

*Senate Budget and Fiscal Review—Nancy Skinner, Chair*

**SUBCOMMITTEE NO. 5**

**Agenda**

**Senator Maria Elena Durazo, Chair**  
**Senator Dave Cortese**  
**Senator Shannon Grove**  
**Senator Josh Newman**



**PART A**

**Thursday, May 13, 2021**  
**10:00 a.m. or upon adjournment of session**  
**State Capitol - Room 3191**

Consultant: James Hacker, Anita Lee, and Yong Salas

**ITEMS PROPOSED FOR VOTE-ONLY**

*\*Approve Staff Recommendation*

<b>0690 OFFICE OF EMERGENCY SERVICES.....</b>	<b>3</b>
Issue 1: Checkpoint Enhancements 3-0, ASR.....	3
Issue 2: Regional Hazardous Materials Response 3-0, ASR.....	3
Issue 3: California Early Earthquake Warning System 3-0, ASR.....	4
Issue 4: Reimbursement Authority Increase for CAL FIRE Lease 3-0, ASR.....	5
Issue 5: Various Re-appropriations 3-0, ASR.....	6
<b>2600 CALIFORNIA TRANSPORTATION COMMISSION.....</b>	<b>6</b>
Issue 6: Local Streets and Roads Program 3-0, ASR.....	6
<b>2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION.....</b>	<b>7</b>
Issue 7: Office Space Related Costs 3-0, ASR.....	7
<b>2720 CALIFORNIA HIGHWAY PATROL.....</b>	<b>7</b>

Issue 8: Reimbursement Authority 3-0, ASR .....7  
 Issue 9: California Highway Patrol Enhanced Radio System 3-0, ASR .....7  
**7350 DEPARTMENT OF INDUSTRIAL RELATIONS ..... 7**  
 Issue 10: Enhancement of Occupational Safety and Health (CalOSHA) Program 3-0, ASR ...7  
**7501 DEPARTMENT OF HUMAN RESOURCES (CALHR)..... 8**  
 Issue 11: Payroll System Project 3-0, ASR.....8  
 Issue 12: Dependent Verification 3-0, ASR.....9  
**7870 CALIFORNIA VICTIM COMPENSATION BOARD ..... 10**  
 Issue 13: Ongoing Backfill 3-0, ASR .....10

**ITEMS PROPOSED FOR DISCUSSION AND VOTE**

**2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION..... 11**  
 Issue 14: Highway Safety Program Held open ..... 11  
 Issue 15: CARES Act GTFS and Support Held open.....13  
 Issue 16: Project Delivery Workload – Capital Outlay Support Held open ..... 14  
 Issue 17: Indirect Cost Rate Proposal Held open ..... 16  
**7100 EMPLOYMENT DEVELOPMENT DEPARTMENT..... 17**  
 Issue 18: EDD – Unemployment Insurance Update Held open.....17  
**7920 CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM ..... 21**  
 Issue 19: Multi-Year Investment Strategy 3-0, ASR.....21

**Public Comment**

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## ITEMS PROPOSED FOR VOTE-ONLY

### 0690 OFFICE OF EMERGENCY SERVICES

#### Issue 1: Checkpoint Enhancements

**Request.** The Governor's Office of Emergency Services requests \$300,000 General Fund for the preliminary plan (\$100,000) and working drawing (\$200,000) phases of the Security Checkpoint Enhancements project.

**Background.** This project will install two permanent security checkpoints and upgrade the existing entryway gates at the North and West entrances of the Governor's Office of Emergency Services Headquarters main parking lot. Cal OES is visited by a number of legislators, dignitaries, the Governor, and the Vice President. During activations, visitation can increase by upwards of 400 visitors daily.

Currently, there is no effective or sustainable means in which to control the vehicular flow of traffic to the main parking area. The project involves installing two purpose built, all weather, interior climate controlled, and fortified (bollards and ballistic glass) security kiosks at both entrances and the replacement of the four wooden gate arms with electronic controlled anti-ram barrier metal control arms that will raise and lower into locking cement bases. The proposed metal control arms have the capability to stop a 15,000 pound truck at 30 miles per hour.

Project includes trenching for electrical, demolition of existing gate system, construction of two permanent checkpoint structures with ballistic glass to house up to two guards, anti-ram bollards, and upgrading the existing gate system to an anti-ram gate with emergency closure mechanism via the lobby guard post. A badge installation, speaker and video camera system will also be installed to ensure proper identification of staff and visitors prior to entrance into the facility parking area.

The estimated total project costs are \$1,750,000 including preliminary plans (\$100,000), working drawings (\$200,000), construction (\$1,200,000) and equipment (\$250,000). The construction amount includes \$660,000 for the construction contract, \$120,000 for contingency, \$175,000 for architectural and engineering services, \$125,000 for agency retained items, and \$120,000 for other project costs.

**Staff Recommendation.** Approve as requested.

#### Issue 2: Regional Hazardous Materials Response

**Request.** The Governor's Office of Emergency Services requests \$3,595,000 General Fund ongoing, beginning in 2021-22, to continue implementation of the Regional Hazardous Materials Response program.

**Background.** Existing law required Cal OES to provide regional and onsite response capabilities in the event of a release of hazardous materials from a railcar or railroad accident involving a

railcar designated to transport hazardous material commodities. The program was initially funded by two \$10 million loans from the California High-Cost Fund-B Administrative Committee Fund to the Regional Railroad Accident Preparedness and Immediate Response Fund. Cal OES utilized a portion of this funding to purchase and equip 12 hazardous materials response vehicles.

However, with litigation ongoing regarding the constitutionality of the fee source into the Regional Railroad Accident Preparedness and Immediate Response Fund, Cal OES received five permanent positions, \$3.3 million General Fund in 2018, and \$3.1 million General Fund in 2019 and 2020, respectively. This funding allowed for continued implementation and build out of the program while the constitutionality of the revenue source was determined. In 2018, Cal OES completed the distribution of the 12 fully equipped Type II hazardous materials response vehicles to local government fire agencies. The agencies entered into a contractual agreement with Cal OES to staff the hazardous materials response vehicles and respond to hazardous materials emergencies within the state upon request. Cal OES provided funds to train 17 personnel from each agency in hazardous materials response and create a sustainment plan to ensure that the agencies would maintain the staffing for response to hazardous materials emergencies.

Because the United States Court of Appeals for the Ninth Circuit granted a preliminary injunction on the revenue source into the Railroad Accident Preparedness and Immediate Response Fund, the two \$10 million loans from the California High-Cost Fund-B Administrative Committee Fund are proposed to be paid back in fiscal year 2021-22 using the remaining fund balance in the Railroad Accident Preparedness and Immediate Response Fund and General Fund while continued implementation of the program is proposed to be funded with ongoing General Fund.

**Staff Recommendation.** Approve as requested.

### **Issue 3: California Early Earthquake Warning System**

**Request.** CalOES requests \$17.3 million one-time General Fund for continued support of system operations, an education and outreach campaign, research and development to expand mitigation uses, and program management of the California Earthquake Early Warning Program (CEEW).

**Background.** Chapter 803, Statutes of 2016 (SB 438, Hill), established the CEEW program and the CEEW Advisory Board. This required Cal OES, in collaboration with a variety of stakeholders, to develop a comprehensive statewide earthquake early warning system in California through a public private partnership.

The 2016 Budget Act included a one-time appropriation of \$10 million General Fund and four positions for Cal OES to install and upgrade stations to the CEEW system. With this funding, Cal OES purchased and installed 183 seismic stations, created a connection for the CEEW System to the state microwave network, and ran an initial public service announcement campaign. In 2017-18, these positions were funded through savings in the 2016 Emergency Management Performance Grant. This grant provides federal funding to assist state, local, tribal, and territorial governments in developing emergency preparedness systems. The 2018 Budget Act provided one-time \$15.8

million General Fund with \$750,000 General Fund ongoing to support the buildout of the remaining sensor stations and continuing the position authority.

The 2019 Budget provided \$16.3 million General Fund to finish the build-out of the CEEW System, and the 2020 Budget provided \$17.3 million California Earthquake Safety Fund one-time, funded by a loan from the Schools Land Bank Fund to support the ongoing maintenance, operation, and education required for the CEEW System to function as intended.

A report commissioned by Cal OES identified potential sources of funding for a dedicated stream of revenue, including electric utility users charge, income tax surcharge, and General Fund. CalOES indicated that it is still working to develop cost-benefit analyses for potential industries that could provide funding, and in the meantime proposes a one-time General Fund expenditure to fund the ongoing costs.

**Spring Finance Request.** Cal OES requests to extend the liquidation date of 2018 Budget Act funding associated with the Earthquake Early Warning System from June 30, 2021 to June 30, 2022 to continue the installation of seismic sensors and to perform maintenance activities. The contract between Cal OES, University of California, Berkeley (UC Berkeley) and the California Department of Water Resources (DWR) fully encumbered the Budget Act of 2018 funds; however, additional time is needed to liquidate the funds as UC Berkeley and DWR continue to perform under the contract. The installation of stations in remote areas were more complex logistically to complete than previously estimated. These stations also come with more extensive land use and environmental permits than were previously expected, further delaying the process. Additionally, installations have been delayed due to issues with the supply chain, travel and installation all due to COVID-19. The extended liquidation period, once approved, would allow for \$2.0 million of the interagency agreement with UC Berkeley and \$200,000 of the interagency agreement with DWR to continue to be spent from the 2018 contracted amounts preventing the state from falling short on these contracts and the buildout of the system.

**Staff Recommendation.** Approve the Governor's January budget proposal and Spring Finance Proposal as requested.

#### **Issue 4: Reimbursement Authority Increase for CAL FIRE Lease**

**Request.** Cal OES requests an increase of \$90,000 in Reimbursement authority beginning in fiscal year 2021-22, and increasing annually thereafter, related to an Interagency Agreement with the California Department of Forestry and Fire Protection for the lease of office space.

**Background.** Cal OES has historically provided office space to CAL FIRE at the Cal OES Headquarters facility, which is a state-owned facility. CAL FIRE has requested additional space which will be located in a leased building near the Headquarters facility. Cal OES is entering into an IA with CAL FIRE for reimbursement of the lease costs related to the specific space they will occupy.

**Staff Recommendation.** Approve as requested.

**Issue 5: Various Re-appropriations**

**Request.** Cal OES requests the re-appropriation of the following:

- Up to \$1.5 million from the 2020 Community Power Resiliency appropriation (originally \$50 million General Fund) until June 30, 2023 to support the continued administration of the local assistance grants and the development of the required report.
- \$215,000 General Fund, until June 30, 2022, to continue expending unencumbered one-time funding for operating costs associated with the transfer of the Alfred E. Alquist Seismic Safety Commission to the Cal OES.
- \$100,000 General Fund for the relocation of the Resources Building communications site until June 30, 2022, due to delayed site readiness of the relocation facility as a result of the COVID-19 pandemic and other delays.
- General Fund reappropriation of \$1.3 million for the equipment phase and \$15.4 million for the construction phase for the Relocation of Red Mountain Communications Site project in Del Norte County. The reappropriation is necessary due to project delays associated with extended lease negotiations, design changes, weather related access to the project site, and effects of the COVID-19 pandemic.

**Staff Recommendation.** Approve as requested.

**2600 CALIFORNIA TRANSPORTATION COMMISSION****Issue 6: Local Streets and Roads Program**

**Request.** The Budget includes trailer bill language making changes to the Maintenance of Effort (MOE) requirement for local governments that receive funding from the state for their local streets and roads. Given the decline in local revenues, it is reasonable to relax MOE requirements to ensure that local governments are not punished for suffering a decline in local revenue due to the pandemic. The language also provides some flexibility for local governments whose primary revenue source is the Transient Occupancy Tax (TOT) to use TOT revenue to calculate their MOE instead of general sales tax revenue.

**Staff Recommendation:** Approve placeholder trailer bill language.

**2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION****Issue 7: Office Space Related Costs**

**Request.** The budget includes an increase of \$8,295,000 in State Highway Account (SHA) authority for office space related issues. This includes a one-time operating expense increase of \$7,340,000 in 2021-22 and a permanent operating expense of \$955,000 beginning in fiscal year (FY) 2021-22. These additional funds will be used for office space modifications, internal staffing relocations, modular systems furniture (MSF) reconfigurations and mobile workforce technology.

**Staff Recommendation:** Approve as budgeted.

**2720 CALIFORNIA HIGHWAY PATROL****Issue 8: Reimbursement Authority**

**Request.** The budget includes a permanent budget augmentation of \$4 million in reimbursement authority to provide traffic control and management services to the California Department of Transportation (Caltrans) Maintenance Zone Enhanced Enforcement Program (MAZEED). This request provides CHP with the reimbursement authority necessary to receive funding from Caltrans that was approved on February 11th.

**Staff Recommendation:** Approve as budgeted.

**Issue 9: California Highway Patrol Enhanced Radio System**

**Request.** The budget includes a reappropriation of \$339,000 Motor Vehicle Account (MVA) funding for the working drawings phase of the Sawtooth Ridge site of the CHP Enhanced Radio System (CHPERS) Phase 1 Replace Towers and Vaults project. The working drawing phase has been delayed due to challenges in acquiring the site. This reappropriation will allow work to continue once site acquisition has been completed.

**Staff Recommendation:** Approve as budgeted.

**7350 DEPARTMENT OF INDUSTRIAL RELATIONS****Issue 10: Enhancement of Occupational Safety and Health (CalOSHA) Program**

**Summary.** The Governor proposes budget bill language to authorize the Department of Finance to provide up to an additional 70.0 positions in the 2021-22 fiscal year and up to \$14.4 million (\$13.3 million ongoing) from the Occupational Safety and Health (OSH) Fund to Cal/OSHA to meet workload demands. The Department of Finance shall notify the Joint Legislative Budget

Committee within 10 days of an augmentation pursuant to this provision. The chart on the below provides a breakdown for the proposed 70 positions. The subcommittee heard this issue on February 25, 2021.

<b>Classification</b>	<b>Positions</b>
REGIONAL MGR	1.0
DIST MGR	3.0
SR SAFETY ENGR-INDUSTRIAL	2.0
ASSOC SAFETY ENGR	9.0
SR INDUSTRIAL HYGIENIST	10.0
ASSOC INDUSTRIAL HYGIENIST	12.0
STAFF SERVICES ANALYST-GEN	8.0
OFFICE TECH-TYPING	9.0
ATTORNEY IV	8.0
ATTORNEY III	2.0
LEGAL SUPPORT SUPVR I	1.0
LEGAL SECRETARY	4.0
OFFICE ASST-TYPING	1.0
<b>Total Positions</b>	<b>70.0</b>

After the hearing, DOF provided staff additional information regarding this proposal. The Administration notes that DOF would authorize these positions when DIR and CalOSHA reduces the vacancy rates for safety engineer and industrial hygienist classifications to their historical levels, which have ranged between 10 and 15 percent. As of March 10, 2021, the vacancy rates of these classifications were 23.8 percent. DOF will be looking for a vacancy rate of approximately 12.5 percent, however DOF notes that they will consider approving some positions sooner if vacancies at regional offices were reduced and if further staffing up is delayed without this additional authority.

**Staff Recommendation. Approve as budgeted.**

## **7501 DEPARTMENT OF HUMAN RESOURCES (CALHR)**

### **Issue 11: Payroll System Project**

**Summary.** The Governor proposes \$230,000 General Fund and one position at CalHR to serve as the Enterprise Human Resource Project Director and work in collaboration with the Department of Technology and the State Controller's Office on the California State Payroll System Project.

**Background.** CalHR is working with the Department of Technology (DOT) and the State Controller's Office (SCO) to re-engineer the California State Payroll System (CSPS), which will be the state's new HR management and payroll system. The Enterprise HR solution will provide tracking and reporting on all state employees with an employee ID throughout their state career,



and it will be the central location that tracks all employee information for all statewide HR solutions that come on board.

As the next initiative in the Enterprise HR solution, the CSPA Project seeks to modernize and improve the efficiency of the current Uniform State Payroll System (USPS) or replace it entirely. While SCO is lead on this initiative, CalHR is responsible for all statewide civil service HR programs, labor relations and workforce data reporting requirements necessitates its involvement in SCO's efforts to develop and implement the CSPA project. This project will require the project director to oversee and ensure that the new system appropriately applies requirements set by laws, regulations, bargaining agreements and statewide HR and labor relations programs, business, practices and processes. The requested Enterprise HR project director will also be driving timelines, developing and monitoring work breakdown structures, acquiring resources, managing scope, risks, and issues, and all other project director duties necessary.

**Staff Recommendation. Approve as budgeted.**

#### **Issue 12: Dependent Verification**

**Summary.** The Governor submitted an April Letter proposing trailer bill language to transfer the responsibility of dependent verification from the CalPERS statute to CalHR's statute.

**Background.** The Public Employees' Medical and Hospital Care Act, administered by the CalPERS board, governs the funding and provision of postemployment health care benefits for eligible retired public employees and their families. PEMHCA requires the employing office of a state employee or state annuitant, pursuant to standards established by CalHR, to possess documentation verifying eligibility of an employee's family member prior to the enrollment of a family member in a health benefit plan and to verify continued eligibility pursuant to a specified schedule. PEMHCA requires the employing office to obtain verifying information for certain family members, including children and stepchildren, at least once every three years. DOF notes that the dependent verification is currently the responsibility of each departments human resources offices, with CalHR providing oversight and setting the general policy. CalPERS was originally responsible for the initial overall verification.

**Governor's Budget Proposal.** The Administration proposes trailer bill language to shift the responsibility of dependent verification to CalHR's statute. The trailer bill continues to specify that spouses, domestic partners, stepchildren and domestic partner children be verified at least once every three years; and for other children for whom the state employee or annuitant has assumed a parent child relationship be verified at least once annually. The new language specifies that an employee's or annuitants birth children or adopted children be verified at least once within a three-year period from the initial enrollment. Lastly, the new language specifies that CalHR consult with CalPERS prior to the adoption of any regulations regarding the implementation of this proposal.

**Staff Recommendation. Approve as proposed.**

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**7870 CALIFORNIA VICTIM COMPENSATION BOARD****Issue 13: Ongoing Backfill**

**Request.** CalVCB requests \$33 million General Fund in 2021-22 and \$39.5 million General Fund thereafter to backfill a decline in revenues in the Restitution Fund.

**Background.** This item was discussed at this subcommittee's March 4 hearing.

California funds services to victims of crimes through various programs administered by different entities, including: the Victim Compensation Board (VCB), the Governor's Office of Emergency Services (OES), the Department of Justice (DOJ), and the California Department of Corrections and Rehabilitation (CDCR). The 2018-19 Budget Act required the VCB and OES to work together to develop options and a recommendation for combining the state's victims programs under one organization. A Consolidation Working Group was convened to complete the report and provide recommendations for consolidating the victims' programs. The report was released in October 2018.

OES combines federal and state funding to support more than 1,200 projects providing victim services throughout the state. Likewise, VCB also combines federal and state funding—from fines and restitution orders paid by offenders convicted of traffic infractions, misdemeanors, or felonies—to offer compensation directly to, or on behalf of, victims and survivors who are injured or threatened with injury. However, due to declining revenue from fines and fees, the Restitution Fund faces an ongoing structural deficit, and the proposed backfill will stabilize the revenues from which the compensation is made.

**Staff Recommendation.** Approve as requested.

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## ISSUES PROPOSED FOR DISCUSSION

### 2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

#### Issue 14: Highway Safety Program

**Governor’s Budget.** The budget includes a 2-year limited term increase of \$22,499,000 and five 2-year limited-term positions to fund safety projects throughout the state as part of its Highway Maintenance 4 Safety (HM-4) Program.

**Background.** Every year, about 3,600 individuals die on California’s transportation system. That averages about 10 deaths per day of which about three are our most vulnerable users: people who bike and walk. Caltrans adopted a goal of “Toward Zero Deaths” in 2016 and set goal year of 2050. The Highway Safety Improvement Program (HSIP) and annual safety performance targets provide the framework for achieving this goal. The 2020-2024 Strategic Highway Safety Plan (SHSP) lays the groundwork to deploy new and novel strategies to address recent trends surrounding fatalities and serious injuries on our roadways. Every year, about 3,600 individuals die on California’s transportation system. That averages about 10 deaths per day of which, about three are our most vulnerable users: people who bike and walk.

The Division of Safety Programs was established in May 2020 under the Deputy of Maintenance and Operations to elevate focus on traffic safety, evolve the state’s safety culture to tackle reduction in fatalities and serious injuries. Following this, Caltrans adopted two safety-focused programs:

1. The Wrong-Way Driver Preventative Countermeasures Program was established on August 12, 2020 and required investigation of 335 exit ramps for the addition of specific and targeted wrong way driver prevention safety convenience countermeasures to reduce the likelihood of wrong way driver occurrences at these ramps that may result in a serious injury or fatal crash if the driver enters a freeway the wrong way at one of these ramps.
2. The Pedestrian Systemic Safety Improvement Program was established on September 11, 2020 and required investigation and application of blanket safety convenience countermeasures at 500 locations to address specific roadway features that are associated with specific crash types and to reduce pedestrian exposure to these crash types

Caltrans has already established the Electrical and Traffic Guidance Program within the Division of Maintenance. Its small \$2.5M budget funds highway maintenance contracts for electrical and traffic guidance work that includes replacement of pavement markers, reconstruction of guardrails, and re-lamping highway and sign lighting fixtures.

**Staff Comments.** Caltrans has indicated that they intend on creating a new Highway Maintenance-4 (HM4) Safety Program to build on these efforts. Specifically, it is intended to fund the construction of projects identified in the Wrong-Way Driver Preventative Countermeasures Program and the Pedestrian System Safety Improvement Program. The Wrong-Way and

Pedestrian Programs will establish the location selection criteria and the types of proven safety countermeasures that should be applied to each location via projects managed and funded and delivered through HM-4. With this funding Caltrans anticipated completing 878 exit ramp safety improvements and 1,000 pedestrian crossing improvements.

**Staff Recommendation.** Hold Open.

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**Issue 15: CARES Act GTFS and Support**

**Governor's Budget.** The budget includes \$7,172,000 of the \$94,000,000 in federal received from the Coronavirus Aid, Relief, and Economic Security (CARES) Act to contract for and hire technical staff to analyze, design, and implement business processes to support medium, small, and rural agencies in consistent compliance with the General Transit Feed Specification (GTFS) and contactless payment standards.

**Background.** The General Transit Feed Specification (GTFS) defines a common format for public transportation schedules and associated geographic information. It allows real-time transit data to be incorporated into third-party apps and systems, such as Google Maps. While large transit agencies have widely adopted GTFS, smaller agencies, including rural agencies, are often not compliant. Additionally, many of these operators have not adopted contactless payment systems that are often considered best practices.

During COVID-19, many transit providers stopped collecting fares because cash payment and processing increased exposure between operators and customers, and between operators and back office personnel processing cash. During COVID-19, many transit providers also made schedule changes that were not relayed to customers, leaving customers waiting for a bus that never came. Contactless solutions and the real time publication of transit schedules are important to resuming transit services and increasing customer trust of the safety of transit.

The CARES Act and the Coronavirus Response and Relief Supplemental Appropriation Act (CRRSAA) both provide funds to prevent, prepare for, and respond to COVID-19. To date, roughly \$86 million in CARES funding has been awarded to rural transit operators, with a call for projects recently issued for an additional \$74.4 million in CRRSAA funding.

**Staff Comments.** Caltrans has indicated that this request will allow the department to establish an in-house Business Unit whose responsibility is overseeing the implementation and expansion of GTFS, equitable contactless payments and benefits eligibility verification for small, rural and mid-sized transportation services.

To date, the Federal Transit Administration generally will consider all expenses normally eligible under several existing transit programs incurred on or after January 20, 2020 to be in response to economic or other conditions caused by COVID-19 and thus eligible under the CARES Act and CRRSAA, as applicable. An example of additional flexibility in formula funding programs provided by CARES is costs associated with shutting down or restarting service. Many agencies are interested in advancing to mobile trip planning and open loop contactless payments as part of restarting their services.

**Staff Recommendation.** Hold Open.

<b>Issue 16: Project Delivery Workload – Capital Outlay Support</b>
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**Governor’s Budget.** The budget requests a net increase of \$107.4 million and 548 Full Time Equivalents from the Fiscal Year 2021-22 Governor’s Proposed Budget for the Capital Outlay Support (COS) Program project delivery workload.

**Background.** Capital Outlay is the funding mechanism for construction contracts and right of way acquisition on projects that preserve and improve the state highway system. The COS Program provides the funding and resources necessary to develop (design) and oversee the construction of projects. The COS Program also provides oversight and/or independent quality assurance of projects developed by local entities on the state highway system.

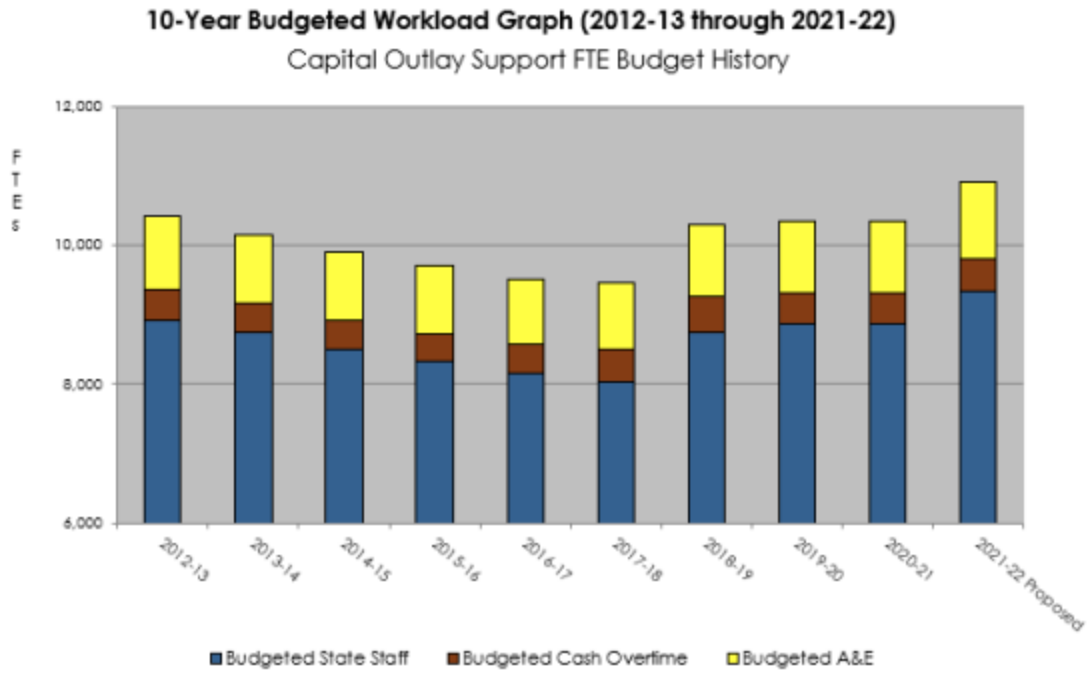
Individual project requirements and schedules are created and maintained in the Project Resource and Schedule Management (PRSM) system. The COS Program uses PRSM work plans to calculate estimated COS workload for the budget year. It is important to note that Caltrans does not manage projects based upon the workload estimated for each project in each fiscal year, but by component (Environmental, Design, Right of Way, and Construction) based upon the programmed budget. Components commonly span over two or more fiscal years. As such, the COS budget can be considered a “snapshot” of the estimated overall need for Caltrans capital outlay projects during the fiscal year.

**Staff Comments.** The below chart highlights that changes in the COS budget between the Governor’s January budget and this revised request.

**Table 1C: FY 2021-22 Governor’s Budget vs. FY 2021-22 May Revision  
(excluding Distributed Administration and Equipment)**  
*Dollars in Thousands*

COS 1835010	Total Funding	Funding for Personal Services Regular Staff	Funding for Personal Services Cash Overtime	Funding for Architectural & Engineering Contracts	Funding for Operating Expenses
<b>2021-22 Governor’s Budget</b>	\$1,992,946	\$1,542,043	\$52,968	\$266,214	\$131,721
<b>2021-22 May Revision</b>	\$2,100,395	\$1,603,815	\$55,848	\$302,742	\$137,990
<b>Net Request</b>	\$107,449	\$61,772	\$2,880	\$36,528	\$6,269

The below chart highlights the growth in the COS program over the last several years. With the passage of the Road Repair and Accountability Act of 2017 (SB 1, Beall), additional funding for transportation projects led to an increased need for COS positions.



**Staff Recommendation.** Hold Open.

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**Issue 17: Indirect Cost Rate Proposal**

**Governor’s Budget.** SB 848 (Committee on Budget and Fiscal Review), Chapter 46, Statutes of 2018 placed a temporary cap on the indirect overhead rate Caltrans could charge self-help counties for engineering work, which expires on July 1, 2021. It also required a report on the impact of that cap on Caltrans work performed for self-help counties by July 1, 2021.

**Background.** Caltrans does work on behalf of Self-Help Counties who develop projects on the state highway system, in addition to cities, regional transit and transportation agencies, certain state agencies, and private entities. Caltrans recovers the cost of these services and charges these entities a rate that covers the cost of both administrative and program functional rates.

The Self-Help Counties are 24 local county transportation agencies that have passed a countywide sales tax measure to fund transportation projects. In 2018 these counties received an exemption from full cost recovery for Caltrans’ services. Since 2018 they have paid only for direct costs.

**Staff Comments.** The current exemption for Self-Help counties sunsets in July of 2021. A report on work Caltrans has performed for Self-Help counties in the last three years is due at the same time. While capping overhead rates leads to a reduction in funding for the State Highway Account that funds the State Highway Operation and Protection Program, which provides funding for major rehabilitation of the State Highway System, it also saves money for Self Help counties that they can then spend on their own local transportation projects. Absent the required report, it is difficult to assess whether the cap made a measurable impact either on Caltrans’ finances or on the level of work they performed for Self Help counties.

**Staff Recommendation.** Hold Open.



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**7100 EMPLOYMENT DEVELOPMENT DEPARTMENT****Issue 18: EDD – Unemployment Insurance Update**

On February 8, 2021, the subcommittee held a joint informational hearing with the Senate Labor and Public Employment Committee regarding the State Auditor's January reports on EDD's performance and management related to Californians unemployed due to the COVID-19 pandemic. The committees heard testimony from the California State Auditor, Director of EDD, and representatives from Bank of America.

**Background**

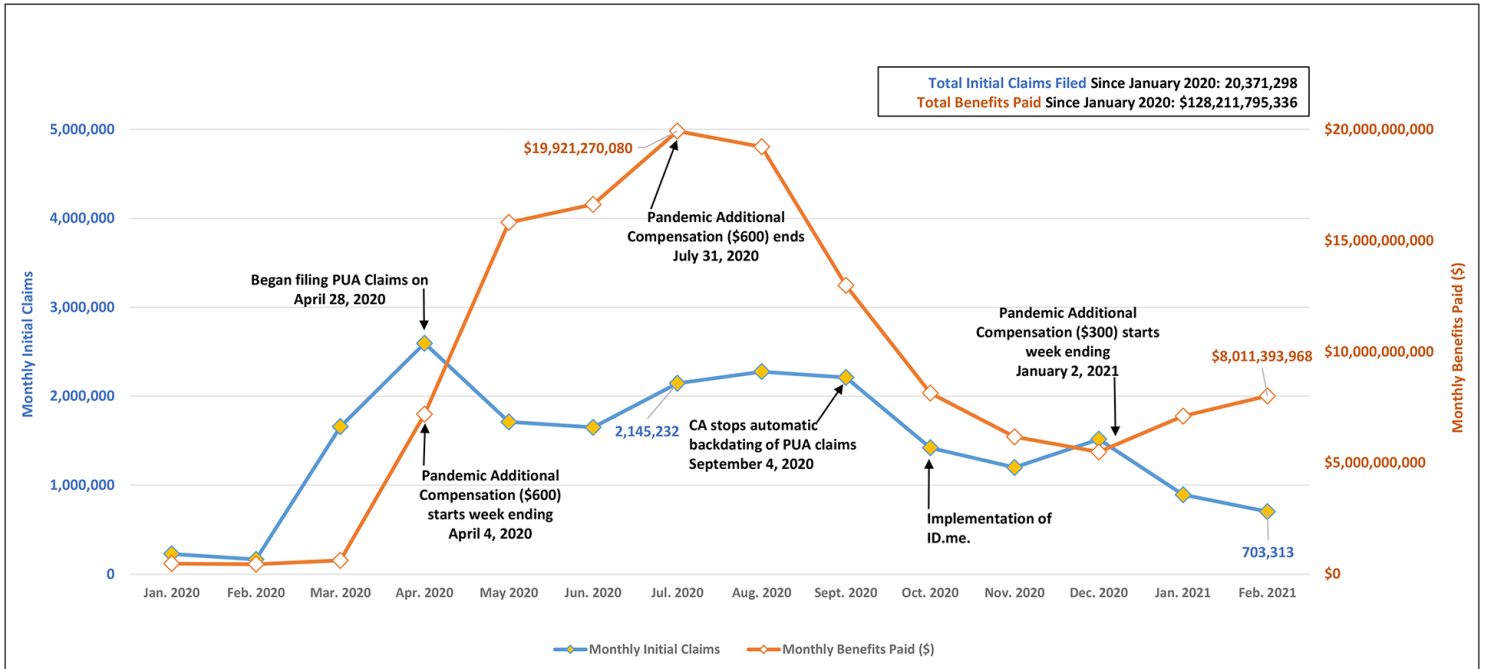
Due to the COVID-19 pandemic lockdown, California's unemployment rate jumped from 4.3 percent in February 2020 to 16.2 percent in April of 2020. By March of 2021, EDD processed more than 22 million claims, including PUA claims. This equates to more than \$140 billion in unemployment insurance benefits. The scale, scope, and speed of the COVID-19 pandemic is simply unprecedented, and it caught EDD unprepared, as it did nearly all governmental entities.

EDD faced unique challenges in implementing the federal government's response to the COVID-19 pandemic. On March 27, 2020, the former administration signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which extended unemployment insurance benefits to independent contractors through the Pandemic Unemployment Assistance (PUA) program. This extension of wage replacement benefits to independent contractors and business owners, which is 100% federally funded, was an unprecedented and untried program, and it represented an attempt to provide wage replacement benefits to the broadest range of workers impacted by COVID-19.

Unfortunately, as structured by the federal government, the PUA program did not have sufficient anti-fraud protections in place. Unlike with traditional unemployment insurance benefits, where employer payroll reports to EDD serve as a verification tool of continued unemployment, the PUA program operated entirely on self-attestations. During the Great Recession, the federal government extended no comparable benefit program, and therefore fraud remained negligible.

As noted in the February hearing, the State Auditor issued 14 recommendations to EDD regarding its operations, all of which EDD agreed to implement. As of May 5<sup>th</sup>, one of the recommendations was submitted to the state auditor, one recommendation was completed and the remainder are in progress. The State Auditor also issued seven recommendations for EDD to implement regarding anti-fraud, of which five were submitted to the State Auditor, and two are in progress. See attachment #1 for a chart of the State Auditor's recommendations to EDD, and EDD's stated status. In addition, the State Auditor also issued five recommendations to the Legislature to take action on, including the implementation of a recession plan and an assessment of fraud prevention and detection tools. Currently, there are several legislative bills in the policy process that seek to implement the Auditor's recommendations. As of writing this agenda, the State Auditor is reviewing EDD's implementation and progress towards fulfilling the recommendations, and the assessments will be posted on the State Auditor's website in the near future.

As of March 2021, the state unemployment rate was 8.31 percent, and the number of initial unemployment claims filed has declined, as shown in the EDD graphic below. Additionally, EDD reports that the state has regained 44 percent of the jobs lost in March and April of 2020.



**EDD UI Backlog.** At the end of January, 2021, EDD announced it had resolved the 1.6 million backlogged claims identified by the Strike Team in mid-September 2020. Per the Strike Team definition, a backlogged claim at the time was one that takes more than 21 days to issue first or further payment or disqualification, regardless if the claimant or EDD need to take some type of action. In alignment with a recommendation from the State Auditor, the EDD launched in March 2021 an expanded online dashboard containing data about unemployment claims, payments, and related data – including a revised view of the backlog more clearly identifying claims pending EDD action that are taking more than three weeks to resolve.

Since the launch of the new data dashboard, the backlog of claims past 21 days pending EDD action has decreased from 265,117 in February 13, 2021 to 135,360 claims as of April 24. Of the 135,360 claims, half of are initial claims awaiting processing for first payment and the other half are continued claims awaiting processing of a further payment. The vast majority of both types of claims are pending a “Resolution of Eligibility Issues”. For example, claimants state they were fired, quit, or were not able and available for work if offered which requires EDD to manually review the claim before determining eligibility for benefits. EDD also reports paying 87 percent of claims within one week of first certification received.

**Staffing and Claimant Services.** EDD notes that their strategy for managing call center demand includes directing people to online resources and increasing permanent state staff with training necessary to help customers. EDD notes that they are actively recruiting, hiring and training

hundreds of new employees to assist claimants and answer their questions. For the week of April 19, 2021, the EDD call center was staffed with 1,681 employment program representatives (EPRs) or 825 full-time equivalent (FTE) and 1,082 office technicians (OT) or 734 FTEs.

EDD also launched new tools to enhance customer service, including:

- Improving the mobile phone-ready version of the EDD website so claimants can file claims and easily access information on their phones and devices.
- Deploying document upload, including a mobile-friendly version, to help claimants save time over mail.
- Calling customers directly from the remote virtual call center to seek clarifying information and resolve claims.
- Launching a new feature that allows a caller to hold their place “in line” when contacting the call center, eliminating the need to wait on hold until the EDD calls the claimant back. This feature was launched in late April, and will continue through early June. In an Assembly subcommittee hearing last week, the department announced that 477 people have utilized this feature.
- Continuing to monitor customer areas of confusion and trending issues and addressing them with improved public information.
- Posting information through UI Online to let claimants know they could be eligible for a tax credit to lower health insurance costs or housing assistance for renters and landlords.
- Launching a more extensive and user-friendly unemployment data dashboard to provide greater transparency on claim filing activity.

**Language Access.** According to the EDD’s 2018-2021 Language Access Plan, EDD provided services in 2016 to Californians in 56 languages, and about 2.5 million EDD customers were serviced in languages other than English. The report noted that EDD maintains a bilingual services directory containing more than 2,000 employees speaking more than 60 languages. Additionally, the 2018 plan noted telephone-based interpretive services were also available in more than 100 languages to assist Limited English Proficient customers. Despite this, the EDD Strike Team report found that individuals who are not fluent in English face unsurmountable barriers to receiving assistance. EDD recently announced a multi-million-dollar investment in language interpreter services their call centers. EDD notes that they have dedicated phone lines in English, Spanish, Cantonese, Mandarin and Vietnamese. EDD notes that it is their goal to create a multi-lingual translation program and interpreter services to help claimants with limited English proficiency.

**Curbing Fraud.** In January, the EDD began an analysis of 1.48 million suspicious claims that were suspended until identity or eligibility could be verified. Of those who needed to verify their identity, approximately 37 percent did so and were then cleared to resume obtaining benefits if otherwise eligible, while the others were disqualified and were provided appeal rights. EDD notes that further details will be provided when the full analysis is complete.

The EDD’s investigations unit also works with local, state and federal investigators and prosecutors. At the end of April 2021, the Governor’s Office of Emergency Services announced the state Task Force on Pandemic Unemployment Assistance Fraud has led to the arrest of 68

suspects and the opening of 1,641 additional investigations. In addition, EDD notes that they have taken the following steps to help curb and address fraud:

- Established partnerships with law enforcement and other states to share data with other jurisdictions to help catch multi-state fraudsters,
- Cross referencing data against law enforcement records,
- Suspending payment to investigate suspicious multiple claims from single addresses,
- Implementing State Auditor recommendations to convene a fraud unit that coordinates fraud prevention and detection, and
- No longer automatically backdating federal PUA claims, a program that was vulnerable to fraud.
- Contracted with Accenture to conduct an evaluation of fraud detection and prevention operations.

**Benefits System Modernization Project.** Pursuant to the September 2020 Strike Team report recommendations, EDD placed the BSM project temporarily on hold. On May 4, 2021, EDD announced a redesigning of the Benefit System Modernization (BSM) Project, which take into account lessons learned from the pandemic as well as new software technology that has since become available. For example, EDD notes that the BSM project was first designed based on demand levels from the Great Recession, which peaked at 3.8 million claims in a year, compared to 20 million claims during the pandemic. EDD notes that they will leverage work already done on the BSM, including an inventory of business rules and processes in the state unemployment insurance, disability insurance and paid family leave programs, and incorporate the information in a new project moving forward. EDD notes that they are working with the Department of Technology and the Office of Digital Innovation to help modernize the claimant process.

The subcommittee may wish to ask:

1. What is the new timeline for the Benefit System Modernization Project? How will the scope of the project change?
2. Please elaborate on your efforts to address the language access issues raised by the Strike Team report, and what your plans are in the future to address this long term?

**Staff Recommendation. None, this item is informational.**

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**7920 CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM****Issue 19: Multi-Year Investment Strategy**

**Summary.** The Governor’s budget proposes \$38.2 million in permanent funding to establish 104 authorized positions distributed across fiscal years 2021–22 through 2025–26, as part of a Multi-Year Internal Investment Management Plan. The Plan is a five-year resource strategy to continue the implementation efforts of the Collaborative Model (Model) and manage growth in assets under management (AUM).

In addition, this proposal requests administrative authority for CalSTRS to implement resources earlier, on an as-needed basis, pursuant to the Teachers’ Retirement Board (board) approval and notification to the Department of Finance (DOF).

**Background.** As a global institutional investor with approximately \$248.3 billion in net assets as of June 30, 2020, CalSTRS is the largest educator-only pension fund in the world and the second largest pension fund in the United States. CalSTRS portfolio is projected to grow to \$302.5 billion by 2025-26. Headquartered in West Sacramento, California, CalSTRS serves more than 975,000 California public school educators and their beneficiaries, employed by 1,788 contributing employers including school districts, community college districts, county offices of education and other public education employers.

The CalSTRS Collaborative Model is a long-term investment strategy to manage more assets internally—to help reduce costs, control risks and increase expected returns—and leverage external partnerships to achieve similar benefits. In 2019, external management costs were approximately \$1 billion as compared to \$327 million in hybrid-private management and \$39 million in internal management costs. Hybrid-private management represents mostly private investments where CalSTRS have collaborated with external industry partners. Internal management costs primarily represent CalSTRS staff managing assets in public markets.

**Governor’s Budget Proposal.** The Governor proposes \$38.2 million over five years for 104 positions in the investments branch and administrative support to bring investment management in house as a part of a multi-year plan. The Plan is a five-year resource strategy to (1) transition assets to internal management, and (2) manage and grow assets under management.

The proposal includes additional resources to manage the increase in AUM. CalSTRS AUM growth is correlated with projected net investment returns and changes in member, employer and state contribution rates. CalSTRS portfolio is valued at \$248.3 billion as of June 30, 2020, and is projected to grow to \$302.5 billion by 2025-26. Increases in the AUM has a direct impact on the number of investment staff required to management and make investment decisions and support investment activities. Overall growth in AUM has required additional investment resources to successfully manage the size and complexity of the CalSTRS portfolio. As assets increase, the need for additional investment staff are projected to rise.

The proposal also includes resources to increase internal management of assets. CalSTRS notes that under the use of external managers, CalSTRS has less control on how its investments are managed, such as when to buy, sell and how to manage assets while owned. By adding new strategies internally, CalSTRS will have greater control over risk associated with investment strategies. According to CalSTRS, this proposal will produce cost savings associated with reduction of external management fees, and carried interests (this is a performance-based fee paid to external fund managers).

CalSTRS notes that the adoption of the CalSTRS Collaborative Model has already led to significant cost savings as evidenced by a third-party peer comparison study, which showed that in 2017, the CalSTRS Investment branch saved \$132 million compared to peers, given the same asset mix. According to the 2017 Cost Report, CalSTRS managed roughly 44 percent of its assets internally and 56 percent externally. In 2017, CalSTRS costs to manage the internal assets amounted to only \$30 million whereas it cost \$1.8 billion (including incentive fees) to manage external assets.

CalSTRS notes that by managing assets internally and collaborating with external industry leaders, as prescribed in the Collaborative Model, then CalSTRS may save \$200-\$300 million in cost savings and increased returns annually over the next 10 to 15 years. The Administration notes that it is difficult separate the anticipated impact of this particularly budget change proposal from the long-term savings associated with the overall investment strategy.

The following charts below display the proposed timelines and positions.

Five-Year Budget and Resource Forecast  
(Dollars in Millions)

	2021-22	2022-23	2023-24	2024-25	2025-26	Total
Budget	\$11.5	\$7.3	\$8.6	\$6.5	\$4.3	\$38.2
Authorized Positions	29	22	19	19	15	104

## Multi-Year Position Forecast by Scope and Strategy

Scope and Strategy	2021-22	2022-23	2023-24	2024-25	2025-26	Total
<b>Investments Branch</b>						
Global Equity	3	3	2	1	-	9
Fixed Income	3	3	1	2	2	11
Risk Mitigating Strategies	2	-	3	2	1	8
Investment Strategy and Risk	1	1	1	-	-	3
Real Estate	3	2	2	2	3	12
Private Equity	3	2	2	4	1	12
Inflation Sensitive	3	2	2	2	1	10
Investment Performance, Compliance & Operations	2	4	5	3	7	21
<b>Total Investments Branch</b>	<b>20</b>	<b>17</b>	<b>18</b>	<b>16</b>	<b>15</b>	<b>86</b>
<b>Investment Administrative Support</b>	<b>9</b>	<b>5</b>	<b>1</b>	<b>3</b>	<b>-</b>	<b>18</b>
<b>Total</b>	<b>29</b>	<b>22</b>	<b>19</b>	<b>19</b>	<b>15</b>	<b>104</b>

## Investment Administrative Support Resource Forecast

Business Area	2021-22	2022-23	2023-24	2024-25	2025-26	Total
<b>Investment Administrative Support</b>						
Human Resources	2	2	-	1	-	5
Procurement	1	1	-	1	-	3
Financial Services	1	1	-	1	-	3
Office of General Counsel	2	1	-	-	-	3
Technology Services	1	-	1	-	-	2
Facilities	1	-	-	-	-	1
Communications	1	-	-	-	-	1
<b>Total Investment Administrative Support</b>	<b>9</b>	<b>5</b>	<b>1</b>	<b>3</b>	<b>-</b>	<b>18</b>

In addition to the positions, CalSTRS is requesting budget bill language to provide administrative authority and flexibility to bring on resources more quickly, on an as-needed basis, pursuant to board approval and written notification to DOF. In current practice, when a new investment strategy is identified and requires additional staff, it takes up to 18 months to obtain approval for new positions and final establishment as a part of the budget process. However, CalSTRS believes that this administrative authority and flexibility will reduce the time for onboarding investment resources and would lead to faster deployment of collaborative strategies.

CalSTRS notes that they were provided similar authority in the 2018-19 budget. During that time, the budget bill language was used twice, as follows: (1) Off budget cycle to drawdown 15 investment positions and associated funding with a JLBC notification letter, and (2) early drawdown built into the normal budget cycle for 5 investment positions and associated funding.

**Staff Recommendation. Approve as budgeted.**