Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Christopher Cabaldon, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, May 1, 2025
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultant: Jessica Uzarski

ITEMS FOR VOTE ONLY

DISCUSSION ITEMS

Public Comment

Please Note: Public comment will be taken after all Items have been heard.

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VOTE-ONLY ITEMS

8570 CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

Item 1: Dairy Marketing Branch and Milk Pooling Branch Remaining Milk Producer/Processor Assessments

Request. The Governor's Budget requests, for the Department of Food and Agriculture ("CDFA"), provisional Budget Bill Language to fully expend the remaining milk handler assessments from the Dairy Marketing Branch ($3,595,000) on research projects that benefit California dairy farmers and the remaining handler/processor assessments from the Milk Pooling Branch ($3,509,000) on Quota Program activities. The remaining balance for both programs is in the CDFA Agriculture Fund (the "Ag Fund").

Background. In 2017, California dairy producers ended the state milk marketing program. Following California's entry into the Federal Milk Marketing Order program in November 2018, operation of CDFA's Dairy Marketing and Milk Pooling Branches were suspended. At the time the programs ceased operations, both had a remaining balance in the Ag Fund. There is now a remaining fund balance of $3,509,000 for the Milk Pooling Branch and $3,595,000 for the Dairy Marketing Branch. The Milk Pooling Branch oversaw the monthly functions associated with California's dairy pooling quota system, and the Dairy Marketing Branch established minimum milk prices and oversaw market-wide economic reporting. These two branches were funded entirely by industry assessments.

Food and Agricultural Code section 221 requires all funds that are paid into the Ag Fund to be expended solely for the enforcement of the law under which the funds were derived. CDFA has no authority to expend the remaining funds. CDFA cannot appropriately refund the collected funds to the assessment payers because the funds were accumulated as part of a revolving fund that operated over an extended period (50 years) at varying rates that fluctuated multiple times annually. Instead, CDFA is requesting to expend the remaining industry funds to programs and activities that benefit the segments of the dairy industry that provided the funding. The Administration therefore states that the most appropriate use of the funds is the following:

Milk Pooling Branch Funds. The remaining funds from the Milk Pooling Branch ($3,509,000) were originally collected entirely from California dairy farms that produced Grade A market milk. All California dairy farms that produce Grade A milk must participate in the Quota Implementation Plan (QIP). The QIP collects and distributes approximately $12 million per month to and from California dairy farms; therefore, the $3,509,000 in remaining Milk Pooling Branch funds should be directed to the dairy farms that participate in the QIP and utilized to reduce the amount that California dairy farms must contribute to fund the Program.

Dairy Marketing Branch Funds. The remaining funds from the Dairy Marketing Branch ($3,595,000) were originally collected from both dairy farms and milk processors. CDFA has previously funded industry-supported research projects to improve animal welfare and reduce environmental impacts. CDFA will contract with outside entities to perform research that has been requested by the California dairy industry with the remaining $3,595,000. CDFA estimates that these funds will be utilized to fund 1-10 research projects.

Staff Recommendation. Approve as budgeted.

Item 2: Meadowview Biological Control Office Repairs and Laboratory Replacement

Request. The Governor's Budget requests, for CDFA, $242,000 General Fund in Fiscal Year 2025-26 for the preliminary plans phase for repair and replacement of the Meadowview Biological Control Program office and laboratory facilities.

Background. The Biological Control Program's (Program) mission is to minimize the economic and environmental impact of noxious invasive weeds and exotic insect pests by facilitating the importation and establishment of their co-evolved natural enemies. The Program finds, evaluates, rears, and deploys specialized natural enemies in response to invasive insect pests and weeds in California that threaten the state's agricultural and natural resources.

The Program aids in the discovery of new agents through foreign exploration in the native range of target pests and weeds. New agents are transferred into the U.S. Department of Agriculture (USDA) certified quarantine facilities to conduct federally required host-specificity testing and to develop mass rearing protocols. The results of these field and lab studies are used to apply for federal and state release permits for these new agents. Permitted biocontrol agents used in field releases are mass reared at the Program's insectary facility in Sacramento and then released, either directly by Program staff or by cooperators.

The Administration states that the physical state of the Program office and quarantine laboratory facilities is a critical infrastructure deficiency. The existing structures that house the quarantine and rearing facilities are alleged to require water leak remediation in the roof, upgrades to electrical systems, insulation, climate control, addition of Americans with Disabilities Act (ADA) accessibility, and increased space to provide adequate room for staff, equipment, and insect and plant rearing cages. These deficiencies significantly reduce the Program's ability to meet its goal of providing agents to California's agriculture industry. The presence of extreme temperatures also presents a health risk to staff. The proposal states that if these issues are not addressed, the Program will not be able to meet its goals of natural enemy research and production.

Staff Recommendation. Approve as Budgeted.

1111 DEPARTMENT OF CONSUMER AFFAIRS

Item 3: Board of Accountancy – Licensing Telephone Calls

Request. The Governor's Budget requests, for the California Board of Accountancy, an increase in expenditure authority of $253,000 in 2025-26 and $237,000 in 2026-27 from the Accountancy Fund, Professions and Vocations Fund, and ongoing to support 2.0 Program Technician IIs to answer telephone calls that are presently being handled by the Department of Consumer Affairs' Consumer Information Center.

Background. The California Board of Accountancy (the "Board") regulates more than 114,000 licensees and annually reviews nearly 10,000 applications from individuals applying for examination or licensure and assists licensees as they renew their license. The Board establishes requirements for entry into the accounting profession, verifying licensees meet ongoing continuing education requirements, investigating complaints, and taking disciplinary action against licensees who have violated rules and regulations.

In 2019, the Board began utilizing the Department of Consumer Affairs' (DCA) Consumer Information Center (CIC) to address all Licensing Division calls. The Administration states that the Board was relying on staff overtime to manage licensing workload and maintain its 30-day processing timeframes. Transitioning of Licensing Division calls to CIC was therefore intended to be an interim solution that enabled staff to focus on processing applications and maintain its processing timeframes.

The Administration states that Board staff performed an assessment over a four-week period and tracked every call that was escalated from CIC to the Board to monitor the average duration of each phone call (in each unit of the Licensing Division). The results reflected the average call time to be 12 minutes. Similarly, staff conducted an assessment on the time to respond to an email and the average response time is approximately eight minutes.

The Administration states that the additional staff will assist in handling the calls, enabling better focus on processing applications and meeting the Board's 30-day processing goals for license applications. It is suggested that, as the calls will be handled by the Board staff, they will be able to have access to individual's files or the Board's internal databases and answer questions without redirection. With additional PT IIs assisting with answering calls, the volume of emails is anticipated by the Administration to reduce in future years, which will allow staff to continue to meet its licensing performance measure goals.

Staff Recommendation. Approve as Budgeted.

Item 4: Board of Behavioral Sciences – Licensing Processing

Request. The Governor's Budget requests, for the California Board of Behavioral Sciences, $139,000 in fiscal year 2025-26 and $131,000 in 2026-27 from the Behavioral Science Examiners Fund and ongoing for 1.0 Staff Services Analyst to address the Board's licensing application workload and processing times for its Licensed Marriage Family Therapist and License Clinical Social Worker license types.

Background. The Administration states that the California Board of Behavioral Sciences (Board) has been unable to consistently meet its application processing times, which are established in statute. The Department suggests that this has resulted in significant delays in approving applicants for licensure. The Board has attempted to meet its application processing times by relying on temporarily redirecting staff and offering overtime, relying on upper management to assist in processing applications, delaying other duties such as archiving files, and foregoing outreach efforts to prospective applicants.

The current processing times exceed the maximum application processing times of 60 days for the Board's Licensed Marriage Family Therapist (LMFT) and License Clinical Social Worker (LCSW) licensure applications. A five-year average for processing LMFT applications is 100 days and 91 days for LCSW applications. The application review process requires staff members to validate various documents, verify that supervision requirements are fulfilled, accurately tabulate supervised hours, and collaborate with applicants to address and rectify any deficiencies. The steady increase in application volumes in LMFT and LCSW applications has, according to the Administration, further eroded the Board's ability to consistently meet its processing goals with the current staffing levels. Additionally, the Board's LMFT and LCSW licensure application volumes have increased over the past five fiscal years by approximately 14 percent and are expected to continue to increase each year. Part of this increase can be attributed to a steady increase in out-of-state licensees seeking licensure in California.

Accordingly, the Board has requested 1.0 SSA to address its projected ongoing LFMT and LCSW application workload and avoid contributing to the Board's existing backlog, which is currently being addressed by the redirection of staff and the utilization of temporary help.

Staff Recommendation. Approve as Budgeted.

Item 5: Board of Pharmacy – Enforcement

Request. The Governor's Budget requests, for the California State Board of Pharmacy, $293,000 in 2025-26 and $277,000 in 2026-27 and ongoing for 1.0 Associate Governmental Program Analyst and 1.0 Office Technician to conduct additional continuing education audits and address the Board's complaint intake volume.

Background. The California State Board of Pharmacy (Board) regulates a large license population related to all aspects of the pharmaceutical industry in and outside California. The Board is mandated to protect consumers through, in part, its Enforcement Division. The Board's Enforcement Division enforces pharmacy law requirements, promotes professional standards, and safeguards consumers.

The Administration states that additional staffing is needed to address complaints appropriately within the 10-day mandate specified by Business and Professions Code (BPC) §129 and to promptly inform license holders and consumers of the results of the investigation. Since 2019-20, the Board's complaint volume has increased by 25 percent. Additionally, since 2019-20 the Board has seen a 44 percent increase in phone calls regarding follow-up on the status of a complaint.

The Board is requesting 1.0 Office Technician to assist with the Board's complaint workload that is currently being addressed by an existing Technician, along with redirection of additional staff within the Board's Enforcement Unit to keep up with the complaint volume. The redirection of staff to address this workload is said by the Department to be unsustainable as the Board's intake cycle time is exceeding its 10-day timeframe mandate.

The requested AGPA would focus on conducting CE audits, a task currently handled by an existing AGPA that also handles desk investigations for criminal violations, application investigations, and unprofessional conduct. The Administration states that the Board requires a dedicated analyst to audit pharmacists due to the complexity of the Board's CE requirements and its increasing non-compliance rate amongst its licensed pharmacists. A dedicated AGPA would increase the number of CE audit investigations, evaluate compliance with CE requirements, and certify the completion of necessary education and training for effective patient care.

Staff Recommendation. Approve as Budgeted.

Item 6: Board of Pharmacy – Regulation Related Support Staff

Request. The Governor's Budget requests, for the California State Board of Pharmacy, $167,000 in 2025-26 and $159,000 in 2026-27 and ongoing, from the Pharmacy Board Contingent Fund, to support 1.0 Associate Governmental Program Analyst to initiate, complete, and promulgate regulatory packages.

Background. The California State Board of Pharmacy (Board regulates the individuals and businesses that dispense, compound, store, and distribute prescription drugs and devices and provide pharmaceutical services to the public or other health care practitioners in compliance with state and federal law. The Board is unique among Department of Consumer Affairs' (DCA) healing arts boards in that it regulates the business and individuals that provide pharmacy related and drug distribution services, as well as the product itself. The Board regulates California's drug supply from the time the drugs leave a manufacturer to the moment they are dispensed or administered to a patient, as well as the entities and individuals who manage the drugs. The Board's regulations cover requirements for pharmacies, wholesalers, pharmacists, ancillary personnel, continuing education, fees, penalties, discipline, citations, fines, and sterile compounding.

The Board has 32 license types which operate under varied statutory requirements. The Board monitors, researches, and analyzes federal law to manage the significant overlap between federal law and state law for pharmacists, pharmacies, and other Board licensees. Violations of federal law can lead to potential enforcement by the Board, United States Food and Drug Administration (FDA), or US Department of Justice, and discipline of state-issued licenses or permits. Under federal laws, the FDA has the sole authority to approve drugs for use in the United States, and introducing or delivering new drugs into interstate commerce without an approval is a violation.

According to the Administration, since 2019, the Board has submitted 27 regulatory packages to DCA and was required to delay other proposals due to the lack of resources. During this time, the average timeframe to complete a regulatory package was approximately 27 months, which exceeds the Board's target timeframe of 18 months.

The Board requests the additional positions for the stated purpose of ensuring that current and future rulemaking is processed timely. The Administration states that, in the event this request is approved, the Board projects that the number of regulations rolled over from previous years will decrease over time as more regulatory packages will be completed.

Staff Recommendation. Approve as Budgeted.

Item 7: Contractors State Licensing Board - Enforcement

Request. The Governor's Budget requests, for the Contractors State License Board, 4.0 positions and an increase in expenditure authority of $708,000 in fiscal year 2025-26 and $676,000 in 2026-27 from the Contractor's License Fund and ongoing to address increased enforcement workload due to a sustained increase in residential solar consumer complaints.

Background. The administration states that the Contractors State License Board (Board) is experiencing a significant increase in its complaint and investigative workload that cannot be sustained within existing resources. The Board's intake of complaints related to residential solar installations has increased by approximately 154 percent since 2019 and is projected to continue to increase in the future.

In response to the recent increase in solar-related complaints and enforcement workload, in November 2023 the Board established a pilot program using temporary-help staff and retired annuitants to focus on solar installers with multiple complaints filed against them. This pilot, Multiple Offender Unit (MOU), assigned all consumer complaints filed against a single solar contractor to one staff analyst or SI.

The pilot MOU is alleged by the Administration to have resulted in immediate success and operational efficiencies by focusing and consolidating related cases to a dedicated solar enforcement staff or SI. Since its inception, the pilot MOU has closed approximately 307 solar-related cases (as of July 1, 2024), resulting in 586 (pending) cases beginning 2024-25. This proposal would make the pilot MOU permanent, and authorize additional spending for Operating Expenses and equipment.

As to positions, the Administration requests, for the Board:

- 3 Special Investigators dedicated to complex solar-related investigation cases.
- 1 Supervising Special Investigator to oversee and manage the MOU.

Staff Recommendation. Approve as Budgeted.

Item 8: Medical Board - Expert Reviewer Augmentation

Request. The Governor's Budget requests, for the Medical Board of California, an increase in expenditure authority of $399,000 to its Contingent Fund of the Medical Board of California in 2025-26 and ongoing commensurate with the need to increase the hourly compensation rate for Neurosurgery, Orthopedic Surgery, and Pain Medicine expert reviewers.

Background. The Administration states that the Medical Board of California (Board) needs to increase its pool of trained, expert reviewers to ensure professionally appropriate review of the Board's enforcement cases, physical and psychiatric examinations, and legal testimonies. The Board is alleged to be unable to increase its expert reviewer pool because its compensation rates are well below the market average and unattractive in a competitive market for medical experts. This lack of experts is said to negatively impact the Board's ability to pursue legal action and protect the public. The Board has identified neurosurgery, orthopedic surgery, and pain medicine as the specialties in highest demand and in need of an increase in their expert pool.

The Board's Expert Reviewer Program (Program) was established in July 1994 as an impartial and professional means to support the investigation and enforcement functions of the Board. This function relies heavily on experts to provide professional reviews and opinions on Board cases, physical or psychiatric exams, and legal testimony. Specifically, experts review the facts of medical cases and determine if the standard of care has been met. Experts also conduct professional competency, physical, and psychiatric examinations, which may require testimony in court.

The Administration further states that, according to third party reports, California's average neurosurgery case review fees have increased 11 percent and orthopedic surgery case review fees have increased 32 percent since the Board's last rate increase in 2019. California's average hourly expert reviewer fees at private practices are substantially higher than the Board's current fees. The average hourly rate in California for neurosurgery experts is $823 for case review and $1,000 for testimony, orthopedic surgery case review is approximately $785 and $1,000 for testimony, and pain medicine expert's case review is $635 and $853 for testimony. The Board's proposed rate increase is suggested to bring case review and report writing fees and testimony fees up to within 20 percent of the California average for neurosurgery, orthopedic surgery, and pain medicine experts, making finding qualified reviewers easier.

Staff Recommendation. Approve as Budgeted.

Item 9: Additional Positions Related to 2024 Legislation

Request. The Governor's Budget requests, for the Department of Consumer Affairs, 3.0 positions and an increase in expenditure authority of $463,000 in 2025-26 and $439,000 in 2026-27 and ongoing to address audit and enforcement related workload associated with provisions passed during the 2023-24 legislative session.

Background. The Administration requests the positions and an increase in expenditure authority to address audit and enforcement related workload associated with provisions passed during the 2023-24 legislative session. These provisions impact two boards within DCA.

AB 2622 - 2024 – Contractors State License Board: This bill increases the value of a construction project that requires licensure by the Board, from $500 to $1,000, for labor and materials as long as the following criteria are met: 1) the construction project value does not require a building permit, or 2) the person performing the construction project does not employ another person to perform, or assist in performing, the work or operation. The Board expects enforcement workload to increase as a result of the new law. The Board will be required to investigate complaints not previously investigated and additionally the Board expects unlicensed practice complaints to increase. An investigation into the specifics of the contract to determine whether a permit is necessary and whether the person performing the construction had employees would need to be determined before the Board's jurisdiction could be established. These additional requirements in the investigative process will impact caseload and overall processing times, potentially creating delays.

SB 639 - 2024 – Board of Registered Nursing: This bill requires nurse practitioners (NP) with 25 percent of their patient population are 65 years or older to complete at least 20 percent of their continuing education (CE) requirements in the field of gerontology, the special care needs of patients with dementia, or the care of older patients.

In connection with this change, the Administration requests a Program Technician to identify and audit Neuropathologists who are subject to the additional requirements to complete 20 percent of their continuing education coursework in courses focused on providing care to older individuals, among other things. The PT II classification is said by the Administration to be consistent with the staff who are presently performing audits to ensure compliance with the general CE requirements.

Staff Recommendation. Approve as Budgeted.

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Item 10: Rent Increase

Request. The Governor's Budget requests, for the Department of Financial Protection and Innovation ("DFPI"), an increase in expenditure authority of $1.1 million in 2025-26, $1.4 million in 2026-27, and incremental increases ongoing to address annual rent increases.

Background. DFPIs rent is increasing without a proportional increase to the Department's appropriation. The Department is scheduled to move into the May Lee State Office Complex (MLSOC) in 2024-25, with the annual rent set at approximately $2.4 million, at $2.18 per square foot. In October 2024, the Department of General Services (DGS) published their 2024-25 Price Book, which increased the price per square foot at MLSOC to $3.71 for 2025-26. In addition, rent costs for the Department's other five leased facilities continue to increase at a rate of three percent to four percent each year. According to the proposal, the Department is redirecting funds from critical activities of its various programs to absorb rent increases.

The Department currently has a total of six facilities statewide including offices in Sacramento, San Diego, San Francisco, Los Angeles (two offices), and a warehouse in West Sacramento. Four of the six facilities are non-DGS owned and considered private lease contracts. However, DGS oversees the negotiation of each private lease to confirm an eight-year term. All four private lease contracts have varying terms through 2029-30, but all include a year-over-year rent increase through the term of the lease. The remaining two facilities are in DGS-owned buildings in Los Angeles, whose terms and rental rates are established by DGS and published annually in the DGS Price Book.

In 2019, DGS and the Business, Consumer Services and Housing Agency (Agency) assigned the Department office space in the state-owned MLSOC to replace the current privately leased Sacramento office. The Department's space in the MLSOC is scheduled for completion in March of 2025. It was originally planned that the Department would occupy three floors and nearly 130,000 square feet at the MLSOC. However, to maximize the environmental and financial benefits of the new space and the impact of the Telework Policy, the proposal states that the Department reevaluated its essential space requirements and reduced its footprint by almost thirty percent, to two floors and approximately 92,000 square feet, thereby reducing rent costs for the Department.

Staff Recommendation. Approve as Budgeted.

Item 11: Information Technology Security Unit Workload

Request. The Governor's Budget requests, for DFPI, 1.0 Information Technology Specialist I and an increase in expenditure authority of $223,000 in 2025-26 and $212,000 in 2026-27 and ongoing for the Information Technology Security Unit to strengthen cybersecurity measures, reduce risk exposure, address compliance gaps with state mandated security requirements, and remediate security audit findings.

Background. DFPI regulates a variety of financial services, products and professionals, and oversees the operations of state-licensed financial institutions and financial businesses. DFPI regulates the offer and sale of securities, franchises, and off-exchange commodities.

The 2021 Budget Act included 3.0 positions and $573,000 to establish an Information Technology Security Unit (Security Unit) within the Department's Information Technology Services Division (ITSD) to comply with mandated state information technology security requirements and directives as well as to resolve compliance gaps identified in the biennial security audit and assessment conducted by the California Military Department (CalGuard) and California Department of Technology (CDT). Prior to the additional resources, the Department had 1.0 Information Technology Specialist I working as the Information Security Officer.

According to the Administration, the Security Unit is now responsible for the confidentiality, integrity, and availability of all the Department's information technology (IT) systems for both internal and external stakeholders. The Security Unit's workload focuses on six major areas: security controls, risk management, incident response and data security; IT policy, IT security trainings; and project responsibilities. However, the current workload is increasing to meet the needs for evolving CDT cybersecurity program requirements, CalGuard audit findings, and the addition of new IT-focused legislative programs. Due to this, the total workload of the Security Unit exceeds staff capacity and prevents staff from effectively maintaining and completing the existing workload.

Under AB 1352, the Department undergoes security assessments conducted by CalGuard and audits by CDT on a biennial basis, alternating each year. The audits review documentation of business processes and policies, while the assessments are a technical review of network configuration where network scans and attempts to penetrate system defenses are performed to simulate an actual cyber-attack. At the end of each review, a summary of findings is presented, and plans to remediate deficiencies are put into the Plan of Action and Milestones (POAM) document, which is shared with CDT quarterly.

While the Security Unit has worked to address previously identified deficiencies, the proposal states that the Department expects new audit findings in its upcoming assessment. DFPI requests the funding to more quickly respond to threats, maintain up-to-date policies and processes, and develop proactive strategies required to maintain security compliance.

The Administration contends that without additional staffing, the Security Unit will be unable to remediate known security deficiencies while also conducting routine operations and responding to incidents. Several of these deficiencies noted in the POAM. The proposal suggests that these outstanding deficiencies put the Department's network and data at risk of breach and consumer data disclosure.

Staff Recommendation. Approve as Budgeted.

Discussion Items

8570 California Department of Food and Agriculture

Item 12: Security and Infrastructure Remediation

Request. The Governor's Budget requests, for the California Department of Food and Agriculture ("CDFA"), $2,478,000 General Fund (GF) and 5 positions in Fiscal Year (FY) 2025-26, $4,064,000 GF and 5 positions in FY 2026-27, and $3,564,000 GF and 5 positions in FY 2027-28 and ongoing to manage, implement, and maintain remediation efforts to address real-time and critical security vulnerabilities and to provide urgent and ongoing management and monitoring of related new critical security services.

Background. According to the Administration, in March 2024, one of CDFA's public websites experienced a cybersecurity incident and privacy data breach wherein the entirety of the system's user account information, including passwords and other personal information, was exposed to an unknown and unauthorized external entity. CDFA's Office of Information Technology Services (OITS) worked with representatives from the California Department of Technology's (CDT) Security Operations Center (SOC) to identify the root cause of the issue and temporarily mitigate any additional damage by enabling a Web Application Firewall (WAF) product to prevent further attacks. The Administration further states that, during the application code review for the system, it was noted that the web application's legacy code needed to be rewritten and then migrated to CDFA's more secure server hosting environment at CDT's Tenant Managed Services (TMS) data center, or needed to be securely rewritten into a modern, cloud-based platform, to provide a permanent fix to the problem.

CDFA received $2,942,000 GF and $544,000 special funds in 2022-23, $2,455,000 GF and $540,000 special funds in 2023-24, and $1,030,000 GF and $540,000 special funds in 2024- 25 and ongoing and one permanent position to mitigate risks associated with RRPoAM (a quarterly confidential risk assessment) findings. The funding has reportedly enabled CDFA to close approximately 25 percent of previously unresolved findings, but is suggested by the Department to be insufficient considering the newly realized application vulnerabilities identified during the recent data breach analysis.

The requested positions, including 4 IT Specialist II's, and an IT Associate, are intended to provide direct support and monitoring for the new security vulnerability assessment and prevention software and enable proper patching of infrastructure and software resources.

Staff Recommendation. Hold Open.

Item 13: Turlock North Valley Animal Health Laboratory Replacement Operational Support

Request. The Governor's Budget requests, for CDFA, $1,607,000 General Fund in Fiscal Year 2025-26 and $3,313,000 in Fiscal Year 2026-27 and on-going, to fund increased operational costs associated with the new Turlock North Valley Animal Health Laboratory scheduled for completion in December 2025 to prevent, detect, and respond to animal health disease outbreaks, enhance food safety, and protect public health.

Background. CDFA's Animal Health and Food Safety Services Division (AHFSS) and the California Animal Health and Food Safety Laboratory System (CAHFS) are partners in the prevention, detection, and response to animal health disease outbreaks.

Assembly Bill 2772 required the Secretary of CDFA to contract with the University of California (UC) Regents and the UC Davis School of Veterinary Medicine to establish and operate poultry and livestock disease diagnostic laboratories for the purpose of conducting tests and examinations for, and diagnoses of, livestock and poultry diseases. CAHFS is funded as a line-item in the CDFA budget and operates a network of four veterinary diagnostic laboratories to provide statewide testing services for disease surveillance to thousands of animal-producing farms, hobby, and backyard animal owners throughout California for high-consequence diseases such as Avian Influenza, Foot and Mouth Disease, and Virulent Newcastle Disease, as well as food safety testing, including milk and dairy testing.

The Budget Act of 2017 appropriated $3.088 million in Capital Outlay funding for the acquisition of a site to house a new Turlock North Valley Animal Health Laboratory. In FY 2019-20, an additional $3.946 million was appropriated for the Performance Criteria Phase of this project, and in FY 2021-22, $88.565 million was appropriated for the Design-Build phase of this project. Due to unforeseen inflationary costs, the Capital Outlay project budget has since been augmented to a current total of $104.8 million. Construction is currently underway and expected to be complete in December 2025.

The Administration states that existing operational funding and staff will be redirected to the new facility, but a funding augmentation is required to meet the additional staffing, utilities, supply and maintenance expenses incurred from operating a larger laboratory that contains modern systems and equipment, to house field staff, and as a result of performing mammalian and increased testing services at the new facility.

The Department contends that given the facility operates in benefit to general public health, application of Special Fund's such as the Agriculture Fund, is not appropriate and therefore General Fund is required.

Staff Recommendation. Hold Open.

Item 14: Advancing Farm to School

Request. The Governor's Budget requests, for CDFA's Farm to School Program and the Office of Environmental Farming and Innovation (OEFI), one-time funding of $24,900,000 in General Fund for Fiscal Year 2025-26 to advance the California Farm to School Network, the California Farm to School Incubator Grant Program, Climate Smart Technical Assistance and further the recommendations of the Farm to School Roadmap for Success. The CDFA Farm to School Program and OEFI request 10 percent of the grant fund allocations for administration and external program evaluation, and also requests a three-year encumbrance period with two additional years to liquidate.

Background. According to the Administration, the California Farm to School Program currently serves 49 percent of all California schoolchildren. The proposal requests resources with the stated purpose of enabling "the California Farm to School Program to increase opportunities for outreach, engagement, and training for farm to school stakeholders, as well as equip producers and school district leaders with the resources required to implement and increase farm to school activities."

The Legislative Analyst's Office provided the following background related to the Farm To School Program on their website post dated February 18, 2025:

Office of Farm to Fork Promotes Access to Healthy Food and Food-Based Education in Schools. CDFA's Office of Farm to Fork administers the Farm to School Program, which serves as a statewide resource to assist schools in procuring more locally grown food and engaging students to eat healthier diets. The 2020-21 budget approved $1.5 million in ongoing General Fund for the office to hire permanent staff. (Previous activities were supported with limited-term positions and funding.) The 2022-23 budget approved an additional $2.9 million in ongoing General Fund for the office to hire regional network and marketplace coordinators that further support local planning and implementation.

Farm to School Incubator Grant Program Has Provided Funding to Schools and Producers. The Office of Farm to Fork also manages the Farm to School Incubator Grant Program, which provides competitive grants to support the adoption and expansion of farm to school practices. Specifically, the program (1) supports schools and child care centers in procuring locally grown food and providing hands-on food education; (2) assists producers in increasing production capacity to supply food to schools and child care centers; and (3) supports organizations in providing technical assistance to schools, child care centers, and producers that are seeking to implement and advance farm to school practices. The program was first established with $8.5 million from the General Fund in 2020-21, with subsequent budget packages providing General Fund appropriations of $30 million in 2021-22 and $60 million in 2022-23—all provided on a one-time basis.

The Governor's Proposal Provides $24.9 Million for Farm to School-Related Activities and Climate Smart Technical Assistance. The Governor's budget includes $24.9 million one-time support from the General Fund in 2025-26 for the following activities:

- **Farm to School Incubator Grant Program ($20.4 Million).** The Governor's budget provides $20 million to support additional rounds of grants through the existing Farm to School Incubator Grant Program. The budget also includes $350,000 to continue an existing evaluation of the grant program. Funding would be administered by CDFA's Office of Farm to Fork.

- **Statewide Farm to School Outreach and Support ($1.6 Million).** The budget proposes about $1.6 million to support a variety of statewide outreach activities related to farm to school. Such activities would include statewide conferences, training events, and the development of additional strategies to promote the adoption of farm to school practices. Funding would be administered by CDFA's Office of Farm to Fork.
- **Climate Smart Technical Assistance Grants for Producers ($3 Million).** The proposal also includes $3 million to support climate smart technical assistance grants. This proposal would provide competitive funding to organizations that help encourage producers to adopt a wide variety of climate smart practices—such as those aimed at improving soil health, sequestering carbon, reducing emissions, and increasing water and energy efficiency. Funding would be administered by CDFA's Office of Environmental Farming and Innovation, which manages programs such as the Healthy Soils Program and the State Water Efficiency and Enhancement Program. CDFA's work to support these practices is not new; however, the department's previous technical assistance activities have generally been supported through funding provided for specific state programs or activities (such as the Healthy Soils Program and drought response allocations) rather than for broad, cross-cutting efforts.

The Legislative Analyst's Office also posted the following comments and recommendations to the proposal in their February 18th, 2025 post:

LAO Comments

Given that every dollar of new spending essentially requires offsetting reductions elsewhere in the budget, we think the Legislature will want to apply a high bar to its review of new spending. This context means the Legislature will need to weigh the importance and value of the proposed spending in the farm to school arena against its other General Fund priorities.

Funding Supports State's Recent Efforts to Increase Farm to School Practices. We find that the portions of the Governor's proposal dedicated to the Farm to School Incubator Grant Program, the program assessment, and statewide outreach are aligned with and would help to enhance and expand the state's recent efforts in this space. Specifically, the proposed $20 million for the Farm to School Incubator Grant Program would (1) provide schools with resources to implement these practices and (2) help producers scale their capacity to supply locally grown food to schools. The grant program has fully awarded funding received from previous budget packages and has a history of oversubscription. For instance, the most recent grant round had 499 applicants requesting a total of $129 million, but only had sufficient funding to award $53 million to 195 grantees. Additionally, the Governor's proposal to provide $350,000 to continue the existing evaluation of the Farm to School Incubator Grant Program could support future improvements and refinements to the program, and the proposed $1.6 million for statewide outreach would expand on the Office of Farm to Fork's existing efforts to support schools in adopting farm to school practices.

Legislature Could Explore How Farm to School Activities Might Be Incorporated Into Other Programs and Funding for School Nutrition. While the Legislature has provided some modest amounts of General Fund for CDFA's farm to school efforts in recent years, the vast majority of funding for meals that children receive at schools comes from the state's Proposition 98 school funding allotment and federal funds. In the current year, state and federal funds for the School Nutrition program are estimated to total $4.6 billion. Moreover, over the past few years, the state has provided funds to schools in order to improve their ability to provide more healthy meals, procure California-grown foods, and incorporate more freshly prepared foods. The Legislature could explore whether the benefits that CDFA's farm to school grants provide could be incorporated into the activities supported by existing school nutrition funding—potentially leading to even greater statewide adoption of the program's goals. Even if the Legislature determines that a strong rationale exists for funding the CDFA program separately from the core School Nutrition program, it could explore whether some of the farm to school activities could potentially be supported by monies the state must provide to schools to comply with Proposition 98 constitutional requirements. This is particularly pertinent in 2025-26 given that, as we discuss in our recent publication, the 2025-26 Budget: Proposition 98 Guarantee and K-12 Spending Plan, the required Proposition 98 funding level in the budget year is projected to exceed the amounts needed to maintain existing school programs. In response, the Governor's budget proposal includes $3.4 billion in new discretionary one-time spending for schools. This contrasts notably with the nonschool General Fund budget condition, which is significantly more constrained. While likely not all of the proposed CDFA activities would be eligible to be supported by Proposition 98 funds, the Legislature could explore this option for some components.

Climate Smart Technical Assistance Grants Do Not Directly Support Farm to School Efforts. We have two concerns with the proposed $3 million for technical assistance grants. First, this funding would not directly support producers seeking to participate in farm to school efforts. Rather, the grants would promote the adoption of climate smart practices across all producers in the state, regardless of their current or planned involvement in farm to school initiatives. The department's rationale for including this request as part of this overall proposal is that supporting technical assistance might help develop a wider procurement network of producers that utilize these practices that can then serve schools. However, while the technical assistance grants may help producers adopt beneficial practices—such as those that conserve water, reduce energy usage, and sequester carbon—they do not directly support the adoption of farm to school practices: (1) procuring locally grown food for school meals and (2) engaging students in food education activities. This distinction is important in a budget environment where the Legislature must be targeted in how it uses limited General Fund resources to achieve its highest policy objectives. Second, we find the proposal lacks detail on how this funding would support specific outcomes. In particular, pinpointing the specific benefits the technical assistance grants would deliver is difficult given that they could be used to support the adoption of a broad array of practices.

LAO Recommendations

Reject Funding for Climate Smart Technical Assistance Grants. We recommend the Legislature reject the Governor's proposal to provide $3 million for climate smart technical assistance grants. In our assessment, while the grants may help producers adopt beneficial practices, they do not directly support implementation of farm to school practices. Additionally, their broad scope makes it difficult to identify the specific benefits they might yield. In the context of limited General Fund resources, we do not find that this proposal meets the high bar for ensuring funding is well-targeted and focused on achieving specified policy objectives.

Weigh Spending on Advancing Farm to School Efforts Against Other General Fund Priorities. We find that the Governor's proposal to provide a combined $22 million in additional one-time funding to support farm to school efforts—including the Farm to School Incubator Grant Program, the program assessment, and statewide outreach—aligns with the state's recent efforts in this area and likely would help continue progress on enhancing farm to school connections. However, given General Fund constraints and the uncertain budget context, we recommend that the Legislature weigh additional spending on advancing farm to school efforts against its other spending priorities. To the degree this program remains a high priority for continued support, the Legislature also could explore whether some of the activities could potentially be supported by funding the state must provide to schools to meet Proposition 98 constitutional requirements, either as a part of or in addition to the existing School Nutrition program.

Staff Comments: The Legislature may wish to seek clarity on the effectiveness of certain program aspects against other Budget priorities.

Staff Recommendation. Hold Open.

Item 15: Climate Bond Expenditure Plan (Proposition 4)

Request. The Safe Drinking Water, Wildfire Prevention, Drought Preparedness, and Clean Air Bond Act of 2024 (Proposition 4 or the Climate Bond), approved by voters in November 2024, authorizes $10 billion to protect communities and nature from the impacts of climate change, such as drought, flooding, wildfire, extreme heat, and sea level rise; to reduce or remove carbon pollution where possible; and in some cases address existing environmental challenges exacerbated by climate change. The Governor's budget proposes $2.7 billion in Climate Bond funds in 2025-26.

Background. The Administration proposed the following expenditure plan for the Climate Bond, illustrating the allocation of 300 million to Climate Smart Agriculture, and the distribution of funds.

Climate Bond Expenditure Plan
($ in Millions)

Investment Category	Bond Allocation	2025-26	2026-27	Out-Years	Pending Allocation
Safe Drinking Water, Drought, Flood & Water Resilience	$3,800	$1,074	$972	$1,744	$10
Wildfire & Forest Resilience	$1,500	$325	$376	$710	$89
Coastal Resilience	$1,200	$173	$129	$899	$0
Extreme Heat Mitigation	$450	$102	$172	$176	$0
Biodiversity & Nature-Based Solutions	$1,200	$286	$136	$677	$101
Climate Smart Agriculture	$300	$134	$84	$22	$60
Outdoor Access	$700	$286	$117	$65	$231
Clean Air & Energy	$850	$275	$229	$24	$323
Total	**$10,000**	**$2,655**	**$2,215**	**$4,317**	**$814**

Chapter 7. Climate Smart Agriculture
($ in Millions)

Department	Program	2025-26	2026-27	Out-Years	Pending Allocation
Dept. of Food & Agriculture	Healthy Soils Program	$36	$26	$3	$0
	State Water Efficiency & Enhancement Program	$38	$0.7	$2	$0
	Invasive Species Account	$20	$0	$0.2	$0
	Certified Mobile Farmers' Markets	$10	$10	$0.9	$0
	Year-Round Certified Farmers' Markets	$10	$10	$0.9	$0
	Urban Agriculture Projects	$19	$0.4	$0.9	$0
	Regional Farm Equipment Sharing	$0.2	$14	$0.7	$0
	Tribal Food Sovereignty	$0.2	$14	$0.7	$0
Dept. of Conservation	Protection, Restoration, Conservation and Enhancement of Farm and Range Lands	$2	$9	$3	$0
	Improve Land Access and Tenure for Socially Disadvantaged Farmers, Ranchers, or Tribal Producers	$0	$0	$0.2	$30
Dept. of Community Services & Development	Farmworkers Housing Component of the Low-Income Weatherization Program	$0	$0.2	$10	$0
California Vanpool Authority	Deployment of Vanpool Vehicles, Clean Technologies and Infrastructure	$0	$0	$0.1	$15
California Dept. of Education	Grants to Postsecondary Education Institutions to Develop Research Farms to Improve Climate Resiliency	$0	$0	$0.1	$15
	Total	**$134**	**$84**	**$22**	**$60**

The allocation to the CDFA includes the healthy soils program, invasive species account, farmers markets, tribal food sovereignty funds, and more. The programs and proposed investments in the Administration's spending plan are as follows:

- Healthy Soils Program – Intended to improve soil health on California's farmlands and ranchlands through conservation management practices. Three grant types are issued to effectuate this program:
  - Incentive Grants provide financial incentives directly to growers and ranchers to implement practices that improve the health of soil, capture carbon, reduce greenhouse gasses.
  - Demonstration Grants fund on-farm demonstration projects.
  - Block Grant Pilot funds projects by farmers and ranchers through regional block grant administrators.

- State Water Efficiency and Enhancement Program – Intended to provide financial aid and incentive to agricultural operations for the adoption of more efficient irrigation systems. There are restrictions in bond language that require "multiple-benefit projects that improve resilience to climate change and save water on California agricultural operations."

- Invasive Species Account – This account provides funds invasive species projects and activities recommended by the Invasive Species Council of California. Public meetings are anticipated to be held regarding proper allocation processes for Prop. 4 funds.

- Certified Mobile Farmer's Market – AB 2786 (Chapter 915, Bonta, 2024) established certified mobile farmers' markets to provide accessibility to foods that are grown, harvested, and produced in California by reaching residents in communities that have limited access to nutritious foods, supermarkets, and grocery stores, including communities in rural, underserved, and tribal areas.

- Year-round Certified Farm's Markets – Section 93540(b) provides $20 million to develop year-round infrastructure for certified farmers' markets.

- Urban Agriculture Projects – Intended to benefit projects that create or expand city or suburban community farms or gardens, including community food producers, as defined in Section 113752 of the Health and Safety Code, through in-ground small plot cultivation, raised beds, mushroom growing, rooftop farms, and cultivation of vacant lots and in parks.

- Regional Farm Equipment Sharing Program – Grants for regional farm equipment sharing are intended to increase efficiency and affordability of equipment, and reduce overhead costs, particularly for small and medium sized farms.

- Tribal Food Sovereignty – Intended to advance tribal food sovereignty by increasing the ability of tribes to grow, produce, procure, and distribute foods that reflect Native American culture and traditions and support the development of tribal producers and vendors.

- Protection, Restoration, Conservation and Enhancement of Farm and Range Lands – The funding in this sub-allocation would be split under two existing programs within the Department of Conservation – the California Farmland Conservancy and the Working Lands and Riparian

Corridors Program. Together these programs would support funding conservation easements and land improvements on conserved land.

- Improve Land Access and Tenure for Socially Disadvantaged Farmers, Ranchers, or Tribal Producers – Under the Department of Conservation, this suballocation would create a new program; Department staff have indicated they are awaiting further policy direction from the Legislature on the development of this program.

- Farmworkers Housing Component of the Low-Income Weatherization Program – Intended to provide low-income farmworker households no-cost energy efficiency upgrades designed to reduce greenhouse gas emissions by saving energy.

- Deployment of Vanpool Vehicles, Clean Technologies and Infrastructure – Intended to fund the use and deployment of vanpool vehicles, clean technologies, and related facilities.

- Grants to Postsecondary Education Institutions to Develop Research Farms to Improve Climate Resiliency – The funds are to be administered by the Department of Education in consultation with the Department of Food and Agriculture for providing grants to public postsecondary educational institutions that are designated as Agricultural Experiment Stations or Agricultural Research Institutes, to develop research farms to improve climate resiliency.

The LAO provided the following background and comments in a post to their website dated February 12, 2025.

LAO Background

Governor Proposes Appropriating 45 Percent of Climate Smart Agriculture Funding in 2025-26. Proposition 4 includes a total of $300 million for a variety of activities related to supporting climate smart agriculture. As shown in Figure 13, the Governor proposes to appropriate $134 million—45 percent—of this total in 2025-26. The administration's plan would allocate most of the rest of the funding over the next two years—including $84 million in 2026-27—with smaller amounts of funding for program delivery and administration continuing in subsequent years. The Governor's implementation plan does not yet include an appropriation time line for three bond activities: (1) increasing land access and tenure, (2) deployment of vanpool vehicles and related facilities, and (3) research farms at postsecondary education institutions.

LAO Comments

Proposal Utilizes Existing Programs to Administer Certain Funding Categories. In a number of cases, Proposition 4 outlines categories of climate smart agriculture activities without specifying particular programs through which the funds should be implemented. For several of these categories, the administration proposes to use the funds to support existing state programs. This includes categories related to soil health and carbon sequestration as well as urban agriculture projects, which will be administered through CDFA's Healthy Soils Program and Urban Agriculture Program, respectively. Additionally, funding dedicated to conserving and enhancing farmland and rangeland will be administered through the Department of Conservation's California Farmland Conservancy Program and Working Lands and Riparian Corridors Program. (We note that the administration has not specified how the funds will be divided between these two programs.) Overall, we find that the programs chosen by the administration seem to align well with the language included in Proposition 4. Furthermore, utilizing existing programs allows the state to more efficiently distribute funds.

In a few instances, Proposition 4 explicitly states which existing state programs should be used to administer certain funding categories. These include the State Water Efficiency and Enhancement Program, the farmworker housing component of the Low-Income Weatherization Program (LIWP), and the Invasive Species Account. Because these established programs can begin implementation immediately, the Governor's proposed plan allocates funding for all of them in the budget year to begin awarding grant funds and supporting projects, with the exception of LIWP. For this program, the multiyear plan would wait and provide most funds in 2027-28. As of this writing, the administration had not yet provided us with its rationale for the delayed implementation.

Proposal Would Establish New Programs, but Legislature May Want to Provide Statutory Guidance. The Governor also proposes to allocate funding for certain bond categories through establishing new programs. However, the proposed timing for allocating planning and project funding varies by program. For instance, budget-year funding for regional farm equipment sharing and tribal food sovereignty would be used to plan and establish the new programs, with funding for project awards scheduled to be provided in 2026-27. CDFA indicates it believes this phased-in approach is appropriate given that these programs would support activities in areas that the department does not currently oversee. The department also indicates that Proposition 4's statutory guidance for these funding categories is broad, and therefore it must undertake further planning efforts to prepare for implementation. In contrast, for year-round and certified mobile farmers' markets (also new programs for CDFA), the administration proposes appropriating funding in 2025-26 to support both program development and project awards. The administration indicates that this accelerated approach is better suited for these programs given that (1) CDFA has an established role in overseeing farmers' markets and (2) Proposition 4 is more explicit on what types of activities must be funded under these categories. Overall, we find the Governor's proposal to be a reasonable approach that allows for sufficient planning in new areas, while enabling the department to proceed in areas where it has established expertise and guidance from the bond.

While the overall approach the Governor proposes appears sound, the Legislature may want to consider providing statutory guidance on how these new programs should be administered, particularly if it had certain components in mind when drafting the bond. Adding statutory guidance now would ensure that these new programs are implemented in a way that aligns with legislative priorities and policy objectives. This is particularly true for the categories where Proposition 4 does not provide directions around how funds should be administered. For example, the Legislature could consider specifying program priorities, design features, and/or project selection criteria. Additionally, the administration is asking the Legislature to provide more guidance around its intentions for the three bond activities for which the Governor's implementation plan does not yet include an appropriation time line: (1) increasing land access and tenure, (2) deployment of vanpool vehicles and related facilities, and (3) research farms at postsecondary education institutions.

Staff Recommendation. Hold Open.

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Item 16: Trailer Bill Language - Programmatic Fee and Assessment Adjustments

Request. The Governor's Budget has proposed Trailer Bill Language for the Department of Financial Protection and Innovation ("DFPI"), increasing certain programmatic fees and assessments.

Background. In 2023-24, the Department contracted with Crowe LLP (Crowe) to perform a Fiscal and Cost Allocation Plan Analysis1 to evaluate its cost allocations, fee structures, and the sustainability of its operations over five years. The analysis was released in November 2024 and identified a $193.2 million funding shortfall (2023-24 through 2027-28), comprising $80.4 million for existing operations and $112.8 million for new regulatory responsibilities.

CDFI seeks to ensure each program generates sufficient revenue to cover its own operational costs while aligning fees with the services provided. The Administration states that the Crowe report recommended targeted fee adjustments for five programs where statutory fees have remained stagnant and are no longer sufficient to support their regulatory functions. These programs include Broker Dealer Investment Advisers, Franchise, California Residential Mortgage Lending, Escrow, and Money Transmitters. Additionally, to promote consistency across regulatory programs, Crowe recommended aligning the Commissioner's authority to set hourly examination rates, ensuring a standardized approach to fees for core operational functions.

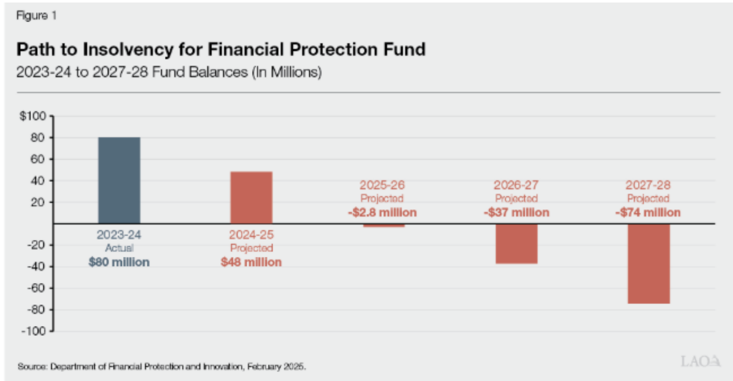
The LAO has provided the following background, comments, and recommendations related to the trailer bill language and DFPI's general financial condition in a post to their website dated April 3, 2025.

LAO Background

The Department of Financial Protection and Innovation Regulates Financial Service Providers in California. DFPI licenses financial services, products, and professionals, and regulates franchises and securities offerings in California. The department also educates consumers on how to avoid scams, investigates suspected fraud, and (in certain instances) takes legal action to collect restitution for lost money. The revised 2024-25 budget provides DFPI with $177 million—almost exclusively from four special funds, which themselves are largely funded by revenue from regulatory fees, licenses, and permits—and 878.3 positions.

Majority of Funding for DFPI Comes from Financial Protection Fund. Although DFPI receives funding from four special funds, in a typical year the overwhelming majority of the department's funding (85 to 90 percent) comes from one special fund, the Financial Protection Fund. Most of the Financial Protection Fund's revenues are generated by licensing and registration fees, program assessments (charges levied on regulated entities to cover oversight costs), and examination fees (to cover costs associated with specific audits or inspections).

Financial Protection Fund on Track to Insolvency. A DFPI fund condition report provided to the Legislature on February 25, 2025 indicates that the Financial Protection Fund will become insolvent toward the end of 2025-26 and face growing deficits in future years as shown in Figure 1.



Independent Study Found Expenditures Outpacing Revenues for Both Established and New Programs. In 2024, DFPI asked an independent accounting firm to conduct a fiscal and cost study of its programs. The resulting report identified a structural deficit dating to 2020-21 caused by both cost and revenue factors. Cost factors included annual salary adjustments and startup costs for the three new programs. On the revenue side, the report identified static fee levels and a decrease in Banking program revenue from recent large bank closures (including the collapse of Silicon Valley Bank). Several DFPI fees that have not been adjusted were established in the late 1980s through early 2000s, with one not being changed since 1959.

Study Concluded That DFPI Needs $193.2 Million in Additional Funding for Certain Established and New Programs Through 2027-28. The independent accounting firm's report estimated that the department requires an additional $80.4 million through 2027-28 to support 8 of 13 established programs and subprograms, as well as an estimated $112.8 million through 2027-28 for its three new programs, for a total of $193.2 million. (Five of the 13 established programs and subprograms were not found to be facing structural deficits.) Figure 2 summarizes projected revenues and costs for the eight established DFPI programs and subprograms that the report identified as facing cumulative structural deficits from 2023-24 through 2027-28.

Figure 2

Structural Deficits in Selected DFPI Programs

Cumulative 2023-24 Through 2027-28

Program/Subprogram	Projected Revenues	Projected Costs	Difference
Investment Program			
Broker-Dealers Investment Adviser	$91.7	$110.3	-$18.6
Franchise Investment	7.0	13.5	-6.4
Lender-Fiduciary Program			
Mortgage Bankers	$17.7	$30.4	-$12.7
California Finance Lenders	39.7	46.0	-6.3
Escrow	23.9	35.2	-11.2
Deferred Deposit Transaction	8.2	11.3	-3.1
Banking Program			
Banks	$151.6	$173.1	-$21.5
Money Transmitters Program			
Money Transmitters Program	$36.0	$36.5	-$0.5
Totals	**$375.8**	**$456.2**	**-$80.4**

Notes: Numbers rounded. In millions.

DFPI = California Department of Financial Protection and Innovation.

Governor Requests Authority to Raise Certain DFPI Fees. The Governor proposes trailer bill language that would increase fees for some established DFPI subprograms that are facing deficits, as shown in Figure 3. The Governor also proposes language that would allow the department to set hourly examination rates based on its estimated average cost, including overhead, for the Money Transmitters, Banking, and Credit Union programs. (Currently, the department receives a flat rate of $75 an hour.)

Governor Not Requesting Increased Fees for Certain Programs and Subprograms. DFPI indicates that it can increase program assessment fees for three of the established programs facing structural deficits—the California Finance Lenders, Deferred Deposit Transaction, and Banks subprograms—without the need for additional legislative action. Accordingly, this proposal does not request fee increases for these subprograms. DFPI also expects that revenue generated from the new programs, once they are fully operational, will cover their costs. As a result, no fee increases are proposed for these programs either.

LAO Comments

DFPI Does Not Have the Funds Necessary to Achieve Its Mission. The Financial Protection Fund is facing insolvency in 2025-26. This is largely driven by a structural deficit dating to 2020-21. This deficit was caused by a combination of increasing costs and insufficient revenue. To address this, DFPI must reduce costs, raise fees, or seek alternative sources of funding, such as the General Fund.

Reducing Costs Without Impacting Regulatory Activities May Be Challenging. The independent assessment of DFPI's financial condition identified annual salary adjustments (agency-wide) and start-up costs for new programs as the main sources of increased expenditures at DFPI. One option for policy makers would be to reduce these costs, chiefly by reducing staffing or by delaying the implementation of (or eliminating) costly new programs that are not yet collecting sufficient revenue. However, reducing staff could impact service levels and is likely to limit the department's capacity to meet its current oversight and regulatory mission. There are drawbacks to delaying the implementation of new programs as well. Failing to complete implementation means foregoing the revenue these programs expect to collect when fully operational. It could also result in the loss of some of the money already spent in their development, such as funds spent on training staff who might need to be rehired and retrained if the programs were delayed.

Increasing Regulatory Fees Is A Reasonable Approach to Addressing Regulatory Funding Shortfalls. Typically, the state uses regulatory fees to fund regulatory agencies like DFPI. This method of financing puts the cost of regulation on those who receive regulatory services (such as the issuance of a license, the review of an application, or enforcement against fraudulent actors). Consistent with this principle, it is reasonable for the department to meet its revenue challenge by increasing fees on the regulated community rather than requesting support from an alternative source such as the General Fund.

Some of the Proposed Fees Appear Reasonable… As noted in the independent study, many of the DFPI fees that the administration seeks to increase have not changed in decades. For example, the current $25 broker-dealer agent/investment advisor representative application fee was set in 1959. This fee has not kept up with department costs, and even at the proposed level ($50—a 100 percent increase), is well below inflation. (Depending on how inflation is adjusted for, the inflation-adjusted level for this fee would be between $246 to $380). Similarly, authorizing the department to set hourly examination fees at a price that includes overhead would allow it to more fully recoup costs for a comparatively complex set of auditing and assessment tasks and services.

…While Others Are Relatively High. For example, the proposed increase in new franchise registration fees—from $675 to $1,865—would set California fees at much higher levels than other states. In other states with franchise registration fees, new franchise registration fees range from $250 to about $750. (Some states do not charge these specific fees, but may charge others.) Additionally, some of the proposed fee increases—such as the $15,000 maximum in the prorated Mortgage Bankers assessment and the $7,215 per office location Escrow assessment—outpace inflation by some measures. Given the magnitude of these fees, they may not have significant effects on decisions (such as whether to start a franchise in the state) by some of the more well-established and well-financed firms, but could have a more substantial impact on smaller firms.

Administration Has Not Presented an Adequate Plan for All Programs With Identified Insolvencies. The department indicates that the fee increases authorized by the proposed trailer bill would provide approximately $50 million in support for the underfunded established programs through 2027-28. However, the accounting firm's evaluation of DFPI's established programs found an additional $30 million in unfunded balances across established subprograms that are not in the administration's proposed bill. The administration indicates that it has the authority to increase fees to address these costs based on existing law, but it has not provided a specific plan or revenue projections to that end. Similarly, the administration has not provided detailed revenue projections for the department's new programs.

LAO Recommendation

Approve Proposed Fee Increases on a Limited-Term Basis and Require Reporting. We recommend that the Legislature approve the proposed fee increases on a limited-term, three-year basis. We also recommend directing DFPI to report annually for three years beginning on January 10, 2026, on the amount of revenue received from each increased fee and how this compares to what the department projected would be received. This will allow the Legislature to more closely monitor the health of the Financial Protection Fund. Additionally, in order to assess the impact of the fee increases on the regulated community, we recommend directing DFPI to report to the Legislature by January 1, 2028, on the condition, health, and major challenges for the franchise, mortgage lending, and escrow industries in California, given the size of the fee increases proposed for these industries. These reports could inform the Legislature's deliberations on the 2028-29 budget, when it would be determining whether to maintain the elevated fee levels set to expire under our recommendation.

Direct Department to Provide Key Information on Plans to Address Solvency of the Programs Not Included in the Fee Proposal. We recommend that the Legislature direct DFPI to report in spring budget hearings key information on its plans to fully fund the programs and subprograms that are not included in the Governor's proposal. Specifically, we recommend DFPI report on the following:

- The level of revenue it has collected to date and expected future revenues associated with the new programs it is implementing: the California Consumer Financial Protection Program, the Debt Collector Program, and the Digital Financial Assets Program.

- Planned fee increases it intends to implement through regulations for the California Finance Lenders, Deferred Deposit Transaction, and Banks subprograms, including the size of the increases and the amount of revenue expected from these increases

- What steps it would take if the fee increases alone prove insufficient to prevent the insolvency of the fund.

This will give the Legislature insight into whether the department's plans are likely to address the insolvency of the fund in 2025-26 and whether those plans are consistent with the Legislature's priorities.

Staff Comment: The Legislature may wish to consieder to what requirements, if any, would be appropriate to put in place in connection with this proposal.

Staff Recommendation. Hold Open.

1111 Department of Consumer Affairs

Item 17: Business Modernization Cohort 2 – Maintenance and Operations

Request. The Governor's Budget requests, for the Department of Consumer Affairs, an increase in expenditure authority of $2.652 million in 2025-26 and ongoing to continue maintenance and operations for the Business Modernization Cohort 2 ("BMC 2").

Background. BMC 2 programs provide professional licensure and regulatory oversight to their respective professions. The Department and its 36 boards and bureaus ensure licensees adhere to established professional standards and educational requirements. BMC 2 is intended to address business and technology needs that will increase efficiency and accuracy of work activities for five programs that currently rely on legacy technology solutions.

According to the Administration, 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.

The proposal states that the requested funding is divided by boards and bureaus and reflects the necessary appropriation augmentations to cover system integration, software licensing, credit card payment activities, and continued funding for 5.0 positions in the Department's Office of Information Services (OIS) to support the project through maintenance and operations.

The Department's cost to support 5 OIS positions is stated to be approximately $966,000. These costs would be distributed among Structural Pest Control Board (SPCB), California Architects Board (CAB), Landscape Architects Technical Committee (LATC), Cemetery and Funeral Bureau (CFB), and Bureau of Household Goods and Services (BHGS) and would be built into each program's project costs.

Staff Comments. The Legislature may wish to seek further clarity regarding why certain Boards and Bureau's pass through credit card fees to the regulated community, and why some instead choose to cover those costs within the respective Board or Bureau, and whether over time this may impact certain funds.

Staff Recommendation. Hold Open.

3100 Exposition Park

Item 18: California Science Center: Phase III Air and Space Center Facility Core Operations

Request. The Governor's Budget requests, for the California Science Center, $664,000 General Fund and 5 permanent positions in 2025-26, increasing to $915,000 in 2029-30 and ongoing to provide the minimum level of resources needed to operate the state-approved Phase III Facility consistent with the Science Center's lease obligations.

Background. The Food and Agricultural Code Section 4103.5 authorized the California Science Center (the "Science Center") to enter into a 30-year lease with the California Science Center Foundation (Foundation) for the purpose of the Foundation developing, designing, constructing, equipping, furnishing, and funding the Phase III Project (an expansion of the Science Center). The authorized lease was executed in 2020.

According to the proposal, according to the Phase III lease agreement and the 50-year joint operating agreement (JOA), the Science Center is responsible for all building and exhibit maintenance and repairs, utilities, taxes, and assessments. The request by the Administration is therefore intended to provide resources required to maintain the building on an ongoing basis. Facilities operations and maintenance include recruitment and phased hiring of state employees in custodial and facility operations classifications, a minimum level of ongoing resources for facility maintenance supplies and contracting services, and recruitment of contracted staff to support specialized functions.

The 2024 Budget Act previously included $2.91 million General Fund and seven positions in 2024-25, increasing to $3.8 million ongoing by 2028-29 to support additional operational costs at the Samuel Oschin Air and Space Center. These resources were also intended to provide essential funding for facilities operations, utilities, and staff to maintain the Phase III facility.

Staff Comments. Given the previous appropriations, the Legislature may wish to seek further clarification regarding the specific obligations these new positions are intended to fill.

Staff Recommendation. Hold open.

8620 Fair Political Practices Commission

Item 19: 2024 Chaptered Legislation Resources

Request. The Governor's Budget requests, for the Fair Political Practices Commission (the "FPPC"), $555,000 General Fund for 2025-2026 and ongoing and three permanent positions to implement recently passed legislation.

Background. The FPPC was created by the Political Reform Act of 1974 (the "Act") as an independent non-partisan agency whose main duties are to ensure transparency in political campaign spending and that government officials comply with state government ethics laws. The FPPC has primary responsibility for the impartial and effective administration and implementation of the Act. The FPPC regulates and enforces actions performed by governmental officials and agencies and requires extensive disclosure reports to provide the public with access to government processes.

The Administration has requested funding for three permanent positions to implement and to address workload deficiencies at the FPPC in connection with AB 2355, AB 2041, SB 1156, SB 1111, SB 1181, and SB 1243. For AB 2355, the Department suggests that the costs for the artificial intelligence detection software and licenses are indeterminate, and suggests that an additional budget change proposal may be needed in the future to account for this.

- AB 2355 requires a disclaimer statement on campaign advertisements with image, audio, or video that was generated or substantially altered using artificial intelligence. Given these robust changes, the FPPC anticipates increased workloads in the Enforcement and Legal Divisions.

- AB 2041 expands the authority for candidates and elected officers to use campaign funds to pay for security expenses. AB 2041 also requires these persons to submit a report to the FPPC that describes and verifies the threats.

- SB 1156 will require members of the board of directors and the executive of a groundwater sustainability agency to file their Statements of Economic Interests directly with the FPPC. The FPPC estimates approximately 2,000 filers from the groundwater sustainability agencies.

- SB 1111 creates a new category of "remote interests" requiring an official to abstain from participating in a contract decision under Section 1090 when the contract involves the official's adult child. The FFPC's Legal Division anticipates a corresponding increase in advice requests.

- SB 1181/SB 1243 are anticipated by the FPPC anticipates increased workloads in the Legal Division. The Administration states that the Legal Division staff would need to prepare amendments to existing regulations to implement amended code sections.

Staff Comments. The FPPC submitted their most recent Workload Metrics Report to the Legislature on January 10, 2025. The Legislature may wish to seek further clarification on whether there appears to be a need for additional staffing at the Department based on the metrics of the report.

Staff Recommendation. Hold Open.

8820 Commission on the Status of Women and Girls

Item 20: Ongoing Support for Administrative Staff

Request. The Governor's Budget requests, for the California Commission on the Status of Women and Girls, 3 positions in 2025-26 and ongoing and $570,000 General Fund in 2026-27 and ongoing to convert 3 limited-term positions to permanent to address significantly increased workload requirements due to program growth, and an increased number of contract obligations, and existing legislative mandates.

Background. The California Commission on the Status of Women and Girls (the "Commission") is an independent state agency dedicated to promoting equality for all women and girls in California. The Commission was mandated to "act as an information center on the status of women's needs" and "develop and coordinate with those concerned with preventing problems brought about by the changing roles of women, and to develop programs to enable women to be fully contributing members of society. The Commission also educates the public on topics including economic and educational equity, access to healthcare (including reproductive choice), violence against women, veterans' issue, media and representation, and other significant issues identified by the Commission as impacting women and girls.

The three positions referenced by the proposal are set to expire in June of 2025, and the Administration states that competitively hiring for the vacant roles would be impractical and exacerbate the challenges faced by the Commission, which the proposal suggests is understaffed. The request further states that the fiscal and staff time costs associated with recruiting, hiring, and training new temporary staff would be burdensome. The Department states that these positons are essential for ongoing administration and operational support, as well as in sustaining their programs and coordinating with partners.

The Legislative Analyst's has suggested that the requested positions might be seen as more reasonable given the fact that they are managerial in nature, and much of the increased workload in previous years has been the result of legislation.

Staff Comments. The Legislature may wish to seek clarity on the scope of initiatives within the Commission, and whether prioritization might improve outcomes for the Department.

Staff Recommendation. Hold Open.

8260 CALIFORNIA ARTS COUNCIL

Item 21: California Arts Council Staffing Resources

Request. The California Arts Council ("CAC") requests $153,000 General Fund in 2025-26 and ongoing to support one new permanent position to provide critical support for human resources in the Operations Unit.

Background.

Staff Comments. The CAC was established in 1976 as a state agency to strengthen access to arts, culture, and creative expression in California. CAC fulfills its mission through programs and partnerships that aim to support, through a practice of artistic quality and equity, the state's varied arts and cultural sector.

The Administration states that the CAC's current staffing is unable to meet internal human resources needs, and this deficiency is impacting internal and external operations and CAC's ability to remain compliant with state regulations. The proposal suggests that, although CAC has a contract with DGS for HR services, there continues to be a need within the agency to track payroll, leave balances and completing reporting for State Personnel Board audits as well as facilitating the contract and working with DGS directly.

CAC had previously hired an Associate Governmental Program Analyst (AGPA) whose responsibilities included being a human resource liaison and budget analyst. However, the proposal states that the human resource liaison responsibilities exceed the AGPA's workload and requires a full-time assignment. The California Arts Council has employed a part-time retired annuitant since 2022 to support the human resource liaison work of the agency, however believe this to be an unsustainable arrangement. The proposal also suggests that existing budget analyst's workload would be better directed to 100 percent budget duties to fulfill the needs of CAC.

CAC intends the duties of the role to include managing and tracking mandatory staff trainings, probation reports, performance appraisals, provision of effective hiring documentation, streamlining the onboarding process, and handling sensitive personnel matters.

Staff Recommendation. Hold Open.