**	**5**	**5**	**0**
Consumer Services Office	-	-	-	-
Associate Governmental Program Analyst - Intake	0	1	1	1
Associate Governmental Program Analyst - Resolution	0	1	1	1
Consumer Services Office Total	**0**	**2**	**2**	**2**
Administration	-	-	-	-
FMO – Senior Accounting Officer	1	1	1	0
HRO - Associate Governmental Program Analyst	1	1	1	0
HRO - Staff Services Manager I	1	1	1	0
ITSD – Information Technology Specialist I	0	0	1	1
Administration Total	**3**	**3**	**4**	**1**
Total	**51**	**51**	**51**	**0**

Source: Department of Finance

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Scott D. Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, May 16, 2024
Upon Call of the Chair
State Capitol – Room 113

Consultants: Elisa Wynne and Tim Griffiths

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

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 FOR VOTE ONLY

7730 FRANCHISE TAX BOARD (FTB)

Issue 1: Middle Class Tax Refund Technical Clarification

Budget Proposal. The Governor's budget proposes trailer bill language that makes a technical correction to specify that the unexpended or unused balance of payments made for purposes of the Middle Class Tax Refund shall be deposited by the Franchise Tax Board (FTB) into the General Fund. Existing language specifies that funds shall be returned to the state no later than May 31, 2026, but did not specify the fund.

Staff Recommendation. Approve placeholder trailer bill language.

Issue 2: Extend Exemption for Cannabis Businesses

Budget Proposal. The Governor's budget proposes trailer bill language that extends the timeline from December 1, 2025 to December 1, 2030 to specify that personal income tax law does not conform to federal income tax law that disallows credits or deductions for businesses engaged in sales of controlled substances, including commercial cannabis activity.

Staff Recommendation. Approve placeholder trailer bill language.

Issue 3: Terminate Fund Transfers to Delinquent Tax Collection Fund

Budget Proposal. The Governor's budget proposes trailer bill language that removes the requirement for transfer of funds from the General Fund to the Delinquent Tax Collection Fund. This transfer was in place to cover the cost of FTB contracting with third parties for collection activities. With the full implementation of deliverables of the Enterprise Data to Revenue (EDR) project, FTB no longer outsources collection efforts. This collection activity has been suspended since the new system was put in place, but the budget authority has not been removed. This proposal is technical clean-up to remove the outdated transfer authority.

Staff Recommendation. Approve placeholder trailer bill language.

Issue 4: Repealing the Expiration Date for Electronic Notifications to Taxpayers

Budget Proposal. The Governor's budget proposes trailer bill language to eliminate the unset date (currently January 1, 2025) for allowing the Franchise Tax Board to provide notification to the taxpayer in a preferred electronic communication method designated by the taxpayer that a specified notice, statement, bill, or other communication is available for viewing in the taxpayer's folder on the Franchise Tax Board's internet website, and would allow the taxpayer to file a protest, notification, and other communication to the Franchise Tax Board in a secure manner.

Staff Recommendation. Approve placeholder trailer bill language.

Issue 5: Enterprise Data to Revenue Project 2

Budget Proposal. The Governor's budget requests $127.1 million General Fund and the full time equivalent of 28.0 permanent positions, and 10.0 limited-term positions for the Franchise Tax Board (FTB) for the fourth-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

The May Revision further includes a request to extend the encumbrance period of funding allocated in the 2023 Budget Act for the Enterprise Data to Revenue 2 project. Specifically, this would extend $31.3 million appropriated in the Budget Act of 2023 from June 30, 2024 to June 30, 2025. These funds would be used for necessary project work that was unanticipated and for vendor compensation payments

Background.

In 2007, the staff created a 30 year three-phased modernization strategy for FTB's information technology systems. The primary objective of this strategy addresses refreshing FTB's aging legacy systems, while also taking the opportunity to further advance FTB's strategic goals using the latest technologies and industry best business practices.

- Phase 1 (EDR Project, completed December 2016) – Build the key infrastructure and foundational architecture for the three phased effort and update FTB's existing imaging, case management, return processing, and modeling processes while also developing two new applications (Taxpayer Folder – internal view for FTB staff and MyFTB – external view for taxpayers and practitioners) to consolidate taxpayer data for ease of use, increased customer service and better transparency.
- Phase 2 (EDR2 Project, projected start July 2021) - Leverages the architecture delivered and will expand case management, modeling, MyFTB, and self-service options. This project will also decommission end-of-life legacy systems for Audit, Filing Enforcement and Collections.
- Phase 3 – (projected start 2026) This Final Phase will replace FTB's end-of-life legacy accounting systems and finish addressing FTB's six key business problems.

The EDR2 project represents Phase 2 of an enterprise-wide TSM effort to align FTB's IT infrastructure with its strategic business plan. The EDR2 project will continue to significantly improve the department's ability to address the state's annual $10 billion tax gap through strategically planned TSM efforts consistent with FTB's strategic plan.

The EDR2 project plans to achieve the following objectives in 2024-25:

- Utilize the new data analytic tools to support the development of new work including functionality for models, treatment paths, and data visualization (reports and dashboards);
- Perform data analysis and clean-up of the PASS application data prior to the conversion of the data into the EDR2 case management platform;
- Analyze and resolve issues with collection cases that will not convert in an automated fashion prior to contractor's automated conversion from the PIT collection legacy to new system;
- Enhance the ability to successfully select best value cases for compliance efforts and complete quality cases efficiently;
- Ensure new data fields can be captured from paper returns and other stand-alone tax forms to assist with developing potential modeling strategies and business rules which will result in increased revenue;
- Develop and implement Training and Organizational Change Management activities to support FTB enterprise including the field offices who will utilize the systems impacted by the EDR2 project implementation and changes;
- Maintain the data integrity and availability in FTB's tax systems and their ability to perform critical state tax functions;
- Enhance the capabilities of the previously implemented solution that is used by the Underpayment BSOW to identify available assets to levy during the Personal Income Tax involuntary collection cycle;
- Continue design and development of deliverables to be implemented in future years, including self-services and additional case management solutions

FTB notes that this request is funding for the 2024-25 fiscal year and that a BCP will be submitted each year to cover the costs of the project. According to the FTB, the total cost of EDR2 is estimated to be just over $750 million and will ensure continued collection of over $4 billion in annual revenues. After full implementation, the project is projected to bring in additional new revenues of $300 million annually.

The EDR2 project is vital to FTB's operations. The technology currently supporting two out of three of FTB's major legacy systems {(Accounts Receivable Collection System (ARCS), Integrated Nonfiler Compliance (INC), and Professional Audit Screening and Support System (PASS)}, which annually allow FTB to collect over $4 billion in compliance revenue, are nearing end-of-life and will no longer be supported after December 31, 2025. Implementing the EDR2 project at this time is critical.

The most recent CDT's Independent Project Oversight Report, completed in December of 2021, notes that the project is on track and performing as expected and does not identify any needed corrective actions at this point.

Staff Recommendation. Approve as proposed.

Issue 6: Income Threshold Fix for CalEITC, YCTC, and FYTC

Budget Proposal. The Governor's May Revision proposes trailer bill language that would align the maximum earned income thresholds for the California Earned Income Tax Credit (CalEITC), the Young Child Tax Credit (YCTC), and the Foster Youth Tax Credit (FYTC). This technical fix would ensure the YCTC and FYTC maximum earned income thresholds are adjusted to that of the CalEITC. Implementing this change will reduce confusion among tax payers and simplify the process of claiming these credits.

Staff Recommendation. Approve placeholder trailer bill language.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 7: SB 96 Historic Venues Restoration and Resiliency Act

Budget Proposal. The Governor's budget proposes clean up trailer bill language to address implementation issues in the SB 96 (Chapter 595, Statutes of 2023). SB 96 enacted the Historic Venue Restoration and Resiliency Act to require that retailers making sales at historic venues during qualified events segregate the taxable sales from those sales on a separate line or form when filing sales tax returns to CDTFA.

The proposed trailer bill makes the following changes:

1. Requires that the return filed with the CDTFA and DOF specify the taxable sales made at a qualified event for each confirmed historic venue.

2. Limits the requirement to segregate taxable sales on the return to qualified events that occur on or before June 30, 2029.

3. Requires that DOF, no later than 15 days after enactment of the annual Budget Act, for each confirmed historic venue located within the geographic boundaries of a city or county report to the Controller the amounts to be allocated from the fund to each city and county.

4. Changes the requirement from 90 to 10 days that a city or county, or its designee notify any retailers who will be making sales during the qualified event of their reporting obligation as specified.

5. Deletes the requirement for a city or county to deliver a report to CDTFA by January 1, 2027.

6. Specifies that CDTFA's annual report is due November 1 of each year.

Staff Recommendation. Approve placeholder trailer bill language.

Issue 8: California Tire Recycling Fee Program

Request. The Governor's budget proposes to convert the funding mechanism for the Tire Program from a reimbursement to a Budget Act appropriation from California Tire Recycling Management Fund (Tire Fund). This request will result in a net-zero budget impact due to a corresponding reduction in CDTFA's reimbursement authority.

CDTFA requests a Budget Act appropriation from the Tire Fund in the amount of $2,541,000 in 2024-25, $2,511,000 in 2025-26, and ongoing. CDTFA also requests a corresponding reduction in reimbursement authority of $2,541,000 in 2024-25, $2,511,000 in 2025-26, and ongoing to offset the Budget Act appropriation from the Tire Fund.

The Administration also requests technical trailer bill amendments to reflect this change.

Staff Recommendation. Approve as Proposed.

1700 CIVIL RIGHTS DEPARTMENT (CRD)

Issue 9: Budget and Staffing Augmentations to Implement Recently Enacted Legislation

Governor's Budget Proposal. As part of the May Revision, the Civil Rights Department (CRD) requests an ongoing allocation of $1.7 million in General Fund starting in 2024-25 and the authority to add 11 staff positions in order to implement SB 267 (Eggman, Ch. 776, Stats. 2023) and SB 848 (Rubio, Ch. 724, Stats. 2023)

Background: SB 267 prohibits landlords from discriminating against tenants on the basis that they pay some or all of their rent using a government rent subsidy such as a Housing Choice Voucher. The new law tasks CRD with receiving complaints of alleged violations, investigating, and, upon an appropriate finding, pursuing claims on behalf of aggrieved tenants.

SB 848 requires employers with five or more employees to grant a employee's request for up to five days of unpaid leave following a miscarriage, stillbirth, unsuccessful assisted reproduction, failed adoption, or failed surrogacy. The new law tasks CRD with receiving complaints of alleged violations, investigating, and, upon an appropriate finding, pursuing claims on behalf of aggrieved workers.

To carry out these new duties, CRD is requesting the additional staff and funding set forth in this proposal.

Staff Comments: The combined request is roughly consistent with the fiscal effects anticipated by the Senate Appropriations Committee during legislative consideration of the bills.

Staff Recommendation. Approve as budgeted.

2240 HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT (HCD)

Issue 10: Staff and Budgetary Augmentations to Implement Recently Enacted Legislation

Governor's Budget Proposal: As part of the May Revision, the Housing and Community Development Department (HCD) requests staffing and budgetary increases necessary for the implementation of nine housing-related statutes enacted into law in 2023.

Background: The May Revision proposes all of the following for the purposes of implementing the referenced legislation:

- *AB 434 (Grayson, Ch. 740, Stats. 2023)* - Adds specified housing laws to the list of laws that the Department of Housing and Community Development (HCD) is required to enforce.
  - $1,089,000 in annual General Fund starting in 2024-25.
  - Hiring authority for five additional positions starting in 2024-25.

- *AB 519 (Schiavo, Ch. 743, Stats. 2023)* - Creates an Affordable Housing Finance Workgroup to propose the creation of a consolidated application for affordable housing developers to access state housing funding programs and a coordinated review process for the application.
  - $1,548,000 in 2024-25 and 2025-26 General Fund; $774,000 in 2026-27 General Fund.

- *AB 529 (Gabriel, Ch. 743, Stats. 2023)* - Allows the Department of Housing and Community Development (HCD) to propose revisions and clarifications to the California Building Standards Code pertaining to adaptive reuse to the California Buildings Standards Commission (BSC) and makes other changes to state law related to adaptive reuse projects.
  - $422,000 in annual General Fund starting in 2024-25.
  - Hiring authority for two additional positions beginning in 2024-25.

- *AB 1386 (Gabriel, Ch. 760, Stats. 2023)* - Authorizes entities referring veterans to housing units funded by the Veterans Housing and Homelessness Prevention Program (VHHP) or certain housing units supported by project-based housing vouchers to refer veterans at higher income levels if units are unable to be filled, as specified.
  - Hiring authority for one additional position in 2024-25 and ongoing.

- *AB 1490 (Lee, Ch. 764, Stats. 2023)* - Authorizes an extremely affordable adaptive reuse housing development project to be an allowable use, regardless of the general plan, specific plan, zoning ordinance or regulation, as specified.
  - $195,000 in annual General Fund starting in 2024-25.
  - Hiring authority for one additional position beginning in 2024-25.

- *AB 1508 (Ramos, Ch. 765, Stats. 2023)* - Requires the Department of Housing and Community Development (HCD) to incorporate analyses of first-time homebuyer assistance programs, recommendations to increase homeownership opportunities for first-time homebuyers, and a demographic disparities in homeownership attainment in future updates to the Statewide Housing Plan (SHP).
  - $212,000 in annual General Fund beginning in 2024-25.
  - Hiring authority for one additional position in 2024-25 and ongoing.

- *AB 1633 (Ting, Ch. 768, Stats. 2023)* - Provides that a disapproval under the Housing Accountability Act (HAA) includes a local agency's failure to make a determination of whether a project is exempt from the California Environmental Quality Act (CEQA), abuse of discretion, or failure to adopt certain environmental documents under specified circumstances, and makes several other changes.
  - $474,000 in annual General Fund beginning in 2024-25.
  - Hiring authority for two additional positions beginning in 2024-25.

- *SB 555 (Wahab, Ch. 402, Stats. 2023)* - Creates the Stable Affordable Housing Act of 2023 for the purposes of studying the development of social housing through a mix of acquisition and new production.
  - $712,000 in General Fund in 2024-25 and 2025-26; $227,000 annually from 2026-27 on.

- *SB 745 (Cortese, Ch. 884, Stats. 2023)* - Requires the California Building Standards Commission (BSC) and the Department of Housing and Community Development (HCD) to develop and propose new mandatory building standards related to water efficiency.
  - $579,000 in General Fund in 2024-25; $179,000 in annual General Fund beginning in 2025-26.
  - Hiring authority for one additional position beginning in 2024-25.

Additionally, HCD requests $1,146,000 in annual General Fund and hiring authority for an additional eight positions starting in 2024-25 to provide the general administrative support staffing associated with the implementation of the nine pieces of enacted legislation described above.

Staff Comments: Each of the requests is roughly in keeping with the fiscal effect anticipated by the Senate Appropriations Committee during legislative consideration of the corresponding bill, with the exception of AB 434, for which the budget and hiring requests are approximately double the Appropriations estimate, though relatively minor in terms of overall cost to the state.

Staff Recommendation: Approve as budgeted.

Issue 11: Encumbrance Deadline Extensions for Homekey 2.0 and Regional Early Action Planning Grants 2.0

Governor's Budget Proposal: As part of the May Revision, the Housing and Community Development Department (HCD) requests extension of the encumbrance deadlines for two programs – Homekey 2.0 and the Regional Early Action Planning (REAP) 2.0 Grants for the reasons detailed below.

Background: Homekey 2.0 funds state, regional, and local public entities to develop a "broad range of housing types, including but not limited to hotels, motels, hostels, single-family homes and multifamily apartments, adult residential facilities, manufactured housing, and to convert commercial properties and other existing buildings to permanent or interim housing for the target population." Currently, awardees have until June 30, 2024 to encumber all of the funding allotted to them under the program. The May Revision requests to extend this period through June 30, 2026 in order "to allow grantees sufficient time" to meet the program's expenditure requirements.

The Regional Early Action Planning 2.0 (REAP 2.0) grant program provides funding to regional planning entities for housing and transportation-related planning and development projects that are consistent with the region's sustainable growth plans. Currently, the recipient's encumbrance deadline does not match with the date in the statute. To fix the problem, the May Revisions seeks to extend the encumbrance deadline from June 30, 2024, to June 30, 2026.

Staff Comments: With respect to the Homekey 2.0 extension, the Subcommittee may wish to inquire why recipients have not been able to meet the program's original expenditure requirements and why they need an additional two years to do so.

Staff Recommendation: Approve as budgeted.

Issue 12: Budget Augmentations, Staffing Increases, and Encumbrance Extensions Associated with Federally Funded Housing Programs

Governor's Budget Proposal: As part of the May Revision, the Housing and Community Development Department (HCD) requests the additional staffing, budget augmentations, and encumbrance date extensions detailed below in relation to two federal housing-related programs: Community Development Block Grant – Disaster Recovery and the Federal HOME Investment Partnerships Program.

Background: Under the Community Development Block Grant – Disaster Recovery program the federal Housing and Urban Development Department (HUD) provides flexible grants to help cities, counties, and States recover from Presidentially declared disasters. The budget request seeks hiring authority for two additional position and an augmentation of $24,408,000 in 2024-25 to enable HCD to implement and award funds from the program that will go to Plumas County to assist in wildfire recovery efforts. The request further asks for the encumbrance period for these funds to be extended through January 16, 2030 and for permission to transfer some of these funds to state operations.

The Federal HOME Investment Partnerships Program – American Rescue Program funds developers, non-profit service providers, and Tribal Entities to assist qualified populations including individuals and families who are experiencing or at risk of experiencing homelessness and other vulnerable populations by providing affordable housing and/or supportive services. The budget request seeks hiring authority for two additional position and an augmentation of $4,000,000 in 2024-25 to enable HCD to administer the program in California. The request further asks for the encumbrance period for these funds to be extended through September 30, 2030 and for permission to transfer some of these funds to state operations.

Staff Comments: As these programs are federally funded, the additional budget and staffing requested do not put additional pressure on the state's General Fund condition. The Subcommittee may wish to inquire why additional time to encumber the funds is needed.

Staff Recommendation: Approve as budgeted.

ITEMS FOR DISCUSSION

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 13: Bad Debt Sales Tax Deduction and Refund

Request. The Governor's budget includes a proposal to eliminate a sales and use tax deduction and refund for a lender or retailer's affiliate related to bad debt, commencing January 1, 2025. The Administration estimates that the proposal would increase General Fund revenue by $25.3 million in 2024-25 and $50.6 million per year ongoing.

Note: Department of Finance is in the process of updating the revenue impact and has indicated that the full revenue gain would not be realized until the 2028-29 fiscal year due to a backlog of claims at California Department of Tax and Fee Administration (CDTFA). This update is anticipated to be included in the May Revision.

The Governor includes proposed trailer bill language to enact this change.

Background.

Under current state law, retailers remit sales and use tax to the CDTFA on taxable goods. Retailers may claim a bad debt deduction or refund when those sales and use taxes were not ultimately realized – for example the taxable goods that turn out to be worthless, considered "bad debt". Current state law also extends this refund or credit to lenders and affiliates that finance the debt. In general, most loans to purchase goods are offered not by retailers but by retailer-affiliate lenders such as banks, credit unions, and other financial companies, meaning these are the entities that ultimately benefit from the bad debt deduction.

Lenders generally already price in the risk of retailer bad debt through interest rates or fees, and can currently claim the deduction or refund even if a profit was realized. The bad debt deduction/refund is unusual in that it is allowed to lenders even though sales tax due related to purchases made on credit is paid by the retailer, not the lender. Furthermore, the borrower pays the sales tax reimbursement related to the purchase to the retailer, not the lender. Under current sales tax law, typically only the payer of sales tax (the retailer) can claim a refund. Administrative complexity resulting from this unusual arrangement creates significant workload for CDTFA's audit team.

The largest deduction/refund claims by dollar amounts are related to auto loans (accounting for over 50 percent of total claimed dollars) while those related to credit cards account for around 20 percent of claimed dollars. Another 10 percent of claimed dollars are related to lenders who offer multiple different kinds of loans.

In comparison to other states, California provides a generous deduction. Of the 45 states that charge sales tax, California is one of just five (Includes Idaho, Michigan, Pennsylvania, and Texas) that allow the deduction for non-retailer lenders.

Rationale for the Change.

The Administration notes that the current deduction provides a double benefit to lenders and essentially subsidizes the loans that financial institutions offer. The terms of a loan include interest and late payment penalties. The loan is based on the purchase price of the item, <u>including the amount of sales tax,</u> meaning that interest and penalties are calculated on this higher amount. Lenders are therefore collecting both a profit on the loan and are partially protected by the state if the borrower defaults. At staff's request, the Administration has provided the following examples to clarify the current policy:

1) A borrower accumulates a balance of $1,000 on a credit card with a 30-percent annual percentage rate (APR). For five years, the borrower is unable to pay off the card's balance, making payments that only cover accrued interest that total $1,500. By the end of five years, the credit card company earned $1,500 from their initial loan of $1,000 with the principal still outstanding. The borrower then declares bankruptcy and defaults. The credit card company is allowed to claim a sales tax refund from CDTFA on the full balance of $1,000 despite having more than made their money back on the loan.

2) A borrower purchases a $33,000 car using an 8-percent APR loan issued by the car manufacturer, paying $35,871 after sales tax is applied. The borrower doesn't miss a payment and pays off the entire loan over five years. Over that period, the borrower pays a total of $7,174 in interest, $574 more than they would have paid if the loan had not included any amount related to sales tax. Given that the lender is earning interest on the portion of the loan related to sales tax, it is not clear why the sales tax portion of the loan should be subsidized.

3) A borrower purchases a $25,000 car using a 7-percent APR loan issued by the car manufacturer, receiving a loan of $27,175 after sales tax is applied. The borrower pays only enough to cover interest accrued for five years; a total of $9,511 in payments. The borrower then defaults, and the loan issuer can repossess the car, keep the $9,511 in payments, and claim a sales tax refund of $2,175, equal to the full amount of sales tax paid on the $25,000 purchase.

The Administration also notes that there is no evidence that consumers in states without this policy have less access to credit, or access to cheaper credit. Given that outstanding non-mortgage consumer credit is approximately $540 billion (roughly $184 billion of this is outstanding auto loans), the Administration notes that is unlikely that this small deduction has a material impact on debt prices or availability.

Revenue Estimate.

The budget proposal would eliminate this refund or deduction for non-retailer lenders. DOF currently estimates that this proposal would raise $50.6 million General Fund sales tax revenue ongoing starting in 2028-29. They delayed revenue is due to several years of workload backload at CDTFA that will continue to be processed even as the change in state law would be effective January 1, 2025.

Legislative Analyst's Office (LAO) Comments and Recommendations.

The LAO released their analysis of this proposal on February 22, 2024, and noted that the proposal merits consideration. Their analysis concluded that lenders have multiple options for reducing losses from bad debt, other than this deduction. In addition, the LAO notes that the current subsidization of bad debt may encourage riskier lending and the refunds are very costly to administer. The LAO further noted concerns with the timing of the revenue estimate, which the Administration is working to refine.

Staff Recommendation. Hold open.

7730 FRANCHISE TAX BOARD

Issue 14: Net Operating Loss (NOL) and Business Tax Credit Suspension

Budget Proposal. The May Revision includes a proposal to suspend the use of NOL deductions for taxpayers with income over $1 million and limit the amount of most business tax credits any taxpayer could claim to $5 million business credits for tax years 2025, 2026, and 2027 to temporarily increase tax revenue. Revenue increases are estimated at $900 million ($558 million non-Proposition 98) in 2024-25 and $5.5 billion ($1.3 billion non-Proposition 98) in 2025-26. The Administration proposes language triggering the suspension removal if cumulative cash receipts for the Big 3 taxes exceed the 2024 Budget Act forecast by three percent or more from May 2024 to April 2025.

The May Revision includes the withdrawal of January proposal to conform to federal law and limit the use of NOL deductions to 80 percent of a business's taxable income in the year it is applied. The Administration anticipated revenue gains of $300 million in 2024-25 and ongoing gains of $200 million in subsequent years from this proposal.

Background.

NOLs. An NOL occurs when a business has deductions that exceed taxable income in a given year. Under current California law, taxpayers are allowed to use NOLs from prior years to offset up to 100 percent of current year income. Taxpayers are allowed to carry forward NOLs for 20 years from the year that loss was incurred. The rationale is to provide more equitable tax treatment between businesses with volatile income and businesses with steady income.

The amount of NOLs used and the number of taxpayers claiming NOLs can vary from year to year. Since the suspension is limited to taxpayers with income over $1 million, it is expected that the majority of taxpayers will still be allowed the full extent of their current law NOL deductions, but the amount of deductions claimed is expected to drop significantly. In 2019, roughly 120,000 corporations claimed NOL deductions. Of that, there were about 4,000 taxpayers who would have been subject to a suspension due to having income over $1 million.

Taxpayers who have their NOLs suspended will be allowed to carry forward their NOLs for an additional 3 years beyond the 20-year carryover limit allowed under current law. It is expected that much of the suspended NOLs will eventually be used.

Business Tax Credit Limitation. Current federal and state law allows businesses to utilize tax credits to offset their tax liability on a dollar-for-dollar basis. Business tax credits are generally intended to incentivize a particular type of behavior. Examples of the state's business tax credits include the research and development, California Competes, motion picture and television, and Low-Income Housing tax credits.

In 2020, when the state expected a revenue shortfall resulting from the COVID-19 Pandemic, California suspended the use of NOLs for businesses with more than $1 million in net income and limited the use of business tax credits. Those restrictions were in place for tax years 2020 and 2021, before being lifted for tax year 2022. The temporary suspension on NOLs and limits on credits is expected to lead to increased utilization after their restoration because businesses continued to generate and amass NOLs during the suspension.

The Department of Finance notes that there is an interaction effect between the NOL suspension and the limitation of business incentive tax credits, given the outstanding amount of credits and NOLs. Enacting both provisions would prevent taxpayers from using one provision in lieu of the other, which would significantly reduce the revenue gains from the proposal.

Legislative Analyst's Office (LAO) Comments and Recommendation.

The LAO notes that the proposal to limit the use of business tax credits merits consideration. According the LAO, business tax credits are often provided to encourage specific types of behavior around hiring, or pursuing research and innovation, among other things. While they agree these are often important goals, they may not be as high of a priority for the state during a budget shortfall.

Separately the LAO notes a concern with the suspension of NOLs given that the use of NOL deductions are intended to smooth profits and losses for business activity were profits fluctuate due to the nature of the business. The LAO believes suspending NOLs is less desirable given that it removes a tool to make the tax structure more equitable.

Staff Recommendation. Hold Open.

Issue 15: Alternative Revenue Options (Information Only)

The 2024-25 Governor's Budget and recent May Revision includes a variety of solutions, including revenue increases that are intended to allow the state to close a significant budget shortfall in the budget year and subsequent fiscal years. The subcommittee has requested that the LAO provide a brief summary of other revenue raising options that the Legislature may wish to consider, including but not limited to:

- **Temporary corporation tax rate increase.** The LAO has suggested an alternative to the NOL suspension proposed at the May Revision could be to pair a suspension of business credits with a temporary corporation tax rate increase of 1.5 percentage points (from 8.84 to 10.34) to raise a roughly similar amount of revenue as the Governor's proposal. Such an approach could even be combined with future temporary rate reductions, which would allow business to recoup some of their temporary tax payments in future years. This would mirror one of the beneficial aspects of NOL suspensions, which is that businesses often can defer the disallowed NOL deductions to future years and reduce their future taxes.

- **Single Sales Factor for Financial Institutions.** Current law requires multistate firms to use a mandatory single sales factor tax policy, however agricultural, extraction, and financial firms were exempted from this change and remain on an equally weighted three-factor formula (property, payroll, and/or sales that occurred in that state). Amending statute to require multi-state financial firms to use a mandatory single sales factor tax policy instead of the equally weighted three-factor formula, beginning with taxable year 2024 is estimated to raise $260 million in revenue in 2024-25, and between $220 and $230 million ongoing.

  In general, a California–based corporation, one with significant payroll and property in the state, would be able to reduce its tax bill by switching from the current three-factor apportionment formula to a single sales factor apportionment formula. In contrast, an out–of–state corporation that has relatively high sales in California compared to its shares of property and payroll in California would not benefit from switching to the single sales factor apportionment formula. This change would remove an incentive for financial firms to physically locate in other states, and instead promote job growth within California.

- **Eliminate Capital Gains Step-Up Basis on Inherited Assets.** The LAO notes that current treatment for inherited assets allows the basis used for determining the capital gain from the sale of an inherited asset to be the "stepped-up" price, or value of the asset when it was inherited rather than when it was first purchased. This treatment may significantly reduce taxes on capital gains and was originally enacted when an estate tax was in place that was also taxing inheritance. Given that there is no longer an estate tax, the LAO notes that the there is no longer a rationale for this specific tax treatment. Eliminated the use of the "stepped-up" basis for inheritances received after July 1, 2024 would increase revenues by several hundred million in 2024-25, growing in 2025-26, and over time, reaching up to $5 billion per year.

- **Mortgage Interest Deduction Changes.** The LAO notes that the vast majority of the $3.5 billion in statewide tax savings from the mortgage interest deduction go to higher income households. Taxpayers must be able to itemize their deductions to claim the deduction, and taxpayers who itemize tend to be higher income taxpayers. If the intended purpose of the deduction is to encourage home ownership, the LAO suggest considering converting the deduction to a tax credit to reach a broader range of taxpayers, and notes this be constructed to limit revenue loss to the state.

The LAO provides an example that providing a credit equal to two percent of mortgage interest paid on up to $1 million of debt would likely increase income tax revenue by $1 billion or more per year.

Another option is to eliminate the ability to deduct mortgage interest for second homes that are used to generate rental income, for a revenue increase of $100 million to $150 million per year.

- **Eliminate First-Year Minimum Franchise Tax Exemption**. The minimum franchise tax ensures that all of these businesses pay a minimum amount for the right to conduct business in California and for the benefits of limited liability protection. State law currently exempts new businesses from paying the minimum franchise tax of $800. The LAO notes that this exemption may not be the most effective way of helping small businesses. Eliminating the first-year exemption could increase corporation tax revenue by $100 million to $150 million per year.

Staff Recommendation: Information Only

Issue 16: Charitable Conservation Easements Conformity

Budget Proposal. The Governor's budget proposes to conform state law to federal law for treatment of the charitable conservation easement deduction, limiting deductions for charitable conservation easements to two and a half times the investment cost for the purchaser, and disallowing the deduction for any taxpayer who has previously engaged in fraud. The Administration anticipates this will result in revenue gains of $55 million in 2024-25 and 2025-26, and ongoing gains of $25 million in subsequent years.

Currently, property owners who give up development rights on lands are allowed a deduction equal to the value of the property. In 2023, federal tax law was amended to curb abuse of the deduction and capped the deduction to two and a half times the value of the taxpayer's investment and eliminates the deduction for those taxpayers who have previously engaged in fraud.

Background.

Under current federal law, property owners who elect to give up rights to develop certain land are allowed a deduction equal to the property development's value. The federal Consolidated Appropriations Act (CAA) of 2023 did the following: 1) Limited the deduction for owners of pass-through entities to two and a half times the value of the taxpayers' investment; and 2) Disallowed the deductions for participants who had previously engaged in fraud.

For example, a partial owner who invested $100 dollars is now limited to claiming a deduction of up to $250. California law conforms with federal law in allowing deductions for charitable conservation easements, however, the state has not conformed to the 2023 changes listed above. California would join the majority of states in conforming to this provision of the CAA.

According to the Administration, the intent of the deduction for charitable conservation easements is to provide an incentive to conserve open lands and historic sites. The tax deduction provides private landowners an incentive to preserve their land or building for future generations. However, some taxpayers began taking improperly large deductions based on inflated appraisals or not complying with the rules and regulations governing the contributions of conservation easements, resulting in the federal law changes in 2023.

Legislative Analyst's Office (LAO) Comments and Recommendations.

The LAO released their analysis of this proposal on February 22, 2024, and recommends approving the proposed conformity with federal law. The LAO concluded that federal statute was amended in 2023 to prevent the claiming of the deduction on the basis of inflated property values and it is prudent for the state to also curb potential misuse of the deduction. LAO has also noted concerns that the revenue estimates are likely to be uncertain given limited information availability on charitable conservation easements.

Staff Recommendation. Hold Open

Issue 17: Oil and Gas Subsidy Elimination

Budget Proposal. The Governor's budget proposes to eliminate the following subsidies, commencing with the 2024 tax year. The Administration anticipates this will result in revenue gains of $22 million in 2024-25 and ongoing gains of $17 million in subsequent years.

Background.

Immediate Deduction for Intangible Drilling Costs. Currently, state law allows 70 percent of intangible oil and gas drilling costs (e.g. survey work, ground preparation, etc.) to be deducted in the first year, with the remainder spread over five years. For independent oil producers, 100 percent can be claimed up front. Eliminating this allowance would instead apply standard tax law that allows expenses to be deducted when their benefit is realized. The Administration estimates that eliminating this deduction would generate $7 million in 2024-25 and the next three years

Percentage Depletion Rules for Fossil Fuels. Businesses may currently deduct a fixed percentage of gross income that is higher than normal cost-depletion when calculating the deduction of resource depletion for mineral and other natural resources. Eliminating this allowance would instead apply standard cost depletion tax law. The Administration estimates that making this change would generate $15 million General Fund in 2024-25 and $10 million ongoing.

Enhanced Oil Recovery Costs Credit. Current law allows specified independent oil producers a nonrefundable credit up to five percent of the qualified enhanced oil recovery costs for projects located in the state if oil prices fall above a specified amount for the preceding year. This proposal would eliminate the credit. The Administration does not assume any fiscal effect associated with this proposal over the next few years since crude oil prices are expected to remain above the price threshold used to determine when businesses can claim the credit.

Legislative Analyst's Office (LAO) Comments and Recommendations.

The LAO released their analysis of this proposal on February 22, 2024, and recommends approving the proposals to eliminate special rules for fossil fuel producers, given that they would lead to more consistent treatment in the state's tax rules and provide some revenue for the state.

The LAO also notes that the Legislature may wish to further examine remaining percentage depletion rules still in place for some resources, such as sand, gravel, gold, and lithium, to further simplify tax rules.

Staff Recommendation. Hold Open

Issue 18: Earned Income Tax Credit (EITC) Implementation Update (Information Only)

The California EITC is a state personal income tax provision that benefits individuals and families who earn less than $30,000. The amount of the credit depends on taxpayers “earned income” (which primarily includes wages and self-employment income), filing status, and the number of qualifying dependent children. The amount of the EITC initially rises with earnings, such that the greater the filer’s earnings, the larger the credit. The credit peaks at a certain income and then gradually phases out for higher levels of earnings. The tax credit is fully refundable. This means that if the amount of a taxpayer’s EITC is greater than his or her liability before applying the credit, then the state pays the taxpayer that difference. The Franchise Tax Board (FTB) annually adjusts the income thresholds and credit amounts for inflation, similar to the adjustment made at the federal level (although the state uses a California-specific inflation index).

In 2015, when California created the state EITC, it was designed to supplement the federal EITC for those working individuals and families whose incomes were relatively low. As the state EITC is based on the federal EITC, it also shares certain restrictions on eligibility. Specifically, eligible filers must be a U.S. citizen or resident alien. In addition, if they do not have a qualifying child, eligible filers must be at least age 25 and younger than age 65.

2023 CalEITC Credit

Number of qualifying children	California maximum income	CalEITC (up to)	IRS EITC (up to)
None	$30,950	$285	$600
1	$30,950	$1,900	$3,995
2	$30,950	$3,137	$6,604
3 or more	$30,950	$3,829	$7,430

Source: Franchise Tax Board

2022 Budget Act. The budget expanded the existing Young Child Tax Credit to zero-income filers, indexed the credit to inflation starting in the 2022 tax year, and created a Foster Youth Tax Credit to provide a $1,000 credit to young adults who were in the foster care system.

According to the most recent data from the Franchise Tax Board, as of December 31, 2022, for the 2021 tax year, 3.6 million claims were filed, for a total credit amount of $1.05 billion ($706 million in EITC and $347 million in YCTC).

2023 Budget Act. According to the most recent data from the Franchise Tax Board, as of December 31, 2023, for the 2022 tax year, 3.5 million claims were filed, for a total credit amount of $1.34 billion ($921 million in EITC, $413 million in YCTC, and $5 million in FYTC).

Earned Income Tax Credit (EITC), Young Child Tax Credit (YCTC) and Foster Youth Tax Credit (FYTC) as of December 31, 2023

Process Year 2023-Returns Processed with EITC Allowed	Count	Amount
Total EITC/YCTC/FYTC Allowed	3,458,196	$1,340,817,270
YTD EITC Allowed	.	$921,761,114
YTD YCTC Allowed	412,468	$413,972,649
YTD FYTC Allowed	4,892	$5,083,507
YTD Wages EITC/YCTC/FYTC Allowed	2,415,921	$836,445,739
YTD Self-Employment EITC/YCTC/FYTC Allowed	1,042,275	$504,371,531

Preparer Type	EITC	YCTC	FYTC
% Returns Self Prepared	40%	36%	88%
% Returns by Preparer	60%	64%	12%

	EITC	YCTC
YTD First Time Filers	283,273	23,307

	EITC	YCTC
YTD Repeat Claimants (also claimed credit on 2021 tax return) – xx% of current filer universe	55%	46%

Individual Taxpayer Identification Number (ITIN)
Earned Income Tax Credit (EITC), Young Child Tax Credit (YCTC) and Foster Youth Tax Credit (FYTC) as of December 31, 2023

Process Year 2023-Returns Processed with EITC Allowed	Count	Amount
Total EITC/YCTC/FYTC Allowed	231,974	$124,133,035
YTD EITC Allowed	.	$89,001,735
YTD YCTC Allowed	35,895	$35,128,051
YTD FYTC Allowed	/a	$3,249
YTD Wages EITC/YCTC/FYTC Allowed	135,315	$65,474,476
YTD Self-Employment EITC/YCTC/FYTC Allowed	96,659	$58,658,559

Preparer Type	EITC	YCTC	FYTC
% Returns Self Prepared	10%	9%	56%
% Returns by Preparer	90%	91%	44%

	EITC	YCTC
YTD First Time Filers	26,629	4,478

	EITC	YCTC
YTD Repeat Claimants (also claimed credit on 2021 tax return) – xx% of current filer universe	59%	47%

EITC Outreach

Many community-based organizations and other state and local government agencies (such as school districts and county social services offices) engage in efforts to raise awareness about the state and federal EITC. The state has continued to provide $10 million annually for state outreach grants to promote the California EITC and free tax preparation. Despite the availability of these resources, the California EITC is not being claimed at the anticipated rate. In some cases, low-income individuals are not required to file a return because they do not need the minimum return filing income thresholds. Thus, many California household do not receive the credits for which they are eligible, limiting the effectiveness of the EITC program. Finally, additional outreach related to the CalEITC may also assist individuals in drawing down federal assistance through the federal EITC.

In an effort to address EITC uptake, the state increased the amount for state outreach grants to $20 million for 2022-23 and 2023-24. Grantees used this funding to carry out statewide and local outreach efforts aimed at reaching eligible families.

Staff Recommendation. Information Only

Issue 19: IRS Direct Filer Portal Update (Information Only)

On January 29, 2024, the IRS began a pilot program allowing qualified individuals to file their federal tax return directly with the IRS using the IRS supported free file tool. For the 2023 tax filing window, the Direct File pilot was available to eligible taxpayers residing in California, Arizona, Florida, Massachusetts, New Hampshire, New York, Nevada, South Dakota, Tennessee, Texas, Wyoming and Washington.

Direct File does not prepare state returns. Specifically for California, the IRS directed Californians to a CalFile application once they completed the filing of their federal return.

Direct File was available to a limited pool of eligible taxpayers, specifically, those residing in a pilot state and reporting the following items for 2023:

Basics	Income	Deductions, Adjustments, and Credits
• Form 1040 and 1040-SR • Must be a U.S. resident • Any filing status • Dependents (claiming by non-custodial parents not supported) • Language and accessibility preferences (Schedule LEP, Form 9000)	• Wages • Interest of $1,500 or less • Unemployment compensation • Social Security and Tier I Railroad Retirement Benefits[7]	• Child Tax Credit and Credit for Other Dependents • Earned Income Tax Credit • Claiming credits after disallowance (Form 8862) • Standard deduction • Student loan interest deduction • Educator expenses deduction

Source: IRS Direct File Pilot Program: Filing Season 2024 After Action Report

Results:

On May 3rd, the IRS released the *IRS Direct File Pilot Program: Filing Season 2024 After Action Report*. Over the course of the pilot:

- 140,803 taxpayers submitted accepted returns.
- More than $90 million in tax refunds were issued.
- $35 million in tax balances due were collected.

Post-pilot survey results provided by the IRS from more than 15,000 Direct File users was very positive:

- 90% of respondents ranked their experience as Excellent or Above Average.
- When asked what they particularly liked, respondents most commonly cited Direct File's ease of use, trustworthiness, and that it was free.
- 86% of respondents said that their experience with Direct File increased their trust in the IRS.

- 90% of survey respondents who used customer support rated that experience as Excellent or Above Average.

In addition, through a survey, Direct File users noted that the system saved them time — filing their taxes with Direct File generally took less than an hour, and many reported filing in as little as 30 minutes. Almost half of Direct File users reported paying for tax preparation last year, and the Treasury Department estimated that Direct File users saved $5.6 million in tax preparation fees.

Other Key Facts:

- The new IRS service is optional and does not replace any existing filing options for taxpayers. The Direct File Portal is one more choice.

- How many taxpayers use free file services today:
  - CalFile: Approximately 80,000 – 90,000 annually
  - VITA: Approximately 410,000 in 2023 for California returns.
  - Federal Free Filing Alliance: An annual stat is not available. Per Free File Alliance Organization, 71 million returns over the last 22 years,
  - Tax software vendor free filing products: Unable to identify.

- According to Economic Security CA Action, the benefits of participation in and expansion of the pilot are significant for California Taxpayers:
  - It currently costs Americans an average of $150 and takes 9 hours to file taxes each year.
  - Last year, 58 percent of CalEITC, Young Child Tax Credit, and Foster Youth Tax Credit recipients paid to file their taxes, even though they qualify for free filing. The result is that an estimated $763 million of would-be tax refunds are diverted from low- and moderate-income families to tax prep companies every year.
  - This year under the limited scope of the pilot, 5.2 million California taxpayers were eligible for Direct File. If all of them had used it, they would have saved $832 million in filing fees alone. When Direct File is at scale in a few years, it will deliver $2.2 billion in total value to California taxpayers, between filing fees, time cost of filing, and additional federal EITC and Child Tax Credits claimed.

Federal Updates:

The most recent federal update (as of May 3rd) reflects that the IRS will make decisions regarding the future of Direct File later this spring.

Staff Recommendation. Information Only

Issue 20: Apportionment Factor Fix

Budget Proposal: The May Revision proposes trailer bill language to clarify existing law that when a corporation receives income that is excluded from taxable business income, then it must exclude this income from its apportionment factor formula.

Background: Multi-state and multi-national corporations pay taxes in California by computing how much of their taxable income is allocated to California using an apportionment factor, which represents the share of business activity a firm conducts in a state divided by its total business activity in the U.S. or in the world. A lower California apportionment factor will, all else equal, lead to lower California tax liability.

The Franchise Tax Board (FTB) has issued longstanding and consistent guidance to taxpayers that activities that are not subjected to taxation if they were to generate income, are required to be excluded from the apportionment formula. In July 2023, the Office of Tax Appeals (OTA) issued a decision that allowed for a reduction in a multi-state taxpayer's apportionment percentage through inclusion of 100 percent of repatriated dividends in their sales factor. Specifically, in the case, Microsoft made a water's-edge election in 2018 and took a 75 percent deduction for repatriated dividends from foreign subsidiaries that weren't part of the water's-edge group. However, Microsoft included 100 percent of those dividends in its sales factor denominator and sought a refund. The Franchise Tax Board argued that only the undeducted 25 percent of the dividends should have been included in the sales factor denominator, referencing its decision in Legal Ruling 2006-01. The FTB has since filed a petition for rehearing which the OTA subsequently denied.

This proposal is declaratory of existing law and expressly states that when a corporation receives income that is excluded from taxable business income, it must exclude this income from its sales factor. This aligns with the FTB's 2006 legal ruling and longstanding guidance on the matter, providing clear statutory authority and guidelines to taxpayers on how to determine what income should be included in their sales factor.

Fiscal Impact: The FTB estimates that, without action, around $1.3 billion in refunds are at risk based on similar tax filings from prior years, and there are additional annual prospective refunds of around $200 million due to lower apportionment factors for multi-state and multi-national firms.

Staff Recommendation: Hold Open.

Issue 21: Disaster Tax Relief TBL

Budget Proposal: The May Revision proposes trailer bill language to allow the Director of Finance to determine whether a taxpayer is affected by a state of emergency, when determining whether the postponement of certain tax-related deadlines applies to a taxpayer.

Background: Current law related to personal income tax and corporation tax provide for the postponement of certain tax-related deadlines in the case of a declared state of emergency though some conformity with federal income tax laws,. Under existing law, the Franchise Tax Board determines whether a taxpayer is affected by a state of emergency declared by the Governor.

This proposal would instead require the Director of Finance to determine whether a taxpayer is affected by a state of emergency and allow federal income tax laws, relating to the postponement of certain tax-related deadlines, to apply to an impacted taxpayer during an additional relief period that requests relief, as specified.

An impacted taxpayer means a taxpayer who, among other things, requests relief, as specified below, and who is required, upon request, to submit supporting documentation related to the declared disaster, as provided.

Supporting documentation would include:

- A letter from the Federal Emergency Management Agency that approves assistance to the impacted taxpayer pursuant to the federal Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. Sec. 5121 et seq.)
- A determination of award letter from the Small Business Administration disaster loan program that approves assistance to the impacted taxpayer.
- A statement, signed under penalty of perjury, from a tax professional indicating the impacted taxpayer's books and records that are necessary to meet a tax deadline were destroyed in the disaster area or jurisdiction for which the Governor has proclaimed a state of emergency.
- A law enforcement report issued to the impacted taxpayer, related to theft or looting due to lawlessness occurring during the disaster or emergency and in the disaster area or jurisdiction for which the Governor proclaimed a state of emergency.
- An insurance claim submitted by or on behalf of the impacted taxpayer, related to the disaster or conditions of emergency.
- Verification of disaster relief related to housing assistance, property damage, employment, public health, mortgage assistance, or business operation received from a government entity, banking institution, or organization described in Section 501(c)(3) of the Internal Revenue Code

Staff Comments: According to the Administration, this proposal would provide the state additional tools to determine and extend tax deadline postponement to taxpayers who are genuinely impacted by a natural disaster or other emergency. This is intended to prevent the issues that arose when the IRS extended tax deadlines to file for the 2022 tax year multiple times throughout 2023 until those tax deadlines were finally determined to be November 15, 2023 (7 months later than the regular April 15 tax deadline). These IRS extensions were applied broadly across the majority of counties in the state and were a key factor in preventing the state from making accurate tax revenue collection estimates.

Staff Recommendation: Hold Open.

9210 Local Government Financing

Issue 22: Vehicle License Fee Backfill

Budget Proposal: The Governor's budget does not include a proposal to backfill counties for the Vehicle License Fee (VLF) shortfall when their VLF shortfall exceeds available funding in their Education Revenue Augmentation Fund (ERAF) revenues. The Department of Finance estimates that it would cost $72.5 million to backfill revenues in the three counties with insufficient ERAF, San Mateo, Alpine, and Mono.

Background: The VLF is a tax on ownership of a registered vehicle. All revenue from vehicle license fees is distributed to counties and cities and used for general purposes and some specific, required health and human services-related purposes. In the mid 1990's the state lowered the VLF rate and reimbursed counties and cities for the reduced VLF revenue with state General Fund, known as the "VLF Backfill". Also in response to a severe budget deficit in the 1990's, the state met its legal obligation to fund schools by diverting specified amounts of local property taxes into an "Education Revenue Augmentation Fund" or ERAF in each county. ERAF funds are then transferred to local K-14 school entities. Some school districts, known as "Basic Aid School Districts" do not receive any ERAF allocations as local property taxes for K-14 education, already cover the level of funding provided for K-14 education, therefore the school district was not receiving state General Fund that could be offset by ERAF.

In 2004, a new mechanism for backfilling the VLF was created and a portion of property taxes from schools (through ERAF or other K-14 property taxes if ERAF was insufficient) was provided to counties and cities to replace the VLF Backfill, known as the "VLF swap". Prior to 2004, the amount counties and cities received was based on their populations. Today, counties and cities' VLF swap amounts increase annually based on growth in the assessed value of property within their boundaries. After the adoption of the VLF swap, statewide growth in assessed valuation—and, as a result, VLF swap payments—has significantly exceeded growth in VLF revenues. Although the VLF swap reduced the amount of property tax revenue in ERAF available to fund schools, state law specified that the shift would not affect the calculation of excess ERAF. Over the past several years, some counties, currently San Mateo, Alpine, and Mono have been unable to cover insufficiencies in their VLF funds with ERAF funding. When all or most school districts in the county are in basic aid status, the county is unable to direct enough K-14 property taxes or ERAF from school districts, as it will not generate a General Fund backfill.

The VLF shortfall has been relatively low in past years, but growing property tax revenue combined with declining enrollment has increased the shortfall and projections assume continued growth. General Fund appropriations have been provided in prior budget acts to cover the shortfall each year since 2012, ranging from a few hundred thousand up to $92 million depending on the year.

Staff Recommendation: Hold Open.

0515 BUSINESS, CONSUMER SERVICES, AND HOUSING AGENCY (BCSH)

Issue 23: Cut Supplemental Funding from Round Five of the Homeless Housing Assistance and Prevention (HHAP) Program

Governor's Budget Proposal: The Governor's January 2024 Budget and related budget trailer bill language propose to delay the availability for distribution of $260 million in supplemental Homeless Housing Assistance and Prevention (HHAP) funding from 2023-24 to 2025-26. *The Governor's May Revision now proposes to revert the $260 million back to the General Fund instead.*

Background: The HHAP program provides relatively flexible funding to large cities, counties, continuums of care, and tribal entities to address homelessness. There have been five rounds of HHAP funding since 2019.

Rounds 3 and 4 of HHAP originally included $360 million in "bonus" funding ($180 million for each round). This bonus money was actually just money taken out of the baseline HHAP allocation and held in reserve. The idea was that later, when performance data became available, those recipients who achieved specified homelessness reduction and prevention goals would receive a share of the bonus money while recipients who did not hit their targets would not. The intent was to provide a financial incentive for recipients to perform well.

In practice, however, the bonus funding concept proved problematic. For one thing, it encouraged recipients to set low performance goals for themselves in order to ensure that they would qualify for the bonus. For another, the bonus system had a perverse impact: it took resources from places with increasing (or more slowly decreasing) need and redirected those resources to places with decreasing need. Finally, by holding money in reserve, the bonus system artificially delayed distribution of some of the resources and services that communities and unhoused individuals needed to address immediate and critical needs.

With these drawbacks in mind, the 2023 Budget Act revised how the $360 million in HHAP Round 3 and 4 bonus money was to be handled. Specifically, the 2023 Budget Act directed Cal-ICH/HCD to distribute $100 million of the Round 3 and 4 bonus money together with the initial Round 5 HHAP distribution, thus deploying this money more quickly. The 2023 Budget Act then directed Cal-ICH/HCD to disburse the remaining $260 million in HHAP Round 3 and 4 bonus money beginning in 2024-25.

In light of the budget shortfall, the Governor's May Revision now proposes to cut this $260 million altogether and revert it back to the General Fund as budget savings.

As HHAP recipients and some advocates for the unhoused had already voiced opposition to the proposed delay of this funding, they will almost certainly have strong objections to this proposed cut.

Staff Comments: Unlike the Governor's January 2024 proposal to delay distribution of supplemental HHAP funding, the cut proposed in the May Revision will reduce the resources available to local entities to combat homelessness and the services that California's unhoused population will receive. Accordingly, the proposed cut is likely to make California's homelessness crisis worse.

To the degree that this proposed cut may be seen as a consequence of the recent State Auditor's report regarding state spending on homelessness prevention programs, the Subcommittee may wish to note that the audit did not conclude that HHAP funding was ineffective. Instead, the audit found that – for the time period studied by the Auditor – the state was not gathering sufficient data about the program to enable the Auditor to draw conclusions about its effectiveness. Since the Auditor's analysis was largely based on examination of early HHAP rounds, it may not fully reflect the current nature of the program. Indeed, as the Auditor observed in the report:

> The Legislature made significant changes to the program that began with Round 3, requiring that applicants establish measureable outcome goals, such as reducing the number of people experiencing homelessness and reducing the length of time that people remain homeless. To the extent CoCs establish meaningful outcome goals, the goals should provide better benchmarks against which the State can measure spending and evaluate cost-effectiveness.

Though these data collection and accountability mechanisms are now in place, HHAP recipients are still in the process of obligating and expending the corresponding HHAP funding. As a result, though HHAP data collection systems and requirements have gotten better, some lag remains between the implementation of these improvements and the availability of more detailed outcome data.

Staff Recommendation: Hold open.

Issue 24: Capture of Additional Savings from Administration of Homelessness Grant Programs

Governor's Budget Proposal: The Governor's January 2024 Budget proposed to recapture $100,676,000 in General Fund savings left over from the administrative set-asides associated with homelessness-related grant programs operated by the California Interagency Council on Homelessness (Cal-ICH). *The May Revision now proposes to recapture an additional $48,375,000 in administrative savings related to the operation of these programs.*

Background: Cal-ICH operates three major homelessness-related grant programs: the Homeless Housing Assistance and Prevention (HHAP) program; the Encampment Resolution Fund (ERF); and the Family Homelessness Challenge Grants (FHC) program. The funding for each of these programs includes set-asides to cover the state's costs of administration.

In recent years, Cal-ICH has been able to operate the programs without using all of the administrative set-asides available. As part of the Governor's January 2024 Budget, the Administration proposed to recapture some of the resulting savings. Specifically, the January Budget proposed reverting $19,975,000 in 2020-21 savings from HHAP program administration; $2,000,000 in savings from 2021-22 ERF program administration; $28,701,000 in savings from 2021-22 HHAP program administration; and $50,000,000 in savings from 2022-23 HHAP program administration; or a total of $100,676,000 in administrative savings.

Now, as part of the May Revision, the Governor proposes to revert further $48,375,000 in administrative savings from these homelessness-related programs. The additional savings include $14,835,000 from 2021-22 HHAP administration; $13,540,000 from 2022-23 ERF administration; and $20,000,000 from 2023-24 ERF administration.

Staff Comments: Because these are all state administrative savings, approving these proposals should not impact the resources available for homelessness services. Before approving the proposals, however, the Subcommittee may wish to satisfy itself that capturing these administrative savings will not diminish the ability of the program managers to effectively operate these grants while providing a positive customer service experience to grant recipients.

Staff Recommendation: Hold open.

Issue 25: New General Fund Allocations to Support California Interagency Council on Homelessness Activities

Governor's Budget Proposal: As part of the May Revision, the California Interagency Council on Homelessness (Cal-ICH) seeks a new General Fund allocation of $14,835,000 in 2024-25; $9,545,000 in 2025-26; and $7,795,000 annually from 2026-27 on to maintain 23 existing staff position and the contracts necessary to carry out Cal-ICH's statutory functions.

Background: The Legislature created Cal-ICH to establish a central hub convening, connecting and coordinating the activities of programs addressing homelessness throughout state government. As originally envisioned, Cal-ICH's role was also something akin to a specialized think-tank; it was supposed to gather data, conduct research, and provide an overarching strategic vision for the state's homelessness efforts. (SB 1380, Mitchell, Ch. 847, Stats. 2016.)

Not long after the establishment of Cal-ICH, the state also tasked it with the administration of three major homelessness grant programs: the Homeless Housing Assistance and Prevention (HHAP) program; the Encampment Resolution Fund (ERF); and the Family Homelessness Challenge Grants (FHCG). The funding for each of these grant programs included set-asides for administrative overhead. According to the Administration, Cal-ICH came to use part of these administrative set-asides to pay for Cal-ICH's other core functions as well.

For a variety of reasons, the 2023 Budget Act directed Cal-ICH to begin the process of transferring administration of HHAP, ERF, and FHCG to HCD. (See Issue 3 on the Agenda for this Subcommittee's April 18, 2024 Hearing for details about this transition.) The transfer is scheduled to be complete by the end of this fiscal year, June 30, 2024. Once this transition is over, Cal-ICH will no longer have access to the administrative set-aside it has been using to fund its core programming. As a result, Cal-ICH now needs alternative funding to maintain its core functions.

This budget proposal requests the requisite allocation from the General Fund. The request starts at nearly $15 million in 2024-25 and decreases through 2026-27, when it levels off at an annual amount of just under $8 million. The tapering effect is the result of up-front contracts and other start-up costs – such as information technology needs – that Cal-ICH expects to diminish after two or three years as the contracts are completed and the investments are in place.

Staff Comments: Without some alternative funding, Cal-ICH will not be able to carry out its core mission. Still, the requested allocation will require new General Fund spending at a time of significant General Fund deficits and when painful cuts are being contemplated for a wide variety of direct services to Californians – including the unhoused.

Given that context, the Subcommittee may wish to explore whether the Administration has exhausted all other possibilities for funding Cal-ICH's core work. For instance, the administrative set-asides that have funded that work up to now have not disappeared; they are merely being transferred over to HCD. Could some of that money be taken back from HCD and still utilized to pay for Cal-ICH's core work? As Issue 28 on this Agenda explains, HCD proposes to expand the staff it is dedicating to oversight over the HHAP, ERF, and FHC grant programs. The administrative set-asides will help to pay for that expansion. Still, the Subcommittee may wish to explore with the Administration whether there are enough resources in the administrative set-asides to cover this expansion and still redirect some resources back to Cal-ICH, thus reducing or possibly eliminating any new burden on the General Fund. Certainly, the significant administrative savings achieved by the HHAP, ERF, and FHC grant programs over the last several years suggests there may be some financial wiggle room there. (See Item 22 of this Agenda for details about these savings.)

Staff Recommendation: Hold open.

0968 TAX CREDIT ALLOCATION COMMITTEE (TCAC)

Issue 26: Additional Year of State Supplemental Low-Income Housing Tax Credits

Governor's Budget Proposal: As part of the May Revision, the Governor proposes to authorize the California Tax Credit Allocation Committee (TCAC) to award an additional $500 million in state Low-Income Housing Tax Credits (LIHTC) to support affordable housing development.

Background: The Low Income Housing Tax Credit (LIHTC) program functions as a mechanism to encourage private investment in affordable housing projects. The credits can support new construction or the rehabilitation of existing properties. In either event, the developer agrees to maintain the properties at affordable rental levels in exchange for the tax credit award.

By statute, California allocates a threshold amount to TCAC each year for award. (Rev. & Tax Code § 23610.5.) The amount of the allocation is adjusted annually for inflation. In 2023, it was around $122 million.

For the past several years, California has also elected to supplement this baseline statutory state LIHTC allocation with an additional $500 million. The Governor's January 2024 Budget did not include such a state supplemental LIHTC allocation. However, the May Revision now does.

As tax credits, rather than direct budget allocations, the proposed addition of $500 million more in state supplemental LIHTC does not impact the 2024-25 General Fund condition. At the same time, the Subcommittee should be cognizant that authorizing the issuance of tax credits now will result in a corresponding loss of General Fund revenues in future years.

Staff Comments: State LIHTC often provides a critical last layer to the "capital stack" that affordable housing developers must put together in order to proceed with a project. Without it, many potential projects will fall short and never get built. When that happens, any federal tax credits for which the project qualified get left on the table. For these reasons, the inclusion of another year of state supplemental LIHTC could be seen as a welcome policy development. However, the Subcommittee may wish to inquire about the likely utilization rate for these additional tax credits given that the Governor's current budget proposals also gut many of the state's other affordable housing funding programs. Absent those earlier layers in the capital stack, what is the risk that many would-be developers will never reach that last stage in which state LIHTC credits would provide the final necessary piece?

Staff Recommendation: Approve as budgeted.

1700 CIVIL RIGHTS DEPARTMENT (CRD)

Issue 27: Shift of Department Costs from General Fund to Civil Rights Enforcement and Litigation Fund

Governor's Budget Proposal. As part of the May Revision, the Governor requests to use $10 million from the Civil Rights Department's (CRD's) Civil Rights Enforcement and Litigation Fund to pay for CRD operations that would otherwise be paid for using 2024-25 General Funds.

Background: The CRD enforces many of California's civil rights laws. In some circumstances, that role includes engaging in civil litigation in the courts, either directly or in coordination with the Office of the Attorney General.

When CRD prevails in a case brought under the Fair Employment and Housing Act (FEHA, Gov. Code § 12900 et seq.), it may sometimes be entitled to recover its court costs and attorney fees from the civil rights violator. CRD can also obtain monetary awards through the courts pursuant to the equity in venture capital investment reporting program. (Bus. & Prof. Code § 22949.85.) Under that program, specified venture capitalists must report to CRD annually on the demographic make-up of the founding members of the companies that the venture capitalists invest in. If, after follow-up requests from CRD, a venture capitalist still fails to file the required report, CRD can seek a court order obligating the submission. If CRD prevails in such an action, the court can also impose a monetary penalty, payable to CRD.

Upon receiving awards in either of these ways, CRD deposits the money into a special fund designated for this purpose: the Civil Rights Enforcement and Litigation Fund. The statute governing the fund authorizes to be used to "offset the costs of the department" upon appropriation by the Legislature in the annual Budget Act. (Gov. Code § 12907(c).)

The Administration asserts that the Fund currently holds a balance of just over $10 million. It requests that the Legislature now appropriate this amount to help pay for CRD operations. Since these operational costs would otherwise come out of the General Fund, the shift results in a net savings to the 2024-25 General Fund of $10 million.

Staff Comments: If the current balance in the Enforcement and Litigation Fund is merely sitting in the account, then it may make sense to tap into now, as the state faces a significant budget shortfall. Before approving the use of the Enforcement and Litigation Fund for this purpose however, the Subcommittee may wish to satisfy itself that doing so would not in any way undermine the CRD's ability to carry out its civil rights enforcement mission.

Staff Recommendation. Hold open.

Issue 28: Expenses Associated with Relocation to May Lee Office Complex

Governor's Budget Proposal. As part of the May Revision, the Governor requests $1,188,000 from the 2024-25 General Fund to cover the one-time expenses associated with relocating the headquarters of the Civil Rights Department (CRD) from its present site in Elk Grove to the May Lee Office Complex in Sacramento.

Background: CRD reports that its headquarters have been located in a leased office space in Elk Grove for the past 19 years. In 2018, the State undertook an initiative to construct a new, state-of-the-art office complex on Richards Boulevard north of downtown Sacramento. This facility, known at the May Lee Office Complex, is now ready for CRD's occupation. CRD plans to move-in in July 2024.

CRD states that the new space will provide it with around 70,000 square feet of workspace, including 162 private offices, 23.5 support stations, and 11 special function rooms. This is more space than the Department has in Elk Grove. While the rent will be higher at the new facility, CRD asserts that "[c]onsolidation of physical infrastructure and services for CRD and other BCSH departmetns into a single facility managed by DGS will result in long-term cost reductions for maintenance and operations." In addition, CRD anticipates that the move "will improve the overall capabilities, effectiveness, and efficiencies of the overall facility's infrastructure services."

CRD explains that the request is currently one-time only as DGS is "currently in the process of determining ongoing rental rates for the May Lee Office Complex."

Staff Comments: Although this is a one-time cost as requested, rent is a recurring expense, so this item will presumably appear again in future years. To understand the longer-term fiscal impact, the Subcommittee may wish to probe further regarding what the eventually rental rate will be for CRD's new headquarters, even if that is necessarily an estimate at this time.

Staff Recommendation. Hold open.

2240 HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT (HCD)

Issue 29: Further Cuts to Affordable Housing Development Funding Programs

Governor's Budget Proposal: The Governor's January 2024 Budget included $1.2 billion in proposed reductions to a series of the affordable housing development funding programs operated by the Housing and Community Development Department (HCD). *The May Revision now proposes to cut an additional $500 million from the remaining balances in these programs.*

Background: HCD operates a series of programs that provide funding to affordable housing projects in the form of grants and loans. The Governor's January 2024 Budget proposed significant cuts to a number of these programs, but left an unallocated balance behind in some of them. The May Revision now proposes to revert these additional balances back to the General Fund as well, as follows:

- *Multifamily Housing Program (MHP)* -- MHP is HCD's flagship affordable housing program. Among HCD's portfolio of affordable housing programs, MHP funds the broadest scope of possible projects. Under MHP, HCD provides low-interest, long-term deferred payment loans on a competitive basis to applicants proposing projects consisting of new construction, rehabilitation, and preservation of permanent and transitional rental housing for lower-income households. The 2023 Budget Act contained a General Fund augmentation for MHP in the amount of $325 million. The Governor's January 2024 Budget proposed to revert $250 million of that back to the General Fund, leaving a balance of $75 million. The May Revision now proposes to revert that remaining $75 million as well.

- *Infill Infrastructure Grants (IIG)* -- As its name implies, the IIG program provides competitive grants to help fund the installation of infrastructure necessary for the construction of high-density affordable and mixed-income housing in locations designated as infill. Thus, IIG does not necessarily fund the production of housing units directly. Rather it provides the necessary funding to enable infill housing projects that might not be financially viable otherwise. The 2022 Budget Act allocated $200 million in General Fund for IIG. The 2023 Budget Act provided an additional $225 in General Fund. The Governor's January 2024 Budget proposed to pull $200 million of the 2023 amount back, leaving a balance of $25 million available for award under the IIG program. The May Revision now proposes to revert that remaining $25 million as well as an additional $10 million left over from the 2022 Budget.

- *Foreclosure Intervention Housing Preservation Program (FHIPP)* -- FIHPP is designed to provide a pool of money that qualified non-profit housing entities can use to make purchases using a procedural mechanism within California's non-judicial foreclosure system. That procedural mechanism enables prospective owner-occupants, current tenants, public entities, and specified non-profit housing organizations to acquire residential property by meeting or exceeding the winning foreclosure auction bid. The purchasing entity must then operate the property as affordable housing for at least 55 years. The 2021

Budget Act directed $500 million to FIHPP and HCD began the process of building the necessary systems to administer it. The 2023 Budget Act then reduced the overall allocation slightly and extended distribution for several years into the future. The Governor's January 2024 Budget proposed to eliminate those future commitments to FIHPP altogether, for total General Fund savings of $247.5 million, still leaving $237.5 million of the original $500 million dedicated to the FIHPP program. The May Revision now proposes to revert that remaining balance, less $1 million that has apparently been spent on program administration already.

- *Adaptive Reuse Program* – The Adaptive Reuse Program is a variation of the Infill Infrastructure Grant program also known as IIG-Catalytic. The program focuses on projects that facilitate conversion of properties to residential use, such as a former office building being transformed into housing. The 2022 Budget Act included $400 million for the Adaptive Reuse Program. Of that original amount, $127.5 million remains unallocated and the May Revision now proposes to revert that amount back to the General Fund.

- *Veterans Housing and Homeless Program (VHHP)* -- VHHP provides "long-term loans for the acquisition, construction, rehabilitation, and preservation of affordable multifamily housing for veterans and their families to allow veterans to access and maintain housing stability." Though VHHP was historically funded through bonds, the 2022 Budget Act included General Fund allocations of $50 million for VHHP in both 2022-23 and again in 2023-24. The Governor's January 2024 Budget proposed to revert all $50 million of the 2023-24 VHHP funds back to the General Fund. The May Revision now proposes to revert an additional $26.3 million left unallocated from the 2022-23 funds as well.

Staff Comments: The recently passed Behavioral Health Infrastructure Bond Act (Proposition One of 2024) provides a dedicated stream of funding to VHHP and should backfill the proposed cuts to that program if they become part of the final budget act. Some of the cuts outlined above could also be backfilled in the event that the Legislature passes a housing bond such as AB 1657 (Wicks, 2024) and the voters approve it at the November ballot. The Subcommittee may wish to inquire about the Administration's current level of interest in backing such a bond should the Legislature pass it.

In addition, the Subcommittee may wish to press the Administration to address how these proposals would impact the state's ability to leverage available federal Low Income Housing Tax Credits, given that the proposed cuts could cause developers to abandon projects for which they would otherwise obtain federal tax credits.

Staff Recommendation: Hold open.

Issue 30: Additional Staffing for Increased State Oversight of Homelessness-Related Grant Programs and Laws

Governor's Budget Proposal: The Governor's January 2024 budget requested authority for the Housing and Community Development Department (HCD) to hire four additional staff to help provide greater oversight over the homelessness-related grant programs being transferred from the California Interagency Council on Homelessness (Cal-ICH) to HCD on July 1, 2024. *The May Revision now seeks authority for HCD to hire an additional 13 staff for this purpose as well as in order to build out the Governor's proposed Housing and Homelessness Accountability and Results Partnership Unit (HHARP), an expansion of the existing Housing Accountability Unit.*

Background: Cal-ICH currently administers three major homelessness-related grant programs: the Homeless Housing Assistance and Prevention (HHAP) program; the Encampment Resolution Fund (ERF); and the Family Homelessness Challenge (FHC) Grants. The 2023 Budget Act directed Cal-ICH to transfer management of these programs to HCD by July 1, 2024, both to take advantage of HCD's grant program management expertise and to allow Cal-ICH to focus on its core functions.

The Governor's January 2024 budget included a budget change proposal that implemented part of this transition by switching 22 existing grants management staff positions from Cal-ICH to HCD. At the same time, the budget change proposal requested the addition of four more staff to help HCD carry out its new homelessness-related grant management operations. The four new positions would be paid for as part of the existing administrative cost set-asides already included within each program.

Now, as part of the May Revision, HCD seeks to expand its request for additional personnel by a a further 13 positions, for a total of 17. The corresponding budget change proposal detailing this request was still forthcoming at the time this Agenda as being written. The Subcommittee may wish to seek greater detail about the proposal during the hearing.

Staff Comments: A recent examination of the state's homelessness-related programs by the State Auditor's Office concluded that in many instances, the state lacked sufficient oversight and data collection to know whether its homelessness-related programs are effective. That conclusion suggests that hiring some additional personnel to oversee the programs may be warranted. Still, the Subcommittee may wish to explore exactly how this staffing augmentation will address the problems identified.

The proposed staffing expansion will be paid for out of the administrative set-asides that are included with the funding for each homelessness-related grant program. As a result, the increased authority will not put any immediate new pressure on the General Fund. However, the Subcommittee may wish to inquire about the fiscal impacts of the augmentation in out years, when the grant programs may cease to exist.

Finally, the Subcommittee may want to utilize the opportunity to press the Administration for more details about its vision for the HHARP unit. What role will it play? How will it help to ensure that homelessness-related grant recipients are using the resources effectively? What homelessness-related laws will the HHARP unit enforce and how will it go about that?

Staff Recommendation: Hold open.

Issue 31: Staffing Increases for Implementation and Administration of the Behavioral Health Infrastructure Bond Act (Proposition One of 2024)

Governor's Budget Proposal: As part of the May Revision, the Housing and Community Development Department (HCD) requests authority to hire 39 new ongoing positions over the next several years in order to implement and administer the Behavioral Health Infrastructure Bond Act (BHIBA), also known as Proposition One of 2024, recently passed by the voters.

Background: In March 2024, California voters approved Proposition One by a narrow margin. The Proposition consisted of two components: the Behavioral Health Services Act and BHIBA. The BHIBA portion is a $6.38 billion general obligation bond the proceeds from which will go toward funding for development of a variety of behavioral health treatment, residential care settings, and supportive housing. The intent is to provide appropriate care facilities for Californians experiencing mental health conditions and substance use disorders, a significant fraction of whom are currently unhoused.

This budget request provides the necessary administrative personnel at HCD to administer the funding made available through BHIBA. As all of these new positions would be funded through the bond proceeds, this proposal would not place any new pressure on the General Fund. Relatedly, the May Revision also includes placeholder trailer bill language authorizing the use of up to three percent of the bond proceeds for administration of the program.

Staff Comments: At the time this Agenda was written, the Administration had not yet provided details about this proposal. The Subcommittee may wish to use the hearing as an opportunity to press for further specifics about the proposed positions and the work that will be performed.

Staff Recommendation: Hold open.

Senate Budget and Fiscal Review—Scott D. Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, May 30th, 2024
9:30am or Upon Adjournment of Session
State Capitol – Room 113

Consultants: Elisa Wynne, Diego Emilio J. Lopez, and Timothy Griffiths

ITEMS FOR VOTE ONLY

Public Comment

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 FOR VOTE ONLY

0110/0120/0130 SENATE, ASSEMBLY, LEGISLATIVE ANALYST'S OFFICE (LAO)

Issue 1: Senate, Assembly, LAO Support

Legislative Proposal: Adjust the Legislature's budget from the January budget pursuant to Proposition 140 (1990), in line with the State Appropriations Limit Adjustment of 4.03 percent, for a total ongoing adjustment of $16.6 million General Fund.

Staff Recommendation: Approve Legislative proposal.

OVERALL BUDGET

Issue 2: Reserve Requirements

Legislative Proposal: In order to update the state's reserve requirements the Legislative proposal supports responsible budgeting reforms as follows:

- Increase the size of the Rainy Day Fund from 10 percent of the state budget to 20 percent.

- Exclude deposits into the Rainy Day Fund from the state appropriations limit (Gann Limit). so that the budget is not constitutionally required forced to allocate funds and instead can responsibly deposit funds into budget reserves to protect against future downturns.

In addition, trailer bill language would create a "Projected Surplus Temporary Holding Fund" to avoid the problems the state has experienced since 2022, when the state's revenue forecast was significantly higher than actual revenues. Under this proposal, a portion of any projected surplus will be deposited into the Fund where they will be held until a future year once it is clear whether the projected surplus of revenues actually materialized.

Staff Recommendation: Approve placeholder trailer bill language to create the Projected Surplus Temporary Holding Account proposal.

0509 GOVERNOR'S OFFICE OF BUSINESS & ECONOMIC DEVELOPMENT (GO-BIZ)

Issue 3: CalCompetes Grant Funding

Budget Proposal. The Governor's January Budget initially proposed to allocate $60 million to the Governor's Office of Business and Economic Development (GO-Biz) for an additional year of CalCompetes grants, derived from $50 million in new 2024-25 General Fund spending and $10 million left unspent from prior rounds of CalCompete grants. However, the Governor's May Revision proposes to withdraw this new spending and revert the unspent $10 million back to the General Fund instead.

Background: The CalCompetes program provides financial incentives to bring business to California or keep them here. In the first several years after it was established in 2014, CalCompetes offered all of its financial incentives in the form of non-refundable tax credits. The state added a grant-based component to CalCompetes beginning in 2021-22. Under the grant-based programs, CalCompetes provides up-front funding to businesses in exchange for their promise to make investments and to hire in California. The 2021-22, 2022-23 and 2023-24 Budget Acts each included one-time General Fund allocations of $120 million to the CalCompetes Grant program. The Governor's January Budget proposed to extend the CalCompetes Grant program for another year but the proposed allocation was just $60 million. Of that total amount, the Governor's January Budget would have included $50 million in new 2024-25 General Fund spending and $10 million left over from prior rounds when a CalCompetes grant applicant withdrew from contention late in the process. However, the May Revision proposes to withdraw the $50 million in new General Fund and reverts the leftover $10 million back to the General Fund instead.

Status: The Governor's original proposal was heard by the Subcommittee on May 2, 2024 and held open. The revised proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Concur in the May Revision withdrawal of the January proposal for $50 million in new spending. Approve the $10 million reversion proposed in the May Revision.

Issue 4: Recapitalization of the Infrastructure State Revolving Fund (ISRF)

Budget Proposal. As modified by the May Revision, the Governor's budget proposes to allocate $25 million in new, one-time General Fund spending to recapitalization of the Infrastructure State Revolving Fund (ISRF) at the California Infrastructure and Economic Development Bank (IBank) within the Governor's Office of Business and Economic Development (GO-Biz).

Background: The ISRF provides comparatively low-interest loan financing to local governments for public infrastructure projects. Upon establishing the ISRF in 1999, the state infused it with $162 million in initial capital. Since then, the ISRF has repeatedly leveraged that initial capital by selling revenue bonds and then loaning out the proceeds. The ISRF now projects that it has reached or is coming very close to the limit past which it can no longer stretch its original capital. Accordingly, the Governor's January Budget sought an additional infusion of $50 million in capital for the ISRF. In light of the budget shortfall, the May Revision then proposed a reduced recapitalization amount to just $25 million.

Status: The Governor's original proposal was heard by the Subcommittee on May 2, 2024 and held open. The smaller, revised proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Approve the reduced allocation request as reflected in the May Revision.

Issue 5: City of Fresno Infrastructure Plan Funding

Budget Proposal. As modified by the May Revision, the Governor's budget proposes to delay $200 million in funding for the City of Fresno's Public Infrastructure Plan until 2026-27.

Background: The City of Fresno's Public Infrastructure Plan calls for investment in a high speed rail station, parking, green space, walkability, and water projects in the downtown area. Among other things, the City of Fresno expects these improvements to facilitate significant new residential housing development in the vicinity. The 2023 Budget Act included an allocation of $250 million in General Fund to support implementation of this Plan, distributed according to the following schedule: $50 million in 2023-24; $100 million in 2024-25; and $100 million in 2025-26. In order to achieve 2024-25 and 2025-26 General Fund savings, however, the Governor's Budget proposal, as modified by the May Revision, pushes back the distribution schedule as follows: $50 million in 2023-24; $200 million in 2026-27.

Status: The Governor's original proposal was heard by the Subcommittee on May 2, 2024 and held open. The revised proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Approve the delay as modified by the May Revision.

Issue 6: Small Business Technical Assistance Expansion Program

Budget Proposal. The Governor's May Revision proposes to cut $13 million in General Fund in 2024-25 and again in 2025-26 from the Small Business Technical Assistance Expansion Program (TAEP; a.k.a the Techincal Assistance Program or TAP) housed within the Office of the Small Business Advocate (CalOSBA) at the Governor's Office of Business and Economic Development (GO-Biz).

Background: CalOSBA operates a network of small business assistance offices throughout the state. These offices provide advice and assistance to entrepreneurs and small business owners as they seek their fortune. Established as part of the 2018 Budget Act, the TAEP program is intended to expand upon that network of providers by offering funding "to create new or enhanced consulting and training services through existing and new Centers, including satellite offices." CalOSBA indicates that it gives priority for TAEP funding to proposals that "fill opportunity gaps for underserved small business owners to help them reach greater parity in revenue creation and job creation." This includes "new or enhanced services to underserved small business owners, including women, people of color and veteran-owned businesses and businesses in low-wealth, rural and disaster-impacted communities included in a state or federal emergency declaration or proclamation." The 2018 Budget Act allocated $17 million in General Fund to TAEP annually for five years. The 2022 Budget Act increased this funding by $6 million – for a total of $23 million annually – and made it ongoing. To help address the budget deficit, the May Revision now proposes to trim this annual allocation back to $10 million annually for fiscal years 2024-25 and 2025-26.

Status: This proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Reject the proposed cut.

Issue 7: Performing Arts Equitable Payroll Fund

Budget Proposal. The Governor's May Revision proposes to revert $12.5 million from the Performing Arts Equitable Payroll Fund back to the General Fund.

Background: The California Venues Grant Program and the California Small Nonprofit Performing Arts Grant Program both provided subsidies to assist elements of the live arts community to withstand revenue losses during the COVID-19 pandemic when in-person performances were not possible. As of last year, both programs had unspent balances left over, so the 2023 Budget Act took the combined total, $12.5 million, and redirected it to fund the new Performing Arts Equitable Payroll Fund established under SB 1116 (Portantino, Ch. 731, Stats. 2022). As its name implies, the Performing Arts Equitable Payroll Fund grant program was designed to support the workers behind live performances by reimbursing many payroll expenses.

Status: This proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Reject the proposed cut.

Issue 8: Small Agricultural Business Drought Relief Grant Program

Budget Proposal. As part of the May Revision, the Governor proposes to revert the unspent balance of $5 million in the Small Agricultural Business Drought Relief Grant Program back to the General Fund.

Background: The 2022 and 2023 Budget Acts allocated a combined $75 million to the Small Agricultural Business Drought Relief Grant Program to help smaller growers and producers stay in business in spite of drought conditions in California, particularly in the period 2020-2022. Eligible applicants had to have 100 or fewer workers and had to show financial impacts from specified, severe drought conditions. Of the total amount allocated to the program, $5 million remains unspent. To help address the budget deficit, the May Revision now proposes to sweep that unspent amount back into the General Fund.

Status: This proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Approve the May Revision proposal.

Issue 9: Local Government Budget Sustainability Fund

Budget Proposal. As part of the May Revision, the Governor proposes to revert the $50 million balance in the Local Government Budget Sustainability Fund back to the General Fund.

Background: The 2022 Budget Act established the Local Government Budget Sustainability Fund to provide grants to support revenue stability in counties with high unemployment and high rates of poverty. The fund was initially infused with $300 million, but the Governor's 2023 May Revision proposed to pull $250 million from that original amount and redirect it toward implementation of the Downtown Fresno Infrastructure Plan. That change was ultimately incorporated into the final 2023 Budget Act, leaving the Local Government Budget Sustainability Fund with a balance of just $50 million. Now, in light of the budget shortfall, the Governor's 2024 May Revision proposes to revert that remaining amount back to the General Fund.

Status: This proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Approve a reversion from the Local Government Budget Sustainability Fund to the General Fund in the amount of $40 million and redirect the remaining $10 million to Imperial County for use consistent with the intent behind the Local Government Budget Sustainability Fund as set forth in Government Code Section 12100.121.

0511 Government Operations Agency (GovOps)

Issue 10: Cradle-to-Career eTranscript California Practical Tools Reappropriation

Request. The GovOps, Office of Cradle-to-Career Data System (C2C) is requesting to reappropriate $600,000 General Fund in 2024-25, to fund and manage workload related to the Cradle-to-Career Data System.

This proposal was heard on March 7, 2024 and held open.

Staff Recommendation. Approve as budgeted.

Issue 11: Solution - Leadership Initiatives

Request. The Governor's budget proposes a reversion of $500,000 for Leadership Initiatives in 2023-24.

Staff Recommendation. Approve as budgeted.

Issue 12: Solution – Language Access Pilot Carryover Reversion

Request. The Governor's budget and May Revision proposes a total reversion of $4.8 million from the Language Access Pilot in 2023-24

Staff Recommendation. Approve as budgeted.

0515 Business, Consumer Services, and Housing Agency (BCSH)

Issue 13: Capture of Savings from Administration of Homelessness-Related Grant Programs

Budget Proposal. The Governor's January Budget proposed to capture $100,676,000 in General Fund savings left over from the administrative set-asides associated with homelessness-related grant programs operated by the California Interagency Council on Homelessness (Cal-ICH). The May Revision proposes to capture an additional $48,375,000 in administrative savings related to the operation of these programs.

Background: Cal-ICH operates three major homelessness-related grant programs: the Homeless Housing Assistance and Prevention (HHAP) program; the Encampment Resolution Fund (ERF); and the Family Homelessness Challenge Grants (FHC) program. The funding for each of these programs includes set-asides to cover the state's costs of administration. In recent years, Cal-ICH has been able to operate the programs without using all of the administrative set-asides available. As part of the Governor's January Budget, the Administration proposed to recapture some of the resulting savings. Specifically, the January Budget proposed reverting $19,975,000 in 2020-21 savings from HHAP program administration; $2,000,000 in savings from 2021-22 ERF program administration; $28,701,000 in savings from 2021-22 HHAP program administration; and $50,000,000 in savings from 2022-23 HHAP program administration; or a total of $100,676,000 in administrative savings. As part of the May Revision, the Governor proposed to revert a further $48,375,000 in administrative savings from these homelessness-related programs. The additional savings include $14,835,000 from 2021-22 HHAP administration; $13,540,000 from 2022-23 ERF administration; and $20,000,000 from 2023-24 ERF administration.

Status: The Governor's January proposal was heard by the Subcommittee on April 18, 2024 and held open. The May Revision proposal was heard by the Subcommittee on May 16, 2024 and held open.

Staff Recommendation. Approve the budget proposal as modified by the May Revision.

Issue 14: New General Fund Allocations to Support Core California Interagency Council on Homelessness Activities

Budget Proposal. As part of the May Revision, the California Interagency Council on Homelessness (Cal-ICH) seeks a new General Fund allocation of $14,835,000 in 2024-25; $9,545,000 in 2025-26; and $7,795,000 annually from 2026-27 on, to maintain 23 existing staff position and the contracts necessary to carry out Cal-ICH's core statutory functions.

Background: The Legislature created Cal-ICH to establish a central hub convening, connecting and coordinating the activities of programs addressing homelessness throughout state government. As originally envisioned, Cal-ICH's role was also something akin to a specialized think-tank; it was supposed to gather data, conduct research, and provide an overarching strategic vision for the state's homelessness efforts. (SB 1380, Mitchell, Ch. 847, Stats. 2016.) Not long after the establishment of Cal-ICH, the state also tasked it with the administration of three major homelessness grant programs: the Homeless Housing Assistance and Prevention (HHAP) program; the Encampment Resolution Fund (ERF); and the Family Homelessness Challenge Grants (FHCG). The funding for each of these grant programs included set-asides for administrative overhead. According to the Administration, Cal-ICH came to use part of these administrative set-asides to pay for Cal-ICH's other core functions as well. For a variety of reasons, the 2023 Budget Act directed Cal-ICH to begin the process of transferring administration of HHAP, ERF, and FHCG to the Housing and Community Development Department (HCD). The transfer is scheduled to be complete by the end of this fiscal year, June 30, 2024. Once this transition is over, Cal-ICH will no longer have access to the administrative set-aside it has been using to fund its core programming. As a result, Cal-ICH now needs alternative funding to maintain its core functions. This budget proposal requests the requisite allocation from the General Fund. The request starts at nearly $15 million in 2024-25 and decreases through 2026-27, when it levels off at an annual amount of just under $8 million. The tapering effect is the result of up-front contracts and other start-up costs – such as information technology needs – that Cal-ICH expects to diminish after two or three years as the contracts are completed and the investments are in place.

Status: This proposal was heard by the Subcommittee on May 16, 2024 and held open.

Staff Recommendation. Approve the May Revision proposal.

Issue 15: Supplemental Funding from Round Five of the Homeless Housing Assistance and Prevention (HHAP) Program

Budget Proposal. As modified by the May Revision, the Governor's budget proposes to revert a $260 million 2023-24 allocation to the Homeless Housing Assistance and Prevention (HHAP) program back to the General Fund.

Background: Rounds 3 and 4 of HHAP originally included $360 million in "bonus" funding ($180 million for each round). This bonus money was comprised of money taken out of the baseline HHAP allocation and held in reserve. The idea was that later, when performance data became available, recipients who achieved specified homelessness reduction and prevention goals would receive a share of the bonus money while recipients who did not hit their targets would not. The 2023 Budget Act revised how the $360 million in HHAP Round 3 and 4 bonus money was to be handled. Specifically, the 2023 Budget Act directed Cal-ICH/HCD to distribute $100 million of the Round 3 and 4 bonus money on a formula basis together with the initial Round 5 HHAP distribution, thus deploying this money more quickly. The 2023 Budget Act went on to instruct Cal-ICH/HCD to disburse the remaining $260 million in HHAP Round 3 and 4 bonus money beginning as early as 2024-25. Initially, the Governor's January Budget proposed to delay distribution of these funds until 2025-26. In light of the budget shortfall, the Governor's May Revision instead proposes to cut the $260 million altogether and revert the savings back to the General Fund.

Staff Recommendation. Approve the budget proposal as modified by the May Revision. [Note: this recommendation is related to the recommendation to add an allocation of $1 billion in 2024-25 General Fund for a sixth Round of HHAP.]

Issue 16: Encampment Resolution Fund

Budget Proposal. Reversion of $100 million in funds previously allocated to the Encampment Resolution Fund (ERF) but not yet awarded or spent.

Background: ERF provides grant funding to local entities on a competitive basis for the purpose of addressing specific homeless encampment sites within their jurisdictions. As part of the process of removing the targeted encampments, ERF grant recipients are supposed to transition encampment residents to alternative housing. Most of the funding allocation for ERF has already been awarded and the corresponding local work is underway. The final round of ERF awards is not complete, however, and the Administration indicates that $100 million remains in the program. The State Auditor's recent report on state homelessness-related grant programs was unable to determine the cost-effectiveness of the ERF program due to a lack of complete outcome data.

Status: The Subcommittee reviewed the Encampment Resolution Fund status and performance as part of an informational item during its hearing on April 18, 2024, but has not previously heard this specific proposal.

Staff Recommendation. Revert the $100 million previously allocated to ERF back to the General Fund.

0650 Governor's Office of Planning & Research (OPR)

Issue 17: Departmental Reorganization

Budget Proposal. The Governor's January Budget proposed a general reorganization of the Governor's Office of Planning and Research, but offered limited details pending the May Revision. The Governor's May Revision then set forth the full scope of the proposal including, among other things:

- Establishment of a new Governor's Office of Service and Community Engagement (Cal-SERVE) encompassing what is now California Volunteers, the Office of Community Partnerships and Strategic Engagement, the Youth Empowerment Commission.

- Transfer of the Jobs First Unit from OPR to the Governor's Office of Business and Economic Development (GO-Biz).

- Transfer of the Zero Emissions Vehicle Program from OPR to GO-Biz.

- Transfer of the California Initiative to Advance Precision Medicine from OPR to the Health and Human Services Agency.

- Changing the name of the remaining elements of OPR to the Governor's Office of Climate and Land Use Innovation (GO-CALI).

Background: OPR has grown rapidly in recent years, both in terms of its size and the scope of its mission. Numerous and varied new initiatives have been assigned to OPR, including CalVolunteers, the Office of Community Partnership and Strategic Communication (OCPSC), the Racial Equity Commission (REC), and the Youth Empowerment Commission (YEC), among others. Reflecting this expansion, OPR's budget has risen from just $54 million in 2016-17 to a proposed $1.1 billion in 2024-25. The Governor's reorganization proposal seeks to: (1) narrow OPR's programs to key land use and climate-related programing; (2) spin off OPR's service-related programs into a separate entity; and (3) transfer to other departments those current OPR programs that have logical thematic links to those other departments.

Status: An basic outline of this proposal was heard by the Subcommittee on March 7, 2024 and held open. A more detailed version of this proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Reject the proposal at this time, while inviting the Administration to pursue reorganization of the Department through the Little Hoover Commission, the policy process, or the budget process in 2025 so that the proposal may be vetted adequately.

Issue 18: Information Technology Unit

Budget Proposal. As part of the May Revision, the Governor's Office of Planning and Research (OPR) requests a new, ongoing General Fund allocation of $3.7 million to for information technology.

Background: Although the size and complexity of OPR has grown significantly in recent years, until 2023-24, OPR relied on the Governor's Office to meet its informational technology needs. Last year, OPR sought and eventually received $5.3 million in ongoing General Fund to establish its own, internal IT unit. OPR now seeks a further $3.7 million in ongoing General Fund for additional "baseline" IT costs associated with "day-to-day IT operation and infrastructure, including hardware, software, and other IT needs that needed to be established as part of the transition" away from reliance on the IT unit in the Office of the Governor.

Status: This proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Reject the proposal at this time, while inviting the Administration to request information technology funding for the reorganized OPR once its new size and scope has been determined.

Issue 19: Staff and Budgetary Augmentations Associated with Transition to Civil Service

Budget Proposal. As part of the May Revision, the Governor's Office of Planning and Research (OPR) requests a new, ongoing General Fund allocation of $977,000 and the authority to hire six new positions to address increased administrative workload associated with its previously-approved transition to civil service staffing.

Background: Unlike employees in most other state government departments, the staff at OPR has long lacked civil servant status. Last year, as part of its effort to evolve into a more traditional government department, OPR sought and received authorization through the budget process to begin transitioning its exempt staff into the civil service ranks. OPR now states that "[t]here is a need to address the increased workload and strengthen the Human Resources Office to ensure efficiency and compliance with all state and federal laws."

Status: This proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Approve the May Revision proposal.

Issue 20: California Education Learning Lab

Budget Proposal. As part of the May Revision, the Governor proposes to reduce the General Fund allocation to the California Education Learning Lab by $5.5 million in 2024-25 and 2025-26.

Background: The California Education Learning Lab was established as part of the 2018 Budget Act. As described by the Learning Lab itself, the intent was to "improve learning outcomes and close equity gaps across California's public higher education segments, particularly in the Science, Technology, Engineering, and Math (STEM) disciplines." The Learning Lab provides competitive grants to "innovative, intersegmental, faculty-led projects that leverage technology tools and the science of human learning to foster student success in online and hybrid learning environments."

Status: This proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Approve the May Revision proposal.

Issue 21: Golden State Awards

Budget Proposal. As part of the May Revision, the Governor proposes to revert $9.9 million from the Golden State Awards program back to the General Fund.

Background: The Golden State Awards program is designed to give monetary rewards to individuals or teams at or associated with California's public institutions of higher education who develop innovative practices. Awards can cover any activity deemed innovative and high impact, including but not limited to programs that improve student outcomes, research on climate change, and research on low-carbon industries. The 2022 Budget Act allocated $10 million in General Fund to the Golden State Award program. In light of the budget shortfall, the Governor's May Revision now proposes to revert $9.9 million of that amount back to the General Fund.

Status: This proposal was heard by the Subcommittee on May 20, 2024 and held open.

Staff Recommendation. Approve the May Revision proposal.

Issue 22: California Environmental Quality Act Judicial Streamlining

Budget Proposal. Through the Governor's January Budget, the Office of Planning and Research (OPR) seeks authority for nine positions and an annual allocation of $2.3 million from the General Fund from 2024-25 through 2033-34 to "implement the newly adopted and newly renewed judicial streamlining provisions in the Public Resources Code for certain infrastructure and environmental leadership development projects."

Background: OPR plays a key role in administration of the California Environmental Quality Act (CEQA).(Pub. Resources Code § 21000 *et seq.*) OPR runs the state CEQA Clearinghouse, a bureaucratic hub where lead agencies must file specified notices and environmental documents for review, storage, and appropriate distribution. In addition, OPR provides key guidance on the application of CEQA through the regular publication of CEQA guidelines, the provision of technical assistance to state and local government agencies; and acting as the arbiter of disputes regarding the CEQA obligations of various public agencies. Last year, SB 149 (Caballero, Ch. 60, Stats. 2023) provided for judicial streamlining of CEQA lawsuits challenging development projects meeting specified environmental requirements and contributing critical infrastructure to the state. In addition, SB 149 extended existing CEQA judicial streamlining for certain defined "environmental leadership" projects for an additional ten years. OPR indicates that it needs the additional staffing and resources set forth in the Governor's January Budget in order to implement these aspects of SB 149.

Status: This proposal was heard by the Subcommittee on March 7, 2024 and held open.

Staff Recommendation. Approve $2.3 million annually in 2024-25, 2025-26, and 2026-27 only, allowing for consideration of future funding when there will be more precise information about the amount of funding required to carry out the statutory mandate.

Issue 23: Neighbor-to-Neighbor Program

Budget Proposal. The Governor's May Revision proposes reductions of $5 million in 2024-25 General Fund and $10 million in 2025-26 General Fund from the Neighbor-to-Neighbor program in Governor's Office of Planning and Research (OPR).

Background: Through a website and grant awards, the Neighbor-to-Neighbor program builds a network of community leaders willing to check in on neighbors and help educate them about disaster preparedness and climate response. In 2022, the Governor sought $10 million in annual General Fund allocations through 2025-26 for the program. At the time, the LAO questioned the need for the program:

> The Administration has not articulated a clear and compelling need for the state to provide the various new coordination, outreach marketing, and training services proposed by the Neighbor-to-Neighbor proposal.

In light of the budget shortfall, the Governor now proposes to cut half of the Neighbor-to-Neighbor program's budget allocation in 2024-25 and all of its budget allocation in 2025-26.

Status: The Subcommittee considered possible reductions to the Neighbor-to-Neighbor program as part of an informational item on March 7, 2024. The Subcommittee has not previously heard this specific proposal.

Staff Recommendation. Approve the proposed reductions and further reduce the 2024-25 General Fund allocation to the program by an additional $5 million.

Issue 24: Youth Empowerment Commission Staffing

Budget Proposal. The Governor's May Revision proposes, beginning in fiscal year 2027-28, to cut $1.5 million in General Fund from staffing expenses for the Youth Empowerment Commission.

Background: AB 46 (Luz Rivas, Ch. 660, Stats. 2021) created the California Youth Empowerment Commission, now housed within the Governor's Office of Planning and Research (OPR). The Commission consists of thirteen voting commissioners between 14 and 25 years of age and meeting specified requirements, with eleven members appointed by the Governor, one at-large member appointed by the Senate Committee on Rules, and one at-large member appointed by the Speaker of the Assembly, along with several ex-officio, nonvoting members from various geographic regions of the state. The Commission is advisory in nature, for the main purpose of providing meaningful opportunities for civic engagement to improve the quality of life for California's disconnected and disadvantaged youth. OPR receives an annual budget allocation of $1.5 million to staff the commission until it sunsets on January 1, 2030. (Gov. Code § 8276.) This proposal would cut that allocation beginning in 2027-28.

Status: This proposal has not previously been heard by the Subcommittee.

Staff Recommendation. Approve the May Revision proposal and adopt placeholder budget trailer bill language as to this budget change only.

Issue 25: Conservation and Economic Development Projects Associated with the Decommissioning of the Diablo Canyon Nuclear Power Plant

Budget Proposal. The Governor's January Budget proposed to delay allocation of General Funds for conservation and economic development projects associated with the decommissioning of the Diablo Canyon Nuclear Power Plant from $150 million in 2024-25 to $50 million each in 2025-26, 2026-27, and 2027-28. The Early Action package approved delay of $110 million rather than the full $150 million, resulting in a new allocation schedule of $40 million in 2024-25, $50 million in 2025-26, $50 million in 2026-27, and $10 million in 2027-28. The May Revision renews the proposal to delay the $40 million from 2024-25 to 2027-28 and also proposes to shift the cost from the General Fund to the Greenhouse Gas Reduction Fund (GGRF).

Background: SB 846 (Dodd, Ch. 239, Stats. 2022) extended the Diablo Canyon nuclear power plant's license to operate for an additional five years. SB 846 also included a series of associated measures. Of particular relevance to this budget proposal, the bill called for expenditure of $160 million – $10 million in fiscal year 2023-24 and $150 million in 2024-25 – to support implementation of a plan for environmental enhancements, access to powerplant lands, and local economic development "in a manner that is consistent with existing decommissioning efforts." In light of the budget shortfall, the Governor proposes to delay allocation of the $150 million and shift the cost onto the Greenhouse Gas Reduction Fund.

Status: The Subcommittee has not previously heard these proposals.

Staff Recommendation. Reject the Governor's renewed, May Revision proposal to delay a further $40 million from 2024-25 to 2027-28. Approve shifting the allocations of $40 million in 2024-25, $50 million in 2025-26, $50 million in 2026-27, and $10 million in 2027-28 from the General Fund to the Greenhouse Gas Reduction Fund.

Issue 26: Office of Community Partnerships and Strategic Communications

Budget Proposal. Taken together, the Governor's January Budget and the May Revision propose to revert $5 million originally allocated to the Office of Community Partnerships and Strategic Communications (OCPSC) in 2023-24 back to the General Fund, and to reduce OCPSC's 2024-25 and 2025-26 General Fund allocations by $50 million in each year.

Background: Housed within the Governor's Office of Planning and Research, OCPSC "manages the State's highest priority community engagement and public awareness efforts." In particular, OCPSC conducts public messaging campaigns related to COVID-19 vaccination, participation in the Census, the use of Individual Tax-Payer Identification Numbers (ITIN) to access earned-income tax credits, water conservation, and protection against the dangers of extreme heat. OCPSC's messaging campaigns operate through partnerships with trusted, culturally and linguistically competent community-based organizations in order to ensure that the information communicated reaches all Californians effectively. The 2022 Budget established the OCPSC and allocated $65 million in General Fund to it annually through 2025-26. Of the annual total, $15 million goes to administration and statewide programming; OCPSC disburses the remaining $50 million to the community-based organizations with which it partners in the form of grants. The Governor's combined proposed cuts would eliminate the grant program.

Status: The cuts proposed in the Governor's January Budget were heard by the Subcommittee on March 7, 2024, and partially adopted in the Early Action package. During the March 7, 2024 hearing, the Subcommittee also considered the possibility of further cuts to OCPSC as an informational item; however the specific additional cuts proposed by the May Revision have not previously been heard by the Subcommittee.

Staff Recommendation. Approve both the January Budget and May Revision reductions to OCPSC in full and further reduce the 2025-26 General Fund allocation to the program by an additional $15 million.

Issue 27: College Corps

Budget Proposal. The Governor's May Revision proposes a $10 million reduction in the General Fund allocation for the Youth Job Corps in 2024-25 and 2025-26, respectively.

Background: The College Corps program places college students in community-based organizations to perform service related to K-12 education, climate action, and food insecurity. In exchange for completing 450 hours, the students earn $7,000 in the form of a living allowance and a $3,000 scholarship. The program was established in 2021 using federal funds. The 2022 Budget Act extended the program into 2024-25 and 2025-26 with a $73 million annual state General Fund allocation. The Governor's proposal would lower that allocation to $63 million. Currently, there are no General Fund commitments to College Corps after 2025-26.

Status: This proposal has not previously been heard by the Subcommittee.

Staff Recommendation. Approve the proposed reduction and further reduce the General Fund allocation by an additional $13 million annually in 2024-25 and 2025-26, resulting in General Fund allocations to College Corps of $50 million in each of those years.

Issue 28: Youth Job Corps

Budget Proposal. The Governor's May Revision proposes a $10 million ongoing reduction in the annual General Fund allocation for the Youth Job Corps.

Background: The Youth Job Corp program provides structured employment and related wraparound services to high-risk youth, through population-based grants to California's largest cities and competitive grants to other local jurisdictions. The program was established in 2021 as a two-and-a-half year pilot using federal funds. In 2023, the Governor proposed a new, ongoing state General Fund allocation of $78.1 million to continue the program indefinitely. At the time, the LAO recommended rejecting the proposal citing the existence of other youth employment programs, the lack of data to assess the success of the pilot phase, and the lost opportunity to spend the funds on other commitments. Nonetheless, after initially considering a more modest amount for the program, the Legislature ultimately acquiesced to the full proposal. This proposal would lower the annual Youth Job Corps allocation to $68.1 million from 2024-25 on.

Status: The Subcommittee considered possible reductions to the College Corps as an informational issue on March 7, 2024. The specific May Revisions proposal to reduce College Corp funding by $10 million beginning in 2024-25 has not previously been heard by the Subcommittee.

Staff Recommendation. Approve the proposed reduction and further reduce the annual General Fund allocation by an additional $18.1 million, resulting in an annual, ongoing General Fund allocation to Youth Job Corps of $50 million beginning in 2024-25.

Issue 29: Climate Action Corps

Budget Proposal. The Governor's May Revision proposes to shift the cost of the Climate Action Corps from the General Fund to the Greenhouse Gas Reduction Fund.

Background: The Climate Action Corps places an annual cohort of "climate action fellows" with tribal communities, nonprofits, public agencies and educational institutions where they conduct urban greening, organic waste and edible food recovery and wildfire resiliency projects. The program pays its fellows a $33,000 living allowance and offers them job training in addition to a $10,000 scholarship, among other benefits. The program also operates a shorter, summer fellows program and facilitates climate-related voluntarism more generally. In 2023, the Governor proposed converting the program from a pilot phase to permanent status and doubling its size in 2026. Specifically, the Governor sought $4.7 million in General Fund annually from 2023-24 through 2025-26 (a continuation of the existing funding level) followed by $9.3 million from 2026-27 on. At the time, the Legislative Analyst's Office had recommended rejecting this proposal on the ground that the pilot phase of the program had not produced sufficient data to justify the expansion and concern that the additional funding would take away from other spending priorities. There are also other, similar programs such as the Youth Conservation Corps. The Legislature ultimately acquiesced to this request and it was included in the 2023 Budget Act. The Governor's 2024 May Revision proposes to shift the resulting costs onto the Greenhouse Gas Reduction Fund.

Status: The Subcommittee considered reductions to the Climate Action Corps as an informational item on March 7, 2024. The proposal to shift the cost of the Climate Corp has not previously been heard by the Subcommittee.

Staff Recommendation. Reject the proposal to shift the cost of the Climate Action Corps to the Greenhouse Gas Reduction Fund and instead reduce the General Fund allocation to the program as follows: by $4.7 million in 2024-25 and 2025-26; and by $9.3 million in 2026-27 and ongoing.

0840 State Controller's Office

Issue 30: Accounting Book of Record (BOR) and Annual Comprehensive Financial Report (ACFR) FI$Cal Implementation – May Revision

Request. The State Controller's Office (SCO) requests the following resources for consulting services and 1.0 three-year limited-term (LT) position to support the SCO BOR Functionality Migration (BFM) to FI$Cal.

- 2024-25: $9.5 million ($6 million General Fund and $3.5 million Central Service Cost Recovery Fund (CSCRF)
- 2025-26 and 2026-27: $134,000 ($83,000 General Fund and $51,000 CSCRF)

Furthermore, SCO requests reappropriation of $3.2 million General Fund of the unencumbered balance of funding that was appropriated in the 2023 Budget Act in support of the BFM and on-time reporting of the Annual Comprehensive Financial Report.

Staff Recommendation. Approve as budgeted.

Issue 31: California Department of Technology (CDT) Rate Increase Support – May Revision

Request. The State Controller's Office (SCO) requests $1 million ($511,000 General Fund, $311,000 Central Service Cost Recovery Fund (CSCRF), and $180,000 Unclaimed Property Fund (UPF)] in 2024-25 and 2025-26 to support the increased mainframe computer infrastructure and operational costs associated with services provided by the California Department of Technology.

Staff Recommendation. Approve as budgeted.

Issue 32: California State Payroll System (CSPS) Project – May Revision

Request. The State Controller's Office (SCO) requests the following resources to support the CSPS Project as it passes from planning to execution, following the anticipated successful completion of the California Department of Technology's Project Approval Lifecycle (PAL) Stage 4 process in 2024-25.

$3.2 million ($2 million General Fund and $1.2 million Central Service Cost Recovery Fund (CSCRF)) in 2024-25 and partial reappropriation of the unencumbered balance of funding for the System Integrator (SI) contract that was appropriated in the 2023 Budget Act.

Staff Recommendation. Modifies proposal to approve the $70.1 million reversion of SCO appropriations in 2023-24, reject the reappropriation of $41.6 million General Fund from 2023-24 to 2024-25, and approve $3.2 million for ancillary contracts.

0890 Secretary of State

Issue 33: CAL-ACCESS Replacement System (CARS) Project

Request. The Governor's budget requests, for the Secretary of State (SOS), $16.8 million General Fund in 2024-25 to support the CARS Project and replace the outdated CAL-ACCESS system for electronic reporting of campaign finance and lobbying activities mandated by the Political Reform Act.

This proposal was heard on May 2, 2024.

Staff Recommendation. Approve as budgeted.

Issue 34: Notary Automation Program Replacement Project (NAP 2.0)

Request. The Governor's budget requests, for SOS, $4.02 million Business Fees Fund in 2024-25 for the continuation of the Notary Automation Program Replacement Project (NAP 2.0).

This proposal was heard on May 2, 2024.

Staff Recommendation. Approve as budgeted.

Issue 35: Help America Vote Act – 2024 Election Security Federal Grant Award – May Revision

Request. The Secretary of State received a grant award from the U.S. Election Assistance Commission authorized under the Consolidated Appropriations Act of 2024 to improve the administration of elections for Federal office to enhance election technology and make election security improvements. To adhere to all federal applicable requirements, the Secretary of State requests $2.4 million Federal Trust Fund in 2024-25 to accept and expend the grant award, and $475,000 General Fund in 2025-26 to meet the 20 percent state match requirement. This request will enable the Secretary of State to continue implementation of the statewide mandates of the Help America Vote Act of 2002.

Staff Recommendation. Approve as budgeted.

Issue 36: Chaptered Legislation Proposals – May Revision

Request. The May Revision requests resources from the General Fund and special funds to implement statutory requirements associated with legislation chaptered in 2023.

- AB 243 (Alanis), Chapter 642, Statutes of 2023: Child Abduction Victim Access to Safe at Home – $507,000 General Fund in 2024-25 and $473,000 in 2025-26 and annually thereafter to implement the provisions of AB 243, which expands the Safe at Home program eligibility to child abduction victims and their household members.
- AB 1539 (Berman), Chapter 692, Statutes of 2023: Elections: Double Voting – Requests two positions and $479,000 ($305,000 Business Fees Fund and $174,000 General Fund) in 2024-25 and $337,000 ($215,000 Business Fees Fund and $122,000 General Fund) in 2025-26 and annually thereafter.
- SB 29 (Glazer), Chapter 696, Statutes of 2023: Political Reform Education Program – requests $303,000 General Fund in 2024-25 and $293,000 in 2025-26 and annually thereafter to implement the requirements of Chapter 696, Statutes of 2023.
- SB 696 (Portantino), Chapter 291, Statutes of 2023: Remote Online Notarization – Requests the following resources to create and operate the remote online notarization program $6.3 million and 16 permanent positions in 2024-25, $3.5 million and six permanent positions in 2025-26, $5.1 million and 17 permanent positions in 2026-27, and $5 million in 2027-28 and annually thereafter from the Business Fees Fund.

Staff Recommendation. Approve as budgeted.

0911 Citizen's Redistricting Commission

Issue 37: Services Rate Increase – May Revision

Request. The May Revision requests provisional language to allow the Department of Finance to augment funding available to the Citizens Redistricting Commission to meet cost increases for services provided by the California Department of Technology and the Department of General Services. This language includes notification of the request to the fiscal committees of the Legislature and the Joint Legislative Budget Committee.

Staff Recommendation. Adopt placeholder provisional language.

0950 State Treasurer's Office

Issue 38: Additional Funding for Banking Operations Item Processing Software Service & May Revision Budget Bill Language

Request. The Governor's budget requests, for the State Treasurer's Office, $135,000 ($81,000 General Fund and $54,000 Central Service Cost Recovery Fund (CSCRF)) in 2024-25 and annual increases ongoing per the terms of the new eight-year contract signed with the vendor of STO's Item Processing software service.

Budget Bill Language. The Governor's January budget included trailer bill language (TBL) to exempt STO from certain statewide contracting requirements overseen by the Department of General Services (DGS). The TBL was intended to address the challenges the STO has encountered with newer DGS purchasing requirements that slowed the STO's process of completing time-sensitive contracts with vendors that supply critical, daily data to them.

In recent discussions with DGS, it was learned that DGS will be developing and implementing a more permanent administrative solution for certain electronic subscription purchasing processes in the next year or two that will help not only the STO, but all departments. Therefore, instead of the proposed TBL, DOF has coordinated with DGS and STO on an alternative BBL proposal that limits the contracting exemption to two years (in effect until July 1, 2026) or upon implementation of an suitable updated purchasing process by DGS, whichever is sooner, and a per-contract dollar cap ($300,000). This short-term BBL, proposed at May Revision, would provide the STO the flexibility to ensure the timeliness of these electronic subscription contracts and DGS the time to develop/implement their updates to the electronic subscription purchasing process.

This proposal was heard on May 2, 2024.

Staff Recommendation. Approve as budgeted and adopt placeholder provisional language.

Issue 39: Jesse Unruh Building Network Equipment Costs – May Revision

Request. The May Revision requests $729,000 in 2024-25 for IT network equipment essential for establishing the Local Area Network (LAN), the Wide Area Network (WAN), and the network security infrastructure at its renovated headquarters, the Jesse Unruh Building.

Staff Recommendation. Approve as budgeted.

0954 SCHOLARSHARE INVESTMENT BOARD

Issue 40: Eliminate CalKIDS Financial Literacy Outreach Support – May Revision

May Revision. The May Revision proposes an ongoing reduction of $5 million to the CalKIDS Program Financial Literacy Outreach program.

This issue was heard on May 20, 2024.

Staff Recommendation. Approve as budgeted and include an additional reversion of $9.5 million in unspent funds from the program from 2022-23 and 2023-24.

2245 CALIFORNIA HOUSING FINANCE AGENCY (CALHFA)

Issue 41: Future of the California Dream for All Program

Budget Proposal. Adopt placeholder budget trailer bill language directing CalHFA to assess outcomes from the first two rounds of the California Dream for All program and develop a plan for the next phase.

Background: The California Dream for All program is designed to help low- and moderate-income Californians achieve homeownership for the first time, opening up a key path to building intergenerational wealth. The program offers shared-appreciation loans to eligible first-time, first generation homebuyers so that they can make a 20 percent down payment toward the purchase of their new home. Reaching this down payment threshold unlocks financial benefits for the homebuyers in reduced interest and mortgage insurance payments. Later, when the program participants go to sell their home, the California Dream for All program receives back the money it contributed to the down payment, plus 20 percent of any accrued value in the home, or 15 percent in the case of lower-income households. These amounts then return to the pool of funds that the program can use to assist still more first-time California homebuyers. In this way, the program is intended to be financially self-sustaining.

CalHFA first opened the California Dream for All program to applications in late March 2023. By Early April 2023, CalHFA was forced to pause the program due to "unprecedented demand." CalHFA's announcement stated that:

> The $300 million in Dream For All funding currently available to CalHFA is expected to help more than 2300 low- and moderate-income Californians purchase their first homes. CalHFA is extremely proud of this successful program and pleased to make such a profound difference in the lives of so many Californians who have achieved the dream of homeownership.

Although the Dream for All program has shown promise, current budget constraints mean it is unlikely that additional General Fund resources will be available in the near term to restock the

Dream for All loan pool. One possible solution to this problem involves opening up the program to outside entities. Community foundations, school districts, local governments, and institutions of higher education might be interested in contributing to the loan pool as a way to invest in first generation homeownership in the neighborhoods they serve or among their employees.

This proposal would direct CalHFA to investigate this and other possible next phases for the Dream for All program.

Staff Recommendation. Approve placeholder budget trailer bill language that:

- Directs CalHFA, in consultation with the staff of the Senate and Assembly Committees on Budget, Housing, and Banking, and the Legislative Analyst's Office, to do all of the following:
  - Assess outcomes and lessons learned from the first two rounds of the Dream for All program;
  - Report any recommendations for further improvements to the existing program;
  - Develop options for the next phase of the program, including but not limited to alternative funding options, and an option to expand the program to enable participation by entities such as local governments, public institutions of higher education, non-profits, school districts, community foundations, and large private employers; and,
  - Provide to the Legislature an initial progress report by October 31, 2024 and a final report by January 31, 2025.

1111 Department of Consumer Affairs

Issue 42: BreEZe System Maintenance and Credit Card Funding

Request. The Governor's budget requests, for the Department of Consumer Affairs (DCA), an increase in expenditure authority of $14.7 million, from various special funds, in 2024-25 and ongoing for the continued support of BreEZe's maintenance and operations. Of the total amount requested, $5.7 million in 2024-25 and ongoing will fund credit card processing fees on behalf of users of credit card payments.

This proposal was heard on May 2, 2024.

Staff Recommendation. Approve as budgeted.

Issue 43: Pharmacy – Enforcement and Compounding Workload

Request. The Governor's budget requests, for the State Board of Pharmacy, five positions and an increase in expenditure authority of $1.3 million in 2024-25 and $1.2 million in 2025-26 and ongoing, Pharmacy Board Contingent Fund, Professions and Vocations Fund, to address increased workload related to desk investigations, sterile compounding renewals, and growth in program operations.

This proposal was heard on May 2, 2024.

Staff Recommendation. Approve as budgeted.

Issue 44: Legislative Workload – May Revision

Request. The May Revision requests DCA requests $1.84 million and 11 positions in 2024-25 and $1.75 million in 2025-26 and ongoing to address licensing and enforcement related workload associated with implementation of SB 815 (Roth), Chapter 294, Statutes of 2023.

Staff Recommendation. Approve as budgeted.

Issue 45: Controlled Substance Utilization Review and Evaluation System (CURES) Fund Technical Adjustment– May Revision

Request. The May Revision requests $917,000 in 2024-25, and $1.1 million in 2025-26 and ongoing to reimburse the Department of Justice for increased maintenance and operation costs to support CURES and for increased personal services costs.

Staff Recommendation. Approve as budgeted.

Issue 46: Loan to the Contingent Fund of the Medical Board of California– May Revision

Request. The May Revision requests a $27 million loan from the High Polluter Repair or Removal Account to the Contingent Fund of the Medical Board of California to achieve fund solvency. It is also requested that provisional language be added to allow the repayment of all or a portion of this loan if certain criteria are met.

Staff Recommendation. Approve as budgeted and adopt placeholder provisional language.

1115 Department of Cannabis Control

Issue 47: Increased Program Workload and Legal Services

Request. The Governors' budget proposes an increase in expenditure authority of $8.2 million Cannabis Control Fund in 2024-25, $8.1 million in 2025-26 and 2026-27, $1.3 million in 2027-28 and ongoing, and seven positions for DCC to address the workload of the Department's Legal Affairs and Laboratory Services Divisions.

This proposal was heard on March 7, 2024.

Staff Recommendation. Approve as budgeted.

Issue 48: Cannabis and Cannabis Products: Health Warnings (SB 540) – May Revision

Request. May Revision requests an increase in expenditure authority of $173,000 Cannabis Control Fund and one position in 2024-25, and $165,000 in 2025-26 and ongoing to implement SB 540 (Laird), Chapter 491, Statutes of 2023.

Staff Recommendation. Approve as budgeted.

Issue 49: Cannabis Provisional Licenses: Local Equity Applicants (SB 51) – May Revision

Request. May Revision requests an increase in expenditure authority of $297,000 Cannabis Control Fund and two positions in 2024-25 and $281,000 in 2025-26 and ongoing to fulfill the requirements of SB 51 (Bradford), Chapter 593, Statutes 2023.

Staff Recommendation. Approve as budgeted.

Issue 50: Enforcement Support – May Revision

Request. May Revision requests an increase in expenditure authority of $588,000 Cannabis Control Fund in 2024-25 and $42,000 in 2025-26 and ongoing to purchase and maintain 14 undercover vehicles for the Department's Enforcement Division.

Staff Recommendation. Approve as budgeted.

Issue 51: Local Jurisdiction Retail Access Grant Program – May Revision

May Revision. The May Revision proposes to revert $16.5 million General Fund in 2023-24 for the Local Jurisdiction Retail Access Grant Program in the Department of Cannabis Control.

Staff Recommendation. Hold Open.

1700 Civil Rights Department (CRD)

Issue 52: Enforcement, Investigation, and Conciliation Enhancements

Budget Proposal. The Governor's January Budget proposed to eliminate $1.4 million in 2024-25 General Fund previously committed for the enhancement of the Civil Rights Department's (CRD's) enforcement, investigation, and conciliation capacities.

Background: As part of the 2022 Budget Act, CRD requested and was allocated temporary funding to enhance its enforcement, investigation, and conciliation capacities. Specifically, CRD asked for "$1.4 million General Fund in 2022-23, 2023-24, and 2024-25 to decrease the wait time between complaint intakes and investigative appointments, and to increase the number of complaints successfully conciliated and settled by investigators." Data provided by CRD indicates that the additional funding has had its intended effect. This proposal would now cut the final year from these resources.

Status: This issue was heard in Subcommittee on March 14, 2024 and held open.

Staff Recommendation. Reject the proposal.

Issue 53: Community Conflict Resolution and Conciliation Funding

Budget Proposal. The Governor's January Budget proposed to cut $883,000 in General Fund previously committed to the Civil Rights Department's (CRD's) Community Conflict Resolution and Conciliation efforts in 2024-25.

Background: As part of the 2022 Budget Act, CRD requested and was allocated temporary funding to conduct Community Conflict Resolution and Conciliation efforts. Specifically, CRD asked for "$889,000 General Fund in 2022-23 and $883,000 General Fund in 2023-24 and 2024-25 to provide resources and training to communities facing hate incidents or other conflict over discriminatory practices." This proposal would cut the final year from these resources; however, CRD has expressed confidence that it can carry on the Community Conflict Resolution and Conciliation work utilizing other, existing department resources.

Status: This issue was heard in Subcommittee on March 14, 2024 and held open.

Staff Recommendation. Approve as budgeted.

Issue 54: Shift of Department Costs from General Fund to Civil Rights Enforcement and Litigation Fund

Budget Proposal. As part of the May Revision, the Governor requests to use $10 million from the Civil Rights Department's (CRD's) Civil Rights Enforcement and Litigation Fund to pay for CRD operations that would otherwise be paid for using 2024-25 General Funds.

Background: The Administration asserts that the Enforcement and Litigation Fund currently holds a balance of just over $10 million. It requests that the Legislature now appropriate this amount to help pay for CRD operations. Since these operational costs would otherwise come out of the General Fund, the shift results in a net savings to the 2024-25 General Fund of $10 million. In hearing testimony, the Department of Finance indicated that CRD currently receives an annual allocation of around $500,000 from the Enforcement and Litigation Fund, that CRD generally spends this allocation on attorney positions and expert witness fees, and that the allocation would continue to be available to the department even if the proposed fund shift is approved.

Status: This issue was heard in Subcommittee on May 16, 2024 and held open.

Staff Recommendation. Approve the May Revision proposal.

Issue 55: Expenses Associated with Relocation to May Lee Office Complex

Budget Proposal. As part of the May Revision, the Governor requests $1,188,000 in one-time funding from the 2024-25 General Fund to cover expenses associated with relocating the headquarters of the Civil Rights Department (CRD) from its present site in Elk Grove to the May Lee Office Complex in Sacramento.

Background: CRD reports that its headquarters have been located in a leased office space in Elk Grove for the past 19 years. In 2018, the State undertook an initiative to construct a new, state-of-the-art office complex on Richards Boulevard north of downtown Sacramento. This facility, known at the May Lee Office Complex, is now ready for CRD's occupation. CRD plans to move-in in July 2024.

Status: This issue was heard in Subcommittee on May 16, 2024 and held open.

Staff Recommendation. Approve the May Revision proposal.

1701 Department of Financial Protection & Innovation

Issue 56: Continuation of California Consumer Financial Protection

Request. The Governor's budget requests, for the Department of Financial Protection and Innovation (DFPI), an increase in expenditure authority of $14 million Financial Protection Fund in 2024-25 and in 2025-26 to continue funding for 55 positions for the implementation of the California Consumer Financial Protection Law (CCFPL).

This proposal was heard on May 2, 2024.

Staff Recommendation. Approve as budgeted.

Issue 57: Continuation of Debt Collector Licensing and Regulation

Request. The Governor's budget requests an increase in expenditure authority of $11.8 million Financial Protection Fund in 2024-25 and 2025-26, for DFPI, to support 51 positions authorized to license, regulate, and examine debt collectors pursuant to SB 908 Limon, (Chapter 163, Statutes of 2020), the Debt Collection Licensing Act (DCLA).

This proposal was heard on May 2, 2024.

Staff Recommendation. Approve as budgeted.

Issue 58: Digital Financial Asset Law (AB 39)– May Revision

Request. The May Revision requests an increase in expenditure authority in the amount of $7.9 million Financial Protection Fund and 26 positions in 2024-25, $11.6 million and 41 positions in 2025-26, and $11.4 million and 41 positions in 2026-27 and ongoing to implement AB 39 (Grayson), Chapter 792, Statutes of 2023, the Digital Financial Assets Law.

Staff Recommendation. Approve as budgeted.

Issue 59: Rent Increase – New May Lee State Office Complex – May Revision

Request. The May Revision requests an increase in expenditure authority of $1.1 million in 2024-25 to address a one-time increase in rent and to avoid the need to redirect funds from its various programs.

Staff Recommendation. Approve as budgeted.

Issue 60: Venture Capital Companies: Reporting (SB 54) – May Revision

Request. The May Revision requests $1.6 million one-time General Fund and three positions in 2024-25 and $846,000 Financial Protection Fund in 2025-26 ongoing to implement SB 54 (Skinner), Chapter 594, Statutes of 2023, venture capital company reporting requirements. The Department also requests statutory changes to implement the provisions of SB 54.

Staff Recommendation. Modify the proposal to provide for $1.6 million Financial Protection Fund in 2024-25, and three positions in $846,000 Financial Protection Fund in 2025-26 and ongoing. Additionally adopts placeholder trailer bill language.

1703 Privacy Protection Agency

Issue 61: The California Delete Act (SB 362) – May Revision

Request. The May Revision requests $901,000 Data Brokers' Registry Fund in 2024-25 and three positions, and $608,000 in 2025-26 and ongoing to meet the Agency's responsibilities under SB 362 (Becker, Chapter 709, Statutes of 2023), known as the California Delete Act. The request also includes provisional language for implementation.

Staff Recommendation. Approve as budgeted and adopt placeholder provisional language.

2100 Department of Alcoholic Beverage Control (ABC)

Issue 62: IT Maintenance and Operations and File Conversion

Request. The Governor's budget requests three positions and an increase in expenditure authority of $2.3 million Alcohol Beverage Control Fund in 2024-25 and $1.3 million in 2025-26 for the Department of Alcoholic Beverage Control to provide continued support of existing modernization efforts related to the Business Modernization and Responsible Beverage Service (BizMod/RBS) project and to begin the eRecords project, which will convert licensing files from paper to a digital format that can be efficiently accessed by staff statewide, including licensing and enforcement staff in the field.

This proposal was heard on March 7, 2024.

Staff Recommendation. Approve as budgeted.

2240 HOUSING & COMMUNITY DEVELOPMENT DEPARTMENT (HCD)

Issue 63: Homeless Housing Assistance and Prevention Program Round 6

Budget Proposal. The Legislative Plan proposes to allocate $1 billion from the 2024-25 General Fund for the purpose of funding a sixth round of the Homeless Housing Assistance and Prevention Program (HHAP).

Background: HHAP provides large cities, counties, continuums of care, and tribal entities with formula-based funding through which they can address regional homelessness using a broad variety of strategies and services. To date, there have been five rounds of HHAP funding providing a total of just under $4 billion. Each of these HHAP Rounds was funded on a one-time basis, leaving no guarantee that this funding would be available in future years. Nonetheless, the 2023 Budget included a statement from the Legislature expressing its intent to fund a sixth round of HHAP. The Governor's January Budget Proposal did not include any funding for a sixth round of HHAP. However, in commentary accompanying that proposal the Administration indicated that:

> As part of the spring budget process, the Administration will commit to working closely with the Legislature on additional funding to support local governments' response to the homeless crisis—assuming local governments deliver on the performance commitments made under HHAP 3 and HHAP 4, and on the regional planning and coordination requirements of HHAP 5.

Status: The issue of whether to allocate funding for a sixth round of HHAP was taken up by the Subcommittee on April 18, 2024 and held open.

Staff Recommendation. Allocate $1 billion in 2024-25 General Fund to HCD for a sixth round of HHAP and adopt placeholder budget trailer bill language to govern administration of the funds.

Issue 64: Multifamily Housing Grant Program (MHP)

Budget Proposal. The Governor's January Budget proposed to revert back to the General Fund $250 million of the $325 million allocated to the Multifamily Housing Program (MHP) in the 2023 Budget Act. The May Revision then went on to propose reversion of the remaining $75 million as well.

Background: MHP is HCD's flagship affordable housing program. Among HCD's portfolio of affordable housing programs, MHP funds the broadest scope of possible projects. Under MHP, HCD provides low-interest, long-term deferred payment loans on a competitive basis to applicants proposing projects consisting of new construction, rehabilitation, and preservation of permanent and transitional rental housing. To qualify for an MHP loan, projects must be affordable to low-income and very low-income households. The availability of MHP funding also helps such projects to leverage state and federal Low Income Housing Tax Credits (LIHTC).

Status: The Governor's January proposed cut was heard by the Subcommittee on March 14, 2024 and held open. The additional cut proposed by the May Revision was heard on May 16, 2024 and held open.

Staff Recommendation. Reject the Governor's January Budget proposal and the May Revision proposal.

Issue 65: Regional Early Action Planning Grants (REAP) 2.0.

Budget Proposal. The Governor's January Budget proposed to revert back to the General Fund $300 million of the $600 million that was previously allocated to the Regional Early Action Planning 2.0 (REAP 2.0) grant program in the 2021 Budget Act.

Background: REAP 2.0 funds planning and implementation projects – such as the installation of communal infrastructure and the construction of residential complexes – that integrate housing, climate, and civil rights goals. Specifically, REAP 2.0 is intended to facilitate the creation of infill housing, reduce vehicle miles traveled, and affirmatively further fair housing consistent with regional and local plans. Of the $600 million allocation, $510 million goes to Metropolitan Planning Organizations (MPOs) based on population. The MPOs may then further suballocate their awards to cities, counties, and transit/transportation agencies in their respective regions. $30 million is set aside for competitively-awarded grants for place-based projects that "have a high impact in disadvantaged and historically underserved communities." Another $30 million is set aside for competitive awards to Tribal entities and rural communities not covered by an MPO. The final $30 million is for program administration.

Status: This proposal was heard by the Subcommittee on March 14, 2024 and held open.

Staff Recommendation. Reject the proposed cut and adopt, instead, a cut of $50 million.

Issue 66: Housing Navigation and Maintenance Program

Budget Proposal. The Governor's January Budget proposes to eliminate an ongoing, annual allocation of $13.7 million for the Housing Navigation and Maintenance Program (HNMP) at the Housing and Community Development Department (HCD).

Background: The HNMP provides formula-based grants to counties to enable them to hire or devote staff to identifying and assisting young adults between 18 and 24 years old to obtain and retain housing. The size of each county's award is determined by its percentage of the total statewide number of young adults aged 18 to 24 years of age who are currently or formerly in the foster care system. Services under HNMP can include help applying for housing vouchers, identifying available units, communicating with landlords, filling out applications, making initial rent and security deposits, and avoiding problems that could otherwise lead to eviction. A key aspect of the program is its function assisting eligible youth to obtain and utilize two types of federally-funded housing subsidy vouchers: the Family Unification Program (FUP) and the Foster Youth to Independence (FYI) program. Many of the youth served by HNMP recently emancipated from the foster care system, though the program is not exclusive to that population.

Status: This proposal was heard by the Subcommittee on March 14, 2024 and held open.

Staff Recommendation. Reject the Governor's January Budget proposal.

Issue 67: Infill Infrastructure Grant (IIG) Program

Budget Proposal. The Governor's January Budget proposed to revert back to the General Fund $200 million of the $225 million allocated to the Infill Infrastructure Grant (IIG) program in the 2023 Budget Act. The May Revision then went on to propose reversion of an additional $35 million from the program, including the $25 million remaining from 2023-24, and $10 million allocated to IIG for 2022-23.

Background: The IIG program provides competitive grants to help fund the installation of infrastructure necessary for the construction of high-density affordable and mixed-income housing in locations designated as infill. Thus, IIG does not necessarily fund the production of housing units directly. Rather it provides the necessary funding to enable infill housing projects that might not be financially viable otherwise.

Status: The Governor's January proposed cut was heard by the Subcommittee on March 14, 2024 and held open. The additional cut proposed by the May Revision was heard on May 16, 2024 and held open.

Staff Recommendation. Approve the Governor's January proposal and the May Revision proposal.

Issue 68: CalHome Program

Budget Proposal. The Governor's January Budget proposed to revert back to the General Fund a total of $152.5 million that was previously allocated to the CalHome program: $102.5 from 2022-23 and $50 from 2023-24.

Background: The CalHome program provides funding to local government agencies and non-profits to support homeownership programs aimed at low and very low-income households. Eligible activities include: first-time homebuyer mortgage assistance; owner-occupied rehabilitation; accessory dwelling unit and junior accessory dwelling unit assistance; homeownership project development loans; shared housing technical assistance; and self-help housing technical assistance.

Status: This proposal was heard by the Subcommittee on March 14, 2024 and held open.

Staff Recommendation. Approve as budgeted.

Issue 69: Adaptive Reuse Program

Budget Proposal. The Governor's May Revision proposed to revert $127.5 million from the Adaptive Reuse Program back to the General Fund. This is the remaining, unallocated amount from a $400 million 2022 Budget Act allocation for the program.

Background: The Adaptive Reuse Program is a variation of the Infill Infrastructure Grant program also known as IIG-Catalytic. The program focuses on projects that facilitate conversion of properties to residential use, such as a former office building being transformed into housing.

Status: This proposal was heard by the Subcommittee on May 16, 2024 and held open.

Staff Recommendation. Approve the May Revision proposal.

Issue 70: Foreclosure Intervention Housing Preservation Program (FIHPP)

Budget Proposal. The Governor's January Budget proposed to cut a total of $247.5 million in General Fund allocated to the Foreclosure Intervention Housing Preservation Program (FIHPP) in the coming years: $85 million in 2024-25, $100 million in 2025-26, and $62.5 million in 2026-27, still leaving $236.5 million dedicated to the FIHPP program. The May Revision then proposed to cut this remaining amount as well.

Background: FIHPP is designed to provide a pool of money that qualified non-profit housing entities can use to make purchases using a procedural mechanism within California's non-judicial foreclosure system. That procedural mechanism enables prospective owner-occupants, current tenants, public entities, and specified non-profit housing organizations to acquire residential property by meeting or exceeding the winning foreclosure auction bid. The purchasing entity must then operate the property as affordable housing for at least 55 years. The 2021 Budget Act directed $500 million to FIHPP and HCD began the process of building the necessary systems to administer it. Although the program is now on the verge of being ready to operate, no awards or acquisitions have been made to date, leaving the program untested and most of the original funding still unexpended.

Status: The Governor's January proposed cut was heard by the Subcommittee on March 14, 2024 and held open. The additional cut proposed by the May Revision was heard on May 16, 2024 and held open.

Staff Recommendation. Approve the Governor's January proposal and the May Revision proposal.

Issue 71: Veterans Housing & Homelessness Prevention Program (VHHP)

Budget Proposal. The Governor's January Budget proposed to revert $50 million in 2023-24 General Fund allocated to the Veterans Housing and Homelessness Prevention program (VHHP) back to the General Fund. The May Revision then proposed to revert an additional $26.3 million in 2022-23 General Fund that was allocated to VHHP but that remains unspent.

Background: VHHP provides "long-term loans for the acquisition, construction, rehabilitation, and preservation of affordable multifamily housing for veterans and their families to allow veterans to access and maintain housing stability." Though VHHP was historically funded through bonds, the 2022 Budget Act included General Fund allocations of $50 million for VHHP in both 2022-23 and again in 2023-24. This proposal pulls back an unspent portion of the 2022-23 allocation and all of the 2023-24 allocation. The recently passed Behavioral Health Infrastructure Bond Act (Proposition One of 2024) provides a dedicated stream of funding to VHHP and should backfill the proposed cuts to that program if they become part of the final budget act.

Status: The Governor's January proposed cut was heard by the Subcommittee on March 14, 2024 and held open. The additional cut proposed by the May Revision was heard on May 16, 2024 and held open.

Staff Recommendation. Approve the Governor's January proposal and the May Revision proposal.

Issue 72: Staffing Increases for Implementation and Administration of the Behavioral Health Infrastructure Bond Act (Proposition One of 2024)

Budget Proposal. As part of the May Revision, the Housing and Community Development Department (HCD) requests authority to hire 39 new ongoing positions over the next several years in order to implement and administer the Behavioral Health Infrastructure Bond Act (BHIBA), also known as Proposition One of 2024, recently passed by the voters.

Background: This budget request provides the necessary administrative personnel at HCD to administer the funding made available through BHIBA. As all of these new positions would be funded through the bond proceeds, this proposal would not place any new pressure on the General Fund.

Status: This proposal was heard by the Subcommittee on May 16, 2024 and held open.

Staff Recommendation. Approve the May Revision proposal.

Issue 73: Expense Cap for Administration of the Behavioral Health Infrastructure Bond Act (Proposition One of 2024)

Budget Proposal. The Governor's May Revision includes placeholder budget trailer bill language authorizing the use of up to three percent of the proceeds from the Behavioral Health Infrastructure Bond Act (BHIBA), also known as Proposition One of 2024, for administrative expenses.

Background: In March 2024, California voters approved Proposition One by a narrow margin. The Proposition consisted of two components: the Behavioral Health Services Act and BHIBA. The BHIBA portion is a $6.38 billion general obligation bond the proceeds from which will go toward funding for development of a variety of behavioral health treatment, residential care settings, and supportive housing. The intent is to provide appropriate care facilities for Californians experiencing mental health conditions and substance use disorders, a significant fraction of whom are currently unhoused. BHIBA does not impose any limitations on the amount of the funding that may be used for administrative expenses. The proposed budget trailer bill language adds such a limitation and sets it at three percent.

Status: This proposal was heard by the Subcommittee on May 16, 2024 and held open.

Staff Recommendation. Adopt the placeholder budget trailer bill language.

Issue 74: Additional Staffing for Administration of the Permanent Local Housing Allocation Program (PLHA)

Budget Proposal. Through the Governor's January Budget, the Housing and Community Development Department (HCD) requested authority to add four staff positions in 2024-25 and ongoing, paid for out of the Building Homes and Jobs Trust Fund, to monitor the Permanent Local Housing Allocation (PLHA) Program, disburse funds, and report on affordable owner-occupied workforce housing outcomes paid for out of the Building Homes and Jobs Trust Fund.

Background: SB 2 (Atkins), Ch. 364, Statutes. 2017, imposed a $75 fee on the recording of certain real estate documents and directed the proceeds into a new Building Homes and Jobs Trust Fund. SB 2 also specified how the money in the Fund must be spent. Thirty percent of the funding goes in state affordable housing production financing programs. The remaining 70 percent supports the PLHA. Most of the PLHA portion of the fund (93 percent) goes to local jurisdictions based on a population-based formula. HCD awards the other seven percent of PLHA as competitive grants to non-entitlement jurisdictions. According to HCD, the number of total PLHA contracts it manages has increased significantly in recent years, doubling from roughly 150 in 2020-21 to around 300 in 2022-23, and HCD forecasts that the PLHA program will reach at or close to its maximum possible number of contracts – 350 in 2024-25. During this period of growth, staffing levels have not kept pace, so HCD now seeks an increase. As the funding for these positions comes out of the Building Homes and Jobs Trust Fund, this staffing increase would not impact the General Fund. HCD also indicates that spending for the proposed positions would fall within the five percent of the Fund set aside for PLHA administrative costs. Accordingly, the staffing increase should not divert resources that would otherwise go toward housing production.

Status: This proposal was heard by the Subcommittee on March 14, 2024 and held open.

Staff Recommendation. Approve as budgeted.

Issue 75: Transition of Homelessness-Related Grant Administration from the California Interagency Council on Homelessness to the Housing and Community Development Department and Related Staffing Increase Request for Enhanced Accountability

Budget Proposal. Taken together, the Governor's January Budget and May Revision request authority to move 22 positions from the California Interagency Council on Homelessness (Cal-ICH) to the Housing and Community Development Department (HCD) as part of the previously-approved transfer of homelessness-related grant administration between the entities. In addition, HCD seeks authority to hire 17 additional staff to help provide enhanced oversight over these grants and greater local accountability for compliance with state homelessness-related land use laws as well.

Background: Cal-ICH currently administers three major homelessness-related grant programs: the Homeless Housing Assistance and Prevention (HHAP) program; the Encampment Resolution Fund (ERF); and the Family Homelessness Challenge (FHC) Grants. The 2023 Budget Act directed Cal-ICH to transfer management of these programs to HCD by July 1, 2024, both to take advantage of HCD's grant program management expertise and to allow Cal-ICH to focus on its core functions. The Governor's January budget, as modified by the May Revision, includes a budget change proposal that implements part of this transition by switching 22 existing grants management positions from Cal-ICH to HCD. At the same time, HCD seeks authority to hire 17 additional staff. The additional staff will be divided between providing enhanced oversight over the homelessness-related grant programs and building out the Governor's proposed Housing and Homelessness Accountability and Results Partnership Unit (HHARP), an expansion of the existing Housing Accountability Unit. The proposed staffing expansion will be paid for out of the administrative set-asides that are included with the funding for each homelessness-related grant program.

Status: The Governor's January version of this proposal was heard by the Subcommittee on March 14, 2024 and held open. The May Revision version of this proposal was heard by the Subcommittee on May 16, 2024 and held open.

Staff Recommendation. Approve the Governor's January Budget proposal as modified by the May Revision.

Issue 76: Homeless Housing Assistance and Prevention Program (HHAP) Statutory Modifications

Budget Proposal. To adopt budget trailer bill language modifying the statutes governing the Homeless Housing Assistance and Prevention program (HHAP).

Background: The HHAP program has steadily evolved over the course of the five years and five rounds that it has been in existence. Adjustments and refinements to the program sometimes require changes to the underlying statutes in the form of budget trailer bill language. This year, the HHAP statutes need to be modified in order to ensure they conform to other adjustments being made in the budget, to fix outdated references, and to clarify ambiguities in the existing language.

Status: The Governor's original proposal for budget trailer bill language modifying the HHAP statutes was heard by the Subcommittee on April 18, 2024 in connection with the transfer of homelessness-related programs from the California Interagency Council on Homelessness (Cal-ICH) to the Housing and Community Development Department (HCD). That issue was held open. The May Revision included an update to the Governor's proposed, HHAP-related budget trailer bill language. The update reflected the May Revision proposal to cut the $260 million in Round 5 supplemental HHAP funding, rather than the delay proposed in the Governor's January budget.

Staff Recommendation. Adopt placeholder budget trailer bill language for the HHAP program that:

- Further strengthens accountability mechanisms;
- Directions some funding to prevention
- Makes technical and conforming changes to Rounds 3-5; and
- Clarifies eligible uses of HHAP funds.

Issue 77: Reduction to the Surplus Lands Act Unit

Budget Proposal. The Governor's January Budget proposes a $2.4 million reduction in the annual, ongoing General Fund allocation to the Surplus Lands Act (SLA) Unit at the Housing and Community Development Department (HCD), beginning in 2024-25.

Background: In simplified terms, the SLA requires government entities to make public property available for housing development before disposing of it for other purposes. HCD's SLA Unit helps to ensure compliance with the SLA, facilitates agreements between local agencies and housing developers, and compiles data about housing production on surplus lands. The 2022 Budget Act provided funding to support SLA Unit activities. This proposal reduces that funding by $2.4 million annually.

Status: The Subcommittee has not previously heard this proposal.

Staff Recommendation. Approve as budgeted.

2320 DEPARTMENT OF REAL ESTATE

Issue 78: Addressing Workload Costs and Fund Solvency and Real Estate Fee Increase Trailer Bill Language

Request. The Governor's budget requests an increase in expenditure authority of $3.2 million Real Estate Fund in 2024-25 and 2025-26 and $2.4 million in 2026-27 and ongoing for the Department of Real Estate (DRE) to address a funding shortfall across various categories necessary to support the mission of DRE. The Department also requests statutory changes to adjust fees, address the structural fund imbalance of the Real Estate Fund, and to maintain fund solvency.

Staff Recommendation. Approve as Budgeted, contingent on review and approval of the associated Real Estate Fee Increase trailer bill. Additionally, adopt placeholder trailer bill language.

Issue 79: Chaptered Legislation Resources – May Revision

Request. The May Revision requests three positions and $700,000 Real Estate Fund in 2024-2025 and $590,000 in 2025-2026, and one position and $251,000 in 2026-2027 and ongoing to implement the provisions of various recently chaptered legislation.

Staff Recommendation. Approve as budgeted.

Issue 80: Rent Increase – New May Lee State Office Complex – May Revision

Request. The May Revision requests a one-time increase in expenditure authority of $849,000 Real Estate Fund in 2024-25 to support an increase in rent costs associated with DRE's move to the May Lee State Office Complex.

Staff Recommendation. Approve as budgeted.

7502 DEPARTMENT OF TECHNOLOGY

Issue 81: Middle Mile Broadband Initiative Overview – Governor's Budget & May Revision

Request. The Governor's budget requested $250 million General Fund in 2024-25, and $1.25 billion General Fund in 2025-26, for the Department of Technology (CDT), to fund completion of the Middle Mile Broadband Initiative (MMBI) network and make 36 administratively established positions permanent. CDT also requests provisional language allowing up to $500 million additional General Fund in 2024-25, to support MMBI.

The May Revision withdraws the request for $250 million General Fund in 2024-25, and $1.25 billion General Fund in 2025-26 and instead revises the provisional language to allow the Director of Finance to augment CDT's budget by $1.5 billion GF in 2024-25 for the middle-mile network. The revised language includes a 30-day written notification period for the Joint Legislative Budget Committee to consider the request.

This issue was heard on April 4, 2024 and May 20, 2024.

Staff Recommendation. Approve as budgeted at May Revision and adopt placeholder provisional language.

Issue 82: Information Security Compliance

Request. The Governor's budget is requesting $250,000 General Fund in 2024-25, for CDT, for consulting services to address compliance deficiencies with the Cal-Secure Roadmap and internal security program. The departmental security deficiencies that this request will address include vulnerability management, incident response, and compliance.

This issue was heard on April 4, 2024.

Staff Recommendation. Approve as budgeted.

Issue 83: Intrusion Detection and Prevention System (IDS and IPS) Replacement

Request. The Governor's budget requests $809,000 General Fund 2024-25, $374,000 in 2025-26, and $393,000 in 2026-27, and ongoing, for CDT, to replace Data Center Intrusion Detection Systems (IDS) and Intrusion Prevention Systems (IPS) hardware that will be reaching its end of supportable life. The requested IDS/IPS resources will be utilized to internally monitor and protect the East-West traffic security perimeter of state services maintained by the Office of Technology Service's (OTech) data centers.

This issue was heard on April 4, 2024.

Staff Recommendation. Approve as budgeted.

Issue 84: Statewide Technology Services – Governor's Budget & May Revision

Request. The Governor's budget requests provisional language, for the Department of Technology, to allow the conversion of up to $10 million from the Technology Services Revolving Fund (TSRF) to the General Fund in 2024-25 to support statewide technology services.

The May Revision withdrew this proposed provisional language.

This issue was heard on April 4, 2024.

Staff Recommendation. Approve as budgeted at May Revision.

Issue 85: High-risk Automated Decisions Systems Inventory (AB 302) - May Revision

Request. The May revision requests $588,000 in General Fund in 2024-25 for one-time consulting for implementation of AB 302 (Ward), Chapter 800, Statutes of 2023.

Staff Recommendation. Approve as budgeted.

Issue 86: Local Government: Internet Websites and Email Addresses (AB 1637) - May Revision

Request. The May Revision requests $147,000 from the General Fund to support consulting services in 2024-25 and 2025-26 for implementation of AB 1637(Irwin), 586, Statutes of 2023.

Staff Recommendation. Approve as budgeted.

7504 OFFICE OF DATA AND INNOVATION

Issue 87: Solution - Data and Innovation Service Revolving Fund (DIF) Savings – May Revision

Request. The May Revision requests a transfer of $15 million from the Data and Innovations Services revolving Fund to the General Fund. The requests also includes provisional language for implementation.

Staff Recommendation. Approve as budgeted and adopt placeholder provisional language.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 88: Bad Debt Sales Tax Deduction and Refund

Request. The Governor's budget includes a proposal to eliminate a sales and use tax deduction and refund for a lender or retailer's affiliate related to bad debt, commencing January 1, 2025. The Administration estimates that the proposal would increase General Fund revenue by $25.3 million in 2024-25 and $50.6 million per year ongoing.

Note: Department of Finance is in the process of updating the revenue impact and has indicated that the full revenue gain would not be realized until the 2028-29 fiscal year due to a backlog of claims at California Department of Tax and Fee Administration (CDTFA). This update is anticipated to be included in the May Revision.

The Governor includes proposed trailer bill language to enact this change.

Staff Recommendation. Approve as proposed, adopt placeholder trailer bill language.

Issue 89: Reversion of Anticipated Salary Savings

Request. The May Revision requests that $20 million is reverted to the General Fund from CDTFA's 2023 Budget Act appropriation. The reversion reflects anticipated personal services savings.

Staff Recommendation. Approve as budgeted.

Issue 90: Employee Compensation and Benefits

Request. The May Revision requests an increase of $1.2 million (combined General Fund and other funds) for employee compensation costs and $458,000 for revised employee benefit costs.

Staff Recommendation. Approve as proposed.

Issue 91: Firearms and Ammunition Excise Tax (AB 28)

Request. The May Revision requests a $1.2 million ongoing appropriation from the Gun Violence Prevention and School Safety Fund to allow the California Department of Tax and Fee Administration to administer the firearms and ammunition excise tax imposed by AB 28(Gabriel), Chapter 231, Statutes of 2023.

Staff Recommendation. Approve as proposed.

Issue 92: Legal Ruling of Counsel APA Exemption

Request. The May Revision requests trailer bill that specifies that the Administrative Procedures Act (APA) is inapplicable in circumstances pursuant to a legal ruling of counsel by CDTFA. Current statute specifies that the APA is inapplicable in circumstances pursuant to a legal ruling of counsel by the Franchise Tax Board or the State Board of Equalization. This aligns the application of the APA for legal rulings of counsel by the CDTFA.

Staff Recommendation. Approve placeholder Trailer Bill Language.

Issue 93: Underground Storage Tank Fee Savings Clause and Cost Reimbursement

Request. The May Revision requests trailer bill language that specifies that CDTFA may continue specific requirements related to the Underground Storage Tank Cleanup Trust Fund, after other provisions of the Barry Keane Underground Storage Tank Cleanup Trust Fund Act of 1989 expire. Specifically, CDTFA may continue providing refunds and credits.

Staff Recommendation. Approve placeholder Trailer Bill language.

7730 Franchise Tax Board

Issue 94: Net Operating Loss (NOL) and Business Tax Credit Suspension

Budget Proposal. The May Revision includes a proposal to suspend the use of NOL deductions for taxpayers with income over $1 million and limit the amount of most business tax credits any taxpayer could claim to $5 million business credits for tax years 2025, 2026, and 2027 to temporarily increase tax revenue. Revenue increases are estimated at $900 million ($558 million non-Proposition 98) in 2024-25 and $5.5 billion ($1.3 billion non-Proposition 98) in 2025-26. The Administration proposes language triggering the suspension removal if cumulative cash receipts for the Big 3 taxes exceed the Budget Act forecast by three percent or more from May 2024 to April 2025.

The May Revision includes the withdrawal of January proposal to conform to federal law and limit the use of NOL deductions to 80 percent of a business's taxable income in the year it is applied. The Administration anticipated revenue gains of $300 million in 2024-25 and ongoing gains of $200 million in subsequent years from this proposal.

Staff Recommendation. Adopt Legislative proposal, and placeholder trailer bill language as described:

Suspend the use of NOL deductions for taxpayers with income over $1 million and limit the amount of most business tax credits any taxpayer could claim to $5 million business credits as proposed in the May Revision, however, apply the changes instead for tax years 2024, 2025, and 2026 to temporarily increase tax revenue. Revenue increases are estimated at $850 million ($527 million non-Proposition 98) in 2023-24, $5.1 billion ($3.2 billion non-Proposition 98) in 2024-25, and $5.5 billion ($3.4 billion non-Proposition 98) in 2025-26. The Legislative proposal does not include language triggering the suspension removal, instead leaving that decision to future budget discussions and legislative approval.

Issue 95: Single Sales Factor for Financial Institutions

Legislative Proposal: Current law requires multistate firms to use a mandatory single sales factor tax policy, however agricultural, extraction, and financial firms were exempted from this change and remain on an equally weighted three-factor formula (property, payroll, and/or sales that occurred in that state). This proposal would require financial firms to use a single sales factor tax policy, aligning their treatment with that of the majority of other multistate firms.

Staff Recommendation: Adopt placeholder trailer bill language.

Issue 96: Charitable Conservation Easements Conformity

Budget Proposal. The Governor's budget proposes to conform state law to federal law for treatment of the charitable conservation easement deduction, limiting deductions for charitable conservation easements to two and a half times the investment cost for the purchaser, and disallowing the deduction for any taxpayer who has previously engaged in fraud. The Administration anticipates this will result in revenue gains of $55 million in 2024-25 and 2025-26, and ongoing gains of $25 million in subsequent years.

Currently, property owners who give up development rights on lands are allowed a deduction equal to the value of the property. In 2023, federal tax law was amended to curb abuse of the deduction and capped the deduction to two and a half times the value of the taxpayer's investment and eliminates the deduction for those taxpayers who have previously engaged in fraud.

Staff Recommendation. Approve as proposed, adopt placeholder trailer bill language.

Issue 97: Oil and Gas Subsidy Elimination

Budget Proposal. The Governor's budget proposes to eliminate the following subsidies, commencing with the 2024 tax year. The Administration anticipates this will result in revenue gains of $22 million in 2024-25 and ongoing gains of $17 million in subsequent years.

Background.

Immediate Deduction for Intangible Drilling Costs. Currently, state law allows 70 percent of intangible oil and gas drilling costs (e.g. survey work, ground preparation, etc.) to be deducted in the first year, with the remainder spread over five years. For independent oil producers, 100 percent can be claimed up front. Eliminating this allowance would instead apply standard tax law that allows expenses to be deducted when their benefit is realized. The Administration estimates that eliminating this deduction would generate $7 million in 2024-25 and the next three years

Percentage Depletion Rules for Fossil Fuels. Businesses may currently deduct a fixed percentage of gross income that is higher than normal cost-depletion when calculating the deduction of resource depletion for mineral and other natural resources. Eliminating this allowance would instead apply standard cost depletion tax law. The Administration estimates that making this change would generate $15 million General Fund in 2024-25 and $10 million ongoing.

Enhanced Oil Recovery Costs Credit. Current law allows specified independent oil producers a nonrefundable credit up to five percent of the qualified enhanced oil recovery costs for projects located in the state if oil prices fall above a specified amount for the preceding year. This proposal would eliminate the credit. The Administration does not assume any fiscal effect associated with this proposal over the next few years since crude oil prices are expected to remain above the price threshold used to determine when businesses can claim the credit.

Staff Recommendation. Approve as proposed, adopt placeholder trailer bill language.

Issue 98: Earned Income Tax Credit (EITC) Outreach

Budget Proposal: The Administration did not include additional funding for EITC outreach. Many community-based organizations and other state and local government agencies (such as school districts and county social services offices) engage in efforts to raise awareness about the state and federal EITC. The state has continued to provide $10 million annually for state outreach grants to promote the California EITC and free tax preparation. Despite the availability of these resources, the California EITC is not being claimed at the anticipated rate. In some cases, low-income individuals are not required to file a return because they do not need the minimum return filing income thresholds. Thus, many California household do not receive the credits for which they are eligible, limiting the effectiveness of the EITC program. Finally, additional outreach related to the CalEITC may also assist individuals in drawing down federal assistance through the federal EITC.

In an effort to address EITC uptake, the state increased the amount for state outreach grants to $20 million for 2022-23 and 2023-24. Grantees used this funding to carry out statewide and local outreach efforts aimed at reaching eligible families.

Staff Recommendation. Adopt legislative proposal to provide an additional $2 million ongoing General Fund for EITC outreach efforts, bringing the total ongoing funding for state outreach grants to $12 million.

Issue 99: IRS Direct Filer Portal

Budget Proposal: The Administration did not include additional funding for state workload to align with the federal Direct File portal.

On January 29, 2024, the IRS began a pilot program allowing qualified individuals to file their federal tax return directly with the IRS using the IRS supported free file tool. For the 2023 tax filing window, the Direct File pilot was available to eligible taxpayers residing in California, Arizona, Florida, Massachusetts, New Hampshire, New York, Nevada, South Dakota, Tennessee, Texas, Wyoming and Washington.

Direct File does not prepare state returns. Specifically for California, the IRS directed Californians to a CalFile application once they completed the filing of their federal return.

Staff Recommendation. Adopt legislative proposal to provide funding for FTB to align the CalFile system with Federal Direct File efforts. ($700,000 in 2024-25, $1.7 million in 2025-26, and $2.1 million in 2026-27 and ongoing).

Issue 100: Apportionment Factor Fix

Budget Proposal: The May Revision proposes trailer bill language to clarify existing law that when a corporation receives income that is excluded from taxable business income, then it must exclude this income from its apportionment factor formula.

Fiscal Impact: The FTB estimates that, without action, around $1.3 billion in refunds are at risk based on similar tax filings from prior years, and there are additional annual prospective refunds of around $200 million due to lower apportionment factors for multi-state and multi-national firms.

Staff Recommendation: Approve as proposed, adopt placeholder trailer bill language.

Issue 101: Disaster Tax Relief TBL

Budget Proposal: The May Revision proposes trailer bill language to allow the Director of Finance to determine whether a taxpayer is affected by a state of emergency, when determining whether the postponement of certain tax-related deadlines applies to a taxpayer.

Staff Recommendation: Approve as proposed, adopt placeholder trailer bill language.

Issue 102: Employee Compensation and Benefits

Request. The May Revision requests an increase of $1.9 million (combined General Fund and other funds) for employee compensation costs and $749,000 for revised employee benefit costs.

Staff Recommendation. Approve as proposed.

Issue 103: High Speed Printer Reappropriation

Request. The May Revision requests an extension of the encumbrance period for $2.2 million (General Fund and other funds) needed to replace the high-speed printer systems and software that FTB uses to print FTB's notices, bills, and correspondence from June 30, 2024 to June 30, 2025.

Staff Recommendation. Approve as proposed.

Issue 104: California ALS Research Contribution Fund

Request. The May Revision increases Item 7730-001-8139 be added in the amount of $6,000 ongoing for the FBA to administer this voluntary contribution fund.

Staff Recommendation. Approve as proposed.

7760 DEPARTMENT OF GENERAL SERVICES

Issue 105: Design-Build Sunset Repeal – Trailer Bill Language

Request. The Governor's budget requests trailer bill language to repeal the January 1, 2025 sunset for Design-Build authority in Public Contract Code (PCC) 10196. This statutory change would permanently authorize the use of design-build, in specified circumstances.

This issue was heard on April 4, 2024.

Staff Recommendation. Adopt placeholder trailer bill language.

Issue 106: Net Zero Greenhouse Gas Emissions Funding Reversion and Reduction – May Revision

May Revision. The May Revision proposes to revert $2.5 million General Fund in 2023-24 and a reduction of $2.5 million General Fund in 2024-25 and 2025-26. This adjustment eliminates funding provided in the 2023 Budget Act to implement net-zero greenhouse gas emissions in state agency operations, pursuant to SB 1203 (Becker, Chapter 368, Statutes of 2022).

This issue was heard on May 20th, 2024.

Staff Recommendation. Reject without prejudice.

Issue 107: Various Budget Solutions – May Revision

Request. The May Revision requests the following budget solutions to address the shortfall:

- Electric Vehicle Service Equipment Reduction. $11.7 million in 2024-25, and $11.6 million in 2025-26. This adjustment reduces funding for electric vehicle service equipment infrastructure assessment and facility development appropriated in the 2023 Budget Act.
- California Commission on Disability Access Permanent Fund Shift. Shifts $1.6 million General Fund and four positions in 2024-25 and 2025-26 to the Disability Access Fund. This request includes trailer bill language to statutorily authorize this fund shift.
- Asset Management Branch Temporary Fund Shift. Shifts $1.2 million General Fund and 4 positions to the Property Acquisition Law Money Account and 4 positions in 2024-25 and 2025-26. This adjustment temporarily shifts support of Asset Management Branch for workload related to the Mercury Cleaners remediation and other statutorily mandated activities.

Staff Recommendation. Approve as budgeted and adopt placeholder trailer bill language.

Issue 108: Capitol Repairs Funding Temporary Reduction – May Revision

Request. The May Revision requests a reduction of $7.1 million in 2024-25 and 2025-26 to the Capitol Repairs Funding. This adjustment temporarily reduces funding appropriated for State Capitol Repairs.

This issue was heard on May 20, 2024.

Staff Recommendation. Reject without prejudice.

Issue 109: Drought-Resistant Buildings Act (SB 745) – May Revision

Request. The May Revision requests $254,000 Building Standards Administration Special Revolving Fund and one position in 2024-25 and ongoing to develop building standards related to potable water use reduction pursuant to SB 745 (Cortese), Chapter 884, Statutes of 2023. This request also includes $919,000 in 2025-26 to complete the California Environmental Quality Act (CEQA) study. Due to the uncertainty in beginning the CEQA study, the California Building Standards Commission requests an extended encumbrance and expenditure period of June 30, 2027.

Staff Recommendation. Approve as budgeted.

Issue 110: FI$Cal Staffing Realignment– May Revision

Request. The May Revision requests, for the Department of General Services and the Department of Financial Information System for California, an adjustment to positions and funding that support FI$Cal functions.

The Department of General Services requests a reduction of nine positions, a reduction of $2.1 million in reimbursement authority, and a funding augmentation of $392,000 from the Service Revolving Fund for two existing positions that support FI$Cal.

The Department of Financial Information System for California requests a redirection of five of the nine positions, which results in a reduction of $537,000 in General Fund and a reduction of $315,000 in Central Service Cost Recovery Fund.

Staff Recommendation. Approve as budgeted.

0130 JOINT RULES
7760 DEPARTMENT OF GENERAL SERVICES

Issue 111: Capitol Annex Project – Shift Funding from Cash to Bonds – May Revision

May Revision. The May Revision proposes shifting $450 million in 2024-25 and $250 million in 2025-26 from the State Project Infrastructure Fund to the General Fund and implement statutory changes that would support the construction of the Capitol Annex Projects with lease revenue bond financing. The request includes trailer bill language to implement bond financing.

Staff Recommendation. Modify the Governor's proposal to instead shift funding for the project to internal borrowing. Additionally, reject the trailer bill language without prejudice.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT
8260 ARTS COUNCIL

Issue 112: Arts Grant Program Reduction – May Revision

May Revision. The May Revision proposes a reduction of $10 million ongoing to the Arts Grants Program in the Arts Council.

This issue was heard on May 20, 2024.

Staff Recommendation. Modify the reduction to $5 million in 2024-25 and 2025-26.

Issue 113: Trailer Bill: Move the Arts Council to Within the Governor's Office of Business and Economic Development (GO-Biz) – May Revision

May Revision. The May Revision proposes trailer bill language to move the entirety of the Arts Council to be a program within the Governor's Office and Economic Development.

This issue was heard on May 20, 2024.

Staff Recommendation. Reject without prejudice.

8885 COMMISSION ON STATE MANDATES

Issue 114: Juveniles: Custodial Interrogation Mandate

Request. The May revision requests $2.2 million General Fund one-time to reimburse cities and counties for the costs associated with complying with section 625.6 of the Welfare and Institutions Code, which requires youths, 17 years of age or younger, to consult with legal counsel prior to custodial interrogation and before the waiver of any Miranda rights. On January 27, 2023, the Commission on State Mandates found that SB 203 (Bradford), Chapter 335, Statutes of 2020, imposed a reimbursable state-mandated program, and the statewide cost estimate was adopted in March 2024.

Staff Recommendation. Approve as budgeted.

8825 COMMISSION ON ASIAN & PACIFIC ISLANDER AMERICAN AFFAIRS (CAPIAA)

Issue 115: General Operations Support

Request. The May revision requests $374,000 General Fund in 2024-25 and $287,000 ongoing and reclassification of one temporary position to permanent and provide a physical office space for CAPIAA's operations.

Staff Recommendation. Approve as budgeted.

8940 MILITARY DEPARTMENT (CMD)

Issue 116: Drug Interdiction Continuation

Request. The Governor's budget requests $15 million General Fund in 2024-25 and $15 million in 2025-26 for the California Military Department to provide continued support for the CMD's state funded drug interdiction efforts.

Staff Recommendation. Approve as budgeted.

Issue 117: Emergency State Active Duty (ESAD) Management System

Request. The Governor's budget requests $280,000 General Fund in 2024-25 and ongoing for CMD to fund the Activate, Respond Recover Operate (ARRO) system which will serve as the system of record utilized to manage administrative functions of the Emergency State Active Duty (ESAD) mission and facilitate invoicing and reimbursement to the Department.

This issue was heard on March 7, 2024.

Staff Recommendation. Approve as budgeted.

Issue 118: State Active Duty Compensation Adjustment & Deputy Adjutant General Rank Adjustment Trailer Bill Language

Request. The Governor's budget requests $3,153,000 ($1,488,000 General Fund, $1,512,000 Federal Trust Fund authority, $53,000 Mental Health Services Fund, and $100,000 Reimbursement authority) for CMD to align the pay of its State Active Duty (SAD) employees to the pay of service members of similar grade in the federal armed forces.

This issue was heard on March 7, 2024.

Staff Recommendation. Approve as budgeted.

Issue 119: Consolidated Headquarters Staffing – May Revision

Request. The May Revision requests $554,000 General Fund and seven permanent positions in 2024-25, and $539,000 ongoing to meet the demands of providing oversight to the security, safety, maintenance, utilities, and overall functionality of the Consolidated Headquarters Complex (CHQC). The total costs for this request are partially offset by an ongoing reduction of $1,557,000 General Fund that was previously used to pay for the lease at its prior headquarters location.

Staff Recommendation. Approve as budgeted.

Issue 120: Salary Driven Benefits and BAH/COLA Adjustments – May Revision

Request. The May Revision requests $3 million General Fund; $4.6 million Federal Trust Fund (FTF); $285,0000 Reimbursements; and $105,000 Mental Health Services Fund (MHSF) to address costs for the recalculated rates of the Basic Allowance for Housing (BAH) and Cost of Living Adjustments (COLA) and the omission of Salary Driven Benefits from the annual State Active Duty (SAD) pay adjustment proposals. The California Military Department also requests provisional language to allow for a current year augmentation to cover cost increases for BAH and COLA adjustments.

Staff Recommendation. Approve as budgeted.

Issue 121: State Active Duty Compensation Adjustment – May Revision

Request. The May Revision requests an ongoing increase of $920,000 ($264,000 General Fund, $637,000 Federal Trust Fund, $15,000 Mental Health Services Fund, and $4,000 Reimbursement authority) to align the pay of its State Active Duty (SAD) service members to the pay of service members of similar grade in the United States Armed Forces.

Staff Recommendation. Approve as budgeted.

Issue 122: Taskforce Rattlesnake Adjustment – May Revision

Request. The May Revision requests $3.4 million General Fund and $2 million in reimbursement authority ongoing to cover various cost increases and provide operational, logistical, and administrative support to Task Force Rattlesnake (TFRS). This proposal also requests funding for benefit cost increases since the inception of the program in 2022-23, and ongoing reimbursement authority of $2 million to recover costs from CAL FIRE for expenditures incurred from fire suppression activity.

Staff Recommendation. Approve as budgeted.

8955 DEPARTMENT OF VETERANS AFFAIRS (CALVET)

Issue 123: Yountville Skilled Nursing Facility Support

Request. The Governor's budget requests $5,389,000 General Fund and 40.2 positions in 2024-25, and $12,129,000 General Fund and 108 positions annually thereafter for CalVet, for staffing of a new Skilled Nursing Facility at the Veterans Home of California – Yountville.

This issue was heard on March 7, 2024.

Staff Recommendation. Approve as budgeted.

Issue 124: Reappropriation: CalVet Electronic Health Record Funding – May Revision

Request. The May Revision requests $3.8 million in 2024-25 from the 2021 Budget Act to continue the implementation of the CalVet Electronic Health Records (CEHR) project. The reappropriation allows CalVet to continue to cover costs for the project until June 30, 2025.

Staff Recommendation. Approve as budgeted.

Issue 125: Legislative Proposal – Orange County Veterans Cemetery

Request. The Legislature proposes $5 million General Fund in 2024-25 for the Orange County Veterans Cemetery.

Background. The Southern California Veterans Cemetery is an ongoing project to open approximately 11,000 burial plots and 4,000 columbarium niches designated for veterans. The costs of the cemetery are planned to be split between state and local government. The budget includes an additional $5 million one-time in state General Fund support.

Staff Recommendation. Approve Legislative proposal.

9210 LOCAL GOVERNMENT FINANCING

Issue 126: Vehicle License Fee Backfill

Budget Proposal: The Governor's budget does not include a proposal to backfill counties for the Vehicle License Fee (VLF) shortfall when their VLF shortfall exceeds available funding in their Education Revenue Augmentation Fund (ERAF) revenues. The Department of Finance estimates that it would cost $73.5 million to backfill revenues in the three counties with insufficient ERAF, San Mateo, Alpine, and Mono.

Staff Recommendation: Approve Legislative proposal to include $73.5 million in one-time General Fund to backfill counties with insufficient ERAF.

9625 INTEREST PAYMENTS TO THE FEDERAL GOVERNMENT

Issue 127: Interest Payment Adjustment

Budget Proposal: The May Revision requests that Item 9625-001-0001 be increased by $15 million one-time and Item 9625-001-0042 be increased by $500,000 one-time to provide a federal interest liability payment to the federal government in 2024-25.

Staff Recommendation: Approve as proposed.