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PART A
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VOTE-ONLY CALENDAR

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

Issue 1: Repayment of All Outstanding General Fund Loans

Governor's Budget. The Governor proposes trailer bill language to repay all outstanding General Fund transportation loans, no later than June 30, 2020. This includes:

- \$236 million (this amount is already planned to be repaid in 2019-20, but under the Administration's proposal would not count as part of Proposition 2.)
- \$873 million in loaned weight fees would be repaid in 2019-20 instead of in 2020-21 as required by current statute.

Under the Administration's proposal, the remaining \$236 million of the Traffic Congestion Relief Fund (TCRF) loan will be repaid in 2019-20 and will not be included as Proposition 2 payments. The Administration has proposed satisfying the Proposition 2 requirement from three sources: 1) State Retirement Health, 2) State Employee Pensions, and 3) Teacher's Pensions. The Administration proposed to repay all other outstanding General Fund loans from special funds and transportation accounts outside of the Proposition 2 requirements. This amount includes the \$236 million TCRF repayment. If this request is not approved, the \$236 million would be part of the Proposition 2 requirement and one of the three retirement liabilities would have to make up the difference.

The Department of Finance estimates that there will be \$873 million in previously loaned weight fees that need to be repaid as of the end of 2018-19. This language would repay the entire amount in 2019-20, instead of waiting until 2020-21. Under current law absent the requested trailer bill, the Administration estimates the General Fund payment to be about \$388 million in 2019-20 and \$484 million (the remainder of the weight fee loan amount) in 2020-21 regardless of how much debt service is eligible for offset.

This item was first heard in Budget Subcommittee No. 2 on April 11, 2019.

Staff Recommendation: Approve as Proposed.

Issue 2: Office of the Inspector General (OIG) Trailer Bill Language

Governor's Budget. The Administration has proposed trailer bill language to provide confidentiality protections to individuals who communicate with the Department's Independent Office of Audits and Investigations.

The proposed language gives Caltrans' Inspector General (IG), as the director of the Audits and Investigations Office, access and authority to examine all records, files, documents, accounts, reports, correspondence, or other property of the department and external entities that receive state and federal transportation funds from the department. In addition, any information obtained by the IG may be kept confidential and disclosure would not be required under the California Public Records Act. The language also provides that not complying with providing information to the IG is a misdemeanor.

There is merit in the Administration's proposal. However, the proposed trailer bill language regarding what is disclosed in under the California Public Records Act goes beyond the authority that the California State Auditor has and it is unclear why the Inspector General would need this additional authority. Language with a more limited scope is more appropriate.

This item was first heard in Budget Subcommittee No. 2 on May 9, 2019.

Staff Recommendation: Approve Placeholder Trailer Bill Language.

Issue 3: Project Delivery Workload

Governor's Proposal. The budget requests a net increase of \$8.8 million and 48 Full Time Equivalents (FTEs) for the Capital Outlay Support Program from the 2019-20 Governor's Proposed Budget. This results in a total request of \$1.9 billion in 2019-20 to support 10,354 positions, including 1,032 contracted positions.

The resources requested here are broadly reasonable and in-line with expected transportation funding while remaining consistent with past policies on the use of contracted positions.

This item was first heard in Budget Subcommittee No. 2 on May 9, 2019.

Staff Recommendation: Approve as Budgeted.

2665 HIGH-SPEED RAIL AUTHORITY

Issue 4: Contract Management & Financial Office Resources

Governor's Budget. The budget requests 35 permanent positions and \$4.5 million (Proposition 1A) to shift certain administrative and contract management responsibilities from its Rail Delivery Partner to state staffing resources.

A recent report by the State Auditor identified areas where HSRA's reliance on contractors for contract management and other administrative functions has contributed to problems with control of costs and performance of contractors. The Accounting and Budget Branch play a key role in contract management, among their other state and federal mandated requirements, such as managing the allocation of funds to execute contracts and processing payments. The branches also assist with monitoring balances and available cash to provide timely information to management for decision-making. As such, this request is consistent with the goal of bringing more expertise in-house at HSRA, and is an appropriate first step towards more fully developing HSRA's administrative functions.

The Authority has indicated that this, combined with other recent budget requests, will cause HSRA to reach the administrative funding cap in Proposition 1A in 2020-21. As such, the Legislature should expect a request to raise the cap in the 2020-21 budget.

This request was first heard in Budget Subcommittee No. 2 on May 9, 2019.

Staff Recommendation: Approve as Budgeted.

2720 CALIFORNIA HIGHWAY PATROL (CHP)

Issue 5: Organized Retail Crime Task Force (AB 1065)

Governor's Proposal. The budget requests \$5.8 million General Fund in 2019-20 and 2020-21 to fund 16 positions and associated costs, to comply with the requirements of AB 1065 (Jones-Sawyer), Chapter 803, Statutes of 2018.

The Administration also proposes trailer bill language to extend the program's sunset date by six months to July 1, 2021.

The Administration's proposal would create three regional task forces at CHP, each consisting of four officers, to support local law enforcement in their efforts to combat organized retail crime. While this meets the stated intent of the original bill, it represents a significant increase in CHP's usual involvement in local law enforcement issues. A more limited statewide coordinating structure is more appropriate to CHP's traditional role.

This item was first heard in Budget Subcommittee No. 2 on April 11, 2019.

Staff Recommendation: Approve four positions and \$705,000 per year for two years for the organized retail crime task force. Approve the requested trailer bill language as proposed.

3360 CALIFORNIA ENERGY COMMISSION

Issue 6: Energy Resources Program Account Deficit Reduction

Governor's Proposal. The budget requests a series of actions to reduce the Energy Resources Programs Account (ERPA) structural deficit. The result of these actions is an \$8.468 million reduction to the ERPA structural deficit in 2019-20, a \$9.442 million reduction in 2020-21, and a \$10.468 million reduction in 2021-22.

These actions will reduce ERPA expenditures by roughly \$8.5 million in 2019-20. This is an important step, but is not sufficient to fully salvage the fund. If these actions are taken, the Administration's forecasts predict the fund will still exhaust its reserves by 2022-23. While the Commission has raised the surcharge to its statutory cap, there are additional options for addressing the structural deficit. These include further reductions in program expenditures, extending the surcharge to "behind-the-meter" electricity consumption, and raising the administrative funding cap for the EPIC program to allow EPIC funding to cover administrative activities currently funded by ERPA.

This proposal was first heard in Budget Subcommittee No. 2 on April 25, 2019.

Staff Recommendation: Approve as Budgeted. Approve placeholder supplemental reporting language requiring CEC to report on their plan to fully close the ERPA gap as part of the 2020-21 budget, and to report on the feasibility of extending the surcharge behind the meter.

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION**Issue 7: Strengthen Administrative Core**

Governor's Proposal. The budget requests eight new permanent positions, limited-term funding for three positions, and \$1,448,000 from various funds to strengthen the administrative core, which supports the PUC Budget Office; Accounting Office; Non-IT Contracts and Procurement Office; Business Services Office; and Public Records Act (PRA) response team.

It is reasonable to believe that the PUC's administrative functions have been understaffed for several years, particularly given the increase in the scope and complexity of the Commission's workload. However, while the Commission has indicated that much of the current unmet workload is absorbed within staff overtime, quantifying this workload has proven difficult. Absent this workload data it is difficult to fully justify this request.

This item was first heard in Budget Subcommittee No. 2 on March 28, 2019.

Staff Recommendation: Approve six new permanent positions, three limited term positions, and \$1.2 million from various funds.

Issue 8: Administrative Services Staff Complement - IT Positions

Governor's Proposal. The budget requests five positions and \$706,000 various special funds to provide Information Technology (IT) support for 91 permanent and 33.5 limited-term positions proposed by PUC and the Public Advocates Office (PAG) in the 2019-20 Governor's Budget and recently enacted bills.

This request is generally reasonable given the additional workload required by the cited bills, and the fact that earlier requests related to those bills did not include the required IT overhead resources. The PUC has indicated that future legislatively driven budget requests will include all necessary overhead, negating the need for a separate budget request for overhead resources.

This item was first heard in Budget Subcommittee No. 2 on April 25, 2019.

Staff Recommendation: Approve as Budgeted.

Issue 9: Balancing Accounts and Audit Positions

Governor's Proposal. The budget requests seven permanent positions for the Utility Audit, Finance, and Compliance Branch (UAFCB) and \$830,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA, Fund 0462) to address the PUC's statutory requirements for the conduct of audits. This request includes trailer bill language to further amend section 792.5 to allow reviews or audits of balancing accounts.

The PUC's Audit Branch received budget authority for seven limited term positions for 2015-16, which were made permanent in 2018-19. Although PUC has made gains in the last two years in increasing its production of audits, it is reasonable to believe that the PUC requires additional

resources to meet the workload presented by the statutory requirements for the PUC to conduct regulatory audits of the utilities and balancing accounts.

This item was first heard in Budget Subcommittee No. 2 on April 25, 2019.

Staff Recommendation: Approve as Budgeted. Approve the requested trailer bill language.

Issue 10: Decentralization - Sacramento and Los Angeles Office Space

Governor's Proposal. The budget requests \$2.4 million in various special funds (Distributed Administration) for additional office space and relocation costs. Of this amount \$1.6 million is ongoing and \$860,000 will be one-time costs for office relocation costs.

The PUC has indicated that this is the first phase of a broader decentralization plan. The second phase will concentrate on filling new and vacant positions in the Administrative Law Judge (ALJ) and Legal Divisions in Sacramento and Los Angeles. This will promote public participation in Commission events such as hearings, proceedings, and public participation meetings. In addition, the CPUC will be opening a small office in San Diego for technical program staff to meet industry needs.

This request is generally reasonable, and represents a good first step towards expanding PUC operations statewide.

Staff Recommendation: Approve as Budgeted.

Issue 11: PUC Response to Utility Bankruptcy

Governor's Proposal. The budget requests \$28,000,000 from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) for a legal services contract. This proposal requests that the funds be available for encumbrance until June 20, 2022 and available for liquidation through June 30, 2024.

This request is broadly reasonable given the expected length of the bankruptcy proceeding and the cost of the related counsel. In the April 25th hearing the PUC committed to providing an explanation of how the requested counsel would, or would not, coordinate with other entities contracted to work with the state on wildfire, utility liability, or utility bankruptcy issues. PUC has since provided documentation on this issue, and it will likely be discussed in the Senate Select Committee on Governor's 2019 Report: Wildfires and Climate Change - California's Energy Future.

This item was first heard in Budget Subcommittee No. 2 on April 25, 2019.

Staff Recommendation: Approve as Budgeted.

ISSUES FOR DISCUSSION

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

Issue 12: LifeLine Program

Governor's Proposal. The May Revision estimate includes and update to the California LifeLine projections. The PUC estimates the combined State Operations and Local Assistance current year expenditures to be \$384,876,000 and budget year expenditures to be \$454,015,000.

Background. The Moore Universal Telephone Service Act of 1984 set the goal of providing high quality telephone service at affordable rates to eligible low-income households. The act requires the PUC to annually designate a class of lifeline service necessary to meet minimum residential communications needs, develop eligibility criteria (currently 150 percent of the federal poverty level or participation in a variety of existing public assistance programs), and set rates for services, which are required to be not more than 50 percent of the rate for basic telephone service. Over the years, the definition of a "basic service," that originally included only traditional wireline (landline) service, has been considered in the broader context of new technologies and trends towards voice, video, and data services.

The program is funded by a surcharge assessed against intrastate charges on end-users of all telephone corporations and connected Voice over Internet Protocol (VOIP) service providers in California. These charges are estimated to provide a revenue base for the program of roughly \$428 million in 2019-20.

Staff Comments. The initial November Estimate projects 2019-20 program costs to be \$362.2 million (\$23 million for State Operations and \$339.1 million for Local Assistance). The revised estimate is \$454 million (\$27.9 million for State Operations and \$426.1 million for Local Assistance), an overall increase of \$91.9 million or 25.4 percent compared to the initial November estimates.

The PUC has indicated that the projected increase in Local Assistance expenditures is primarily due to pilot costs that will explore potential redesign of California LifeLine through partnerships with government (state and local) agencies, non-profit organizations, and facilities-based communications service providers. On April 25, 2019, the Commission approved two pilots to increase participation which is estimated at \$56 million for 2019-20. These changes resulted in an increase of \$67 million or 20 percent from the 2018 Budget Act Appropriation.

The revised estimate is \$27.9 million for State Operations, an increase of 21.2 percent or approximately \$4.9 million (rounded from \$4,883,000) compared to the November estimate of \$23 million. The increase is primarily due to the costs to conduct outreach for the pilot programs specifically a recently approved pilot that will allow California Alternate Rates for Energy (CARE) program to participate in California Lifeline. Customers are eligible for CARE through income based or if they are enrolled in public assistance programs similar to public assistance programs under California LifeLine. The Commission authorized the energy companies administering CARE to share their participants' information with California LifeLine. For this pilot program, the Commission will use this information to conduct outreach to CARE participants and inform them about the Boost pilot and the California LifeLine Program. This outreach campaign will include general information about the program, as well as information about the pilot. The possible outreach channels include

mailing/receiving printed materials, sending/receiving emails and text messages, making/receiving phone calls, and developing a website.

Staff Recommendation: Approve as Budgeted.

Issue 13: Wildfires and Climate Change – California’s Energy Future

Governor’s Budget. The budget requests 16 positions and \$41.0 million (\$38.0 million in one-time contract authority) in 2019-20, \$3.0 million in 2020-21 and 2020-22, and \$2.9 million on-going to support permanent staff from the Public Utilities Commission Utilities Reimbursement Account to begin the implementation of a five-part action plan aimed at preventing and responding to catastrophic wildfires as laid out in the Wildfires and Climate Change: California's Energy Future Report Released on April 12, 2019.

Background. Early in 2019, the Administration created a strike force team was created to develop a comprehensive strategy, within 60 days, to address the destabilizing effect of catastrophic wildfires on the state's electric utilities. On April 12, 2019, the report of the strike force team. Wildfires and Climate Change: California's Energy Future, was released. This report establishes steps the state should take to reduce the incidence and severity of wildfires, renew the commitment to clean energy, outlines actions to hold the state's utilities accountable and recommended changes to stabilize California's utilities to meet the energy needs of customers and the economy. This report was split into five sections, each including recommendations for strengthening or streamlining the PUC. These include:

- Part 1: Catastrophic Wildfire Prevention and Response
- Part 2: Mitigating Climate Change through Clean Energy Policies
- Part 3: Fair Allocation of Catastrophic Wildfire Damages
- Part 4: A More Effective CPUC with the Tools to Manage a Changing Utility Market
- Part 5: Holding PG&E Accountable & Building a Utility that Prioritizes Safety

The CPUC has broad powers to regulate investor-owned utilities (IOU's) and ensure that safety is the top priority for the state. SB 901 (Dodd), Chapter 623, Statutes of 2018, requires CPUC to review and approve wildfire mitigation plans (WMP) that are to be submitted to the CPUC annually. The current law requires the CPUC to approve WMPs within three months with consideration given to costs, establishment of memo accounts, and the review for reasonableness of these costs in the memo accounts.

In addition, the bill also requires the CPUC to retrospectively determine the maximum amount the IOU's could pay without harming ratepayers and maintaining adequate and safe services, and to review catastrophic wildfire ratepayer protection financing to allow for cost recovery if the costs and expenses are "just and reasonable," determine fixed recovery charges, and issuance for recovery bonds. A budget change proposal was submitted to the Legislature requesting 34 positions to perform the work outlined in SB 901. These positions focused on WMP reviews to assess public safety. The SB 901 requests were first heard in Budget Subcommittee No. 2 on March 28, 2019.

Staff Comments. This request includes 16 positions (and \$3 million in supporting funding) for enforcement activities related to SB 901, and \$38 million in contract authority. This includes:

- \$25 million to contract with third parties to ensure IOU compliance with SB 901 safety requirements.
- \$13 million to develop a long-term plan for improving PUC’s regulation of utilities and their wildfire response. This plan would include:
 - A 10-year strategic vision for dealing with utility-related wildfires, and a road map to get there;

- A model or framework for consistent reviews of utility Wildfire Mitigation Plans; and
- An identification of additional gaps in PUC policies or authorities, and proposals for closing them.

The requested positions and funding would specifically address the report findings from Part 1 (Catastrophic Wildfire Prevention and Response) and Part 4 (A More Effective CPUC with the Tools to Manage a Changing Utility Market). The PUC has indicated that address parts two, three, and five will require further analysis of the workload related to SB 901 and the PG&E bankruptcy proceedings that are already underway.

Overall staff recognizes the utility of this request, but has concerns with the structure of the contracts. Specifically, the PUC does not have a good estimate of what these contracts should actually cost; hiring the enforcement contractors seems to invert the process outlined in SB 901, which requires PUC to develop a list of qualified contractors for IOUs to work with on enforcement issues; and the development of a WMP framework, while valuable, could delay effective oversight and would seem to potentially undercut the role of the PAO and intervenors in future PUC proceedings if implemented incorrectly.

LAO Comments. The May Revision includes \$41 million (Public Utilities Commission Utility Reimbursement Account and Reimbursements) for activities to reduce the risk of utility started wildfires. This includes \$25 million one-time contracting resources to hire a “swat team” of investigators to monitor and enforce utility Wildfire Mitigation Plans (WMPs), \$13 million one-time contracting resources to help CPUC develop a strategy and expertise needed to effectively oversee WMPs, and \$3 million ongoing for additional staff to help oversee utility power shutoffs and reform internal CPUC processes. In concept, the LAO thinks these activities have merit as part of the state’s overall approach to reducing wildfire risk. However, there is no clear implementation plan for WMP enforcement activities or estimates of the outcomes that CPUC expects the swat team to accomplish. In addition, it is unclear how CPUC will use its experience with using the swat team to inform its long-term WMP enforcement strategy.

The LAO recommends the Legislature adopt Supplemental Report Language requiring the CPUC to report, by April 1, 2020, on how much contract funding for enforcement it has spent, what outcomes it has achieved, and how the experience will be used to inform the development of ongoing WMP enforcement. This would enhance legislative oversight of WMP implementation and potentially inform future policy changes to improve WMP enforcement.

Staff Recommendation. Hold Open.