

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4

Agenda

Senator Anna Caballero, Chair

Senator Sydney Kamlager

Senator Jim Nielsen



Wednesday, May 12, 2021

1:00 p.m.

State Capitol - Room 4203

Consultants: Nora Brackbill, Yong Salas, and Joe Stephenshaw

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ITEMS FOR VOTE-ONLY

0509 GOVERNOR'S OFFICE OF BUSINESS AND DEVELOPMENT (GO-BIZ)

Issue 1: Inclusive Innovation Hub Grants

Governor's Budget. The Governor's budget included \$2.5 million one-time General Fund to provide grants for Inclusive Innovation Hubs (iHub2) administered by California Office of the Small Business Advocate (CalOSBA).

Background. The original iHub program started in 2013 and was housed under GO-Biz (AB 250 (Holden), Chapter 530, Statutes of 2013). Thirteen regional hubs were designated and consisted of partnership between interrelated firms, local governments, economic development organizations, educational entities, and industries that collectively drive economic growth within a defined geographic area. The hubs were intended to stimulate partnerships, economic development, and job creation by leveraging assets to provide an innovation platform for startup businesses, economic development organizations, business groups, and venture capitalists. GO-Biz was required to oversee, coordinate, and provide assistance to each iHub. However, no funding was provided, the program was not closely tracked, and all of the iHub designations have expired or will expire soon.

The proposed budget includes \$2.5 million to relaunch the California Innovation Hub program under CalOSBA as iHub2. Similar to the original iHubs, these would be formal, established partnerships between industry, technical assistance providers, startups and entrepreneurs, universities and research institutions, and government in a specific geographic area, focused on a specific sector. However, a key difference is that iHub2 would focus primarily on underserved areas of California that do not currently have a strong startup culture, and leverage regional industries and assets to foster innovation there. Each iHub2 would provide advisory support to entrepreneurs and startups, plan programming and engagement across the partner organizations, and facilitate relationships between startups, researchers, venture capitalists, and financial institutions. The program would be focused on innovation and commercialization of new technologies, as opposed to technical assistance or workforce development, but it would coordinate with other state resources that focus on those areas, such as the Technical Assistance Expansion Program (TAEP) network. As small businesses by definition, startups are also represented by CalOSBA, and moving the program under that umbrella would allow better coordination with state resources.

In the new program, CalOSBA would designate ten hubs for a three-year program and award them \$150,000 for year one to incentivize and launch inclusive programming and \$50,000 in each subsequent year. The hubs would be selected through a competitive request for proposal process, where potential hubs submit a comprehensive plan that details a targeted focus area including underserved geographies, industry sectors, or business owners, as well as the entities and expertise involved, specific goals and benchmarks, and a sustainability plan. Members of the original iHub network would have to reapply. The grant requirements would also include increased metric and

performance tracking to assess the success of the program. If the program were successful, hubs would ideally become self-sustaining in the long run.

The Subcommittee heard this proposal on February 10th of this year.

Recommendation: Approve as Budgeted and adopt placeholder trailer bill language.

Issue 2: CalOSBA - Outreach and Engagement

Governor's Budget. The Governor's budget includes \$901,000 from the General Fund and permanent authority for six positions in 2021-22 and ongoing as part of CalOSBA to provide direct support to small businesses.

Background. CalOSBA is tasked with providing guidance, information and direct support to small businesses, including during disaster response and recovery. However, CalOSBA's capacity has been tested due to an onslaught of repeated and ongoing disasters, including wildfires and the COVID-19 pandemic. According to CalOSBA, in the year prior to the pandemic they received less than 100 requests for general direct support; during disasters, this number increases exponentially. Since March 1, 2020, they have received 3,733 requests for direct support and response. It is difficult for existing CalOSBA staff to keep up with this demand, as well as communicate with millions of businesses across the state about rapidly changing situations, regulation, and guidance.

CalOSBA does not have staff focused on communication, outreach and engagement. Currently, they have three regional advisors who cover Northern, Southern and Central California. Those advisors develop regional connections and partner with local small business organizations. CalOSBA also has four program team members who manage and implement CalOSBA's programs, including TAEP and iHubs, among others. However, the lack of a communications team makes it difficult to inform the community about these programs, other sources of support, and other relevant news and information. In particular, it is difficult to reach traditionally underserved and marginalized businesses.

The Governor's budget includes six new permanent positions at CalOSBA. The team would focus on conducting the required direct support, outreach, engagement and marketing/content creation necessary, increasingly online, to connect with small businesses and help them prepare and be more resilient. The team would prioritize underserved business groups, including women, minority, and veteran-owned businesses and businesses in low-wealth, rural, and disaster-impacted communities, especially African-American and Latinx businesses.

The Subcommittee heard this proposal on February 10th of this year.

Recommendation: Approve as budgeted.

0511 GOVERNMENT OPERATIONS AGENCY (GovOps)**Issue 3: Statewide Data Strategy**

Request. GovOps is requesting three positions and \$558,000 General Fund in 2021-22 and ongoing to facilitate and support the implementation of the Statewide Data Strategy (SDS) and conduct evaluations for GovOps' Center of Government Excellence.

Background. This item was heard in this subcommittee's hearing on February 24, 2021.

The 2020 Budget provided resources for a Chief Data Officer, and this position serves as the primary steward of the data portal for the state's public data, and a mediator when disagreements arise among data holders who decline to share requested data. The chief data officer was also working with the Department of Technology to develop a public repository of state government interagency data exchange agreements. Supplemental reporting language was added for the chief data officer to summarize the proposals in the repository in the 2020 Budget.

GovOps established a Center for Government Excellence and Transformation (GET) within their existing resources, and intends to help departments and agencies prototype ideas, research best practices, and map possible next steps under the GET Center process. Defined challenges and opportunities will be selected by the review team, guided by the key criteria chosen. The objectives of the GET Center are to: (1) better prioritize time and resources; (2) gather and share best practices; and (3) break silos and foster connections across government. This request will allow the GET Center to deploy toolkits tailored to the demands of a problem or priority. A portion of the requested staff resources will support ongoing evaluation of these projects to help inform how well they are working and if they should be scaled.

Staff Recommendation. Approve as requested.

0840 STATE CONTROLLER'S OFFICE (SCO)**Issue 4: SCO Information Security Workload and Continuity of Operations**

Request. SCO requests two positions and \$308,000 (\$234,000 General Fund and \$74,000 Unclaimed Property Fund) in 2021-22, with two positions and \$287,000 (\$218,000 General Fund and \$69,000 Unclaimed Property Fund) ongoing to validate compliance with statewide information security policy, standards, and procedures; verify SCO's internal information security systems and policies are in place and functioning as intended; and to support business continuity operations.

Background. This issue was agendaized during this subcommittee's February 3, 2021 hearing.

On March 19, 2020, Governor Newsom declared a state of emergency due to the COVID-19 pandemic. In compliance with the Executive Order that was issued, SCO and other state agencies and departments mobilized most of the existing workforce to work remotely from home. SCO states that this resulted in the need for a greatly expanded remote workforce, which introduced new information security risks along with an increased number of phishing attacks and cybercrimes being committed.

Prior to the COVID-19 pandemic the SCO states that it did not have a technology infrastructure in place to support a telework environment, such as mobile devices, virtual meeting platforms, and network infrastructure and bandwidth. The SCO states that with the current level of resources, the information security control deficiencies will expose the SCO information systems and business operations to vulnerabilities and risks.

Staff Recommendation. Approve as requested.

Issue 5: SCO Infrastructure and Operational Costs

Request. SCO requests \$1.6 million (\$1.1 million General Fund and \$474,000 Unclaimed Property Fund) in 2021-22 and ongoing to support increased infrastructure and operational costs associated with personnel services, training, statewide fees, and contracted costs.

Background. This issue was agendized during this subcommittee's February 3, 2021 hearing.

In recent years, SCO has experienced increased operational costs without adjustments to its budget authority to accommodate these costs. SCO states that the increase of its infrastructure and operational costs impact its ability to continue performing these workloads while keeping pace with rising costs. Costs such as the Department of General Services (DGS) Statewide Surcharge, price of warrants and envelopes, staff benefits, and other miscellaneous items have increased without additional funding to cover them.

In addition to the general operational cost increases outlined above, SCO states that they are also experiencing additional administrative cost pressures due to mandated department-wide training, and compliance activities for deficiencies found in a State Personnel Board Compliance Review Report.

Staff Recommendation. Approve as requested.

Issue 6: California State Payroll System Project

Request. The SCO requests resources to support the California State Payroll System (CSPS) Project through the continuation of the California Department of Technology (CDT) Project Approval Lifecycle (PAL) Stages 3 and 4. SCO requests six permanent and one one-year limited-term position and \$5.5 million (\$3.1 million General Fund and \$2.4 million Central Service Cost

Recovery Fund)) in 2021-22; six positions and \$1 million (\$581,000 General Fund and \$439,000 Central Service Cost Recovery Fund) in 2022-23 and ongoing.

Background. This subcommittee heard this item at its February 3, 2021 hearing.

Beginning in 2016, SCO began to assess current information technology and the latest industry standards, and initiated the re-engineering of a new human resource management and payroll system, which is now called the California State Payroll System Project (CSPS).

SCO currently is authorized for 24 permanent positions and 1 one-year limited term position. This request will provide for six new permanent positions and a continuation of the one one-year limited-term position. These resources are intended for continuation through CDT's PAL Stage 3 and 4, both of which are expected to be submitted on July 2021 and May 2023, respectively.

Staff Recommendation. Approve the budgeted amount with placeholder budget bill language that requires regularly scheduled oversight meetings with the Legislative Analyst's Office (LAO), the SCO, CalHR, CDT, and the Department of Finance to allow the LAO to receive project updates and review oversight documents such as CDT independent project oversight reports and independent verification and validation reports with the project team.

Issue 7: Local Government Oversight – Internal Control Reviews

Governor's January Budget Request. SCO requests \$712,000 (\$406,000 General Fund and \$306,000 Central Service Cost Recovery Fund) in 2021-22 and ongoing, and a corresponding decrease in reimbursement authority to fund five existing positions to perform investigative audits and reviews of the financial oversight of local government agencies.

Spring Finance Request. The Administration requests that the ongoing \$306,000 from the Central Services Cost Recovery Fund and associated 2.1 positions be funded instead from General Fund, because appropriations for local government oversight are not an appropriate use of the Central Service Cost Recovery Fund.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

The 2017-18 Budget provided SCO with \$1.1 million (\$108,000 General Fund and \$1 million in reimbursement authority) and nine positions for the ongoing oversight of local governments as authorized by existing law. Existing law allows the SCO to investigate local governments whose financial transaction reports are not made in the time, form, and manner required or there is reason to believe that a report is false, incomplete, or incorrect. The activities included the enforcement of the financial transactions reporting requirements of local governments, analyzing and monitoring financial data for potentially distressed entities, and conducting audits of local government entities.

Existing law authorizes the local government under review to reimburse the State Controller for any costs incurred during the course of an investigation. However, the SCO states many of its

activities when providing oversight to local governments are non-reimbursable - or if reimbursable, go unpaid – and thus requests that funding for these activities shift to General Fund so that SCO may focus its investigations on evaluating local government agencies.

Staff Recommendation. Approve the proposal, as adjusted by the spring finance request.

Issue 8: FI\$Cal Audit Workload

Spring Finance Request. SCO requests \$408,000 (\$233,000 General Fund and \$175,000 Central Service Cost Recovery Fund) in 2021-22 and ongoing to support three existing positions to perform pre-payment audits of Financial Information System of California (FI\$Cal) vouchers.

Background. State departments input vouchers into FI\$Cal to have their claims paid. In 2019-20, 1.01 million vouchers were submitted in FI\$Cal and work flowed to Audits from various state departments through FI\$Cal. This volume is expected to increase gradually over the next few years as departments continue to transition from paper and electronic claim processes.

Prior to the implementation of FI\$Cal, on average, 13 invoices were attached to each manual claim—where each claim is a stand-alone document with all supporting documentation attached and readily auditable to determine the legality, propriety, and accuracy of the claim—submitted by departments. The prior manual process allowed multi-invoice claims to be quickly sorted by organizational code, then by the various attributes for audit by claim auditors.

The FI\$Cal system requires one invoice per voucher (claim). As new departments have on-boarded into the FI\$Cal system, SCO continues to receive an increased number of vouchers that must be audited. SCO states that the requested resources are critical to ensure that claim payments are legal and proper and paid within the 15-day time period to avoid late-payment penalties.

The 2018 Budget provided 3 three-year limited term positions to audit FI\$Cal vouchers, and these positions expire at the end 2020-21. This request makes permanent those resources.

Recommendation. Approve as requested.

0845 DEPARTMENT OF INSURANCE (CDI)

Issue 9: Mental Health or Substance Use Disorders (SB 855)

Request. CDI requests an increase of \$81,000 in Insurance Fund in 2021-22 and \$70,000 and ongoing to monitor insurer compliance as mandated by Chapter 151, Statutes of 2020 (SB 855).

Background. This issue was agendized during this subcommittee's February 3, 2021 hearing.

SB 855 put in place a broader requirement on health plans and disability insurers to cover medically necessary treatment of mental health and substance use disorders under the same terms and conditions applied to other medical conditions. It also established new requirements for medically necessary care determinations and utilization review and banned discretionary clauses in health plan contracts.

The bill broadened CDI's authority for oversight and enforcement over health insurers' coverage decisions. This request would fund 0.5 position that specializes in mental health and substance use disorder parity, and would complement an existing 0.5 vacant position.

Staff Recommendation. Approve as requested.

Issue 10: Continuation of Enhanced Fraud Investigation and Prevention Activities

Request. CDI requests to convert 34 limited-term positions to permanent positions and increase its expenditure authority of \$6.1 million General Fund in 2021-22 and ongoing to support enhanced fraud investigation and prevention efforts in civil whistleblower cases. Beginning in 2023-24 and every three fiscal years thereafter, CDI is requesting \$640,000 to continue the eDiscovery Software-as-a-Service (SaaS) subscription.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

Existing law allows a whistleblower to file a civil lawsuit in the name of the state against any individuals or companies that are alleged to be involved in the submission of false or fraudulent claims to an insurer. These civil actions are also called "Qui Tam" actions. The Insurance Commissioner is authorized to use CDI attorneys to handle this civil litigation.

Since 2014-15 the Legislature has approved multiple requests totaling \$54.9 million for CDI to utilize these funds for Enhanced Fraud Investigation and Prevention efforts. The department has had up to 50 limited-term positions and associated authority over the last seven years. All General Fund resources currently authorized will expire June 30, 2021.

This request also includes \$640,000 General Fund. In April 2017, CDI's Fraud Liaison Bureau (FLB) under the Legal Branch implemented eDiscovery Software-as-a-Service (SaaS) in order to better handle the large volume of materials associated with pending whistle-blower cases. The FLB has automated 100 percent of processing, organizing, searching and retrieving of discovery documents in whistleblower cases and has been able to intervene in twice as many cases since moving from the manual process to the eDiscovery SaaS tool.

In order to continue to utilize the SaaS solution, the CDI must renew its triennial SaaS subscription in 2023-24. The CDI negotiated a fixed price SaaS subscription fee of \$640,000 every three years. This request is for \$640,000 General Fund in 2023-24 and would reoccur every three fiscal years thereafter to support the subscription renewal of the eDiscovery SaaS subscription.

Staff Recommendation. Approve as requested.

0890 SECRETARY OF STATE**Issue 11: Corporations – Board of Directors – Underrepresented Communities (AB 979)**

Request. The SOS requests \$343,000 in 2021-22 and \$333,000 annually thereafter from the Business Fees Fund to establish two positions to implement Chapter 316, Statutes of 2020 (AB 979).

Background. This item was heard in this subcommittee’s hearing on February 3, 2021.

AB 979 requires each publicly held corporation whose principal executive offices are located in California to have a minimum number of directors from underrepresented communities on its board of directors. The bill required the SOS to annually report corporations subject to the requirements of the bill and their compliance, as well as authorized the SOS to impose fines for violations of these requirements.

Staff Recommendation. Approve as budgeted.

Issue 12: Statement of Information Labor Judgment Language (AB 3075)

Request. The SOS requests \$216,000 in 2021-22 and \$79,000 in 2022-23 and ongoing from the Business Fees Fund to support one position to implement Chapter 357, Statutes of 2020 (AB 3075).

Background. This item was heard in this subcommittee’s hearing on February 3, 2021.

AB 3075 changed existing requirements for the annual filings of stock corporations, foreign corporations and limited liability companies by requiring corporations and limited liability companies to certify whether specified officers/directors or managers/members of the entity have an outstanding final judgment issued by the Division of Labor Standards or a court of law. The implementation of the business filing requirements would be subject to the certification by the Secretary of State that the California Business Connect Project is implemented, or January 1, 2022, whichever is earlier.

Staff Recommendation. Approve as requested.

Issue 13: Human Resources Bureau of Critical Administrative Resources

Request. SOS requests \$783,000 in 2021-22 (\$555,000 Business Filing Fees Fund and \$228,000 General Fund) and \$753,000 (\$534,000 Business Filings Fees Fund and \$219,000 General Fund) in 2022-23 and ongoing to fund six permanent full-time positions to align the Human Resources Bureau staffing with Agency growth.

Background. This item was heard in this subcommittee’s hearing on February 3, 2021.

The human resources bureau within SOS is a support organization and serves as the personnel office, and includes 17 permanent positions and two student assistants. A recent audit by the State Personnel Board identified the Secretary of State as having findings that hinder the ability to strengthen internal controls. In the past ten years, SOS states that the agency has increased from 485 to 629 employees; however, in the same time, the human resources bureau only received one limited-funded position in 2013-14 and one permanent position in 2018-19.

Staff Recommendation. Approve as requested.

Issue 14: CAL-ACCESS Replacement System Project

Governor's January Budget Request. The Secretary of States requests \$7.5 million (\$7 million General Fund and \$500,000 from the Political Disclosure, Accountability, Transparency, and Access Fund) for the ongoing maintenance and operation of the California Automated Lobbying and Campaign Contribution and Expenditure Search System (CAL-ACCESS) Replacement System (CARS). This request continues funding for 12 positions, professional support services, and software licensing renewals.

Spring Finance Request. The Secretary of State requests an additional \$3.2 million in 2021-22 and \$2.9 million in 2022-23 for maintenance and operation of CARS.

Background. The COVID-19 pandemic impacted the CARS Project, and necessitates a time extension for software vendors to complete their development and required SOS to re-plan the project schedule to prevent extended delays and loss of efficiencies.

In response to present business challenges and project risks, SOS has moved to a phased approach in launching the new system beginning with Release-1 in February 2021. The system will be available for internal users and select stakeholders to continue testing and familiarization. Two additional releases will take place after February; development of Release-2 and Release-3 will conclude in June 2021. System certification and full public access will take place in Release-3, also known as the public access launch of the system in June 2021. Following the public access launch of the new CAL-ACCESS, SOS will enter into maintenance and operation activities beginning July 1, 2021.

SB 1349 (Hertzberg), Chapter 845, Statutes of 2016, established new functional requirements for the CAL-ACCESS, and the existing system could not meet these new requirements. The current system is a conglomeration of applications that were developed at different times using multiple, now-obsolete coding languages and technologies. The existing campaign finance and lobbying activity process is an inefficient process that does not meet the needs of many stakeholders. SB 1349 requires the development of a new, automated campaign and lobbying reporting and disclosure system.

Staff Recommendation. Approve this proposal, as adjusted by the spring finance request.

Issue 15: Continuation of Limited-Term Accounting Resources

Request. The Secretary of State requests \$1.6 million (\$1.1 million Businesses Fees Fund and \$463,000 General Fund) in 2021-22 and ongoing for 12 positions, ten of which are existing and two of which are new, for the Accounting and Procurement Sections.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

The 2019-20 Budget included \$1.5 million for 11 two-year, limited-term positions in support of FI\$Cal implementation. SOS implemented FI\$Cal in July 2018, and has since experienced significant delays. SOS states that prior to receiving additional resources in 2019, they had insufficient staffing levels to reduce ongoing backlogs which caused exorbitant staff overtime, employee retention problems, and delays in payment.

Staff Recommendation. Approve as requested.

Issue 16: California Business Connect Project

Request. The SOS requests \$11.7 million (\$8.2 million from the Business Fees Fund and \$3.5 million from the Business Programs Modernization Fund) in 2021-22 to continue implementation of the California Business Connect Project.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

The SOS has the responsibility for processing and filing commerce and trade documents including business formations, changes, and terminations. Most business entity documents and information requests are submitted to the SOS via mail or in-person in Sacramento and Los Angeles. The office currently relies on several antiquated electronic and paper database (including 3" x 5" index cards) systems in order to process more than two million business filings and requests for information submitted on an annual basis.

Special Project Report #4 for the California Business Connect Project was approved in May 2020. The project has a completion date of December 2021, with a total project cost estimate of \$68.4 million.

Although the general business processes for each filing are similar, separate application systems and processes have evolved over time for each filing type. As a result, at least 23 separate automated systems are in use to support 15 of the filing types; the remaining 8 filing types are essentially paper-based manual systems supported only with basic office automation tools, such as Microsoft Access, Word and Excel or 3" x 5" index cards.

Staff Recommendation. Approve as requested.

Issue 17: Business Programs Division Processing Times

Request. SOS requests a continuation of spending authority for the additional resources needed to reach and maintain an average of five business days or better for processing paperwork for Business Filings and Statements of Information until California Business Connect is fully implemented. The request is for 47 positions, a decrease from the current 56 positions, and \$5.1 million from the Business Fees Fund in 2021-22.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

The California Business Connect, when fully implemented, will alleviate a majority of the labor-intensive workload, including manual processing of paperwork related to business filings.

Due to prior delays in the California Business Connect implementation, the SOS was approved for spending authority of \$5.5 million to support 56 positions and resources in 2016-17 and 2018-19 in order to maintain the five business day processing times. Now, with the recent and ongoing automation and online improvements, SOS has reduced the level of support necessary from 56 positions to 47 positions.

Staff Recommendation. Approve as requested.

Issue 18: Elections Enhancement

Request. The SOS requests \$1,651,000 General Fund in 2021-22 and \$1,641,000 General Fund in 2022-23 and ongoing for resources to support elections in California. This request will provide ongoing resources to maintain the operation, access, and integrity of public services provided by the SOS including funding for the expansion of existing system maintenance services and licenses.

Background. The SOS hosts the state registration system containing over 22 million voters' information. Other critical applications to the state include business filings and formations, and political and lobbying disclosures. The number of public visitors of SOS systems in 2020 doubled and even tripled at times when compared to previous election cycles. This was first seen in the run up to the March primaries and continued after the General Election in November. Due to the unprecedented traffic on SOS resources - far beyond projected estimates and worst-case scenarios - the underlying infrastructure and security layers of the systems were pushed beyond or up to the line of current contract agreements. SOS first experienced this increase in the March primaries where the main website struggled in the early hours of the day. This directly impacted the public, as online resources were temporarily taken offline to allow an emergency change to expand capacity to the system.

Recommendation. Approve as requested.

Issue 19: Increasing Access to CA's Historic Records

Request. SOS requests a General Fund augmentation of \$3,078,000 in 2021-22 and \$1,622,000 in 2022-23 and ongoing and three positions to automate paper-based processes and support increased online and contactless access to the State's historic public records and data held in the State Archives in response to the ongoing COVID-19 pandemic.

Background. In March of 2020, the SOS closed public counters in line with direction for the Governor's Office and public health officials in response to the ongoing COVID-19 pandemic. Since then, there has been a significantly increased demand from State Archives' customers and researchers for copies and scans of historical public documents to be shipped to them due to public counter closures, stay at home orders, travel restrictions, and other safety precautions put in place to mitigate the public health crisis. The SOS was able to use a limited portion of existing funding to facilitate some remote services for State Archives customers in recent months; however, the majority of the State Archives' services and processes remain paper-based due to funding limitations and aged infrastructure, workflows and processes. These workflows are manual and inefficient, inadequately matched to meet the new requirements of providing online services to the public in light of the global health crisis and evolving needs of the public.

Recommendation. Approve as requested.

Issue 20: Elections – Voter Eligibility

Request. The SOS is requesting a one-time General Fund increase in the amount of \$265,000 for 2021-22 for additional voter registration card costs and a one-time Federal Trust Fund increase in the amount of \$140,000 for 2021-22 for the cost of system changes to VoteCal, the state's centralized voter registration database.

Background. Chapter 320, Statutes of 2020 (AB 646, McCarty) removed the prohibition for people on parole for a felony conviction from voting, registering to vote, or preregistering to vote. These changes required significant changes to the SOS' current documentation and processes for voter registration and preregistration, both online and paper. This includes the Voter Registration/Pre-Registration Application forms, possessed by either the SOS or individual counties and published in ten languages; updating VoteCal, which requires coordination with the DMV to change the language on DMV's online and paper forms for voter registration and preregistration; and printed and digital materials need to be reprinted and updated.

Recommendation. Approve as requested.

0984 CALSAVERS RETIREMENT SAVINGS BOARD**Issue 21: CalSavers Budget Bill Language**

Request. The Governor’s budget included budget bill language to extend repayment of previous General Fund loans.

Background. The 2016 Budget Act provided a \$1.9 million General Fund loan to cover implementation and administrative costs. The 2016 Budget Act specified that this loan is to be repaid in 2022.

The 2017 Budget Act included a General Fund loan of \$15 million to support the start-up costs of the program. The 2017 Budget Act specified that this loan is to be repaid in 2023.

The current budget bill language extends the repayment of both of these loans to no later than June 30, 2024. The repayment extensions for these loans are included in the Governor’s Budget to account for the COVID-19 health pandemic’s impact on CalSavers. CalSavers estimates program revenues to be lower than initially projected due to the recession and the high unemployment rates.

Recommendation: Approve as budgeted.

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)**Issue 22: Regulations Unit – Funding Extension**

Request. DCA requests a two-year limited-term extension of \$1.7 million in 2021-22 and 2022-23 to continue supporting eight existing positions in the Department’s Regulations Unit. A two-year limited-term extension will allow DCA to fully implement and evaluate the effectiveness of a dedicated Regulations Unit.

Background. This item was heard in this subcommittee’s hearing on February 24, 2021.

Development and review of regulations at DCA involves board and bureau members and staff, the Department’s legal, budget, and executive staff, and staff of the Business, Consumer Services and Housing Agency (BCSHA).

In March 2018, the Senate Business, Professions & Economic Development Committee and the Assembly Committee on Business and Professions, in the sunset review hearing over DCA, raised issues regarding the centralization of legal services that are housed within DCA, limiting legal resources and subject matter expertise, rather than allowing boards and bureaus to hire their own counsels.

In 2019, DCA stated that impending regulations packages as a result of AB 2138 (Chiu, 2018), which reduced barriers to licensure for individuals with prior criminal convictions, necessitated a

dedicated regulations unit to focus on preparing and submitting regulations packages. Of the AB 2138 regulation packages that need to be submitted, DCA states that 29 have been submitted to OAL, seven have been approved, none have been disapproved, and nine are still in development.

Staff Recommendation. Approve as requested.

Issue 23: Budget Bill Language Request (Contractors State License Board)

Request. The Contractors State License Board (CSLB) is requesting the following Budget Bill language to authorize the augmentation of its Construction Management Education Account (CMEA) appropriation, to provide the flexibility to increase the grants awarded from the fund based on the amount of contributions made to the CMEA:

The Department of Finance may augment this appropriation, based on revenues available in the Construction Management Education Account, for the purpose of increasing the number of grant disbursements to public postsecondary construction management education programs. Any augmentation shall be authorized not sooner than 30 days after notification in writing to the Chairperson of the Joint Legislative Budget Committee, or whatever lesser time the chairperson, or the chairperson's designee, may determine.

Background. This item was heard in this subcommittee's hearing on February 24, 2021.

Each year, the Board's Licensing Division notifies accredited construction management education programs to prepare an application for funds in the coming year. Staff review the applications to confirm the applying institutions remain properly accredited and propose an award amount for all qualifying institutions based on the number of students that graduated the prior year. In recent years, the Board has received more voluntary contributions than what has been appropriated to the program. The Board is requesting the flexibility to align its appropriation, as needed, to the amount of contributions received annually.

In the coming year, the Board will disburse just under \$100,000 (its current budget appropriation) even though the current fund balance is approximately \$337,000. The CMEA fund balance continues to rise due to increasing contributions and the current expenditure authority of \$100,000. The CMEA receives an average of \$120,000 annually in contributions. From 2018-19 to 2019-20, the CMEA has seen a 14-percent increase in annual contributions. The fund will have approximately \$574,000 at the end of this fiscal year.

Staff Recommendation. Approve as requested.

Issue 24: Augmentation for Attorney General Services

Request. The Bureau of Security and Investigative Services is requesting \$800,000 in fiscal year 2021-22 and 2022-23 to support increased Attorney General (AG) services as a result of Chapter 800, Statutes of 2016 (SB 1196), requiring all firearm assessment appeals be referred to the AG's Office.

Background. SB 1196 requires an applicant for an initial firearm permit, who is a Bureau security guard registrant, to complete an assessment to demonstrate that they are capable of exercising appropriate judgment, restraint, and self-control for the purpose of carrying and using a firearm while on duty (Business and Professions Code (B&P) section 7583.47). The Bureau successfully implemented the firearms assessment on July 1, 2018. If an applicant fails the assessment, the Bureau is required to deny their application for a firearm permit. An applicant who is denied a firearm permit as a result of a failed assessment has the right to appeal the denial by requesting a hearing before an Administrative Law Judge (ALJ) pursuant to B&P section 7583.29. The failure rate on firearm assessments is approximately 12-15 percent. The Bureau was unable to accurately estimate the number of failures or the number of denials being appealed to the ALJ at the time SB 1196 was enacted due to the lack of resources and tools available to assess what the number or rate would be.

Due to the significant increase in AG services, primarily driven by appeals related to firearm assessments, the Bureau had to request unanticipated cost funding in the amount of \$800,000 in 2019-20 to cover its AG expenses.

Recommendation. Approve as requested.

Issue 25: Business Modernization Cohort 2

Request. DCA requests one-time funding of \$4,346,000 and eight positions to allow the Structural Pest Control Board (SPCB), the California Architects Board (CAB)/Landscape Architects Technical Committee (LATC), the Cemetery and Funeral Bureau (CFB), and the Bureau of Household Goods and Services (BHGS) to begin implementing their selected Business Modernization software alternative, consistent with the Department's Business Modernization Plan (BMP).

Background. The funding requests below are divided by program and reflect the necessary appropriation augmentations to cover system integration, software licensing, project management, credit card activities, project oversight costs, and a total of eight positions (five positions in the Department's Office of Information Services (OIS) to support project implementation). The Department requests \$735,000 and five positions in 2021-22. Costs will be distributed among the participating programs and built in each program's project costs.

The total combined request of \$4,346,000 in fiscal year 2021-22 is as follows:

Program Name	Project Costs	Credit Card Costs (80% usage rate)	Total
SPCB	\$805,000	\$92,000	\$897,000
CAB (1.0 position) *	\$605,000	\$60,000	\$665,000
LATC	\$151,000	\$14,000	\$165,000
CFB	\$875,000	\$27,000	\$902,000
BHGS – Electronics and Appliance Repair (2.0 position) *	\$1,082,000	\$44,000	\$1,126,000
BHGS – Home Furnishings and Thermal Insulation	\$309,000	\$80,000	\$389,000
BHGS – Household Movers	\$155,000	\$47,000	\$202,000
Total	\$3,982,000	\$364,000	\$4,346,000

*CAB/LATC and BHGS is comprised of different funds and appropriations. The requested positions will address the backfill workload associated with all programs and will be reimbursed through an interagency agreement between the programs.

In addition to the funding request, this proposal includes provisional language to allow the authorization of expenditures upon the California Department of Technology's (CDT) project approval. This language provides flexibility to sync the approval milestones of the budget process and CDT's Project Approval Lifecycle (PAL) to allow the Department's BMP to continue without interruption (See Provisional Language for Cohort 2).

SPCB, CAB, LATC, CFB, and BHGS all rely on antiquated legacy systems incapable of providing the responsive and transparent level of service the public expects based on current technology. Basic transactions like the ability to submit an electronic payment are limited in the legacy systems. The legacy systems also do not facilitate efficient management of resources due to a lack of automated workflow functionality.

Current legacy systems also do not provide the ability to effectively conduct enforcement in the field, a major opportunity for a program like CFB that conducts many inspections as part of its enforcement program. Market research revealed several software solutions can upload data and issue citations while in the field from a laptop or mobile device like a cell phone or tablet. This will make field staff more effective as they can enter information into the system while in the field as opposed to having to do so later when they return to the office.

Staff Recommendation. Approve as requested.

Issue 26: Business Modernization – Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board

Request. The Department of Consumer Affairs' Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board requests one-time funding of \$1,117,000 and two positions to complete planning activities and begin implementing its selected Business Modernization software alternative, consistent with the Department's Business Modernization Plan.

Background. The Board's current systems lack an intuitive online public-facing portal that consumers and licensees can use to submit complaints, applications, and license renewals. This proposal will allow the Board to implement its selected Business Modernization software alternative by providing funding to cover planning activities, system integration, software licensing, project management, and staffing costs. The Board has determined a proven robust software solution capable of interacting with other software applications in real-time and implementing functionality in an incremental manner over the course of the project is the best path forward to modernize its business operations and enhance services to stakeholders.

The project length is anticipated to be 36 months with 24 months of Maintenance and Operations (M&O) and minimal ongoing post-M&O support. This project length will allow the Board to modernize its business operations incrementally without significant negative impacts to the Board's fund condition. This approach exemplifies the organization's BMP as it provides a path to modernization that is in alignment with maintaining a balanced fund condition. The Board is currently progressing through the CDT Project Approval Lifecycle (PAL).

The proposal also includes funding for payment of credit card processing fees on behalf of users of credit card payments. The requested amounts assume that 80 percent of all anticipated revenue will be collected via online payments and assumes an average convenience fee of two percent per transaction.

Recommendation. Approve as requested.

1750 CALIFORNIA HORSE RACING BOARD

Issue 27: Horse Safety Panel Funding Shift

Request. The California Horse Racing Board (CHRB) requests a decrease in expenditure authority of \$434,000 Horse Racing Fund and two positions in 2021-22, \$662,000 in 2022-23, and \$890,000 in 2023-24 and ongoing. CHRB also requests an increase in expenditure authority of \$890,000 Horse and Jockey Safety and Welfare Account in 2021-22 and ongoing and two positions to fulfill the requirements of Chapter 251, Statutes of 2020 (AB 1974), which provides additional revenue sources for enhanced equine and jockey safety measures consistent with the statewide implementation of safety review panels designed to effectively assess the fitness of horses prior to racing. These requests will result in a net-zero funding shift by 2023-24.

Background. CHRB requests to shift the resources included in the 2020 Budget Act to establish horse safety panels across the state from the Horse Racing Fund to the newly established Horse and Jockey Safety and Welfare Account to support the horse safety panels and to implement the safety related measures required by AB 1974. Currently, the racing associations are solely responsible for fully funding all CHRB operations, which includes the safety review panel expenditure increases. This funding shift would provide a reprieve to the racing associations that have experienced significant financial hardships due a decline in wagering, intermittent closures required to implement safety enhancements, and extensive racing restrictions and closures due to the COVID-19 pandemic.

Staff Recommendation. Approve as requested.

2320 DEPARTMENT OF REAL ESTATE

Issue 28: Accounting Workload Resources

Request. The Department of Real Estate (DRE) requests \$125,00 in 2021-22 and \$117,000 in 2022-23 and ongoing from the Real Estate Fund, and one permanent position and one two-year, limited-term position to support the accounting activities in Fiscal Operations.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

In 2018-19 and 2019-20, DRE entered into an interagency contract with DCA for services to assist during the transitional period in its return to department status. This Interagency agreement provided for DCA's assistance with all accounting functions until DRE was able to hire the necessary positions to fulfill most accounting responsibilities. This contract ended on June 30, 2020. In 2019-20, DRE's Accounting Section consists of seven positions.

2018-19 brought new challenges to the newly formed department, as the number of Funds increased. Prior to the establishment of the Consumer Recovery Account and the education and Research Account in SCO and FI\$Cal, the department recorded approximately 8,000 revenue transactions in both checks and credit card transactions in FI\$Cal. After, the establishment of these funds, the department now records an additional 3,600 revenue transactions.

Staff Recommendation. Approve as requested.

Issue 29: Licensing Information Section – Call Workload

Request. The DRE requests three year, limited-term funding of \$414,000 in 2021-22, and \$374,000 in 2022-23 and 2023-24 from the Real Estate Fund and five positions to the support the Licensing Program, Information Section and assist with managing high call volumes and excessive call wait times.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

Currently, there are approximately 422,000 real estate licensees in California. Before an applicant can be licensed as a real estate salesperson or broker, they must fulfill certain real estate education requirements and pass an exam administered by DRE. Broker and salesperson licenses are issued for a four-year period. The renewal process for both license types includes the submission of an application, payment of fees, and demonstrating evidence that the licensee has completed 45 hours of DRE-approved continuing education courses. DRE's licensing program supports the department's mission by providing a variety of services to California consumers, applicants,

licensees, and other governmental agencies. These services include qualifying and scheduling examination applicants, developing and administering the real estate salesperson and broker examinations, and the issuance and renewal of real estate salesperson and broker licenses. This group also manages a large volume of telephone inquiries from licensees, applicants, and consumers.

The associated licensing workload, as well as an increasing licensing population, has led to a continually high volume of phone calls received by DRE and an extensive call wait time for licensees, applicants and consumers. Average call wait times are currently estimated at 25 minutes.

Staff who process these applications currently redirect a portion of their time to help manage calls, which results in longer processing times for applications, and in turn, adds to the high volume of telephone calls. DRE has attempted to mitigate this excessive workload through the use of overtime, hiring limited-term staff, as well as the redirection of existing staff and resources from other sections to the extent feasible. While these efforts have provided some relief, the impacts are temporary.

Staff Recommendation. Approve as requested.

7502 DEPARTMENT OF TECHNOLOGY (CDT)

Issue 30: Stabilize Critical Services and IT Infrastructure

Request. CDT requests 17 positions and \$11.4 million General Fund in 2021-22, \$9.4 million in 2022-23, and \$6.4 million ongoing to invest in proactive measures to stabilize critical services and enhance performance statewide. Additionally, this request proposes to augment resources to support the State's Broadband for All initiative.

Background. This item was heard in this subcommittee's hearing on February 24, 2021.

This request can be broken down as follows:

- The Office of Enterprise Technology (OET) manages and delivers IT state services and information to enhance digital government that works for all Californians by providing foundational platforms and technology (such as GIS/Open Data, Web Portals, Software Engineering and Open Source code curation). CDT requests seven positions within OET in order to support application and infrastructure development and operations, and provide strategic leadership over expanded operations.
- The Office of Technology Services (OTech) manages and operates the State Data Center. OTech is responsible for providing innovative, reliable, and secure cloud based, on-premise and telecommunications services to state, federal and local government entities and custodian of the state's mission critical data. CDT requests three positions within OTech to partner with departments to stabilize legacy infrastructure and build scalable services iteratively.

- The Office of Statewide Project Delivery (OSPD) comprises three functions: Project Approvals and Oversight (PAO), Statewide Technology Procurement (STP) and the California Project Management Offices (CA-PMO). CDT requests four positions within OSPD in order to develop a brand new Service Assessment capability, which does not currently exist. This capability will allow CDT to understand the “vitals” of critical services enabled or delivered through information technology, and will enable OSPD to trigger targeted diagnostic and intervention efforts, and support more departments as they embark upon incremental continuous service improvement programs.
- The Office of Government Affairs - Policy Office is responsible for establishing and enforcing statewide IT policies, standards, instructions, and guidelines regarding IT operations, security, project approval, procurement, enterprise architecture and oversight. CDT requests one attorney for this office.
- The Office of Government Affairs - Broadband Digital Literacy (OGA-Broadband) supports the California Broadband Council (Council) which was established by SB 1462 (Chapter 338, Statutes of 2010) to promote broadband adoption and broadband deployment in unserved and underserved areas of the state, as defined by the Public Utilities Commission. Recently, the Governor issued an executive order in August 2020 establishing the Broadband Action Plan. CDT requests two positions in OGA-Broadband to support statewide Broadband for All efforts. A policy analyst to design and consult on statewide broadband policy initiatives, and a technical assistance lead to support local governments and tribes seeking to accelerate broadband deployment and adoption. This request may evolve pending action plan development.

CDT also requests \$3 million to sustain operational expenses for the ongoing support of COVID-19 software and cloud services. OET implemented many new technology solutions directly related to the COVID-19 response including data warehouses, Extract Transform and Load (ETL) tools, GIS solutions and cloud infrastructure. Although the initial cost of these solutions were submitted for reimbursement, OET needs ongoing funding for annual license renewals, maintenance and cloud service consumption costs. This operation expense is needed as the technology tools and infrastructure that was created for the COVID-19 response is already being leveraged for other statewide emergencies such as the state’s fire response.

In addition to staff, CDT requests \$5 million to bring in the necessary specialist diagnostic capabilities required during the assessment process, and bootstrap initial critical service stabilization activities. Unfortunately, the State does not yet have all the necessary skills, such as business operations analytics, required to assess, stabilize, and transform services. It is anticipated the amount required will decrease to \$3 million in subsequent years.

Staff Recommendation. Approve as requested.

7730 FRANCHISE TAX BOARD (FTB)**Issue 31: Asset Forfeiture Account Increase**

Governor's Budget. A Spring Finance Letter requests to increase the Budget Act Authority from \$150,000 to \$740,000, beginning in the 2021-22 fiscal year and annually thereafter for the Asset Forfeiture Account. FTB's Criminal Investigation Bureau (CIB) will use these funds for costs associated with criminal investigation law enforcement activities, such as additional training and equipment. Per the Equitable Sharing Agreements, these resources cannot be used to replace or supplement any General Fund resources.

Background. Asset Forfeiture Programs encompass the seizure and forfeiture of assets from individuals and organizations engaged in criminal activities. After codified due process has been given, seized assets are forfeited and converted into currency which is then distributed to law enforcement agencies that participated on the task force. Any federal, state, or local law enforcement agency that directly participated in an investigation or prosecution that results in asset forfeiture may request an equitable share of the new proceeds.

In June 2011, Department of Finance (DOF) approved FTB's request to establish Asset Forfeiture Accounts within the Special Deposit Fund in order to participate in the Equitable Sharing Agreement. In 2014-15, FTB submitted a budget change proposal (BCP) to receive spending authority from the fund.

FTB's CIB participates on several federal, state, and local task forces to investigate suspected refund fraud, failure to file tax returns and the filing of false or fraudulent tax returns. The program's efforts play a major role in bringing individuals and business entities involved in the underground economy into compliance with California's tax laws and, in turn, reducing the tax gap. FTB's CIB has entered into Equitable Sharing Agreements with the US Department of Justice, US Department of Treasury, and the CA Department of Justice. FTB participates in these Asset Forfeiture Programs as a second tier agency. As a second tier agency, FTB is not responsible for doing the civil asset forfeiture proceeding nor is FTB responsible for storing or disposing of any assets. Participation in these task forces allows FTB to receive an equitable share of assets seized in criminal activities in which FTB provided assistance.

FTB is requesting Budget Act Authority of \$740,000 per fiscal year with provisional language to increase this amount upon approval by the Department of Finance and 30-day notification of the Joint Legislative Budget Committee, which will enable FTB to utilize additional Special Deposit account funds.

LAO Comments. The LAO found that the use of Asset Forfeiture Account Funds appears reasonable. Additional asset forfeiture account spending may not replace any General Fund resources. FTB developed their expenditure plan to enhance their tax fraud investigation capabilities and the plan appears to be consistent with the allowable uses of these funds. They note that FTB's special agents are law enforcement officers who are subject to the same training and certification requirements of all other law enforcement staff across the state.

Recommendation: Approve as budgeted.

Issue 32: Increased Litigation Costs

Governor's Budget. FTB requests an augmentation of \$2,000,000 to its litigation budget with the Attorney General's (AG) Office to defend against increasing tax refund lawsuits for the 2021-22 fiscal year. FTB has continued to see increased litigation efforts with very complex tax matters

Background. Over the past ten years, FTB has continued to see more and more litigation arising out of complex laws, non-conformity at the federal level, class action lawsuits and suits by high net worth individuals, among others. As the result, FTB is seeking to augment its litigation budget with the AG's Office in order to defend these lawsuits and protect the interests of the state.

FTB and the AG's Office are aware of the increasingly complex and varied tax refund suits which are being filed against FTB, in which the AG's Office is representing the FTB. The Attorney General's Office has advised FTB that in order to adequately protect the state's interests and defend FTB, FTB needs to increase its budget to cover the expenses associated with the addition of four experienced lawyers and an analyst from the AG Office. The AG's Office has also advised that they anticipate that the staffing will cost \$1.7 million starting in fiscal year 2021-22. Because of the increasing complexity of these cases, expert witnesses are often needed to explain the intricacies to the court hearing the matter.

Recommendation: Approve as budgeted.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 33: Centralized Revenue Opportunity System (CROS) Project Implementation Phase –Fiscal Year 2021-22

Request. The Governor's budget proposed \$23.9 million to provide resources required to support the final phases of the CROS Project and the transition to Production Support Maintenance and Operations. The CROS Project is an information technology modernization effort designed to enable the CDTFA to expand tax and fee payer services, to improve the efficiency and effectiveness of its operations, and to enhance its ability to generate increased revenues, reducing the tax gap.

Background. The CROS Project is a tax collection and distribution information technology system approved in 2011 and designed to improve the efficiency and effectiveness of the CDTFA's operations, expand tax and fee payer services, and enhance the CDTFA's ability to generate increased revenues. The first production release, Rollout 2, included the Sales and Use Tax Program and was implemented on May 7, 2018. The second production release, Rollout 3 included Special Taxes (such as Alcoholic Beverages, Cigarette and Tobacco, and Fuel Taxes) and was

implemented on August 12, 2019. The final production release, Rollout 4, which includes all remaining CDTFA tax programs, was implemented on November 9, 2020.

According to the CDTFA, the most significant outcome of the CROS Project is an increase in the sales and use tax collections of approximately \$486.1 million through 2019-20. Additional outcomes include improved services to tax and fee payers, improved operational efficiencies including accounting and General Ledger improvements, improved revenue tracking from receipt through distribution, enhanced security, and greater ability to quickly respond to statutory, judicial, or electoral changes to tax and revenue codes.

Excluding CROS vendor payments, for 2021-22, the CDTFA is requesting \$7.5 million for operating expenses and equipment. In addition to the standard complement of communication, postage, supplies, and additional, hardware, and software resources needed to support CROS operations, the CDTFA is requesting funding for hardware infrastructure replacement, consultant services and training. The CDTFA requests \$16.4 million for contractor compensation in 2021-22.

This item includes provisional language to augment unencumbered funds for vendor compensation payments with reporting to the Joint Legislative Budget Committee within 30 days.

The Subcommittee heard this proposal on February 10th of this year.

Staff Recommendation. Approve as budgeted.

Issue 34: The Home Protection for Seniors, Severely Disabled, Families, and Victims of Wildfire or Natural Disasters Act (Proposition 19)
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Request. The Governor's budget included a General Fund appropriation of \$1.6 million in the 2021-22 fiscal year, \$266,000 and 1.5 positions in 2023-24, and \$245,000 in 2024-25, and ongoing to address the costs associated with the passage of Proposition 19.

Background. Proposition 19 (Prop. 19) was approved by California voters in the November 3, 2020 General Election. Beginning April 1, 2021, Prop 19 amends Article XIII A of the California Constitution to:

- Define "taxable value" as the base year value plus any adjustments specified in the constitutional amendment.
- Allow up to three taxable value transfers per taxpayer for taxpayers who are severely disabled, over the age of 55, or victims of a wildfire or other natural disaster, regardless of the replacement property's value or location, provided the replacement property is purchased or constructed within two years of the date the original property is sold.
- Limit the parent-child and grandparent-grandchild exclusion from change in ownership of a principal residence or family farm.

The CDTFA is required to determine each eligible local agency's aggregate gain every three years, based on the amounts determined by the counties. Counties with a negative gain are eligible to

receive funds from the County Revenue Protection Fund. If the County Revenue Protection Fund is insufficient to reimburse all claims, the CDTFA is required to allocate available funds based on each local agency's pro rata share, as specified. The State Controller is required to transfer any remaining funds less reimbursements from the County Revenue Protection Fund to the General Fund after reimbursing each eligible local agency that has experienced a negative gain during that three-year period.

The CDTFA will utilize the Centralized Revenue Opportunity System (CROS) to administer this program. CROS is specifically designed for integrated tax administration and provides full functionality for processes such as registration, returns, payments, refunds, collections, revenue accounting, audit, correspondence, imaging, analytics, and workflow. The CDTFA is requesting \$1.4 million in 2021-2022 to administer changes to CROS. The CDTFA will contract with FAST Enterprises Inc. (FAST) to design and administer changes to online services, administration, financial disbursement and other administrative processes in the CROS system.

Counties will need to register with the CDTFA and annually report the revenue effect for each county, city, and special district. The CDTFA will need to program CROS Online Services to allow 58 counties and approximately 2,800 jurisdictions to report their revenue impact, determine each eligible aggregate gain every three years based on the amounts determined by the counties, calculate any needed proration of funds, and provide reimbursements to each special district with a negative gain at the end of the three years.

Staff Recommendation. Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 35: OS EVSE Infrastructure Assessment and Facility Development

Request. Office of Sustainability (OS) in DGS requests a one-time budget augmentation of \$50 million in General Fund and \$1.3 million in Service Revolving Fund (SRF) authority. This request is to fund year five of the DGS Zero Emission Vehicles (ZEV) Five-Year Infrastructure Investment Plan (2017-18 through 2021-22) to continue performing installations of Electric Vehicle Service Equipment (EVSE) at state-owned and leased facilities, to meet California's transportation and greenhouse gas goals.

Background. DGS supports state agencies in completing readiness surveys, conducting site assessments, and providing oversight of architectural and engineering functions, construction management, system activation, and identification of alternative funding options if available.

Prior budgets funded this project through an equal split between the General Fund and the Service Revolving Fund, which receives General Fund and charges for work rendered by DGS. However, the 2020 Budget provided \$23.1 million in Service Revolving Fund authority to fund Year Four of the ZEV Action Plan, with no General Fund split due to the economic uncertainty as a result of COVID-19.

DGS states that restrictions on fund use and budgetary challenges kept departments from using special funds, and made it difficult for DGS to obtain the necessary funding. The table below reflects DGS' use of General Fund and special funds in prior years (in thousands), and shows that of the total budget authority provided, only 45 percent of fund authority has been utilized:

Year	Budget Authority Received	General Fund Actuals	Special Funds Actuals	Total Utilized
2017-18	\$ 6,700	\$ 3,300	\$ 1,400	\$ 4,700
2018-19	\$ 15,600	\$ 7,800	\$ 6,600	\$ 14,400
2019-20	\$ 18,600	\$ 9,300	\$ 200	\$ 9,500
2020-21	\$ 23,100	\$ -	\$ -	\$ -
TOTAL	\$ 64,000	\$ 20,400	\$ 8,200	\$ 28,600

The 2016 ZEV Action Plan requires DGS to oversee plans to make electric vehicle charging infrastructure available in at least five percent of workplace parking spaces at state facilities. Further, DGS is responsible for ensuring that 25 percent of annual light-duty fleet purchases are ZEVs by 2020 and 50 percent of those purchases are ZEVs by 2025.

The Governor issued an executive order in September 2019 that leveraged state assets to advance the state's climate goals, DGS adopted an administrative policy that prohibits state agencies from purchasing sedans powered solely by an internal combustion engine (ICF) utilizing fossil fuels, as well as sedans powered by flex-fuel or bi-fuel engines utilizing petroleum-based fuels and other alternative fuels, such as ethanol.

On September 23, 2020, Governor Newsom issued another executive order that set new statewide goals for phasing out gasoline-powered cars and trucks in California. Under this executive order, 100 percent of in-state sales of new passenger cars and trucks are to be zero-emission by 2035 and 100 percent of in-state sales of medium- and heavy-duty trucks and busses are to be zero-emission by 2045, where feasible.

This request is to fund year five of the DGS ZEV Five-Year Infrastructure Plan to install EVSEs in state facilities to support both the state fleet and state employee charging needs. 1,801 charging ports have been installed to date, funded from both Legislature-approved budget authority and administrative authority. With this request, DGS states that an additional 2,015 charging ports will be installed.

Staff Recommendation. Approve as requested.

Issue 36: DSA Oversight

Request. The DGS Division of the State Architect (DSA) requests increase in expenditure authority of \$11 million (\$9.3 million for the Public School Planning, Design, and Construction Review Revolving Fund and \$1.7 million for the Disability Access Account), and 26 permanent

positions beginning in fiscal year 2021-22 to provide necessary resources to manage increasing public school construction workload and required oversight.

Background. DSA was approved for a two-year budget authority increase of \$9.6 million (\$8.1 million Public School Planning, Design, and Construction Review Revolving and \$1.5 million Disability Access Account) to support costs to manage the increasing public school construction workload for fiscal year 2019-20 and fiscal year 2020-21. After fiscal year 2020-21, the current \$9.6 million authority will expire and DSA will no longer be able to absorb staff and operating costs required to manage current and future workload.

DSA is responsible for approving design documents and providing oversight for the construction projects of K-12 public schools, community colleges and various other state-owned and state leased facilities throughout the State of California. DSA must also enforce compliance with building standards published in Title 24 of the California Code of Regulations with a focus on structural safety, fire & life safety, accessibility, energy efficiency and sustainability. In order for construction to begin, plans must be approved by DSA and comply with building standard codes.

Since 2016-17, DSA has experienced an increase in its public school design and construction workload and expects workload to continue to increase in the future. DSA is presently fulfilling plan review commitments with existing staff consisting of 11.0 blanket positions and four retired annuitants, utilizing the expenditure authority which will expire if this proposal is not approved. The two-year budget augmentation for fiscal year 2019-20 and fiscal year 2020-21 supports the use of staff overtime hours and an increased use of consultants for the disciplines of structural safety, fire and life safety, and accessibility plan review. However, current efforts are still resulting in a steadily increasing backlog and a DSA workload analysis finds continuing with current staffing and the dependency on consultants and overtime is not a viable long-term solution.

Staff Recommendation. Approve as requested.

8620 FAIR POLITICAL PRACTICES COMMISSION (FPPC)

Issue 37: Continuation of California Disclose Act Workload

Request. The FPPC requests \$430,000 General Fund in 2021-22 and ongoing to continue funding three existing limited-term funded positions on a permanent basis to continue interpretation, outreach and education, enforcement, and refinement for continuing workload associated with AB 249 (Chapter 546, Statutes of 2017), the California Disclose Act.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

The California Disclose Act provided comprehensive provisions for campaign advertising and for reporting the source of campaign contributions, among other provisions. The FPPC states that its Enforcement Division received 518 complaints related to the California Disclose Act from June 1, 2019 through October 31, 2020.

This request will continue funding for one senior commission counsel, one political reform consultant, and one special investigator.

Staff Recommendation. Approve as requested.

8955 CALIFORNIA DEPARTMENT OF VETERAN AFFAIRS

Issue 38: CalVet Electronic Health Record Project: Phases 2 and 3

Request. CalVet requests a one-time augmentation of \$10 million General Fund in 2021-22 for the second year of implementation of a new long-term care electronic health record system in the Veterans Homes of California and Headquarters.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

CalVet's existing clinical, financial, and administrative aspects of the Homes rely heavily on paper records. In 2016, CalVet began to work with the Department of Technology to explore various options for an electronic health record system to use in its Veterans Homes. The 2020-21 budget provided a one-time augmentation of \$1.2 million General Fund for the first phase of implementing the electronic health record system, which was installed at its Homes in Barstow, Chula Vista, Lancaster, and Ventura.

This request will implement the second and third phase of this project, and will be used to enhance the system at the initial four Homes, and implementing the system at the four remaining Homes in Fresno, Redding, West Los Angeles and Yountville.

The total cost of this project is estimated to be \$20.8 million, with a completion date of December 2021.

Staff Recommendation. Approve as requested.

Issue 39: Northern California Veterans Cemetery, Igo – Columbaria Expansion

Request. CalVet requests \$296,000 General Fund for the preliminary plans and working drawings phases for the columbarium expansion at the Northern California Veterans Cemetery (NCVC) in Igo, California.

Background. This item was heard in this subcommittee's hearing on February 3, 2021.

The NCVC opened for interments in December 2005 with 1,200 columbaria niches. When the cemetery was designed in 2002, the number of in-ground burial plots and columbaria niches was consistent with existing interment rates. Since then, niches have been utilized regularly and seem

to be the most desired burial option – niches are the most desired burial option, over double that of requests for casket and in-ground cremains. An additional 2,000 niches were constructed and completed in March 2012.

As of December 23, 2020, only 318 columbaria niches remain and with the current interment rate, the columbaria will be exhausted by the summer of 2021. The nearest veteran's cemetery with available space is nearly 200 miles away in Dixon, California.

CalVet applied for a federal grant in August 2018 to construct additional columbaria, and the pre-application was approved for consideration of grant funding through the VA National Cemetery Administration, State Cemetery Grant Program.

The project intends to build 2,000 additional columbaria niches; additionally, it will build new walk-ways, ramps, curb and gutters, landscaping, and irrigation. Total project costs are estimated to be \$2.1 million, of which \$1.8 million will be from federal funds.

Staff Recommendation. Approve as requested.

Issue 40: Veterans Home of California – Yountville Steam Distribution System, Reappropriation
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Request. CalVet requests the reappropriation of \$7,833,000 in Public Buildings Construction Fund for the construction phase of the Steam Distribution System Renovation project at the Veterans Home of California-Yountville (VHC-Yountville).

Background. The reappropriation is necessary due to delays from the United States Department of Veterans Affairs (USDVA) awarding grant funding for projects. The state cannot proceed to bid until the grant has been officially awarded to CalVet.

This project includes restoration of the antiquated steam/condensate system by replacing underground lines and piping to the mechanical rooms, manholes, insulation, and valves. The project will also add an additional ten Americans with Disabilities Act (ADA) parking spaces to the southwest corner of Lincoln Hall. Total project costs are estimated at \$19,065,000, including preliminary plans (\$579,000), working drawings (\$1,080,000), and construction (\$17,406,000). The construction amount includes \$13,222,000 for the construction contract, \$1,058,000 for contingency, \$1,339,000 for architectural and engineering services, and \$1,787,000 for other project costs. The preliminary plans were completed in January 2012 and the working drawings are scheduled to be completed March 2021. Construction is expected to begin February 2022 and be completed by January 2024.

Recommendation. Approve as requested.

Issue 41: Strategic Realignment for the Barstow Veterans Home

Request. The California Department of Veterans Affairs requests an augmentation of \$330,000 General Fund and 3.1 positions in 2021-22 and \$588,000 General Fund and six positions annually thereafter to realign levels of care in the Barstow Veterans Home. These changes are necessary to meet current and future programmatic needs as outlined in the 2020 Veterans Homes of California Master Plan and the 2021 Barstow Report.

Background. Beginning January 1, 2022, CalVet requests a reduction of 120 Dom and 60 ICF beds, with a corresponding addition of 31 RCFE beds and an increase of 20 SNF beds. If approved, the Home will convert the existing budgeted dual-occupancy ICF to a single-occupancy RCFE; approximately one-quarter of the ICF residents would be placed in the SNF, while the remainder would remain in the unit while the license is converted to an RCFE. No significant facility modifications would be required to accomplish this. The Home will permanently halt all admissions to the Dom and ICF, slowly drawing down the census through attrition.

CalVet will not discharge any current residents to meet this objective. CalVet anticipates having the new RCFE licensed and operational during fiscal year 2022-23, but this estimate is contingent upon highly variable attrition rates as well as individual healthcare needs and control agencies.

To begin the transition, CalVet requests 1.5 Registered Nurses (RNs), two Certified Nursing Assistants (CNAs), .5 Activity Coordinator, and two Food Service Technicians I (FST I) starting January 1, 2022. These positions are required to staff the 20 additional SNF beds appropriately, which must occur prior to licensing the new RCFE. However, staff will be redirected from the existing ICF to minimize the impact on staffing levels. In addition to converting the active ICF unit into an RCFE, the 2020 Master Plan recommended that CalVet consider whether the vacant inactive ICF unit should be converted to an additional 31-bed RCFE (for a total of 62 beds). While not proposed at this time, CalVet will continue to explore this option for future years based on existing infrastructure, programmatic needs, and resource availability.

Recommendation. Approve as requested.

Issue 42: Extension of Liquidation Period of Barstow Veterans Home Nurse Call System Project

Request. CalVet requests an extension of the liquidation period to complete the infrastructure upgrades for the nurse call system at the Barstow Veterans Home.

Background. In 2019, CalVet initiated an infrastructure upgrade effort to replace legacy nurse call equipment at the Home.

From August 2019 through March 2020, CalVet kicked-off the contract work and the vendor completed the first set of deliverables (plans); in addition, hardware was delivered to the home

for installation. Due to the COVID-19 pandemic, the contract was placed on hold in March 2020. CalVet sent a stop work letter to vendor on March 13, 2020 due to the COVID-19 outbreak. In January 2021, CalVet signed a letter to trigger contract resumption.

Recommendation. Approve as requested.

ITEMS FOR DISCUSSION

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

Issue 43: Augmentation and Continuation of Resources for the Licensed Physicians and Dentists from Mexico Pilot Program

Request. The Medical Board of California (MBC) is requesting three-year limited term funding of \$242,000 in 2021-22, \$341,000 in 2022-23, and \$275,000 in 2023-24 to align the appropriation for the Licensed Physicians and Dentists from Mexico Pilot Program (Mexico Pilot Program) to match the revised timeline for the program's implementation as required by Chapter 1157, Statutes of 2002 (AB 1045).

Background. The Mexico Pilot Program was designed to bring physicians and dentists from Mexico with rural experience, who speak the language, understand the culture, and know how to apply this knowledge in serving the large Latino communities in rural areas who have limited or no access to primary health care services. Proponents of the measure were concerned about addressing primary care physician and dentist shortages while maintaining a high quality of care.

In 2018-19, the Board received approval for a budget revision that established an initial appropriation of \$110,000 to implement the program, and as of April 2019, MBC began accepting applications for the Mexico Pilot Program. In 2019-20, an approved budget change proposal provided three-year limited term funding and position authority for 1.1 positions to continue the implementation of the program. Through 2019-20, the Board has expended approximately \$132,000 of the original appropriation to review physician and community health center applications and review and evaluate the orientation programs. While the Board received and reviewed physician applications and community health center applications, it was not able to issue licenses due to several statutory requirements that had not been met, such as establishing the six-month externship required under Business and Professions Code (B&P) section 853(c)(4), securing a medical school to conduct the evaluation required under B&P section 853(j), and sufficient philanthropic funding needed to implement the program under B&P section 853(c)(8).

In December 2020, MBC received the required funding commitments necessary for program implementation. MBC reports that it has received and evaluated approximately 29 applications (25 applicants are committed to the program). MBC was ready to start issuing licenses in February 2021 to all of the applicants who had met the requirements and was asked by program representatives to delay the issuance while the applicants prepared their visa applications. The issue of securing visas for participants has been raised as a potential challenge, and is not a unique challenge for non-US residents who are wishing to enter the country at this time.

The spending authority in this request will be from MBC's Special Deposit Fund, which was established to support the program and all funding from donations is deposited into the fund.

Funds to support the program must be appropriated by the Legislature; this request would provide the necessary appropriation to allow the Board to fully implement and oversee the program. This request includes expenditure authority to fund the evaluation contract and estimated staff time associated with overseeing the program. The majority of costs associated with the program, specifically the evaluation to be conducted by a medical school within California, are not anticipated to begin until the fourth quarter of 2020-21 and will run through 2023-24.

Recommendation. Approve as requested.

7502 DEPARTMENT OF TECHNOLOGY (CDT)

Issue 44: CA.gov Resources

Request. CDT requests 10 positions and \$2.3 million General Fund in 2021-22 and 2022-23 to develop the CA.gov web portal and expand the CAWeb team to increase capacity and reduce time required for onboarding partner agency websites into the state’s web portal.

Background. In 2019, the Administration began working on a prototype of the CA.gov web portal as a single website with links to various California government services so that visitors can ultimately visit one website to find any state service. The Administration calls this the “Alpha” site, which serves as a proof of concept for re-imagining how California residents could connect and interact with the state based upon their individual need, organizing content around the needs of the public and offering multiple services from multiple state entities that could all be accessed directly from the CA.gov site. While this effort was paused due to shifting priorities related to the COVID-19 pandemic, Office of Enterprise Technology (OET) and Office of Digital Innovation (ODI) have recently re-initiated their CA.gov collaboration in anticipation of building out a staffing and project plan for the development of the “Beta” CA.gov website.

Legislative Analyst’s Office (LAO). The LAO recommends the Legislature approve this request as proposed. Additionally, to determine whether anticipated improvements to and the promotion of CDT’s offering is increasing the number of websites hosted using CAWeb, the Legislature could adopt provisional budget bill language that requires CDT to set specific targets for the number of state websites to be hosted using CAWeb over the next two fiscal years and update the Legislature on the department’s progress towards those targets. Finally, the LAO recommends the Legislature consider in future budget years whether to require state entities that do not operate complex websites with enterprise-level applications (such as the complex websites of the Department of Motor Vehicles and the Employment Development Department) to use CDT’s CAWeb State Enterprise Web Hosting offering to improve the consistency and ongoing support of state entity websites.

Recommendation. Approve as requested.

Issue 45: Digital Identification

Request. CDT requests two positions and \$1.1 million General Fund in 2021-22 and 2022-23 to develop a Digital Identification (ID) system.

Background. According to this proposal, “the user experience needs to be simplified for California residents by allowing access to state services through a single digital identifier; therefore, eliminating the need to repeatedly prove their identity and manage multiple user IDs to obtain services. Considering there are hundreds of state services, we need to first establish the foundational Digital ID ecosystem and then deploy it to a subset of state services. This initial effort will prove the ecosystem works effectively and is scalable, as well as identify the best path to integrate the Digital ID ecosystem with the many technologies that deliver existing state services today.” In summary, this proposal aims to create a system in which a resident may have one account, or a digital identification, that is able to access the myriad of digital state services that California provides.

With regard to privacy, the proposal states: “The Digital ID ecosystem will be architected to deliver program efficiencies and a seamless user experience for residents accessing government services, while prioritizing user consent and privacy, and ensuring the highest levels of security for the data involved. The ecosystem will be fully compliant with state and federal statutes and policies applicable to the type of resident information collected for purposes of authentication, including but not limited to the Information Practices Act (IPA) and Health Insurance Portability and Accountability Act (HIPAA). Privacy controls include the following:

1. Resident will be required to consent to and designate each service that is authorized to receive personal information provided for the creation of the digital ID.
2. Resident information required for authentication will be program specific and obtained incrementally on an as-needed basis.
3. Resident information will be provided to departments for designated purposes only.
4. Law enforcement will be required to obtain a subpoena, search warrant or other legal process to access the information in the system.
5. Information collected from residents will be customized to the program requirements for authentication.
6. Resident information uploaded for authentication purposes will be deleted after their identity has been confirmed.
7. Security controls will be implemented to match the Impact Level of the information collected. Data will be further protected through encryption and tokenization.”

Legislative Analyst’s Office. The LAO recommends the Legislature reject this request as proposed, without prejudice to the proposal’s policy merits. First, for any state entity to request funding to plan an information technology project through CDT’s Project Approval Lifecycle, the entity must submit a Stage 1 Business Analysis that is approved by CDT to the Legislature upon request. The Stage 1 Business Analysis is still under review by CDT, which means the Legislature does not have the information it needs to fully evaluate the proposal. Second, the proposed trial implementation is too limited, and would not demonstrate how (for example) a

single digital identifier would work for more complex services or services that require a substantial amount of coordination with federal and/or local governments. Third, the proposal raises a number of questions about privacy and security. Based on the LAO's conversations with the administration, CDT intends to involve information security staff in the roadmap planning process and incorporate a number of privacy controls into the single digital identification platform. While it is possible that more information about these and other privacy and security measures is contained in the Stage 1 Business Analysis, the Legislature would benefit from a more deliberative and thorough planning process for digital identification that addresses legislative and stakeholder concerns and questions about the risks and scope of the project.

Staff Comment. More than 150 departments manage several hundred websites for California residents to navigate and access services, which range from reserving camping grounds to filing business documents to accessing health care or filing taxes. Requiring separate log-ins for each public service has been the norm, as it was in the private sector, until the practice of digital identification emerged. These can be seen in the private sector if one visits a website and requests to log-in, and is asked to verify their identity through a Google, Facebook, or other verification account. The concept of digital identification in government is similar in that an individual would have one profile when accessing various services, which could reduce the risk of fraud, improve access to services, and allow residents to have better interactions with its government. The ease of such a system, if set up correctly, is undeniable and an exciting prospect for California's digital services.

However, the Administration has yet to provide sufficient details that would ease concerns around privacy, data security, and costs. The department states that the digital ID system would be piloted in one or two departments, but is still working to identify which departments those would be. The department is still developing how a digital ID system could be structured, and therefore could not provide details on what it may look like scaled up and what potential future cost liabilities could be. The proposal provides privacy controls, but some are not guaranteed without legal or statutory support. And because some of these privacy controls lack authority needed to be enforced, questions about how the Administration would handle sensitive populations, like undocumented individuals, have also fallen short.

The subcommittee may wish to ask the following questions:

- What type of information will the digital ID system store, track, or access? Will any of this information be shared with non-government partners?
- Can you please provide specific examples of how the Administration would mitigate potential security breaches?
- Could the government potentially monetize data it collects through the digital ID system in the future?
- What criteria is the department using to select the initial departments to pilot the digital ID system? What criteria is the department using to decide how to scale up?

- If the Administration decides to impose the digital ID system in the more complex departments, like the Department of Social Services or health care departments, will stakeholder outreach be done before deploying it in these departments, and what would that stakeholder outreach look like?

Recommendation. Hold open.

8940 CALIFORNIA MILITARY DEPARTMENT (CMD)

Issue 46: Consolidated Headquarters Complex

Background. Existing law (Public Contract Code section 10107) exempts CMD as well as a handful of other departments and agencies, from having its projects under the sole charge and direct control of the Department of General Services. The 2017 Budget provided lease revenue bond authority for CMD to begin the design-build phase of the Consolidated Headquarters Complex project in Rancho Cordova, and at the time total project costs were estimated to be \$163.4 million with a project completion date of December 31, 2019. Since then, total project costs are \$171 million, and its contract with Walsh Construction Company, which is headquartered in Chicago and is the contractor for this project, is approximately \$132 million.

On March 19, 2021, the State Fire Marshal (SFM) issued a stop-work order for CMD's Headquarters Complex, citing five areas of deficiencies, including a lack of on-site fire protection. At the release of the Governor's January budget, the estimated move in time was spring of 2021, and as of now, the move in date has been pushed back to 2022. Since the SFM issued its stop-work order, the project has ceased to continue until a resolution can be reached.

Related Requests.

1. January Proposal. Maintenance personnel position authority. CMD requests an increase in position authority of eight positions in 2020-21 and ongoing to be paid for by a portion of the savings generated due to the move from a leased building to the new state-owned Consolidated Headquarters Complex in Rancho Cordova. This proposal also includes the one-time purchase of vehicles, tools, and equipment for the labor activities required to perform maintenance operations at the site.
2. Spring Budget Proposal. Consolidated Headquarters Complex: Elimination of Lease Savings. CMD requests \$1.7 million one-time General Fund to reflect the elimination of lease savings due to completion delays at the new Consolidated Headquarters Complex.

Staff Recommendation. Reject the January proposal providing position authority for maintenance personnel at the new Consolidated Headquarters Complex, and approve the one-time augmentation of \$1.7 million that reflects the elimination of lease savings.

0509 GOVERNOR'S OFFICE OF BUSINESS AND DEVELOPMENT (GO-BIZ)**Issue 47: Support for Underserved Financial Markets**

Proposal. The Senate budget plan includes two investments in underserved financial markets:

- Support for Community Development Financial Institutions (CDFIs) through the establishment of a state CDFI fund and a grant program.
- Funding for the Financial Empowerment Fund to provide grants to non-profit groups serving underbanked and unbanked Californians.

Background. Lack of access to banking and financial services disproportionately affects minority and low-income households and communities. For example, the proportion of unbanked Californians is starkly different across racial groups (Black: 15.2 percent, white: 1.9 percent) and family income levels (<\$15k: 23.9 percent, >\$75k: 0.3 percent)¹. Without access to a bank account, many un- or underbanked Californians turn to predatory check cashing (to cash their federal Economic Impact Payments, for example) or other alternative financial services. They also lack access to the other financial services offered by banks, including mortgages and other loans.

Community Development Financial Institutions (CDFIs).

CDFIs are mission-driven community organizations, separate from government control, dedicated to providing financial products and services to low-income communities underserved by traditional financial markets². CDFIs are certified by the California Department of Insurance and/or the U.S. Treasury³, and include a wide range of organizations offering different financial services. They do not have to be non-profit, although many are. They include both non-depository lenders, focusing on investment in community development projects such as affordable housing, occasionally in return for equity, and depository institutions such as credit unions. Other sectors often served by CDFIs include small business financing, rural communities, and consumers with limited English proficiency. CDFIs typically develop close partnerships within the communities they serve, in order to best meet their needs.

California often uses CDFIs to distribute government support to hard-to-reach communities. For example, California partnered with CDFIs to capitalize the Golden State Acquisition Fund, which provides financing for affordable housing projects⁴. During the COVID-19 pandemic, CDFIs have distributed billions of dollars on behalf of the state for grants and loans to small businesses and non-profits, and for rental assistance⁵. California used to support CDFIs through a tax credit, but that expired at the end of 2016⁶.

CDFIs are facing a lack of capital due to the economic impacts of the COVID-19 pandemic, limiting their ability to promote an equitable recovery. For example, the California Infrastructure

¹ https://www.economicinclusion.gov/five-year/documents/fiveyearestimates.html?where=2015_2019_State_California&Til=

² <http://www.insurance.ca.gov/0250-insurers/0700-coin/20-CDFI-Tax-Credit/>

³ <https://lao.ca.gov/reports/2016/3489/cdfi-tax-credit-063016.pdf>

⁴ <http://www.goldenstate-fund.com/>

⁵ carelifegrant.com, <https://ibank.ca.gov/small-business/california-rebuilding-fund/>, https://housing.ca.gov/covid_rr/partner_resources.html

⁶ <https://lao.ca.gov/reports/2016/3489/cdfi-tax-credit-063016.pdf>

and Economic Development Bank (IBank) has a loan guarantee program for small businesses but has reported that some businesses were unable to utilize it because many lending institutions did not have the capital to extend loans. To address this, IBank recently provided an anchor investment to help create the California Rebuilding Fund, which combines investments from private, philanthropic, and public sector sources to provide loans to small businesses. The terms and eligibility of these loans are set by the state, but they originate and are serviced by CDFIs, who also provide advisory support.

Federal CDFI Support. CDFIs receive support from the U.S. Treasury through the CDFI Fund, which encompasses a number of programs⁷. These include the CDFI Program, which provides financial and technical assistance to CDFIs on a competitive basis, and the Capital Magnet Fund, which provides grants to CDFIs in support of affordable housing development, among other programs. Many of these federal programs require CDFIs to match funds through private capital or other means. There is not a similar program at the state level, which could provide support to CDFIs that are not awarded competitive federal grants and help streamline the state's various programs that support or utilize CDFIs.

Financial Empowerment Fund. The Financial Empowerment Fund (SB 455, Bradford, 2019) was established to help underbanked Californians identify and access low-cost, responsible financial products, establish or improve credit, increase savings, or reduce debt. Non-profits can apply for grants up to \$100,000 to develop and provide free financial education, coaching, and/or products and services⁸. The fund is administered by the Department of Financial Protection and Innovation, which can issue up to \$1 million per year in grants and was seeded with an initial \$4 million investment.

Senate Proposal. The Senate budget proposes the following additional support for underbanked Californians and communities:

- *Establishment of a state CDFI fund:* This proposal would establish the California Investment and Innovation Program, administered by IBank, to enable the distribution of state resources to CDFIs. An initial \$70 million investment could be used to provide grants to CDFIs on a competitive basis, as outlined in SB 625 (Caballero and Limón). Eligible uses of grant funding would include providing loans, grants, equity investments, or technical assistance within low-income communities or for purposes that have a direct and substantial benefit to lower income households, and could be used to match federal funds.
- *Financial Empowerment Fund Investment:* The Senate budget proposal includes a \$10 million investment in the Financial Empowerment Fund to provide grants to non-profit groups serving unbanked and underbanked Californians. The grants can be used to provide free financial education, coaching, and/or services and tools.

⁷ <https://www.cdfifund.gov/>

⁸ <https://dfpi.ca.gov/calmonesmart/>, <https://dfpi.ca.gov/2020/09/21/dbo-awards-nearly-1-million-in-grants-for-financial-education-and-empowerment-programs/>, <https://dfpi.ca.gov/2021/04/06/dfpi-accepting-applications-for-second-round-of-calmonesmart-grants/>

Staff Comment. A large component of the CDFI grant program may be related to affordable housing, which is not something traditionally facilitated through IBank. However, IBank is familiar with CDFIs and their capital challenges, so it may still be the best home for this program.

Staff Recommendation. Hold Open.

Issue 48: Microbusiness Relief Fund

Proposal. The Senate’s budget plan includes additional support for California’s small businesses, including a microgrant program for the smallest businesses that were not able to access other sources of state or federal funding.

Background. More than a year into the COVID-19 pandemic, small business revenue is down 28 percent and 35.7 percent fewer businesses are open compared to pre-pandemic⁹. The need for targeted small business relief has been recognized at both the federal and state level. This has resulted in a variety of relief programs, including the Paycheck Protection Program (PPP) and the Economic Injury Disaster Loans and Advances at the federal level, the Small Business COVID-19 Relief Grant Program at the state level, and local aid such as the LA Regional COVID Fund. These programs varied in terms of eligibility and application details, and the diversity of this sector is reflected in the numerous definitions for “small business” used across these programs.

However, access to these funds has proved challenging for the smallest businesses. While many of these programs aimed for equity and accessibility¹⁰, they also faced pressures to provide near-immediate relief, prevent fraud, and keep administrative costs low. As a result, many of these programs, including the California Small Business COVID-19 Relief Grant Program, had online, English-only applications that required formal documentation such as tax returns, businesses licenses, and certain types of personal identification. Such applications may not be a barrier for a business with hundreds of employees (which qualifies as a small business for PPP), but might be very challenging for a sole proprietor or an informal business. While these programs succeeded in rapidly deploying relief to many businesses in need, certain types of businesses were left out.

In particular, many informal and microbusinesses, which are disproportionately owned by underserved individuals including immigrants, women, and people of color, faced complex challenges accessing relief despite being severely impacted by the pandemic. On a technical level, business owners may have lacked knowledge of aid options or were not able to access and fill out applications that were online and in English. Even if they were able to fill out the application (or get sufficient technical assistance), they may have lacked the required documentation or they may have encountered issues due to their immigration status, especially if they are undocumented and did not already have a federal Individual Taxpayer Identification Number. Micro- and informal businesses are also more likely to have the required documentation organized and accessible.

Non-profits and community-based organizations (CBOs) throughout the state have worked to help these businesses access relief. Many provided technical assistance and outreach, sometimes with

⁹ <https://tracktherecovery.org/>

¹⁰ <https://www.sba.gov/article/2021/feb/22/sba-prioritizes-smallest-small-businesses-paycheck-protection-program>

state or federal financial support. In Los Angeles, a coalition of community organizations raised roughly \$500,000 for the Street Vendor Emergency Fund, to reach vendors who largely did not qualify for other aid. This fund provided \$400 cash grants to roughly 1,200 street vendors¹¹. However, the coalition estimates that there are 50,000 vendors in the Los Angeles region alone.

The Senate's proposed budget includes a statewide Microbusiness Relief Fund, which would include funding for both sidewalk vendors and other cottage industries and informal businesses that have been impacted by the pandemic. Under one proposed structure, GO-Biz would allocate funding to local governments on a competitive basis, who would work in partnership with CBOs to distribute grants of up to \$5k. Eligible businesses would have less than \$50k in annual revenue, and businesses that previously received a CA Relief Grant would not be eligible. Proof of business operation could include city permits or alternative documentation such as attestation letters from CBOs.

Staff Comment.

Distribution of funds across the state. The proposed program structure would rely on a competitive grant process from local cities and counties. However, some local governments, such as Los Angeles, are better prepared to apply and run such a program. The Legislature may wish to consider alternate distribution methods, such as based on population or including a set-aside for rural areas.

Defining the microbusiness sector. It is challenging to define and quantify the microbusiness sector, especially statewide. Allowing local governments flexibility to target specific microbusiness populations will help communities best distribute funds based on local needs.

Outreach. Reaching the targeted businesses will be challenging. Thus, a relatively large portion of the overall funds will likely be needed for administrative costs such as outreach and technical assistance. It may also be necessary to distribute funds over a longer time period, so CBOs have more time to work with businesses.

Staff Recommendation: Hold Open

Issue 49: Live Events Grants and Arts and Culture Investments
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Proposal. The Senate's budget plan includes grants for independent live venues and businesses (such as promoters) that focus on live events. This is part of a larger request from a coalition of arts and culture groups that also includes funding for the California Arts Council, the California Cultural and Historical Endowment, and workforce development and jobs training for creative sector workers.

Background. Live events have largely been cancelled and venues have been completely closed for more than a year due to the COVID-19 pandemic. Revenues for the live events industry

¹¹ https://static1.squarespace.com/static/5cc9edf1af4683c0da44bd62/t/5fdbb8698d12c91f516d4c4f/1608235119322/2020+Annual+Report_FINAL+%28FULL%29-compressed.pdf

declined 63.8 percent during 2020 and aren't projected to recover to pre-pandemic levels until at least 2024¹². Multiple factors contribute to the slow projected recovery, including the time needed to plan live events and tours, and limitations on crowds due to continued public health measures and consumer comfort levels. Currently, 29 percent of American adults said they would feel comfortable attending a concert¹³, with most preferring to wait for widespread vaccination¹⁴. Many venues also have large ongoing costs, and the National Independent Venues Association (NIVA) has estimated that venues in California are losing \$25k to \$250k or more each month.

California is home to hundreds of independent venues, festivals, and promoters. In addition to directly employing thousands of Californians, many live venues are cultural institutions and anchors in their communities, driving traffic to local restaurants and bars. An economic impact study in Chicago estimated that every dollar in ticket sales generated \$12 in total economic impact¹⁵ in the local area.

Federal support. The need for live event specific support has been recognized federally and by a number of other states. At the federal level, \$16 billion was designated for Shuttered Venue Operator Grants. That program is administered by the Small Business Administration (SBA), and the applications are currently open for entities that suffered a 90 percent or greater gross revenue loss between April 2020 through December 2020 due to the COVID-19 pandemic. Eligible applicants can receive grants up to 45 percent of their gross earned revenue, up to \$10 million. \$2 billion is reserved for eligible applications with up to 50 full-time employees. In the first week, SBA reported receiving just over 10,000 applications¹⁶.

Programs in other states. A number of other states, including Maryland, Oregon, Colorado, Wisconsin, Utah, and Montana, have created grant programs for live events and cultural institutions. The largest program was \$50 million in Oregon (which included a single grant of \$4.7 million to the Oregon Shakespeare Festival). The details of these programs vary, but typically set the grant size as a portion of expenses, revenue loss, or annual revenue, up to a maximum grant size ranging from \$75k to \$500k or larger. Eligible entities typically had to demonstrate a significant loss of revenue due to the impacts of the COVID-19 pandemic and related closures.

Proposed Live Venues Grant Program. The proposed program structure would be similar to the non-profit cultural institution grants that were part of the California Small Business COVID-19 Relief Grant Program. As in that program, the Live Venues Grants would be administered by the Office of the Small Business Advocate within GO-Biz. Eligible businesses include entities whose primary business activity is organizing or hosting live events, and who are able to demonstrate a significant revenue loss during the last three quarters of 2020 as compared to 2019, among other criteria. According to industry size estimates from NIVA, a program with grant sizes set to 20 percent of 2019 revenue and capped at \$500,000 would cost \$250 million. A program with grant sizes set to 10 percent of 2019 revenue and capped at \$100,000 would cost \$60 million.

¹² <https://www.pwc.com/gx/en/entertainment-media/outlook-2020/perspectives.pdf>

¹³ <https://morningconsult.com/return-to-entertainment/>

¹⁴ <https://www.reuters.com/article/us-health-coronavirus-usa-events/most-americans-to-avoid-sports-other-live-events-before-coronavirus-vaccine-reuters-ipsos-idUSKCN22A2AK>

¹⁵ <https://loopchicago.com/assets/f4fd1bc1e00/Arts-in-the-Loop-Study.pdf>

¹⁶ <https://www.billboard.com/articles/news/9567342/shuttered-venue-operator-grants-first-week-application-statistics/>

Proposed statewide investment in creative industries. The venues grant program is part of a larger budget request made by a coalition of arts and cultural organizations. The total request is for \$1 billion, split equally among the venue grants and three other areas. The other areas, as outlined by the coalition, are:

- *Community Access to Arts:* Funding for the California Arts Council to expand grants programs and direct relief to artists; cultural districts including a cultural access pass program for arts access for all; arts education, creative youth development, arts and veterans, public art, nonprofit sustainability and capacity building including increased costs for AB 5 compliance.
- *Workforce Development and Infrastructure Investments:* Funding for workforce development and jobs training programs to employ creative workers in their communities including infrastructure projects, and to provide training and support to new creative workers in the creative industries with contracts and living wages (See SB 628 (Allen)). This bucket of funds could also explore affordable housing opportunities for arts workers and artists.
- *Support for Museums and Cultural Institutions:* Funding for the California Cultural and Historical Endowment to be distributed competitively to government entities, non-profit organizations, and Tribal Organizations for the acquisition, restoration, preservation, and interpretation of California's historical, cultural, and natural resources. Of this amount, \$50 million will go to the Museum Grant Program for capital projects or programs that support and enhance museums services and serve historically underserved communities and/or students subject to Title 1 of the Federal Elementary and Secondary Education Act.

Staff Comments.

Overlapping eligibility with CA Relief Grant. The proposed grant structure would prioritize venues who did not receive relief through the California Small Business COVID-19 Relief Grant Program. However, the maximum grant size for that program was \$25k, which would likely be smaller than this program. The Legislature may want to consider how the receipt of previous relief should be taken into account.

Coordination with Shuttered Venues Operator Grants (SVOG). The federal SVOG program recently opened, and many businesses just completed their applications. Aligning the state guidelines and application requirements with that program as much as possible would ease the application process.

Support for museums and other cultural institutions. SVOG is available to institutions like museums and zoos in some cases. The proposed arts and culture investment provides museum support through a different mechanism, but the Legislature may wish to clarify this.

Potential exclusions. The venue grant structure proposed by stakeholders would exclude venues owned or controlled by publicly traded companies or by larger, multi-state entities. However, many of their venues are small, and they have also experienced significant revenue declines due

to the pandemic. The Legislature should consider whether to include these venues, and if so, how to ensure the funds are directed towards the venues themselves.

Staff Recommendation: Hold Open

Issue 50: Tourism Recovery Campaign

Proposal. The Senate's budget plan includes \$45 million for Visit California to support a local and national marketing campaign.

Background. The tourism industry has been severely impacted by the health and safety restrictions resulting from the COVID-19 pandemic. Visitor spending in California declined 54.5 percent, from \$145 billion to \$65 billion, and is not expected to fully recover until 2024¹⁷. Over 500,000 leisure and hospitality workers have lost their jobs¹⁸. This also puts a strain on local governments, as state and local tourism-related hotel and sales taxes declined from \$12.2 billion in 2019 to \$5.9 billion last year.

Visit California was established by the California Tourism and Marketing Act (1995) as a nonprofit mutual benefit corporation to promote travel to and within California. It is under the direction of a board of commissioners composed of 37 members, including industry representatives and the Director of the GO-Biz. According to Visit California, their programs delivered \$14.8 billion of revenue to the state's economy in 2019. However, Visit California is funded by private businesses through a self-imposed assessment, which means the closure of the state's tourism industry immediately and dramatically reduced Visit California's revenue. These shortfalls resulted in Visit California cancelling existing marketing programs and closing all 14 international offices, in addition to reducing staff by more than 50 percent.

California has invested in Visit California previously, and other states are considering investments in their corresponding organizations. After September 11, 2001, California made a one-time investment of \$8.3 million in Visit California for a marketing campaign to encourage people to travel. According to Visit California, that campaign drove an additional \$3.2 billion of visitor spending and generated \$10.6 million in tax revenue. In response to the COVID-19 pandemic, other states have made investments in tourism. Florida is using federal funds to increase its support for Visit Florida from \$50 to \$75 million¹⁹, New York included \$15 million for tourism marketing projects²⁰, and New Mexico has proposed \$25 million in tourism support²¹.

The Senate budget plan includes a proposal based on SB 285 (McGuire), which allocates \$45 million in one-time funding to Visit California to support a local, regional, and national marketing campaign encouraging travel to and within California. Visit California stated that such an investment would deliver \$10.3 billion in revenue to California businesses and \$865 million in

¹⁷ <https://industry.visitcalifornia.com/research/travel-forecast>

¹⁸ <https://www.sfchronicle.com/travel/article/Pandemic-cost-California-more-than-500-000-15960937.php>

¹⁹ <https://www.orlandosentinel.com/politics/os-ne-florida-budget-talks-federal-money-20210426-qux3hz6t65c7dnvkdmdgxppx4m-story.html>

²⁰ <https://www.governor.ny.gov/fy-2022-new-york-state-budget/fy-2022-enacted-budget-highlights>

²¹ <https://www.nmdfa.state.nm.us/wp-content/uploads/2021/01/FY22-Executive-Budget-Recommendation.pdf>

additional state and local tax revenue (\$19 for each \$1 invested), based on a report by SMARI Marketing Insights

Staff Recommendation: Hold Open.

Issue 51: Worker-Ownership Transition Support

Proposal. The proposal is to establish the California Worker-Owned Small Business Credit Support and Grant Incentives Fund at GO-Biz, in order to support transitions to worker-ownership business models. Funding would be allocated for outreach and education, loan guarantees through IBank, grants to cover conversion costs such as feasibility studies, technical assistance and business development, and administrative costs.

Background. Almost half of privately held businesses in the United States are owned by baby boomers, and over 85 percent of them do not have a succession plan in place for when they retire²². If businesses owners have difficulties finding a buyer, they may turn to a larger chain or non-local buyer to take over. Transitioning to worker-ownership models could help these businesses stay open and independent. In addition, worker-owned businesses provide high quality jobs that help employees build wealth²³ and have been more resilient throughout the COVID-19 pandemic²⁴.

Worker-owned businesses can be structured in a few ways. These include worker cooperatives, where the employees directly own the company, Employee Stock Ownership Plans (ESOPs), where retirement plans own all or part of a company on behalf of the employees, or Employee Ownership Trusts. According to the Worker-Owned Recovery California (WORC) Coalition, there are around 100 worker cooperatives and 800 ESOPs in California. These are businesses that span an array of industries, including retail, engineering, manufacturing, child care, administrative or professional services and home care.

Business owners looking to sell do not always consider transitioning to a worker-ownership model. A number of states, including Vermont, Massachusetts, Colorado, Iowa and Missouri, encourage worker-ownership through state funded offices or centers, outreach and education campaigns, and/or financial incentives such as reimbursement of feasibility studies and tax breaks when selling stock to an ESOP. Many cities in California and across the country also have employee-ownership initiatives.

This proposal would establish the California Worker-Owned Small Business Credit Support and Grant Incentives Fund at IBank to assist qualified small businesses in transitioning to worker-ownership models. Funding would be used for outreach and education, IBank loan guarantees specifically for conversion to worker-owned entities, grants to cover conversion costs such as feasibility studies, technical assistance and business development, and administrative costs for the state.

²² <https://project-equity.org/communities/small-business-closure-crisis/>

²³ <https://project-equity.org/wp-content/uploads/2020/05/The-Case-For-Employee-Ownership-Executive-Summary-2019-Project-Equity.pdf>

²⁴ <https://employeeownershipfoundation.org/research/employee-owned-firms-excel-at-employee-retention-during-pandemic>

A proposed funding structure includes a one-time allocation of \$36.5 million for this fund, distributed as follows:

- \$1,500,000 for worker-ownership outreach and education.
- \$24,500,000 for loan guarantees through IBank.
- \$3,500,000 for grant incentives through GO-Biz and/or a partner financial institution.
- \$3,500,000 for a targeted business pipeline development and technical assistance program at GO-Biz.
- No more than \$3,500,000 for administrative costs.

Staff Recommendation: Hold Open.

7730 FRANCHISE TAX BOARD (FTB)

Issue 52: Enterprise Data to Revenue Project, Phase 2

Governor's Budget. The Governor's budget included an augmentation of \$55.6 million General Fund and 22.0 permanent positions, one permanent-intermittent position, and 13.0 limited-term positions in 2021-22 to begin the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan.

Additionally, a Spring Finance Letter requests an augmentation of \$32.8 million General Fund and one permanent position to begin the EDR2 project.

Background. The EDR2 project represents phase 2 of an enterprise-wide TSM effort to align FTB's IT infrastructure with its strategic business plan. The project will move FTB's siloed compliance systems onto an enterprise CM platform (infrastructure implemented in phase 1 of the EDR project). According to FTB, the transition will improve efficiency, provide a better taxpayer experience and increase revenue.

The EDR2 project will support replacement of two legacy systems that are near end-of-life: Accounts Receivable Collection System (ARCS) and Professional Audit Support System (PASS). In addition to taking steps to address the tax gap.

This step will provide technology to more effectively manage the tax gap by transitioning the Audit, Legal, Filing Enforcement (FE) and Underpayment SOWs to FTB's enterprise platform and implementing new Audit, FE, and Underpayment strategies that will identify new revenue streams. The systems being replaced are 20 years of age or older.

The EDR2 project follows the California Department of Technology's (CDT) Project Approval Lifecycle Process. The most recent document approved for the EDR2 project was the Stage 3 Solution Development (S3SD). The S3SD was approved August 15, 2019 and included the department's final Compensation Model and Detailed Solution Requirements. The final document

is the Stage 4 Project Readiness and Approval. This document is scheduled to be completed during spring of 2021 and will include the EDR2 vendor selection and project approval.

This request also includes the following annual provisional language to allow for any funding not used to carry over to the next fiscal year.

Of the funds appropriated in this item, any unused amount is allowed as one-time carryover funds to the subsequent fiscal year to support the vendor payment due to the solution provider for services performed and subject to Payment.

LAO Comments.

New Positions Appear Justified. FTB is requesting a total of 37 new limited-term and permanent positions to help implement EDR2. These positions would supplement roughly 160 staff redirected internally in support of the project. The positions cover a myriad of functions within the department. Some of these, such as a limited-term internal audit position, are very clearly and explicitly related to overseeing the project directly. Others, such as the total of 14 new positions related to training and documentation, are less directly related. However, FTB has provided justification for all of the new positions that it has requested. For example, following the completion of the EDR project, the department identified that there was a significant need for increased resources across the organization for training and documentation related to the case management and modeling system. The expected expansion of staff to support EDR2 also justifies an increase in finance and administrative services positions.

Novel Contingency Planning Strategy. The EDR2 contract has a contingency clause that is common for complex and costly state government IT projects and is consistent with CDT guidance. According to FTB, funds for unanticipated costs will be budgeted each year as a percentage of total vendor payments. If these funds go unused, they will roll over to subsequent fiscal years. The proposed provisional language, however, would allow for an additional appropriation of up to five percent of the vendor payments in each fiscal year. FTB does not expect to use this language in 2021-22. It is unclear whether this provisional language is necessary. Alternatively, the Legislature could either provide more flexibility to the department by appropriating funds to FTB to hold in reserve for a contingency fund or provide less flexibility by requiring the department to submit a budget change proposal in the event of significant unanticipated costs.

Vendor Compensation Includes Complicated Benefits- and Performance-Based Components. Quarterly payments to the vendor are calculated based in part on the completed deliverables and in part on the revenue benefits to the state. The benefits of the project are measured quarterly, are likely to initially be small, but are expected to grow over the life of the project. In addition, FTB withholds ten percent of the payment to ensure that the deliverables function as intended. The provisional language FTB has requested provides additional flexibility in the timing of the payments as required by the benefits- and performance-based structure of the contract.

Recommendation: Approve as budgeted.