Senate Budget and Fiscal Review

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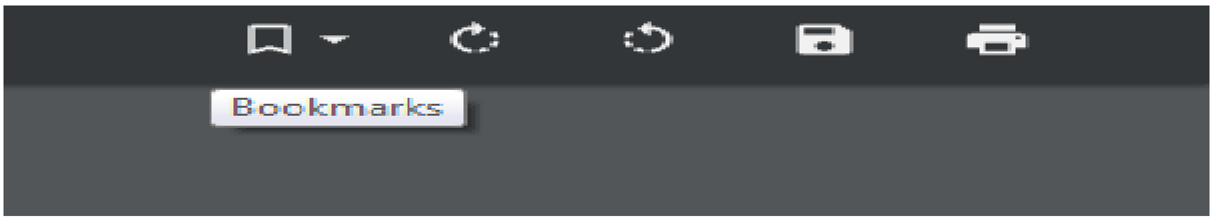

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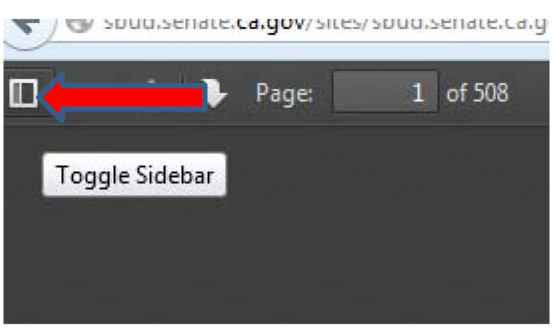

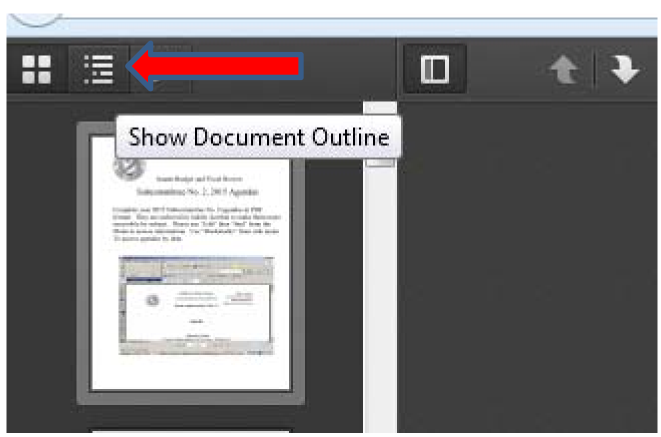

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Sydney Kamlager
Senator Jim Nielsen

Wednesday, February 2, 2022
1:30 p.m.
State Capitol - Room 2040

Consultant: Elisa Wynne

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

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ITEMS FOR VOTE ONLY

0870 OFFICE OF TAX APPEALS

Issue 1: Additional Staffing Resources

Request. The Governor's budget requests $2,796,000 ongoing General Fund and permanent position authority for the following 15 additional positions: Three Administrative Law Judge III, one Attorney V, one Tax Counsel IV, one Tax Counsel III, one Program Specialist III, one Business Taxes Specialist III, two Associate Governmental Program Analyst, two Staff Services Analysts, one Office Technician (General), one Information Technology Associate, and one Audio-Visual Specialist (Technical) at the Office of Tax Appeals (OTA).

Background. The OTA is responsible for hearing and deciding tax appeals arising from taxpayer disputes of actions taken by the Franchise Tax Board (FTB) and the California Department of Tax and Fee Administration (CDTFA). Since it was established, OTA has experienced an increase in appeals, most recently an approximately 40 percent increase in new Franchise and Income Tax (FIT) appeal filings, due in part to collaborative efforts of FTB and OTA to simplify the appeals process for taxpayers. Among several changes driving the increase, FTB this year began mailing out OTA appeal forms and instructions to FIT taxpayers when it sends out its decisions on cases that may be appealed to OTA.

Several positions from the Legal and Case Management divisions were redirected to staff-up the Administration Division when OTA's 2020-21 BCP was denied due to state fiscal constraints resulting from COVID-19. Due to this redirection and additional workload, current staffing levels in these divisions are not sufficient to address ongoing responsibilities. With internal processes more fully developed and workload data more defined, it is apparent that to adequately address its statutory requirements, OTA requires additional resources for the 2022-23 budget year. The requested resources will allow OTA to fulfill its mission of providing an objective and expert forum for tax appeals.

Staff Recommendation. Approve as requested.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 2: Centralized Revenue Opportunity System (CROS) Maintenance and Operations

Request. The Governor's budget requests $14.4 million in 2022-23 from a variety of fund sources for the Centralized Revenue Opportunity System (CROS) at CDTFA. Of this, $10.6 million is for maintenance and operations, $2.6 million is for final release of revenue-based compensation, and $1.2 million is for operating expenses and equipment.

Background. The CDTFA administers California's sales and use, fuel, tobacco, alcohol, and cannabis taxes, as well as a variety of other taxes and fees that fund specific state programs.

The CROS Project (Feasibility Study Report Project 0860-094) is an information technology modernization effort that has enabled 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.

CROS 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. On August 30, 2016, the CDTFA completed the CROS Project's Procurement Phase and signed an agreement with FAST Enterprises Inc. (FAST) to implement its commercial off-the-shelf software solution, GenTax, as the CROS Solution. GenTax 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 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 included all remaining the CDTFA tax programs and was implemented on November 9, 2020.

The CDTFA requests $14.4 million for OE&E. This includes $13.2 million for FAST compensation as follows:

- $10.6 million for maintenance and operations costs (funds the 2022-23 costs of the maintenance and operations contract and the software licensing contract)
- $2.6 million release of withhold, which is the final 3 percent of the 10 percent withhold (the withhold is revenue-based compensation)

The CDTFA also requests $1.2 million for hardware, software, and training resources needed to support CROS operations. Training resources are needed to provide technical training for staff to ensure they gain key skills in new technologies to support CROS.

Staff Recommendation. Approve as requested.

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 3: Debt Collection - Identity Theft Workload (AB 430)

Request. The Governor's budget requests an increase in expenditure authority of $596,000 Financial Protection Fund in fiscal year 2022-23 and $558,000 in 2023-24 and ongoing, and 3.0 permanent positions for the Department of Financial Protection and Innovation to implement the provisions of Chapter 265, Statutes of 2021 (AB 430).

Background. Debt collection practices and abuses in California are covered under Chapter 157, Statutes of 2020 (AB 1864), the California Consumer Financial Protection Law (CCFPL), and Chapter 163, Statutes of 2020 (SB 908), the Debt Collection Licensing Act (DCLA). The DCLA provides for the licensure, regulation, and oversight of California debt collectors by the Department. Both measures passed and were signed into law in 2020. The CCFPL took effect on January 1, 2021, but the DCLA did not take effect until January 1, 2022. The DCLA allows debt collectors to apply for a license before January 1, 2022, and to operate pending the Commissioner's approval or denial of the application. The Department began accepting applications on September 1, 2021.

Prior to collecting the debt, a debt collector must review the alleged fraudulent debt and determine if the debt is fraudulent or if the debtor has submitted a false identity theft claim. AB 430 modifies the identity theft documentation a consumer can provide to a debt collector under the Rosenthal Fair Debt Collection Practices Act, the identity theft law, and the Penal Code, to allow a copy of the Federal Trade Commission (FTC) identity theft report signed under penalty of perjury to be accepted in place of the police report required under current law.

The Department anticipates that AB 430 will:

- Expand the current debt collector examination to include the requirements of AB 430 and cause an increase in the hours needed to complete examinations,
- Drive an increase in complaints to the Department's Consumer Services Office, and
- Drive an increase in complaints by consumers claiming identity theft, which will lead to investigations, enforcement actions, penalties, and suspension or revocation of licenses.

Staff Recommendation. Approve as requested.

Issue 4: Financial Abuse of Elders or Dependent Adults Workload

Request. The Governor's budget requests two positions and an increase in expenditure authority of $531,000 Financial Protection Fund in fiscal year 2022-23, and $470,000 in 2023-24 and ongoing, for the Department of Financial Protection and Innovation to address increased workload related to mandatory reports of known or suspected financial abuse of elders or dependent adults.

Background. The Department's Broker-Dealer/Investment Adviser (BDIA) Program licenses and regulates broker-dealers (BD), broker-dealer agents, investment advisers (IA), and investment adviser representatives, pursuant to the Corporate Securities Law of 1968. Regulatory oversight makes certain the investing public is protected from unethical and fraudulent activities and California's financial market is secure, fair, and transparent. Regulatory oversight is achieved by performing detailed licensing reviews, conducting regulatory examinations of the licensee population, and reviewing complaints and reports filed with the Department.

As the financial industry has evolved over time, the BDIA Program has faced increased workload to identify and address misconduct and unprecedented challenges to protect investors. Protecting seniors, dependent adults, and investors from financial exploitation is a primary focus of the Department. As the number of complaints and reports of suspected financial abuse have increased, additional staff are needed to work on these mandatory reports and to protect and advocate for investors in California.

Two pieces of legislation recently signed into law have driven these workload increases: Chapter 272, Statutes of 2019 (SB 496), which outlines the responsibilities of the Department in the handling of mandatory reports of known or suspected financial elder abuse, and Chapter 621, Statutes of 2021 (AB 636), which outlines additional steps that the Department must take to share information and collaborate with outside agencies. The Department notes that workload associated with these law changes has been significantly more than originally expected.

Staff Recommendation. Approve as requested.

Issue 5: Mortgage Lender Originator Licensing Workload

Request. The Governor's budget requests 9.0 positions and $1,947,000 Financial Protection Fund in 2022-23, and $1,847,000 in 2023-24, to manage the significant workload increase in the processing of mortgage license applications for the Department of Financial Protection and Innovation so Californians can begin working in the mortgage industry within 30 days of the Department's receipt of application.

Background. The Department is responsible for protecting California's mortgage borrowers by securing the safety and soundness of mortgage loan origination. Any person who provides services as a mortgage loan originator (MLO) in California under the California Finance Law (CFL) or the California Residential Mortgage Lending Act (CRMLA) must apply for and receive a MLO license from the Department. The MLO licensing unit is responsible for confirming that each MLO licensee demonstrates and maintains financial responsibility, character, and general fitness such as to command the confidence of the community and to warrant a determination that the MLO will operate honestly, fairly, and efficiently. MLO licensees must update their record when any changes occur affecting initial application information and must renew their license annually as required by CRMLA and the Federal Secure and Fair Enforcement Mortgage License Act (SAFE Act).

The mortgage origination industry has experienced continued growth over the past few years. It continues to benefit from low interest rates and a stable residential market in California. As a result, the Department received an extraordinarily high number of new applications and licensees during 2020 and in the first half of calendar year 2021. The number of new applications doubled from 10,203 in 2019 to 21,860 in 2020, and is on track to triple in 2021, from 10,203 in 2019 to approximately 32,000 in 2021. The volume of work has become too large for the current MLO licensing unit.

Staff Recommendation. Approve as requested.

Issue 6: Securities Transactions (AB 511 Workload)

Request. The Governor's budget requests 2.0 permanent positions and an increase in expenditure authority of $758,000 Financial Protection Fund in fiscal year 2022-23, and $658,000 ongoing, for the Department of Financial Protection and Innovation to implement the provisions of Chapter 617, Statutes of 2021 (AB 511).

Background. California has proactively protected investors since 1913 under an expansive regulatory regime, now known as the Corporate Securities Law (CSL) and accompanying regulations. The CSL requires companies to qualify securities or submit exemption notices with the Department before their offer commences in California. The Legal Division's Securities Regulation Unit reviews and analyzes applications confirming the offerings are fair, just, and equitable to Californians. It also reviews complaints and negotiates consent orders for non-compliance or refers violations involving egregious harm to the Enforcement Division. The Enforcement Division investigates compliance with the CSL and litigates administrative and civil actions against companies that fail to provide investors with material information needed to make an informed investment decision and those who engage in securities fraud. The Enforcement Division is empowered to seek ancillary relief, including, but not limited to rescission, restitution, and disgorgement on behalf of injured investors.

AB 511 created a new intrastate crowdfunding exemption for securities offerings. California's exemption allows issuers to raise more capital in reliance upon unaudited financials than the federal exemption allows. Issuers previously relying on the federal crowdfunding exemption are therefore expected to rely on California's more favorable exemption. The exemption allows issuers to raise capital from unsophisticated, unaccredited investors on the internet. The exemption has important investor safeguards in place, borrowed from the federal exemption. The Department is tasked with administering compliance with these requirements, through limiting the amount unaccredited investors may invest (a requirement for all transactions that take place through an SEC-registered intermediary), verifying filing requirements, and disqualifying bad actors.

The Legal Division is requesting 1.0 Attorney III to enable the Securities Regulation Unit to effectively enforce the provisions of the CSL that regulate and address fraud in connection with the offer and sale of securities and to meet increased workload demands anticipated from implementing AB 511. The Enforcement Division is requesting 1.0 Attorney V position to enable the Enforcement Division to effectively enforce the provisions of the CSL that regulate and address fraud in connection with the offer and sale of securities and to meet the increased workload demands of AB 511.

Staff Recommendation. Approve as requested.

7730 FRANCHISE TAX BOARD

Issue 7: Enterprise Storage and Fiber Channel Switch Refresh

Budget. The Governor's budget requests $6.7 million General Fund and $4,000 special funds for the Franchise Tax Board to refresh aging equipment and software approaching end-of-life (EOL) within the enterprise storage system and storage area network (SAN) fiber channel switches.

Background. The SAN is a specialized, high-speed network that provides network access to storage utilizing fiber channel switches for data transportation. It provides secure data transportation between servers and enterprise storage systems. SAN is composed of switches, storage elements, and storage devices that are interconnected. These environments support FTB's mission critical applications. One of the main components within the SAN, is the fiber channel switch. It plays an important role in interconnecting multiple storage ports and servers. FTB's current fiber channel switches and software were installed in 2015 and must be replaced as they are reaching EOL. The switches will not have standard manufacturer support after July 2022. However, the manufacturer will support the EOL switches during the migration and installation process for the new switches which will maximize return on investment and prevent the need for a long-term support contract. FTB seeks funding to replace the aging fiber channel switches and software to reduce the risk of failure which would negatively impact FTB's operations. FTB will also update the storage port and servers in this project. The proposed timeline is as follows:

- June 2022 – Department of Finance notifies FTB of approval for project resources
- July 2022 – Bid and award procurement contract including gap coverage for product support through project implementation
- August 2022 – October 2022: Prep work: includes power, wiring, and other data center requirements. Review Logical configuration and verify new topology
- November 2022 – February 2023: Configure, install, and cutover, Includes verification and stabilization
- March - April 2023 – Final verification, begin M&O, and project closure

Staff Recommendation. Approve as requested.

Issue 8: FI$CAL Staffing

Budget. The Governor's budget requests $856,000 General Fund and $32,000 special funds for 6 three-year limited-term positions and funding for 5 classification upgrades in 2022-23; $819,000 General Fund and $32,000 special funds in 2023-24 and 2024-25; and $67,000 General Fund and $2,000 special funds in 2025-26 and ongoing for the Franchise Tax Board. These resources will conduct accounting, procurement, and budgeting and resource management functions as the department continues to work in the Financial Information System for California (FI$Cal) to comply with statewide accounting, procurement, and budgeting policies.

Background. In July 2018, FTB implemented FI$Cal, California's statewide accounting, budget, cash management and procurement system. FI$Cal is the technology solution that provides a single, transparent, and unified financial management system, and is intended for use by most state entities. It implemented revised processes and deployed new required structures and rules that necessitate the collection and categorization of more data. This information is essential to the success of FI$Cal for statewide financial reporting. FTB's Accounting Section, Procurement Bureau, and Department Resource Oversight and Financial Performance Section have the most prominent role in FI$Cal at FTB and deliver key components of FTB's business operations including accounting, purchasing, budget development and management, financial statements, and departmental and state-level reporting. FTB is fully committed to supporting FI$Cal requirements and proactively worked with FI$Cal and Department of Finance (DOF) to plan, design, and test new processes, procedures, workflows, information hand-offs, and reports. Due to the required FI$Cal workload changes in complexity, timing, and required reviews, FTB staffing was temporarily and permanently augmented in 2019-20. FTB honed its skill with FI$Cal processes and timing and discovered additional complexity to FTB's already complex processes. Mindful of this, FTB has proceeded to address and modify our processes to tailor with FI$Cal. At this time, FTB continues to experience delays, bottlenecks, and backlogs within FI$Cal processes.

FTB needs additional resources to carry out its fiduciary responsibilities within mandated timeframes, thus FTB proposes to increase staffing by six three-year limited-term positions and funding to upgrade five Associate Operations Specialists to Staff Operations Specialists. While FTB did receive some permanent and temporary resources in 2019-20, which greatly assisted with the FI$Cal workload, the temporary resources have now expired and workload demands continue to increase in workload tasks and review levels. FI$Cal is fully implemented at FTB and FTB has worked diligently to address the deficiencies caused by the FI$Cal implementation. FTB staff are now experienced and beyond the learning phase, thus these resource gaps cannot be overcome with additional experience or training. The remaining needs and demands are permanent and meeting them is unsustainable without additional staffing.

Staff Recommendation. Approve as requested.

Issue 9: Identity Proofing and Online Fraud Detection

Budget. The Governor's budget requests $3.53 million ($3.45 million in General Fund and $88,000 in Special Fund) 17 permanent positions and 1 limited-term position in FY 2022-23; $3.07 million ($2.99 million in General Fund and $78,000 in Special Fund) 17 permanent positions in FY 2023-24 and ongoing at the Franchise Tax Board to accommodate both new workloads and growth within the critical functions of policy, security, and disclosures that are a part of FTB's business processes utilizing a new identity verification tool for fraudulent calls and a threat behavior analytics tool.

Background. The Privacy, Security, and Disclosure Bureau (PSDB) develops and enforces security policies and procedures for the safety of FTB's employees and California citizens, and to ensure the security, confidentiality, integrity, and availability of FTB's information and information systems. These departmental policies and procedures guide staff in the analysis and assessment of security measures for the protection of FTB's facilities and information. They also detect, verify, and prevent unauthorized access to information technology systems, networks, and data.

FTB's Chief Security Officer (CSO) is responsible for the oversight and management of all aspects of information security. The CSO also promotes awareness of privacy and security issues among management and staff and ensures sound security principles are reflected throughout the organization's vision and goals. Subject matter experts within the PSDB provide technical security expertise to the department.

FTB has redirected resources to address online fraud as feasible, as well as utilized two positions requested and received via a 2018-19 BCP, to begin addressing this emerging avenue for fraudulent activity.

FTB cannot continue to redirect resources to this workload without ongoing impacts to other critical security areas. Currently, FTB does not have the resources or robust tools to appropriately identify and address all the alerts that are triggered and the alerts are prioritized as High, Medium, and Low. On some days, staff can only timely review a portion of the alerts categorized as 'High'. The additional tools and positions will aid in refining current alert criteria to remove false positives and create automated processes to replace the current manual review processes. These resources and new software tools will ensure FTB, and the State, are well positioned to address significant risks associated with insufficient security protocols and staffing levels.

Staff Recommendation. Approve as requested.

Issue 10: Microsoft Licensing Agreement (MELA)

Budget. The Governor's budget requests $1.44 million General Fund and $60,000 special funds in 2022-23, $1.64 million General Fund and $68,000 special funds in 2023-24, $2.0 million General Fund and $83,000 special funds in 2024-25, and ongoing for the Franchise Tax Board to establish a fully-funded, permanent baseline budget for FTB's implementation of the state master agreement Microsoft 365 Government Community Cloud (M365 GCC) and enterprise agreements for Microsoft server, development tools, and support (the combined package is hereafter referred to as M365 GCC+).

Background. The common tool set FTB offers staff based on work assignments, includes a computer operating system with security features and software applications that enable word processing, note taking, spreadsheets, presentation creation, surveying, diagraming, project management, software development, and communications, such as e-mail, instant messaging, voice conferencing, and team video collaboration. To carry out their revenue generating workloads and provide taxpayer assistance, FTB staff rely on these tools to work as a team, share and mange content, quickly find and connect information, and seamlessly collaborate across FTB. To offer these functions to staff, behind the scenes FTB uses on-premises server software, cloud services, and support tools for implementation, deployment, and trouble shooting. This is FTB's base architecture for productivity software. FTB licenses to support our nearly 6,900 permanent and temporary employees. FTB maintains another 800 licenses for contractors working on projects and to provide licensing to comply with FTB security policy, which requires retention of former employee and contractor data for a period of a minimum of five years. FTB has discovered and progressed to the best licensing model available in terms of cost and features.

In June 2014, FTB transitioned from purchasing software bundles and individual products to its first subscription Microsoft Enterprise License Agreement (MELA) with add-ons, which provided additional products such as server software, developer tools, and specialized productivity tools (i.e., Visio and Project).

In June 2019, FTB renewed the subscription and acquired the latest subscription, Microsoft 365 Government E3, with the same add-ons and an upgraded support contract. In early 2021, the California Department of Technology (CDT) reached out to FTB about the feasibility of joining the statewide M365 E5 GCC subscription. After determining business opportunities and costs associated with doing so, key benefits would present for FTB to do this and in June 2021, FTB leveraged the new purchasing model M365 E5 GCC offered through CDT and entered into a new subscription term prior to the existing subscription expiration. Renewing one year early allowed FTB to take advantage of previous subscription credits, leverage the aggregate buying power of the new M365 E5 GCC, and move to a 5-year renewal cycle instead of a 3-year cycle. This state master enrollment (M365 E5 GCC), along with the server, developer, and support tools, is collectively referred to as M365 GCC+ in this document. The decision to move to this new agreement was both financially strategic and feature rich, as this state master enrollment offered significant initial savings and additional feature opportunities, particularly for security tools. FTB was able to transition to the top-tier enrollment (Federal Risk and Authorization Management

Program (FedRAMP) certified) to leverage the added security and privacy features, top-tier support, deployment services, and simplified administration. FTB also enhanced its video conferencing and data analytics tools. FTB's current M365 GCC+ architecture includes base productivity tools, server tools, developer tools, and support. It provides a dependable and adaptable base productivity software architecture, cloud computing, and access to the most current versions of Microsoft software. This flexibility enables FTB to upgrade at a pace that aligns with FTB's business needs, such as the increased demand for licenses due to FTB security retention policy and emergency implementations of collaboration tools such as was needed with COVID-19.

For the various purchases comprising the 2014, 2019, and 2021 subscriptions, generally FTB was able to fund these subscription contracts primarily utilizing funds previously used to buy the individual products that were being offered in the MELA bundle, and carry that forward as the baseline. While FTB was able to fund the first year costs for this new subscription, annual costs continue to increase and FTB's baseline budget for this subscription is insufficient to cover future year costs.

Staff Recommendation. Approve as requested.

Issue 11: Network Infrastructure Refresh

Budget. The Governor's budget requests $1.0 million General Fund and $42,000 special funds in 2022-23, $3.21 million General Fund and $133,000 special funds in 2023-24, and $4.71 million General Fund and $198,000 special funds in 2024-25 for the Franchise Tax Board (FTB) to refresh, by way of replacement, a portion of FTB's network infrastructure. Some components of the network are reaching end of life (EOL) beginning May 2023 and some have capacity constraints.

Background. FTB's current network infrastructure was put in place by the E-Commerce Portal Infrastructure (EPI) Feasibility Study Report (FSR), as approved by the California Technology Agency (currently California Department of Technology) on January 10, 2007. That effort provided up-to-date network designs, infrastructure, and tools to effectively and efficiently manage, maintain, and enable growth of FTB's network infrastructure, which allowed FTB to increase its internet presence and internal services. Due to EOL announcements and end of capacity equipment, FTB received approval to refresh the network infrastructure in FY 2016-17, and implemented the network refresh in phases (via approved FSR FTB 15-01 and BCP 7730-002-BCP-BR-2016-GB; PIER completed 2/14/2020), which has kept the network healthy. Generally, the network infrastructure refresh is performed in phases every 5-years. Some components of FTB's network infrastructure are again reaching EOL and capacity constraints exist as all physical port connections are in use. When equipment reaches EOL, manufacturers will no longer provide emergency or non-emergency technical support, technical and security patches, software and firmware upgrades, parts, or whole replacements of equipment. The following components are at or approaching EOL or at capacity and proposed for refresh:

1. Firewall appliances – EOL May 31, 2023.
2. Network (Production, Internet, and Core) Switches – EOL March 31, 2024.
3. Edge Switches – EOL March 31, 2024.
4. Load Balancers – EOL April 1, 2025.
5. Next Generation Firewalls (NGFWs) – EOL August 31, 2025.
6. Routers – Maximum port-capacity reached.

Through this network refresh, FTB will replace EOL and at-capacity components of FTB's network infrastructure and will meet expected workload increases and demand for online services through June 2030.

Staff Recommendation. Approve as requested.

ITEMS FOR DISCUSSION

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 12: Hope Act: California Electronic Cigarette Excise Taxb

Request. The Governor's Budget requests $1.4 million E-Cig Fund for 5.5 positions and 9,253.5 hours in 2022-23, $1.2 million for 3.8 positions and 12,026.5 hours in 2023-24, and $1.4 million for 3.5 positions and 15,253 hours in 2024-25 for mandated workload associated with SB 395, the Healthy Outcomes and Prevention Education (HOPE) Act.

Background.

Beginning July 1, 2022, the California Electronic Cigarette Excise Tax (E-Cig Tax) (Chapter 489 of the Statutes of 2021(SB 395)) imposes a new 12.5 percent tax upon purchasers on the sales price of electronic cigarettes for use in California. Retailers are required to collect the E-Cig Tax from the purchaser at the time of the retail sale of an electronic cigarette. Additionally, SB 395 authorized a General Fund loan of $3 million to be deposited into the California Electronic Cigarette Excise Tax Fund (E-Cig Fund) in fiscal year 2021-22 for the purpose of implementing the E-Cig Tax.

Implementation costs in 2021-22 include $2.5 million in contract services for reprograming CDTFA’s Centralized Revenue Opportunity System (CROS). The new tax requires the CROS functional areas be built by July 1, 2022 and adding this function is currently underway. Additional 2021-22 costs included 0.8 positions in Audit Support, and 2,629.5 overtime hours in various units to implement updates, notify taxpayers, and respond to inquiries from the public

The requested resources in 2022-23 and ongoing will allow CDTFA to address the workload associated with implementing and administering the E-Cig Tax under the Fee Collection Procedures Law. Consistent with other tax programs, the funding for the additional hours allows existing CDTFA team members to work on this program.

Additional workload related to the administration of the E-Cig Tax falls under the following categories:

- **Compliance.** To ensure compliance with the E-Cig Tax legislation, CDTFA is mandated to perform registration and licensing, return processing, and collection functions. Every Cigarette Tobacco Product Tax Law (CTPTL) licensed retailer making sales of electronic cigarettes is required to report and pay the tax on these products, including out-of state retailers with direct sales to California consumers. Team members will process returns, reports, schedules, payments, interest and penalty relief requests, review overpayments, issue refunds, and provide customer service for this new tax program.

- **Audit.** Team members are required to verify and audit registered retailers that sell electronic cigarette products to ensure the correct amount of tax was imposed, collected, and paid on the sale of electronic cigarette products. CDTFA strives to audit 3 percent of the taxpayer base on a three-year cycle.

- **Collections, Refunds, and Appeals.** As with any other tax program, a certain percentage of returns will be delinquent. Taxpayers who file non-remittance, partial remittance, or late returns, will incur CDTFA billings and be subject to collection actions. It is also estimated that 1.3 percent of the taxpayer base will file a claim for refund and a portion of the audit assessments of the new tax will result in petitions for redetermination. Team members will engage in active collection activities, handle refunds and process requests for relief from interest and penalty, and handle all aspects of the appeals process.

- **Return Processing**. CDTFA will design and develop new tax returns for the E-Cig Tax program. System programming changes are required to allow payments and proper fund allocation to the new fund. Team members are responsible for critical tax return and payment processing, reports, account maintenance, account billing adjustments, and desk review activities.

- **Administration, Implementation, and Administrative Support**. The E-Cig fund requires numerous analyses for maintenance, reconciliation, producing interim statements and preparation of special reports, and monitoring critical cash flow by the Accounting Branch. In addition, CDTFA must develop new online returns (electronic filing only), create new online instructions, and update forms, publications, letters, and webpages. Numerous outreach materials will be distributed and published. Team members will train and provide technical advice to other CDTFA team members and the public.

Staff Recommendation. Hold open.

0959 California Debt Limit Allocation Committee

Issue 13: Bond Allocation Program Workload

Request. The Governor's budget requests $1,036,000 for six permanent positions: 5 AGPAs and 1 SSM I Specialist for FY 2022-23 and ongoing to accommodate workload for the California Debt Limit Allocation Committee (CDLAC) and its support areas.

Background.

CDLAC was established by Chapter 943, Statutes of 1987, in response to the Federal Tax Reform Act of 1986, which placed a cap on the volume of tax-exempt private activity bonds that could be issued within a state in a calendar year. CDLAC is the sole entity responsible to calculate the volume cap pursuant to IRS guidelines and allocate tax-exempt private activity volume cap for the State of California through a variety of programs including multifamily housing, single-family housing, tax-exempt facilities, and industrial development bonds.

Tax credits attract private investment in affordable housing by offering a dollar-for-dollar credit against an investor’s state or federal taxes owed. The 2019, 2020, and 2021 Budget Acts each authorized $500 million in one-time resources for low-income housing tax credits. In each year, these resources were split between both typical affordable housing projects ($300 million) and mixed-income projects ($200 million). These funds have supported what is known as the federal four percent tax credit, which historically have not been competitive - every project that sought a four-percent credit received one. Recent changes in statute have made these credits more popular. However, as currently structured, these credits must be paired with federally-limited tax-exempt bonds, which are allocated by the California Debt Limit Allocation Committee. The four percent tax credits are therefore limited by a project’s ability to secure tax exempt bonds. Increasing demand for four percent credits has led to an oversubscription of tax exempt bonds.

The oversubscription of tax-exempt federal bonds required CDLAC to develop and implement a competitive system to provide equitable distribution of Bond Allocation throughout California. To maximize the allocation of tax credits, the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee adopted regulations aimed at increasing affordable housing production, containing costs, and maximizing public subsidy and benefit of the credits. The review time needed for this new competitive process more than doubled the staff hours it takes to process requests.

Staff Recommendation. Hold Open

0968 CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Issue 14: Development and Compliance Sections Workload Increase

Request. The Governor's budget requests an increase for the California Tax Credit Allocation Committee (CTCAC) of $1,423,000 for fiscal year 2022-23 and ongoing to hire eight new staff members; six Associate Governmental Program Analyst (AGPA) positions, one Research Data Specialist I (RDS) position, and one Staff Services Manager (SSM I) (Supervisor) position to accommodate workload increases.

Background. The CTCAC's tax credits support/affect several State agencies. Bond allocation is required for applicants to receive tax credits. The California Debt Limit Allocation Committee (CDLAC) is the issuer of tax-exempt bond allocation, therefore affected by CTCAC. Tax Credits are a source of equity that is part of the capital stack for projects financed within the Housing Community Development (HCD) and California Housing Finance Agency (CalHFA).

CTCAC is responsible for administering the allocation of federal and state low-income housing tax credits (LIHTCs) for the development of low-income housing. Each year the amount of federal 9 percent LIHTCs allocated by the IRS is based on the product of a per capita factor and the state's population. An annual increase in federal LIHTCs available results in a higher volume of applications reviewed and thus a larger workload requirement. CTCAC is required by federal law to conduct at least three reviews of the applications during the housing development process. Due to the increase in the volume and complexity of the applications, workload has increased at each stage of review and staff have consistently been unable to complete the second of the three reviews in a timely manner. With the increase in applications beginning in 2020 and continuing, without additional staff, CTCAC staff will fall further behind in meeting its mandatory requirements resulting in delays to the project. In addition, the CTCAC's responsibilities for compliance (over a 55 year period) grow with each additional project.

In 2020-21, CTCAC had 70 authorized positions and of these 51 were filled. CTCAC notes that their ability to fill positions has been compromised by the pandemic and the need to recruit for positions that include significant travel.

Staff Recommendation. Hold Open

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 15: California Public Banking Option Act (AB 1177)

Request. The Governor's budget requests an increase in expenditure authority of $283,000 Financial Protection Fund in fiscal year 2022-23, $273,000 in 2023-24, and 1.0 Attorney III position, for the Department of Financial Protection and Innovation to implement the provisions of Chapter 451, Statutes of 2021 (AB 1177).

Background. The purpose of AB 1177, the California Public Banking Option Act, is to increase access to no-cost banking for underbanked and unbanked populations. AB 1177 established the CalAccount Blue Ribbon Commission (Commission) to contract with a vendor to conduct a study of a CalAccount Program (Program) to offer unbanked and underbanked Californians free federally insured transaction accounts. The new law requires the State Treasurer to convene the Commission on or before September 1, 2022, composed of nine individuals, including the DFPI Commissioner or their designee.
The Commission is required to:

- Contract with vendors to conduct the market analysis.
- Conduct at least one public hearing to gather input within a year of entering into a contract for the market analysis.
- Hold a public hearing to review the completed market analysis.
- Determine whether the Program can be implemented as described in the bill, and if not, what modifications can be made to implement it successfully.
- Determine whether the Program revenue is enough to pay for costs within six years of implementation, and if not, recommend whether the Program should be implemented, nonetheless.

AB 1177 requires the Commission to deliver the market analysis to the Chair of the Senate Committee on Banking and Financial Institutions and the Chair of the Assembly Committee on Banking and Finance by July 1, 2024. The California Public Banking Option Act only becomes operative upon appropriation by the Legislature, and the Program will only get implemented if the Legislature approves it after seeing the results of the market analysis.

While AB 1177 does not have a direct impact on DFPI's operations, the DFPI Commissioner, or that person's designee, will need to spend considerable time on the Commission, at board meetings, gathering and consolidating information from Department and stakeholder experts, and reviewing and analyzing market analysis data and results. DFPI requests 1.0 Attorney III to act as the Commissioner's aid and, if needed, designee.

Staff Recommendation. Hold Open.

7730 FRANCHISE TAX BOARD

Issue 16: Enterprise Data to Revenue Project 2

Budget. The Governor's budget requests $151.1 million General Fund and 17.0 permanent positions, 23.5 full time equivalent limited-term positions, and 21.0 permanent-intermittent positions to begin second-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan at the Franchise Tax Board. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

Background.

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

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

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

The EDR2 project is vital to FTB's operations. The technology currently supporting two of FTB's major legacy systems - Accounts Receivable Collection System (ARCS) and professional Audit Screening and Support System (PASS) - , which annually allow FTB to collect over $4 billion in compliance revenue, are nearing end-of-life and will no longer be supported after December 31, 2025. Implementing the EDR2 project at this time is critical. Replacing these systems before they reach end-of-life will ensure FTB business operations generating significant compliance revenue for the state will not experience any critical failures. Additionally, the EDR2 project will improve efficiency and provide a better taxpayer experience while increasing revenue.

The following table shows the systems FTB plans to replace with EDR2 and their original implementation dates and ages.

System	**Date Implemented**	**System Age in Years (as of 2021)**
ARCS	1999	22
INC	2001	20
PASS	1997	24

The EDR2 project follows the California Department of Technology's (CDT's) Project Approval Lifecycle (PAL) Process. The most recent document approved for the EDR2 project was the Stage 4 Project Readiness and Approval (S4PRA). The S4PRA was approved on April 1, 2021 and included the EDR2 vendor selection and project approval.

The EDR2 project's Request for Proposal (RFP) was released on April 30, 2019 on the Cal e-Procure website. In May 2020, FTB received the final proposals with proposed solutions from the bidders. Contract Award to the contractor was made in June 2021. The EDR2 project start date is July 1, 2021.

The EDR2 project plans to achieve the following objectives in 2022-23:

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

FTB notes that this request is funding for the 2022-23 fiscal year and that a BCP will be submitted each year to cover the costs of the project. According to the FTB, the total cost of EDR2 is estimated to be just over $750 million and will ensure continued collection of over $4 billion in annual revenues. After full implementation, the project is projected to bring in additional new revenues of $300 million annually.

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

Staff Recommendation. Hold Open.

Issue 17: Section 41 Workload

Budget. The Governor's budget requests $657,000 General Fund and 4 permanent positions in 2022-23; $610,000 General Fund in 2023-24; $760,000 General Fund and one permanent position in 2024-25; and $749,000 General Fund in 2025-26 and ongoing for the Franchise Tax Board. This will allow the Economical and Statistical Research Bureau (ESRB) to manage the increasing workload due to the volume of bills with a Revenue and Taxation Code (R&TC) Section 41 reporting requirement

Background. In 2014, SB 1335 introduced Section 41 into the Revenue and Taxation Code (R&TC). This legislation required any bill, introduced on or after January 1, 2015, that would authorize a personal income or corporation tax credit, to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the credit.

In 2019, AB 263 expanded Section 41 reporting requirements to include all tax expenditures. A tax expenditure is defined as a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state. As a result of AB 263, beginning on January 1, 2020, data must be collected on any new tax expenditure bills in order to provide a standard method for the Legislature to periodically evaluate whether tax expenditures are providing the intended benefit to the State and its taxpayers.

As the department which receives tax information, most new bills now direct the FTB to provide relevant data to a designated entity, such as the Legislative Analyst's Office, to evaluate the benefits of the tax expenditure and complete the Section 41 report. Additionally, FTB could be the responsible entity to evaluate the tax expenditure as to its stated goal and issue a Section 41 report. Section 41 reports include analysis of data and baseline measurements to be collected and remitted in each year the tax expenditure is in effect. This allows the Legislature to measure the change in performance indicators which ultimately shows the goals, purpose, and objectives of the tax expenditure are being met.

R&TC Section 41 is a new mandatory workload that ESRB does not have the resources to address. When Section 41 was initially enacted, reporting requirements were limited to tax credits. However, recent legislation has expanded the requirement to include all tax expenditures. Tax credit data is easier to collect as it is generally reported as a line item on the tax return, and the data is captured by FTB during return processing. Data for other tax expenditures, such as deductions, is more difficult to collect. Individual deductions are rolled up into other line items and not reported on its own because that level of calculation is not necessary for return processing. In these instances, ESRB must build a data capture interface and related databases to store the data. The data is then manually keyed in order to generate reports.

FTB notes that the department had no departmental costs associated with AB 263 when it passed as the bill adds requirements for future bills. However, now that approximately 10 tax expenditures have been enacted that require some form of data collection, analysis, distribution to subject matter delegates or the drafting of a report, FTB notes that these mandated activities support the need for additional resources. Currently FTB is re-directing staff to absorb several hundred hours of staff time annually to complete the one or two reports required to meet Section 41 requirements.

This request is based on FTB estimates that with each session the Legislature will pass at least four new tax expenditure bills encompassing R&TC Section 41 requirements that will require FTB to collect and distribute data to a delegate responsible to draft the Section 41 report or FTB will be required to draft a report

The FTB requests an IT Supervisor and an Administrator that would allow ESRB to address its span of control issues and support the workload metrics over time. Additional Data Specialists and IT Specialist are requested to allow FTB to code and capture information or to analyze the data and produce the reports FTB is responsible for on the performance measures and specific outcomes of the tax expenditure legislation.

Staff Recommendation. Hold Open.

Issue 18: Earned Income Tax Credit Foster Youth Expansion

Budget. The Governor's budget includes a new refundable credit for young adults who have been in the foster care program. This proposal provides an additional $1,000 credit for individuals who have been in the foster care system at some point at age 13 or older and who are now at least 18 but 25 or younger, and who otherwise qualify for the CalEITC. This proposal is expected to cost roughly $20 million ongoing General Fund. As in prior years, the budget package also includes $10 million for education and outreach to expand awareness of the EITC.

Background. The California EITC is a state personal income tax provision that benefits individuals and families who earn less than $30,000. The amount of the credit depends on taxpayers "earned income" (which primarily includes wages and self-employment income), filing status, and the number of qualifying dependent children. The amount of the EITC initially rises with earnings, such that the greater the filer's earnings, the larger the credit. The credit peaks at a certain income and then gradually phases out for higher levels of earnings. The tax credit is fully refundable. This means that if the amount of a taxpayer's EITC is greater than his or her liability before applying the credit, then the state pays the taxpayer that difference. The Franchise Tax Board (FTB) annually adjusts the income thresholds and credit amounts for inflation, similar to the adjustment made at the federal level (although the state uses a California-specific inflation index).

In 2015, when California created the state EITC, it was designed to supplement the federal EITC for those working individuals and families whose incomes were relatively low. As the state EITC is based on the federal EITC, it also shares certain restrictions on eligibility. Specifically, eligible filers must be a U.S. citizen or resident alien. In addition, if they do not have a qualifying child, eligible filers must be at least age 25 and younger than age 65.

2021 CalEITC Credit

Number of qualifying children	California maximum income	CalEITC (up to)	IRS EITC (up to)
None	$30,000	$255	$1,502
1	$30,000	$1,698	$3,618
2	$30,000	$2,809	$5,980
3 or more	$30,000	$3,160	$6,728

Source: Franchise Tax Board

California adopted the CalEITC in 2015 to build upon and amplify the impact of similar federal tax credits and increased benefits and access over multiple years as follows:

2015 Budget Act. The budget included a state EITC for the first time, which provided a refundable tax credit for wage income for households with incomes of less than $6,580 if there are no dependents, and up to $13,870 if there are three or more dependents. For tax year 2015, the program matched 85 percent of the federal credits, up to half of the federal phase-in range, and then begin to taper off relative to these maximum wage amounts. The credit was expected to benefit an estimated 825,000 families and two million individuals. The estimated average (mean) household benefit was $460 per year, with a maximum credit for a household with three or more dependents of over $2,600. The FTB was tasked with administering the EITC program. Budget bill language was adopted to allow for the 85 percent to be adjusted depending upon the state fiscal position.

2017 Budget Act. The budget expands the EITC to support more working families, including self-employed parents, in line with the federal EITC and expanded income ranges to help families working up to full-time at the newly increased minimum wage benefit from the program.

2018 Budget Act. The budget expanded the EITC to working individuals who are aged 18 to 24 or over age 65. In addition, the budget adjusts the qualifying income range for the credit so that employees working up to fulltime at the 2019 minimum wage of $12 per hour would qualify for the credit.

2019 Budget Act. The budget more than doubled the EITC by investing $1 billion in a new expanded EITC (up from $400 million). Specifically, the EITC was expanded by raising the annual income recomputation floor from 3.1 percent to 3.5 percent, revising the calculation factors to increase the credit amount for certain taxpayers, raising the maximum income to $30,000, and providing a refundable young child tax credit not to exceed $1,000 per qualified taxpayer per taxable year. These changes increase the estimated cost of the state EITC from approximately $400 million to approximately $1 billion. In 2019, California spent $1.1 billion on the state’s two largest tax credits targeted to Californians with low incomes — the California Earned Income Tax Credit (CalEITC) and the Young Child Tax Credit (YCTC)

2020 Budget Act. The budget included trailer bill language to extend the EITC and Young Child Tax Credit (YCTC) eligibility to Individual Tax Identification Number (ITIN) filers. An estimated 200,000 or more families with ITINs qualify for this state EITC expansion.

According to the most recent data from the Franchise Tax Board, as of November 27, 2021, for the 2020 tax year, 4.2 million claims were filed, for a total credit amount of $1.25 Billion ($863 million in EITC and $391 million in YCTC)

Staff Comments. At the time this agenda was published, trailer bill language on this proposal was not yet available. However, the Administration notes that this credit will be available for youth who were in the foster care system at some point. It is limited to those who already qualify for the EITC. The Administration anticipates that up to 20,000 individuals may apply for the credit.

Staff Recommendation. Hold Open

Issue 19: Young Child Tax Credit Changes

Budget. The Governor's budget includes a proposal to expand the Young Child Tax Credit (YCTC) to families that file returns without income, but otherwise quality for this credit, and proposes to index the credit to inflation starting in the 2022 tax year, which will prevent the erosion of its value. This expansion of the YCTC is expected to cost about $55 million ongoing General Fund. The cost of indexing will depend on the level of inflation and will compound over time, for the 2022 tax year, the cost of indexing is estimated at $19 million.

Background. The California YCTC was expanded in the 2019 Budget Act to include a refundable young child tax credit not to exceed $1,000 per qualified taxpayer per taxable year. In the 2020 Budget Act, ITIN filers became eligible for this credit.

Currently, in order to claim the YCTC, a taxpayer must claim at least $1 of earned income. The YCTC is a refundable credit, this means that if the amount of a taxpayer's EITC is greater than his or her liability before applying the credit, then the state pays the taxpayer that difference.

The state's EITC has been indexed for inflation since its inception, and the Franchise Tax Board (FTB) annually adjusts the income thresholds and credit amounts for inflation, similar to the adjustment made for the federal EITC, although the state uses a California-specific inflation index. The YCTC has not been indexed for inflation and under current law loses value each year as a result. Estimates from the California Budget and Policy Center note that absent any changes, the credit would buy approximately 35 percent less than it did when introduced in 2019.

Staff Comments. At the time this agenda was published, trailer bill language on this proposal was not yet available. Allowing the credit to be claimed by taxpayers with no income reflects an acknowledgement that the funds are intended to support families in raising children, regardless of their work circumstances of their parents. This differs from the view of the EITC as a credit that supports working adults.

Staff Recommendation. Hold Open

Issue 20: SB 1409 Report

SB 1409 (Caballero), Chapter 114, Statutes of 2020 required the Franchise Tax Board (FTB) to report by January 1, 2022, to the Legislature, an analysis and plan, to increase the number of claims of the California Earned Income Tax Credit (CalEITC) allowed pursuant to Section 17052 of the Revenue and Taxation Code, and the federal Earned Income Tax Credit (EITC), including alternative filing systems.

Background.
In SB 80 (Committee on Budget and Fiscal Review, Chapter 21, Statutes of 2015), the Legislature created the EITC, a state refundable tax credit for wage income that is intended to benefit very low-income households. Specifically, the program builds off the federal EITC and established a refundable credit for tax years beginning on or after January 1, 2015. The credit is applied to personal income tax liabilities associated with earned wage income. The program provides for a credit amount during a phase-in range of earned wage income according to specified percentages based on the number of qualifying children. Subsequent budget actions described in Issue 18 of this agenda increased the value of and access to the credit in recent years.

Many community-based organizations and other state and local government agencies (such as school districts and county social services offices) engage in efforts to raise awareness about the state and federal EITC. In 2016 and 2017, the state awarded $2 million in grants to these groups to help expand these education and outreach efforts. These efforts include advertising and media outreach, distribution of printed materials, and canvassing—direct contact with individuals in targeted residential neighborhoods. In 2018, the state increased the amount of grants it awarded to $10 million and allowed grant recipients to fund tax filing assistance. In addition, FTB receives $900,000 annually for additional EITC outreach activities and to fund the grant making process. State EITC grants are currently administered through an interagency agreement with the Department of Community Services and Development (CSD).

The state has continued to set aside $10 million for state outreach grants to promote the California EITC and free tax preparation (included in the Governor's budget proposal for 2022-23). Grantees will carry out statewide and local outreach efforts aimed at reaching eligible families. Despite the availability of these resources, the California EITC is not being claimed at the legislature's desired and anticipated rate. In some cases, low-income individuals are not required to file a return because they do not need the minimum return filing income thresholds. Thus, many California household do not receive the credits for which they are eligible, limiting the effectiveness of the EITC program. In addition, the Governor's budget has proposed to additional changes to the EITC and YCTC that may necessitate additional outreach efforts to ensure the targeted individuals are aware of and able to claim the credits. Finally, additional outreach related to the CalEITC may also assist individuals in drawing down federal assistance through the federal EITC.

Report Summary. In preparation for the report, to effectively understand the issues or barriers that may impact or prevent taxpayers from claiming the federal EITC or CalEITC, FTB reached out to community based organizations, interested parties, peer state agencies, and reviewed prior comments raised during previous legislative hearings. FTB identified barriers for taxpayers in accessing the EITC and operational barriers that exist within FTB systems. Finally, FTB identified a variety of concepts and the pros, cons, and additional work needed for each one. The following table is an excerpt from the report and displays a snapshot of the concepts, each discussed in additional detail within the report.

Concept A - Develop a simplified filing portal	FTB's CalFile already allows for this service for state tax filing.
Concept B - Pre-populate state income tax returns	Significant data gaps (timing, accuracy, completeness) to credibly determine eligibility exist; data-sharing among agencies could violate federal law.
Concept C-1 - Simplify the tax filing process: Modify Form 3514	Could ease filing burdens for CalEITC, increase awareness of the credit and the number of filers claiming the credit; however, there is an increased risk of fraud.
Concept C-2 - Simplify the tax filing process: State staff assistance with filing or VITA referrals	IRS rules and procedures and federal law could hinder this concept from being implemented. Potentially significant legal barriers could exist, particularly related to whether state employees would be considered 'paid tax preparers.' Additionally, insufficient VITA volunteers impact success and VITA services are not year round.
Concept D-1 – Expand education and outreach to potentially eligible CalEITC taxpayers: Outreach opportunities by state staff administering public assistance programs	Current data sharing laws may not be sufficient to address the needs of this concept; data-sharing among agencies could violate federal law.
Concept D-2 – Expand education and outreach to potentially eligible CalEITC taxpayers: Outreach opportunities by FTB	Current data sharing laws may not be sufficient to address the needs of this concept; data-sharing among agencies could violate federal law.
Concept E-1 – Tax Identification Number: Create a provisional California unique identifier	The process FTB would need to set up may not differ significantly from the existing federal process and introducing a new identifier creates an enhanced opportunity for fraud to occur.
Concept E-2 – Tax Identification Number: Use state agency workforce to provide free assistance in completing and filing forms for individuals needing an ITIN	IRS rules and procedures based on federal law could hinder this concept from being implemented.
Concept E, Alternative #1 – Tax Identification Number: Amend CalEITC statute to allow taxpayers until October 15th to apply for an ITIN (instead of being issued one)	Current statutory language may need to be updating to implement this concept.

Concept F – Create tax forms in multiple languages	Would require significant vendor support and depending on volume and languages chosen, may be difficult to timely publish all tax forms supporting filing. May also require software companies to provide filing tools in multiple languages to be effective.
Concept G – Increase grant funding for community organizations to engage in outreach and free tax preparation services	Able to implement quickly and some resources needed. Ongoing budget authority would be necessary.
Concept H – Provide ongoing grant funding so outreach and filing assistance can be conducted year-round	Able to implement quickly and some resources needed. Ongoing budget authority would be necessary.

Source: Franchise Tax Board, *Report On the Study to Increase the Number of Claims for the California and Federal EITC.*

Staff Recommendation. Information Only

Issue 21: Tax Payment Flexibility for Low- and Moderate-Income Households

Budget. The Governor's budget provides additional flexibility for certain taxpayers in meeting tax obligations, specifically, for tax years 2019, 2020, and 2021, families with less than $150,000 in adjusted gross income ($75,000 for individuals) will be given until September 30, 2023 to pay any personal income tax liability for those years and will be relieved of any penalties and interest related to delayed filing or delayed payment. Participating taxpayers would be allowed to make installment payments. Late penalties and interest would again apply to outstanding amounts, if any, at the end of the program.

Background. FTB currently has authority to enter into an installment agreement (IA) with any taxpayer upon either a determination of an inability to pay a liability in full or a determination of financial hardship. For those with the inability to pay in full, the current IA statute requires FTB to enter into IAs with taxpayers that meet specified criteria, including that they have personal income tax liabilities of $10,000 or less and have indicated an inability to pay the debt in full and meet other criteria such as having filed prior year returns and committing to remain in compliance in the future for the terms of the agreement. All of these criteria are shown as being met with the filing of an installment application which serves as the taxpayer's self-attestation that they have met the criteria. FTB also has the discretion to enter into an IA for liabilities in excess of $10,000. FTB generally enters into an IA for up to five years with the taxpayer's self-attestation of a financial hardship if the liability is less than $25,000. For liabilities of $25,000 or more, FTB asks for documentation to support a financial hardship.

Staff Comments. At the time this agenda was published, trailer bill language on this proposal was not yet available. Staff notes that the Legislature may wish to examine this proposal in the context of the need for a broader tax abatement policy to ensure that FTB is able to effectively work with taxpayers who struggle to meet their obligations, both during and after the COVID-19 pandemic.

Staff Recommendation. Hold Open.

Issue 22: Innovation Headquarters Credit

Budget. The Governor's budget includes a proposal for a new Innovation Headquarters Tax Credit to provide an additional $250 million per year for three years for qualified companies headquartered in California that are investing in research to mitigate climate change.

Background. According to the Governor's Budget Summary, the new credit is for companies investing in activities and technologies that mitigate climate change and are headquartered in California. The Innovation Headquarters Credit is proposed to be administered by the Franchise Tax Board, and would be in place from 2022 through 2024, and is designed to target a revenue loss of roughly $250 million per year for three years.

Staff Comments. At the time this agenda was published, trailer bill language on this proposal was not yet available.

Staff Recommendation. Hold Open.

0860 BOARD OF EQUALIZATION

7330 FRANCHISE TAX BOARD

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION

Issue 23: Removal of Provision 1 – Position Control

Request. The Governor's budget includes the elimination of provisional language from the budget act items from the Board of Equalization, the Franchise Tax Board, and the Department of Tax and Fee Administration that required notification to the Joint Legislative Budget Committee if specified positions were redirected from their intended purposes.

Background.

Provision 1 of the state operations for the Franchise Tax Board (7730-001-0001), Board of Equalization (0860-002-0001), and the Department of Tax and Fee Administration (7660-001-0001) provides that funds appropriated for each entity to support revenue generating activities shall be used for the purposes intended when authorized in the budget. In order to make changes, the department would need "prior approval of the Director of Finance and the director shall not approve any such reduction or redirection sooner than 30 days after providing notification to the Joint Legislative Budget Committee".

Provision 1 was added to the Franchise Tax Board and the Board of Equalization support items in the late 1990's in response to concerns by the Legislature that positions were being redirected away from revenue-producing workload to other workloads, thus potentially impacting General Fund revenues. It was subsequently included in the California Department of Tax and Fee Administration's budget when the department was created in 2017 as part of the Board of Equalization's restructure.

According to the Department of Finance, the removal of the provision is due to concerns that Provision 1 is out of alignment with current technology and business operations, and that it hinders the ability of the Departments to address new workloads and other emerging issues. Additionally, DOF notes that they do not have an example of when this provision has been used.

The tax boards state that the Provision impacts their ability to assign personnel and other resources in a way that best meets their operational needs. For example, on several occasions the tax boards have noted difficulty with absorbing new workload within existing resources because of Provision 1. This limited flexibility drives the need for new funding and new positions to perform new tasks, or can result in the new tasks being unnecessarily delayed.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, February 9, 2022
1:30 p.m.
State Capitol - Room 2040

Consultants: James Hacker and Elisa Wynne

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS FOR VOTE ONLY

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 1: Technical and Legislation-Related Proposals

Request. The Governor's budget includes several proposals that implement enacted legislation. These include:

- AB 1095: $158,000 General Fund and 1.0 position in 2022- 23 and ongoing to promulgate and enact eligibility criteria that includes both affordable housing rental units and owner-occupied affordable housing units as projects permitted to receive grants under the Affordable Housing and Sustainable Communities Program pursuant to Chapter 355, Statutes of 2021(AB 1095).

- SB 1: $174,000 General Fund and 1.0 position in 2022- 23 and ongoing to support OPR and the Strategic Growth Council (SGC) to develop planning guidance to implement Chapter 236, Statutes of 2021 (SB 1).

Additionally, the budget includes an encumbrance and liquidation extension of Greenhouse Gas Reduction Fund resources originally budgeted as part of the 2019 Budget Act for the Climate Change Research Program.

Staff Comments. The Administration has indicated that the COVID-19 pandemic led to significant contracting delays for the Climate Change Research Program, which have pushed existing funding beyond its statutory deadlines. As such, an extension of these funds is appropriate to ensure that the funds are spent in a manner consistent with legislative intent.

The legislatively-driven proposals are consistent with legislative intent and with cost estimates developed during the legislative process.

Staff Recommendation. Approve as Budgeted.

8885 COMMISSION ON STATE MANDATES

Issue 2: Administrative Staff for Mandatory Requirements

Request. The Governor's budget includes $467,000 ongoing General Fund and $8,000 one-time General Fund for two administrative and one information technology (IT) positions, one IT position re- classification, and software to implement digital signature and website accessibility compliance requirements for the Commission on State Mandates.

Background. Currently, the Commission has 13 positions but only two of these are administrative staff-level positions: one full-time AGPA (accounting and procurement) and one full-time ABA (budgeting and procurement), the remainder of staff-level positions are program staff. Subsequently, the Commission is lacking adequate staff-level manning and expertise in Human Resources (HR), Procurement, and Information Technology support as well as the appropriate Information Technology classification for the existing ITS I.

The Commission on State Mandates (Commission) requests an augmentation of $467,000 ongoing General Fund and three additional staff and one reclassified staff to perform the Commission's functions of human resources, procurement, and information technology. The addition of three permanent positions: one full-time associate governmental program analyst (AGPA) - Human Resources (HR), one full-time AGPA – Procurement, and one full-time Information Technology Specialist I (ITS), and the reclassification of the existing ITS I to an ITS II will enable the Commission to better comply with federal law, statutory, regulatory, and state requirements including the State Administrative Manual (SAM), and CalHR Manual, support a well-functioning and effective state agency, and ensure the operational, business, and program needs of the Commission are met.

Additionally, the Commission requests a one-time augmentation of $8,000 General Fund for portable document format (PDF) accessibility remediation software. Significant additional requirements to implement digital signature and website accessibility compliance as well as ever-increasing cyber security needs necessitate this request.

Staff Recommendation. Approve as requested.

Issue 3: Municipal Storm Water and Urban Runoff Discharges Mandate

Request. The Governor's budget includes $18.4 million General Fund to reimburse local agencies under the jurisdiction of the Los Angeles Regional Water Quality Control Board for costs related to the Municipal Storm Water and Urban Runoff Discharges Mandate.

Background. In December 2021, the Commission on State Mandates adopted the Statewide Cost Estimate for the Municipal Storm Water and Urban Runoff Discharges Mandate. In 2009, the Commission adopted the Test Claim decision finding that Part 4F5c3 of the Los Angeles Regional Quality Control Board Order No. 01-182 National Pollutant Discharge Elimination System Permit CAS004001 imposed a reimbursable state-mandated program under Article XIIIB, section 6 of the California Constitution on the local agency permittees in Los Angeles county that are not subject to a trash total maximum daily load. These permittees were required to place trash receptacles at all transit stops with shelters within their jurisdictions and maintain these. Specified portions of the test claim were determined to not be reimbursable as the permittees had fee authority. The commission adopted Parameters and Guidelines for claiming in 2011. Claimants were able to file claims though the 2013-14 year and the last year for filing claims was 2014-15. The Commission has determined that the maximum potential state liability for this mandate is approximately $18.4 million.

Staff Recommendation. Approve as requested.

0840 STATE CONTROLLER

Issue 4: Affordable Care Act Workload

Request. The Governor's budget includes 4.0 permanent positions and $500,000 ($300,000 General Fund and $200,000 Central Service Cost Recovery Fund (CSCRF)) ongoing funds for the State Controller’s Office (SCO) to support the state's compliance with the Affordable Care Act.

Background. The healthcare law, Affordable Care Act (ACA), formally known as the Patient Protection and Affordable Care Act, was initially signed into law in March 2010, with various amendments occurring over the subsequent years. On July 2, 2013, the Federal Government issued a notice acknowledging the complexity of the legislation and their delay in publishing rules under sections 6055 and 6056 of the Internal Revenue Code, as amended by the ACA, to implement employer and insurer reporting requirements for all medium and large employers, such as the State of California. Such rules are necessary to determine what tax penalties large employers will be subject to under the Internal Revenue Code if they do not offer and document affordable health coverage to their employees. Due to the complexity of the ACA implementation, Internal Revenue Service (IRS) issued guidance has been delayed over time, requiring the SCO to adapt staffing since the inception of the ACA.

Through a 2014-15 Budget Change Proposal (BCP), SCO received 1.6 two-year limited-term positions to support ACA workloads. Along with the 1.6 positions, the Personnel and Payroll Services Division (PPSD) redirected 11.4 positions for four years to bring the State into compliance with the ACA.

Through a 2016-17 BCP, SCO received funding to support 5.7 two-year limited-term positions to continue the ACA workload and make significant business process and/or system changes to comply with the Employer Shared Responsibility Provisions of the ACA.

In a 2018-19 BCP, SCO received funding to support 6.0 permanent positions and 4.0 four-year limited-term positions. With the new resources, the dedicated ACA team totaled eight analysts, one supervisor, and two information technology resources. These 4.0 limited-term positions expire at the end of 2021-22.

To support the ongoing maintenance of the ACA program, and implement and accommodate additional Uniform State Payroll System (USPS) changes to maintain compliance with ACA legislation, SCO is requesting 4.0 permanent positions.

Staff Recommendation. Approve as requested.

ITEMS FOR DISCUSSION

0650 Governor's Office of Planning and Research

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analyses. OPR formulates long-range state goals and policies to address land use, climate change, population growth and distribution, urban expansion, infrastructure development, groundwater sustainability and drought response, and resource protection. OPR maintains and updates the General Plan Guidelines, the California Environmental Quality Act (CEQA) Guidelines, and operates the CEQA Clearinghouse. OPR also houses and supports the Strategic Growth Council (SGC).

Budget Overview: The Governor's budget proposes $1 billion and 116.4 positions to support OPR in the budget year, as shown in the figure below. This is an increase of 5 positions but a decrease of roughly $600 million from 2021-22.

3-YEAR EXPENDITURES AND POSITIONS †

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
0360	State Planning & Policy Development	20.5	29.5	35.5	$44,454	$81,994	$259,559
0365	California Volunteers	43.3	55.3	55.3	71,931	423,689	97,262
0370	Strategic Growth Council	24.6	24.6	25.6	177,113	1,086,696	592,965
0371	Office of Community Partnerships and Strategic Communications	-	-	-	-	-	65,000
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**88.4**	**109.4**	**116.4**	**$293,498**	**$1,592,379**	**$1,014,786**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$58,491	$267,619	$564,820
0140	California Environmental License Plate Fund	-	-	450
0890	Federal Trust Fund	53,295	53,548	52,884
0995	Reimbursements	5,110	4,284	4,288
3228	Greenhouse Gas Reduction Fund	175,788	954,079	391,636
8506	Coronavirus Fiscal Recovery Fund of 2021	-	312,519	-
9740	Central Service Cost Recovery Fund	814	330	708
TOTALS, EXPENDITURES, ALL FUNDS		**$293,498**	**$1,592,379**	**$1,014,786**

Issue 5: OPR Education Proposals

Governor's Budget. The budget includes several education-related proposals at the Office of Planning and Research (OPR). These include:

- Ongoing funding of $3 million General Fund beginning in 2022-23. This includes $2 million to restore 2020 Budget Act reductions to Learning Lab's grant pool and $1 million to support the Individualized Adaptive Learning Open Educational Resources (IAL-OER) project, which aims to address equity gaps in chemistry while also working towards reducing equity gaps in other Science, Technology, Engineering, and Mathematics (STEM) fields.
- $20 million one-time General Fund for a grant to Carnegie Science for a climate research hub in Pasadena. Grant will construction of a new research hub that will broaden and deepen our knowledge of the environmental, biological, and energy threats facing California and the world.
- $30 million one-time General Fund to establish the Golden State Awards grant program. The program will provide between 20 and 30 grants to innovative projects based at or associated with a California public college or university, thus incentivizing and celebrating excellence.

Background. The Learning Lab was established by AB 1809 (Committee on Budget), Chapter 33, Statutes of 2018. Pursuant to Section 650592.2 of Government Code, Learning Lab's purpose is "to increase learning outcomes and to close equity and achievement gaps, using learning science (also known as the science of human learning) and adaptive learning technologies in online or hybrid college-level lower division courses in science, technology, engineering, and mathematics (STEM) and other disciplines." The same section also specifies that the Learning Lab shall award grants to intersegmental teams of faculty.

The Carnegie Institution for Science has three research divisions on both coasts of the United States and at the Las Campanas Observatory in Chile. It is an endowed, independent, nonprofit institution. Significant additional support comes from federal grants and private donations. A board of trustees, consisting of leaders in business, the sciences, education, and public service, oversees Carnegie's operations. Each of the divisions has its own scientific director who manages day-to-day operations.

Staff Comments. The 2018 Budget Act included ongoing support of $10 million to establish and support the Learning Lab and its statutory mission on a permanent basis. Ongoing funding allowed the Learning Lab to host five separate competitive grant opportunities, resulting in $18.5 million being awarded to 30 intersegmental projects benefitting students and faculty across the state during the Lab's first two years. Statewide cuts due to the reduction of revenue available for the 2020 Budget Act then reduced the Learning Lab's funding by $2 million, or 20 percent. During 2020-21, the Learning Lab sustained a substantial drop in its grant pool, with only an additional 9 grants made in 2020-21. For 2021-22, the Learning Lab hopes to add an additional 42 grants; however, the size of many of these grants will be notably smaller and thus not result in supporting the same level of innovation and capacity-building as earlier grant cycles.

The Golden State Awards would be a new program. The Administration has proposed that the California Learning Lab would administer the Golden State Award program. The Learning Lab currently awards grants to intersegmental teams of educators and researchers with a focus on pedagogical and technological innovations and on Science, Technology, Engineering, and Mathematics (STEM) fields, making it prepared to facilitate the new program. No more than 5 percent would be available for administrative costs. Funds are available until June 30, 2025, and Learning Lab will report to the Director of Finance and the Legislature by January 1, 2026 regarding awards made under the program, including the number and amount of awards, the recipient or recipients, and a summary of the innovative activities for which the recipient or recipients received an award.

The Administration has indicated that Carnegie Science requires $120 million to construct the 135,000 square foot facility, which will house 24 Principal Investigators and a total staff headcount of 220 in the new Life and Environmental Sciences Division in Pasadena. With the new facility, Carnegie Science will relocate all of its life science departments—some of which are currently housed out of state—to Pasadena in a newly formed collaboration with Caltech, bringing additional jobs and a diverse community of scientists from around the world to the area. Having already raised private funds and acquired the land, the organization will leverage the state’s contribution with other resources to complete the project and establish state-of-the-art infrastructure for advancing climate-related sciences.

Staff Recommendation. Hold open.

Issue 6: Precision Medicine Proposals

Governor's Budget. The budget includes several proposals related to the California Institute to Advance Precision Medicine (CIAPM). These include:

- $10 million General Fund one-time in 2022-23 to provide grants for projects focusing on depression, and that apply a precision medicine approach to using data in county behavioral health settings.
- $9.25 million General Fund one-time in 2022-23 to address health disparities and enhance equity by increasing participation by underrepresented minorities in biomedical research projects.

Background. CIAPM was officially established in statute by Chapter 24, Statutes of 2016 (AB 1602). AB 1602 states that CIAPM is to: (1) develop, implement, award funding to, and evaluate demonstration projects on, precision medicine, (2) use a peer-review process to select the proposals that are funded, (3) collaborate with public, nonprofit, and private entities, and (4) develop an inventory of precision medicine assets, including projects, data sets, and experts.

The 2014 Budget included $3 million for OPR to use for precision medicine. The 2016 Budget included an additional $10 million for precision medicine. With those funds, six additional demonstration projects were launched, and all finished by the end of December 2018. A $10 million budget allocation as a part of the 2017 Budget funded three additional research teams that are currently working to address cancer health disparities in California. Those projects will conclude by fall 2023.

A 2018 report commissioned by the Brown Administration, Precision Medicine: An Action Plan for California, recommends that the Governor's Office of Planning and Research invest in grants to further research in depression.

Staff Comments. Especially as the state emerges from the COVID-19 pandemic and mental health challenges are at peak levels, new interventions could help to support the mental health and wellbeing of communities. The majority of funding for mental health research is provided by the Federal government, mostly through the National Institutes of Health (NIH). The Administration has indicated that the requested funding could help fund up to 30 additional studies to help plug gaps in or expand upon other federally-funded research.

Evidence shows that certain subpopulations are less likely to participate in biomedical research. These subpopulations include people with racially diverse backgrounds and older, LGBT, rural, youth, and/or physically or developmentally disabled people. Because members of these groups are underrepresented in research, advances in biomedical research might not be as effective for them or may even be harmful.

OPR, in partnership with multiple state governmental and education entities, pursued a grant for this work through the federal All of Us Precision Medicine Initiative, which seeks to expand participation of under-represented groups in medical studies. The Administration has indicated that the requested funding would allow OPR to pursue this work alongside the existing federal All of Us program. The Administration has indicated that the requested funding would be used to improve representation of marginalized groups in medical studies.

Staff Recommendation: Hold Open.

Issue 7: Community Partnerships and Strategic Communications

Governor's Budget. The Governor's budget includes $65 million General Fund in 2022-23 and ongoing to create and implement the Office of Community Partnerships and Strategic Communications (OCPSC) in order to manage the state's highest priority public awareness and community outreach campaigns.

Background. The Office of Planning and Research (OPR) was created by statute in 1970 and among other responsibilities is designated as the "state planning entity." OPR's core programs include State Planning and Policy, Strategic Growth Council and California Volunteers and coordinating land use, planning, and environmental and climate policy across state agencies.

The state made significant communication and community outreach efforts in recent years, including communications around the 2020 Census (for which $187 million was appropriated over three years) as well as ongoing communications related to the COVID-19 pandemic and related public health issues.

Staff Comments. The Administration has indicated that a number of important lessons have been learned from the 2020 Census and COVID-19 communication campaigns, including the importance of data, the important of engaging communities directly, and the need for closer coordination between involved state entities. The Administration has indicated that these communication efforts were typically separate from one another, even if they were communicating with the same communities or organizations.

The Administration has indicated that this proposal is split into two components:

- Resources to stand up the new Office of Community Partnerships and Strategic Communications (OCPSC) to coordinate and manage statewide communications campaigns across state government.
- Contracting resources to establish and maintain a network of community-based organizations with which to partner on communications efforts in impacted communities across the state.

The Administration has indicated that additional details are forthcoming.

Staff Recommendation: Hold Open.

Issue 8: California Volunteers Proposals

Governor's Budget. The Governor's budget includes several proposals related to the California Volunteers program. These include:

- $10 million General Fund in 2022-23 and ongoing to support the mobilization and unification of California around service, volunteerism, and neighbor-to-neighbor outreach. The resources will expand California's existing volunteer infrastructure and bolster a statewide Neighbor-to-Neighbor initiative to recruit, train, equip and organize neighbors in response to community needs.
- $10 million General Fund one-time in 2022-23 to develop and implement the Foster Grandparent and the Senior Companion Programs to increase older adult volunteerism, help people age in place, reduce isolation, enhance intergenerational partnerships and relationships, and provide benefits to schools, libraries, local community sites, and more.

Background. The Coronavirus (COVID-19) pandemic forced the state to rethink existing strategies for engagement and mobilization of Californians around pressing community issues. California Volunteers, as the State Service Commission and the lead for volunteerism, service, and civic engagement in the state, developed and launched a pilot engagement campaign known as the Neighbor-to-Neighbor initiative. This program began as an unfunded effort; a grassroots mobilization strategy to engage Californians who wanted to help their neighbors during the worst of the pandemic but did not know where to start. This initial program developed by California Volunteers to fill a need has since been formalized in response to the ongoing pandemic.

The Foster Grandparent program is a national program that recruits low-income older adults to provide one-on-one mentoring, nurturing, and support to children with special or exceptional needs or who are in circumstances that limit their academic, social, or emotional development. The Senior Companion Program is a national peer-based volunteer program that provides services to older adults at risk of nursing home placement due to chronic illness, disability, or isolation.

Staff Comments. California Volunteers proposes to use the requested funding for the Neighbor-to-Neighbor program to build a statewide network of neighborhood leaders to activate neighborhoods taking action. California Volunteers will provide the forum and create convenings to train neighborhood leaders across the state. California Volunteers will provide multiple trainings on how to organize neighborhood activity and what actions to take in key focus areas and support an activity calendar based on time of year that keeps the leaders engaged with ideas for action.

California's 10-year Master Plan for Aging provides a blueprint to prepare the state for the coming demographic changes and to continue California's leadership in aging, disability, and equity. According to the Master Plan for Aging, California's over-60 population will increase from 16 percent of the total in 2010 to 25 percent in 2030. Providing opportunities for older adults to share their talents, experience, and time will be key to meeting the state's growing needs. The Master Plan for Aging specifically addresses engagement.

Staff Recommendation: Hold Open.

Issue 9: California Tribal Affairs Office

Governor's Budget. The Governor's budget includes a net-zero transfer of $115,000 Environmental License Plate Fund (ELPF) ongoing and $441,000 General Fund ongoing and 3 positions from the Native American Commission to establish the Office of Tribal Affairs within the Governor's Office, the net-zero transfer of $450,000 ELPF through FY 2024-25 to the Governor's Office of Planning and Research to support the California Truth & Healing Council.

Functionally, these requests will do the following:

- Reduce the California Native Heritage Commission budget by 1 position and $774,000 ($209,000 General Fund and $565,000 ELPF).
- Increases the budget for the Governor's Office by 3 positions and $535,000 ($115,000 ELPF, $441,000 General Fund).
- Increases OPR's budget by $450,000 ELPF.

Background. The position of the Tribal Advisor was created via Executive Order B-10-11 in 2011. In 2018, the Governor's Office created the Tribal Advisor position and Office of the Tribal Advisor independently in statute via AB 880 to make the office a more permanent fixture within the Governor's Office, though the budget remained within the Commission budget and no position was independently established or funded at that time. In 2021, due to the growing scope and complexity of work under the purview of each the Commission and the Governor's Office of the Tribal Advisor, the position of the Tribal Advisor was established through the Budget Act of 2021 and staffed separately. The Office of the Tribal Advisor now operates separately from the Commission, though it remains housed within the Commission budget.

In Fiscal Years 2020-21 and 2021-22, the Legislature authorized a total $450,000 Environmental License Plate Fund annually through Fiscal Year 2024-25 to fund the work of the California Truth & Healing Council, which is a 12 member Council (16 total with alternate voting members) that meets quarterly and as subcommittees as needed throughout the state. Pursuant to E.O. N-15-19, the Governor's Tribal Advisor convenes and leads the Truth & Healing Council. The Council must submit a final written report of findings to the Office of the Tribal Advisor by January 1, 2025.

Staff Comments. The Administration has indicated that the Governor's Tribal Advisor currently oversees and convenes the California Truth & Healing Council. The transfer of the California Truth & Healing Council budget to OPR will allow the Governor's Tribal Advisor to continue to administer the work of the Council at a high level and facilitate research and writing to compile the final report with the assistance of the Governor's Office of Planning and Research.

The portions of this proposal that impact the California Native American Heritage Commission and the Governor's Office will be heard at another date.

Staff Recommendation: Hold Open

Issue 10: Legislative Staff Augmentation

Governor's Budget. The budget includes $438,000 General Fund and two positions in 2022-23 and ongoing to support OPR's growing amount of legislative workload across OPRs budget programs including the Strategic Growth Council (SGC), California Volunteers (CV), and OPR's State Planning & Policy (SPPD) programs.

Background. Created by statute in 1970, OPR serves the Governor and their Cabinet as staff for long-range planning and research and constitutes the state's comprehensive planning agency. The Legislature and Administration frequently task OPR and SGC with launching new initiatives and grant programs, and drafting reports and documents related to relevant and timely policy topics.

The 2019 budget provided $334,000 General Fund in and three positions to assist with additional administrative workload for OPR. The proposed 2020 budget included $357,000 from the General Fund in 2020-21 and ongoing to establish 2.0 positions to support OPR's growing amount of legal and legislative work. However, this request was withdrawn in the face of fiscal issues anticipated to result from the COVID 19 pandemic. The 2021 budget included $622,000 General Fund to fund increased personnel in the CEQA Clearinghouse and OPR's cross-programmatic administrative functions.

Staff Comments. The Administration has indicated that legislative workload for both OPR and SGC is currently supported by one position that fulfills responsibilities typically supported by a team of several staff members at other agencies. Additionally, OPR has been the subject of an increasing number of legislative bills in recent years. In 2013-14, there were 28 bills that impacted the Office. This increased to 81 bills in the 2019-20 legislative session.

Past budgets have provided significant additional administrative resources for OPR, none of which have been focused on legislative work. However, there are questions surrounding the appropriate level of resources and whether existing resources could be better allocated to manage OPR's growing legislative workload.

Staff Recommendation. Hold Open.

0509 Governor's Office of Business and Economic Development (GO-Biz)

Issue 11: Update on GO-Biz Small Business Relief Programs

Request. The California Office of Small Business Advocate (CalOSBA) will provide an update on the California Small Business COVID-19 Relief program, the Microbusiness COVID-19 Relief Grant Program, CA Dream Fund, Inclusive Innovation Hubs (iHubs2), the California Venues Grant Program, and the California Nonprofit Performing Art Grants Program.

Background.

The following is a summary of small business programs funded in the 2021 Budget Act:
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<u>Small Business COVID Relief Grant (SBCRG)</u>

The California Small Business COVID-19 Relief Grant Program was created within the California Office of the Small Business Advocate (CalOSBA). The program, which launched in December 2020, initially received an allocation of $500 million in Disaster Response-Emergency Operations Account funding to provide grants up to $25,000 to help support small businesses and nonprofits impacted by the pandemic. Chapter 7, Statutes of 2021 (SB 87) provided an additional $2 billion General Fund to support this program. Of the amount allocated in SB 87, $50 million was allocated specifically for one round of grants to nonprofit cultural institutions. Chapter 74, Statutes of 2021 (SB 151) provided an additional $1.5 billion in federal State Fiscal Recovery Funds to fund three additional rounds of grants for small businesses and nonprofits impacted by the pandemic. A total of $4 billion ($2.5 billion General Fund and $1.5 billion federal funds) has been allocated for this program.

According to CalOSBA, funding has been provided through nine rounds of applications, and rounds 1 to 9 have all closed to additional applications. Total dollars awarded to date are $3,564,785,886. Awards are still being made for round 9. See table below for details. Award data is on the CalOSBA website.

Grant Program (Rounds 1 through 9)	
Total Applications Received to Date	516,175

Award Provided	
Total to Date	311,566

Eligible Businesses That Have Not Received An Award	
Pending/ Projected to still receive an award under existing funding	57,267
Estimated to Receive an Award with the additional $150 million in the recent Early Action Package	13,513
Subtotal	70,780

Ineligible Businesses/ Will Not Receive An Award	
Ineligible due to delinquent SOS filing status	8,570
Didn't meet verification or validation requirements	45,693
Duplicates of nonprofit applications	98
Duplicates for businesses that applied for multiple grants	79,468
Subtotal	133,829

Microbusiness COVID-19 Relief Grants (MBCRG)

The California Micro Business COVID-19 Relief Grant is administered by the CalOSBA. The Program provides competitive micro grants of $2,500 to eligible microbusinesses impacted by COVID-19 and the related health and safety restrictions. Amounts available for each County are based on population as determined from the latest population estimates from the California Department of Finance. The role of grant making entities was granted to County government agencies or a consortium of nonprofits through two rounds of applications.

- Round 1– Is complete with 26 counties having received a notice of intent to award. 13 counties have fully executed contracts and requisitions have been done. 10 counties are going through their local approval process and 3 have yet to complete their documentation.

- Round 2 – The Request for Proposals (RFP) for California county governments and consortiums of nonprofits to apply as grant making entities opened 1/26/22 and will close 3/10/22.

California Dream Fund

The 2021 Budget act included $35 million one-time General Fund in 2021-22 to establish the California Dream Fund, which will provide grants of up to $10,000 to new businesses through the California Small Business Technical Assistance Expansion Program (SB TAEP). Up to ten percent of the funding may be used for outreach and administration.

CalOSBA released an RFP to select a fiscal agent via the Cal eProcure site. Proposals were due January 12, 2022. CalOSBA and BSU underwent a scoring process to select the fiscal agent. A notice of intent to award was sent to Lendistry and posted on Cal eProcure. The ten- day "stand still period" has expired with no contest to the contract award. B.S. D. Capital (Lendistry) has been selected to administer grant funds for the California Dream Fund Program. TAEP Centers have all received awards to serve small businesses for their respective service areas.

Inclusive Innovation Hubs (iHub2)

The 2021 Budget included $2.5 million one-time General Fund to start the iHub2 Program. iHubs are intended to improve the state's national and global competitiveness by stimulating partnerships, economic development, and job creation around specific research clusters throughout the state. The iHub2 program provides support to accelerators, incubators, and place based small business development centers designed to foster qualified small businesses in technology driven and geographically diverse innovation business ventures. CalOSBA currently has a request for proposal (RFP) open to establish 10 Hubs within the state and expects to award funding of $250,000 to each of the 10 by February 2022. The request for proposals submission period was 10/11/21 – 12/16/21 and 22 applications were received from across the state. CalOSBA is currently in the selection process for the 10 iHubs. Notices of Intent to Award are expected to go out on in early February 2022.

California Venues Grants

The 2021 Budget included $150 million one-time General Fund in 2021-22 to provide grants of up to $250,000 to independent venues, live events businesses, and minor league sports. As of 12/28/21, approximately 453 live venue centers were selected to go through the validation and verification process, which takes approximately 45 days. Go-Biz reports that they are investigating an issue related to NAICS (North American Industry Coding System) codes that may have otherwise eligible entities deemed ineligible. Not all selected applicants will be awarded, and selections are still ongoing at this time.

Nonprofit Performing Arts Grants

The 2021 Budget included $49.5 million one-time General Fund in 2021-22 to provide grants of up to $75,000 to eligible nonprofit performing arts organizations to encourage workforce development. CalOSBA released a request for proposals from eligible grant making entities on January 21, 2022 to solicit applications from eligible organizations to apply to administer the grant program and distribute grants to eligible nonprofit performing arts organizations to encourage workforce development. Applications will be accepted through Tuesday, February 8, 2022.

Staff Comments. While early action legislation (AB 87 and SB 113) related to the budget would provide an additional $150 million for waitlisted applicants to the California Small Business COVID-19 Relief Grant Program. CalOSBA has identified approximately $20 million in funding that remains unallocated from the amount set-aside for non-profit cultural institutions. The Legislature may wish to consider if there were barriers for non-profit cultural institutions in accessing the funds and whether additional changes are need to fully utilize funding to support these unique institutions as originally intended.

Staff Recommendation. Information Only.

Issue 12: California Tourism Recovery Funding

Request. The Governor budget requests $45 million one-time General Fund in 2022-23 to implement strategic media recovery campaigns to help continue the recovery of the travel and tourism industry. The California Office of Tourism, within the Governor's Office of Business and Economic Development, will coordinate with Visit California to implement this initiative.

Background. The 2021 Budget included $95 million federal American Rescue Plan Act funding in 2021-22 to implement strategic media campaigns to jump-start the recovery of the travel and tourism industry. The contract between GO-Biz and Visit California was executed on October 12, 2021, and the funding was provided to Visit California on October 15, 2021.

Visit California reported that of the $95 million, $45 million will be programmed for the second half of the 2021-22 fiscal year. This is equivalent to the amount that is requested for the 2022-23 fiscal year.

Visit California's campaigns are distributed through television and online television, billboards, radio, digital, social media, and online travel agencies. Funding for the current campaigns will be exhausted by June 2022. This request will keep existing marketing campaigns on air through June 2023 and add dedicated campaign layers focused on family, urban core and culinary travel.

The proposed new campaigns include:

- Kidifornia—promoting California as a family fun option for those looking to reunite, reconnect, and learn how to vacation again.

- Urban Core—promoting gateway cities that offer a blend of outdoor setting and cultural experiences for travelers looking to embrace life, be spontaneous and their adventure.

- Culinary—encouraging everyone to dine out and help California's world-class restaurants and their employees.

Visit California—$45 Million Spending Media Plan

	TOTAL SPEND (2022-23)	FALL 2022 SPEND	SPRING 2023 SPEND
CALLING ALL CALIFORNIANS			
In-State Spot Market Television	$4,000,000	$4,000,000	$0
In-State Out-of-Home	$1,000,000	$1,000,000	$0
	$5,000,000	**$5,000,000**	**$0**
AM I DREAMING, CALIFORNIA			
National Linear TV	$8,000,000	$8,000,000	$0
National Online TV	$3,500,000	$3,500,000	$0
National Digital/Social	$7,000,000	$3,500,000	$3,500,000
Matching Co-op Funds	$4,000,000	$2,000,000	$2,000,000
	$22,500,000	**$17,000,000**	**$5,500,000**
FAMILY/KIDIFORNIA			
National Linear TV	$5,000,000	$5,000,000	$0
National Online TV	$2,000,000	$2,000,000	$0
National Digital/Social	$2,000,000	$1,000,000	$1,000,000
Matching Co-op Funds	$1,000,000	$500,000	$500,000
	$10,000,000	**$8,500,000**	**$1,500,000**
URBAN CORE/CULINARY			
National Online TV	$3,000,000	$1,500,000	$1,500,000
National Digital/Social	$2,000,000	$1,000,000	$1,000,000
	$5,000,000	**$2,500,000**	**$2,500,000**
MEET WHAT'S POSSIBLE			
Group Meetings & Conventions	$2,000,000	$1,000,000	$1,000,000
	$2,000,000	**$1,000,000**	**$1,000,000**
CONTINGENCY			
Contingency	$500,000	$250,000	$250,000
	$500,000	**$250,000**	**$250,000**
TOTAL 2022-23 STIMULUS MEDIA PLAN	**$45,000,000**	**$34,250,000**	**$10,750,000**

LAO Comments.

COVID-19 Significantly Impacted State Tourism and Visit California Revenue. Tourism is an important industry in the state that was impacted by the COVID-19 pandemic to a greater extent than many other sectors of the state's economy. While total consumer spending in California declined by 4 percent in 2020, Visit California estimates that direct travel-related spending declined by 55 percent. The decline in tourism affects tourism business and, by extension, Visit California's assessment revenues, which declined from $124 million in 2018-19 to $76 million in 2020-21.

Visit California Net Assets Increased Significantly in 2020 and 2021. As revenue collections began to decline at the onset of the pandemic in 2020, Visit California sharply reduced its expenditures. Its reduction in expenditures outpaced its decline in revenues. Consequently, Visit California has increased its net assets from $20 million at the beginning of 2019-20 to $58 million by the end of 2021-22.

Additional State Funding for Marketing Appears Unnecessary. Tourism in California has begun to recover but it likely will be depressed for some time because of public health concerns. While Visit California's assessment revenue over the next several years likely will continue to be depressed, it is unlikely to decline further. We find that Visit California should be able to spend somewhat above their pre-pandemic levels without additional state funds given its net assets, the $95 million provided by the state last year, and its current levels of assessment revenue.

Staff Recommendation. Hold Open

Issue 13: Immigration Integration and Economic Development

Budget. The Governor's budget requests one position and $11.6 million General Fund in 2022-23, and $500,000 annually thereafter, to support statewide coordination for immigrant integration and propel innovation including through enhanced services for immigrant communities at the state and local level, and supports for economic development activities, including at the California-Mexico border. This request also includes statutory changes to clarify the role of the Director of Immigration Integration and align the functions of the position.

Background.

This BCP has five components: Immigrant focused position, Local Government Investments, Business Quick Start Guides and Translations, Export Training Network, and Trade missions.

These areas are outlined below:

Immigrant –Focused Position

- Provide $150,000 ongoing General fund to establish a new immigrant-focused position within GO-Biz to support statewide coordination and direct resources for integration:
- Convene the Interagency Council on Immigrant Integration & Talent and support engagement with business and immigration stakeholders.
- Provide technical assistance to state departments and agencies.
- Lead outreach to target populations regarding available services and work with business owners to identify policies that foster complete economic integration of foreign-born talent and sustained prosperity for all; identify programs and initiatives that could help support cross-border commerce; and efforts that can support immigrant entrepreneurs and workers, including supporting workplace based English language training and promoting citizenship.
- Oversee the provision of one-time funding to local governments to seed and enhance immigrant integration support services across the state and amplify the development and deployment of best practices.

Local Government Investments.

Provide $8.7 million one-time General Fund in 2022-23, available over three-years, for competitive grants to local governments to start or expand positions to: 1) build trust with immigrant residents and 2) help immigrant populations navigate state and local services with priority on quality of life, workforce, and entrepreneurship supports. This funding will help cities and counties seed and deploy best practices in immigrant support services with state provided technical assistance, including hiring a liaison or ombudsman to provide or expand support services across local government for immigrant communities, including small business owners, or establishing or maintaining a local office for immigrant services.

Business Quick Start Guides & Translations

Provide $600,000 General Fund in 2022-23, and $200,000 ongoing, to expand the number and availability of industries with Business Quick Start Guides and translate those resources to priority languages, including annual translation updates, as needed, and in coordination with the California Business Investment Services permitting unit and the California Office of the Small Business Advocate. Develop navigational guides regarding the professional licensing process in partnership with the Department of Consumer Affairs and immigrant serving organizations and provide translations. Synthesize website content and make it easier for individuals to access translated forms and navigate the online content.

Export Training Network

Provide $2 million one-time General Fund in 2022-23 to support the statewide expansion of the export training network overseen by the International Affairs and Trade unit within GO-Biz. Funding would be allocated through a request for proposal for service providers to develop export training programs and curriculum aimed at underserved business owners, including immigrant entrepreneurs and small business operators. As a component of the training programs, service providers should also recruit business professionals to mentor immigrant and refugee entrepreneurs. Funding will be targeted to seven regions: San Diego, Inland Empire, Orange County, Los Angeles, Central Valley, Bay Area, and Northern California.

Trade Missions

Provide $150,000 ongoing General Fund to enhance border region economic development activities and growing bilateral trade and investment between California and Mexico. Funding would be used to implement four to five virtual or hybrid trade missions, effectively scaling a successful Baja-focused May 2021 virtual trade mission organized by GO-Biz. The California-Mexico border region, commonly referred to as the Cali Baja Bi-National Mega-Region or CaliBaja, has a strong and diverse industrial center with plenty of opportunity for cross-border economic activity, particularly in the manufacturing arena. The trade missions would be targeted at advancing the border region's strategic industries, enabling cross-border economic growth and development.

Legislative Analyst Office Comments.

The LAO raises the following key questions:

- What are the key barriers to economic integration for immigrants? Would these programs address these barriers? How broadly?
- Do particular groups of immigrants or immigrants in certain regions of the state face higher barriers? Should the proposal include specific geographic targeting criteria?
- How does the Administration's proposal take into consideration these first two questions?

- How will GO-Biz evaluate the effectiveness of the new programs?

- How can the state ensure that grants to local governments would not supplant existing or future local funding toward these efforts?

Staff Recommendation. Hold Open.

Issue 14: Combatting Organized Retail Theft

Budget. The Governor's budget requests $20 million one-time General Fund in 2022-23 for GO-Biz to develop and distribute grants to small businesses that have been the victim of retail theft or that have suffered damage caused during retail theft incidents. The $20 million is part of a larger request on combating organized retail theft. This Subcommittee will focus on the GO-Biz funding

Background.
The California Office of the Small Business Advocate (CalOSBA) within GO-Biz requests $20 million one-time General Fund in 2022-23 to create a competitive grant program to support small businesses that have been victim of retail theft, or that have suffered damage caused during retail theft incidents, to assist with repairing or replacing infrastructure to resume business operations. California, like many states across the country, has experienced an increase of smash-and-grab crimes and vandalism, theft, burglaries, and robberies at businesses large and small.

According to a 2021 National Retail Federation survey, top ten cities where these "smash-and-grab" incidents are most prevalent include three California cities: Los Angeles, San Francisco/Oakland, and Sacramento. Los Angeles and the Bay Area are the number-one and number-two targets in the nation for this kind of crime. These crimes are initiated in an organized fashion—groups of individuals breaking into a store or building and stealing goods.

A vast majority of these crimes start at a storefront's glass windows and doors where security is most vulnerable. The requested resources will support small businesses that have been victim of retail theft, or that have suffered damage caused during retail theft incidents.

LAO Comments.

The LAO raises the following:

Several Practical Considerations Must Be Addressed. GO-Biz has not finalized key details of the proposed new grant program. This is particularly concerning because GO- Biz has no institutional experience implementing a program like this. There are several practical considerations that will need to be addressed, and it may be very difficult or costly to do so.

These include:

- Which Businesses Will Be Eligible? The definition of organized retail theft in statute is quite broad and would cover organized crime, smash and grabs, as well as coordinated shoplifting. Go-Biz would need to define the type of crime that would make a business eligible, and be able to distinguish between ineligible types of crimes.

- How Would GO-Biz Verify Applicant Eligibility? What evidence would be required to substantiate claims of damages or losses? Would a police report be required and would that be sufficient?
- What Types of Damages and Losses Would Be Covered and How Much Would Be Covered by The Grant? Would businesses be compensated for the entire amount of eligible damages or just a portion?
- How Would GO-Biz Verify the Amount of Losses or Damages? Would businesses self-certify their damages or would they need to provide records? How much effort would be invested to verify the claims for compensation?
- How Would GO-Biz Verify an Amount Was Not Covered by Insurance? Presumably, damages that are covered by insurance would not be eligible for compensation. Many retailers carry business owner's insurance policies that could cover many common damages and losses. However, options allow coverage to vary based on the individual needs of different businesses. Some businesses may not have insurance.

Program Could Have Unintended Consequences. It is unclear that a victim's compensation model will translate well to small businesses. Will this program have unintended consequences, such as discouraging businesses from taking precautions to prevent crime or to carry sufficient insurance? Depending on the Legislature's priorities, there might be more effective alternatives to this proposal.

Staff Recommendation. Hold Open.

Issue 15: Supply Chain Resilience: Ports Investments

Budget. The Governor's budget includes $30 million for GO-Biz to provide funding for operational and process improvements at ports, which includes improving data connectivity and enhancing goods movement. This request is part of a larger budget change proposal on Supply Chain Resilience; the Subcommittee will focus on the GO-Biz funding portion

Background.

California's ports are experiencing major disruption challenges that are hindering the movement of goods, creating costs for consumers and businesses, and creating negative environmental impacts. One way to enhance the movement of goods could be the development of a transparent, statewide data portal that is compatible with existing terminal operator platforms and can integrate our state's ports. This could result in more visibility into the supply change and data sharing that can provide more efficient movement of goods within California and nationwide. GO-Biz intends to work with stakeholders over the coming months to implement this proposal.

Legislative Analyst's Office Comments.

Grants Might Help Implement Common Standard for Freight Data. Key details for this proposal have not been finalized. The Federal Maritime Commission currently is identifying data interoperability problems at ports. Their initial findings will be reported in the spring 2022 and GO-Biz envisions providing state funding to help implement any recommendations for common data standards.

Improved Data Interoperability Might Address Supply Chain Problems... The ports, ocean carriers, marine terminal operators, truckers, and railroads apparently lack data standards that would allow for efficiently sharing cargo records. Lack of data standards could be contributing to the recent supply chain problems. The federal Maritime Commission and GO-Biz believe that implementing data standards could, perhaps, help to alleviate these problems.

...But State Role Is Unclear. This proposal is not yet fully developed, pending the findings of the Federal Maritime Commission. In the event that GO-Biz decides to move forward with a focus on data interoperability, the LAO observes that there is not a clear role for the state. Federal agencies may be better situated to play a coordinating role. The beneficiaries are primarily private companies and there is a clear private-sector interest in adopting data standards if doing so would alleviate the recent problems.

Is GO-Biz Most Appropriate Agency to Administer This Program? Should the Legislature determine that state funding for these improvements is appropriate, it should then consider which agency is most suited to administer the program. GO-Biz has a cross- cutting coordination role for the state's key economic issues but has limited expertise in technical goods movement issues.

Staff Recommendation. Hold Open

Issue 16: Inclusive Innovation Hub Program Expansion

Budget. The Governor's Budget includes $20 million one-time General Fund, to be spent over four years, to expand the number of inclusive innovation hubs from 10 to 13 regions, and to establish the Entrepreneurship Fund to provide grants of up to $100,000 per business for five new businesses incubated at each of the inclusive innovation hubs.

Background. The Governor's Budget proposes the following breakdown of the $20 million request:

- $13,000,000—Funding for each Hub at $250,000 per year for four years.
- $6,500,000—Entrepreneurship Fund, seed funding of up to $100,000 per business for five small businesses incubated at each of Hubs.
- $500,000—Administrative costs for CalOSBA to administer, monitor, and report on the Entrepreneurship Fund and the Hubs.

The 2021 Budget included $2.5 million one-time General Fund to revive the iHub program as the iHub2 Program with significant changes. The iHub2 program provides support to accelerators, incubators, and place-based small business development centers designed to foster qualified small businesses in technology driven and geographically diverse innovation business ventures. CalOSBA currently has a request for proposal (RFP) open to establish 10 Hubs within the state and expects to award funding of $250,000 to each of the 10 by February 2022.

Chapter 259, Statutes of 2021 (SB 162) established the $600 million Community Economic Resilience Fund (CERF). The goal of the legislation is to support regions in planning and implementing regional economic strategies to strengthen their economies and make prosperity more equitable and sustainable for more Californians. The CERF Leadership Team is comprised of the Governor's Office of Planning and Research (OPR), the California Labor Workforce Development Agency (LWDA), and GO-Biz. The Leadership Team has proposed a map that divides the state into 13 regions

Each of the 13 CERF regions includes populations and areas that have been disproportionately impacted by COVID-19, but also areas where accelerated commercialization of innovation is vital to California's long-term economic recovery and strength. CalOSBA believes that each region identified on the CERF map should have an Inclusive Innovation Hub as an anchor for strong innovation and startup business activity incentivized to focus on diversity, equity and inclusion in the state's tech and science- based startup ecosystem.

This proposal will reestablish the iHub2 program as the Accelerate CA: Inclusive Innovation Hub program to focus on inclusive economic growth. The program will 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, that mirror the regions created by CERF process. Hubs will support regional inclusive ecosystems of innovation and drive investment towards regional assets to accelerate technology commercialization. They will support innovative startups in key emerging and growth industries with a strong focus on underserved founders and geographies. Preference will be given to applicants from underserved business groups, including women, minority, and veteran-owned businesses and businesses in low-wealth, rural, or disaster-impacted communities.

LAO Comments.

Consider Evaluating Effectiveness of Innovation Hubs. We are unsure how effective the previous innovation hub program was. The Administration did not study the innovation hub program before providing new funding last year and some innovation hubs continued operating without state funds, while others became inactive. Should the Legislature approve this proposal, we suggest requiring the program collect information about the programs, other sources of funding, and outcomes of the innovation hubs. It would be prudent to evaluate the effectiveness of the program before providing additional state funding. Moreover, a good evaluation would provide evidence that may inform any additional changes to the program in the future

Staff Recommendation. Hold Open

Issue 17: Local Government Sustainability Fund

Budget. The Governor's budget provides statutory changes to establish the Local Government Budget Sustainability Fund to provide short-term grants to local entities facing significant challenges to their near-term sustainability, but demonstrate a clear commitment to advancing a more climate-resilient local economy. This request also includes $100 million General Fund in 2023-24, $100 million in 2024-25, and $250 million in 2025-26 to support this program.

Background. According to the BCP, the overall policy goal for the Local Government Budget Sustainability Fund is to support targeted local county governments facing future and current threats to the sustainability of their local revenues and services, while empowering these counties to pursue economic diversification initiatives and projects that will provide long-term stability.

These grants will inject funds into county-led projects that are aimed at process improvement, economic diversification, climate technologies, economic development, job mobility, and job creation. As these economies grapple with the impacts of COVID-19 and climate change, these grants will offer flexibility to the qualified counties enabling investment in opportunities for future economic resilience, without the need to reduce necessary allocations for vital services.

GO-Biz requests statutory changes to establish the Local Government Budget Sustainability Fund to provide grants to counties that both are facing sustainability challenges and are committed and willing to advancing a more climate-resilient local economy. GO-Biz also requests $100 million General Fund in 2023-24, $100 million in 2024-25, and $250 million in 2025-26 for this program. Counties will be selected based on Designated Geographic Areas (DGA) inclusive of High Poverty and High Unemployment counties from January 2022 California Competes Tax Credit list of High-Poverty and High Unemployment Areas listing and all subsequent changes to the DGAs under future CalCompetes application periods until funds have been exhausted.

Legislative Analyst's Office Comments.

The LAO notes that key information is not yet available to fully evaluate the proposal. The Administration is still developing its statewide economic recovery and economic diversification framework, the Just Transition Roadmap, and the CERF. Once the Administration has more clearly articulated its economic recovery and economic diversification objectives, it may be able to better answer the following questions:

- <u>Would the Local Government Budget Sustainability Fund Complement Other State Economic Development Initiatives?</u> The proposal lacks many key details, such as what projects would be eligible and the award criteria. We cannot evaluate the merits of this proposal until we better understand the objectives of the CERF in the context of the statewide Just Transition framework.
- <u>What Amount of Funding Is Appropriate and Necessary?</u> The proposal does not provide a justification for the amount requested. The CERF was funded at $600 million. The proposed Local Government Budget Sustainability Fund, which is intended to fill gaps in the CERF, is a relatively large amount of money. With more information

about the scope of the Administration's statewide economic diversification objectives, the Legislature will be able to better assess whether a total of $600 million, $1.05 billion, or some other amount is most appropriate.

Staff Comments. At the time this agenda was published, trailer bill language on this proposal was not yet available.

Staff Recommendation. Hold Open.

Issue 18: Technical Assistance Expansion Program and Capital Infusion Program

Budget. The Governor's budget includes $6 million General Fund in 2022-23 to bolster the Technical Assistance Expansion Program and support increased demand, and $26 million annually thereafter to permanently fund the Technical Assistance Expansion Program ($23 million) and the Capital Infusion Program ($3 million). Statutory changes are also requested to extend the programs permanently

Background.

Technical Assistance Expansion Program (TAEP). The 2018 Budget Act included $17 million General Fund annually for 5 years to establish TAEP, which expanded the capacity of federal small business technical assistance programs in the state to provide additional services, such as free or low-cost one-on-one consulting and training. The program was enacted in Government Code Sections 12100 to 12100.69. TAEP's funding is focused on direct services to small businesses with a preference for programs that support underserved business groups, including women, minority, and veteran-owned businesses and businesses in low-wealth, rural, and disaster-impacted communities. Eligible centers include the Small Business Development Centers, Women's Business Centers, Veteran Business Outreach Centers, Minority Business Development Administration Centers, Procurement Technical Assistance Centers, Manufacturing Extension Partnership Centers, and any other similar federally contracted centers. These centers are designated by federal funding partners to provide one-on-one confidential consulting and training to help small businesses and entrepreneurs start, expand, and create jobs in California. Below is the program impact for TAEP:

Fiscal Year	State Dollars Committed	Number of Centers	Small Businesses 1:1 Consulting	Small Businesses Trained
Year 1 2018-19	$16,999,998	83	24,371	42,534
Year 2 2019-20	$16,943,906	82	59,395	111,442
Year 3 2020-21	$17,490,308**	83	50,084*	56,179*
Year 4 2021-22	$17,363,270**	87	TBD	TBD
Year 5 2022-23	$23,000,000***	TBD	TBD	TBD

** Results reflect Q1-3; Q4 results are pending.*
***State dollars reflect unspent, returned, and/or extended money from prior years.*
****Includes $6 million investment from this proposal.*

Capital Infusion Program (CIP). CalOSBA has administered CIP since 2014-15, which provides which provides competitive grant funding to the California Small Business Development Center (SBDC) Network, the largest technical assistance program for small businesses in California. The California SBDC Network is comprised of five regional networks, each having on administrative hub or "Lead Center" and a network of SBDC sub-centers. CIP is aimed at helping SBDCs to expand their one-to-one, no-cost confidential consulting to small business owners to help them attain loans or investor capital, understand and resolve credit readiness issues, and develop funding strategies for business expansion or startup. In 2014-15, $2 million General Fund was allocated to the SBDC programs for CIP, and funding allocations of $2 million, $1.5 million, and $3 million were provided in 2015-16, 2016-17, and 2017-18. Similar to TAEP, the 2018 Budget Act included $3 million annually for 5 years for CIP, with the last year of CIP's funding being in 2022-23. This request is for $3 million General Fund ongoing beginning in 2023-24 to permanently fund CIP. This will allow for the continuance of technical assistance for direct access to capital for market expansion, including procurement assistance programming and collaboration with agency partners, and increase access to direct funding to underserved markets.

Legislative Analyst Office Comments.

Ongoing Funding Reasonable, But Reduces Accountability and Legislative Flexibility. Should the Legislature strongly support continued state funding for the small business training and consulting centers, it would be reasonable to consider funding on an ongoing basis. Ongoing funding provides GO-Biz and the centers more certainty. While limited term fund may make it more difficult for the centers to make long-term plans, it would provide a mechanism for routine oversight.

Staff Comments. At the time this agenda was published, trailer bill language on this proposal was not yet available.

Staff Recommendation. Hold Open.

Issue 19: Green Technologies Development Credit

Budget. The proposed budget includes a new tax credit totaling $100 million per year for three years. This credit will fund pre-development costs for new technologies such as: electric vehicle manufacturing and infrastructure; geothermal, lithium extraction, and battery manufacturing; long-duration storage; addressing methane emissions; and hydrogen technologies to reduce the use of natural gas. The credit will be awarded by a newly created clean energy board at the Governor's Office of Business and Economic Development (GO-Biz). These credits will be structured so that if the business becomes profitable, a share of profits will be repaid to the state

Staff Comments: At the time this agenda was released, proposed trailer bill language was not yet released. However the subcommittee may wish to ask the following questions:

- What will the make-up of the Clean Energy Board at GO-Biz be? How will this board operate and what specific responsibilities will it have? Will the board be charged with determining which projects may ultimately generate profits?
- What are pre-development costs? What specifically would be allowable expenses under this tax credit?

Staff Recommendation: Hold Open.

Issue 20: Human Resources Staffing

Budget. The Governor's budget includes $110,000 (General Fund) in 2022-23 and ongoing to support one new permanent position to allow the Human Resources Unit to provide administrative support for Department's growing and new programs.

Background. GO-Biz was created in 2012 and is considered an agency-level organization (e.g., California Environmental Protection Agency, Resources Agency, Government Operations, etc.) that reports directly to the Governor's Office. It has three subordinate divisions, two with their own Executive Directors (i.e., IBank and the CA Film Commission), and tourism (Visit California). It also has eleven separate and distinct programs under its organizational umbrella with many Governor's appointees.

Since 2017-18, GO-Biz has added 47 new positions, a growth of 36 percent, while the number of HR staff has remained the same with four positions. According to GO-Biz, it has a challenging high number of Governor Appointees who make up 18.5 percent of the workforce. Similar size agencies such as Department of Aging, Environment Health Hazard Assessment and Office of Inspector General, with 121 to 134 staff and only 2 to 6 appointees have permanent full time HR staff of at least 5 to 6. GO-Biz, with current staff count of 173, has only four permanent full time HR staff.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
0220	Go-Biz	41.0	48.1	53.1	$6,947	$132,368	$52,099
0225	California Business Investment Services	19.0	16.3	16.3	2,159	8,644	3,635
0230	Office of the Small Business Advocate	6.0	14.8	14.8	2,592,222	1,822,533	218,936
0235	Infrastructure, Finance and Economic Development	62.2	43.1	45.1	92,493	216,722	90,736
0240	Community Reinvestment Grants Program	10.0	11.0	13.0	45,517	40,000	50,000
0245	Local Equity Grant Program	-	-	-	-	35,573	15,574
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**138.2**	**133.3**	**142.3**	**$2,739,338**	**$2,255,840**	**$430,980**

Legislative Analyst Office Comments.

No Concerns with Proposal for Increased Human Resources Staffing. The Governor's budget includes $110,000 ongoing General Fund to increases GO-Biz human resources by one position. The number of positions at GO-Biz has increased by 66 percent over the last five years as the Legislature has increased the responsibilities of this department. The LAO is not raising concerns with this proposal because management and general administrative expenses typically follow increases in departmental programmatic responsibilities.

Staff Recommendation. Hold Open

0840 STATE CONTROLLER

7501 DEPARTMENT OF HUMAN RESOURCES

Issue 21: California State Payroll System Project

Request. The Governor's budget includes resources for both the State Controller's Office and the Department of Human Resources to support the California State Payroll System (CSPS) project through the continuation of the California Department of Technology (CDT) Project Approval Lifecycle (PAL) Stage 4 and into the execution phase System Development Lifecycle of the approved project. The request is as follows:

State Controller's Office:

- 2022-23: 33.0 positions [1.0 continuing two-year limited-term (LT) and 32.0 permanent] and $97,844,000 [$58,706,000 General Fund (GF); $39,138,000 Central Service Cost Recovery Fund (CSCRF)]
- 2023-24: 40.0 positions (1.0 continuing two-year LT and 39.0 permanent) and $6,798,000 ($4,079,000 GF; $2,719,000 CSCRF)
- 2024-25 and ongoing: 39.0 permanent positions and $6,653,000 ($3,992,000 GF; $2,661,000 CSCRF)

Department of Human Resources:

- 2022-23: 15.0 permanent positions and $3,424,000 GF
- 2023-24 and 2024-25: $3,319,000 GF
- 2025-26 and ongoing: $2,573,000 GF

Background. Beginning in 2016, SCO began to assess current information technology (IT) and the latest industry standards, and initiated the re-engineering of a new human resource (HR) management and payroll system. This initiative is named the California State Payroll System (CSPS) Project. CSPS product scope includes functionality for Core HR (Position Control, Benefits Administration, Personnel Administration, Time Management, and Payroll). This functionality is typically found in Human Capital Management (HCM) Solutions. In May 2021, CSPS added Travel and Expense Management functionality to its product scope through the CDT approved Change Request (CR) #007.

The project is currently under the oversight of the California Department of Technology (CDT). The Project received CDT approval on PAL Stage 1 Business Analysis (S1BA) in October 2017 and PAL Stage 2 approval in April 2021. In October 2021, the project team submitted PAL Stage 3 Solution Development (S3SD) Part A, which encompasses key project planning milestones including the submission of the detailed solution requirements and completion of a draft of the Request for Proposal (RFP) and Statement of Work (SOW) procurement documents, which provide the requirements for the CSPS solicitation of a future solution. The project team continues to work on tasks related to Organizational Change Management, Independent Verification and Validation (IV and V), Data Analysis and Planning, and Project Management Office Services. The Governor's budget includes funding for vendor resources to compliment state resources related to

System Integrator Services, Business Analysis and Information Technology, Data Migration and Validation Services, IV and V Services, Organization change Management Services, and Project Advisor Services.

SCO is working closely with CDT as it completes each of the stages in the PAL process. Below are the PAL approval and expected submission dates:
• Stage 1 (Business Analysis): approved October 2017
• Stage 2 (Alternatives Analysis): approved April 2021
• Stage 3 Part A (Solution Development): submitted October 2021
• Stage 3 Part B (Solution Development): anticipated submission January 2022
• Stage 4 (Project Readiness and Approval): anticipated submission January 2023

The Governor’s budget includes proposed provisional language that would require $83.3 million of the additional funding for the California State Payroll System Project future solution costs to be allocated with the approval of Department of Finance. Stage 4 of the Project Approval Lifecycle Process must be approved by the California Department of Technology prior to these funds being made available. Allocation of these funds will be made after a 30 day notification in writing to the chairpersons of the budget committees in both houses of the Legislature and the Joint Legislative Budget Committee.

<u>State Controller’s Office Staffing</u>
(Dollars in Thousands)

Program Budget	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**
Authorized Expenditures	$2,377	$5,833	$3,974	$6,878	$9,458	$17,756
Actual Expenditures	$1,452	$4,541	$3,860	$6,780	$8,522	$17,756
Revenues						
Authorized Positions	4.0	19.0	19.0	18.0	25.0	44.5
Filled Positions	4.3	15.8	16.0	16.6	25.0	39.5
Vacancies		3.2	3.0	1.4		5.5

SCO requests funding to support 33.0 positions [1.0 continuing two-year LT and 32.0 permanent] and to reclassify 6.0 existing positions in 2022-23; 7.0 CalATERS Replacement Project (CRP) positions to become permanent for a total of 39.0 new positions in 2023-24 and ongoing to continue to work on the project activities that will drive the activities of designing a new statewide personnel and payroll solution.

<u>Department of Human Resources Staffing</u>

In 2017, SCO contracted with the Department of Human Resources (CalHR) to provide two CalHR staff to act as members of the CSPS Project. These positions provide information for the existing procedures and policies under the authority of CalHR, including Labor Relations (LR), Benefits Administration, Third Parties, and Unions. They support project activities related to an alternative assessment analysis, including development of business and user requirements. In 2021, CalHR received a position and $230,000 in ongoing funding to act as the CalHR CSPS Project Director. This position is to oversee and ensure the new system not only appropriately applies requirements set by laws, regulations, and bargaining agreements but also effectively supports statewide HR and LR programs' business policies, practices, and processes.

As the CSPS Project ramps up for the next phase, there is an upcoming need for additional CalHR staff involvement from multiple divisions including, Personnel Management (PMD), Benefits, and Information Technology (ITD) in the CSPS Project and its ancillary activities over the next three to five years. CalHR is requesting 15.0 permanent positions for this workload.

LAO Comments.

LAO Concerns with Budget Proposal. The State Controller's Office (SCO) and the California Department of Human Resources (CalHR) requests $101.3 million ($62.1 million General Fund) and 48 positions in 2022-23 to complete planning and start development and implementation of the proposed California State Payroll System (CSPS) information technology (IT) project. Of the $101.3 million requested in this proposal, $83.3 million ($50 million General Fund) would fund vendor contracts to begin development and implementation of the project after (1) project planning is completed and (2) the Department of Finance (DOF) has approved the funds and provided a 30-day written notification to the Legislature. As we discuss in greater detail later in this email, we raise a number of concerns with this approach, summarized below.

- **Inadequate Information for Legislative Approval.** The Legislature does not have final project approval documents for the CSPS IT project. As such, the Legislature is missing key pieces of information including a final baseline project cost, schedule, and scope and signed primary vendor contracts.
- **Administration's Assumed Timeline Likely Unrealistic.** Recent delays in project planning and other risks identified by the project suggest that the timeline the administration assumes in the request to complete planning is optimistic.
- **Proposed Schedule Limits Opportunities for Legislative Oversight.** The proposed oversight mechanisms would lead to parallel consideration of project funding through the Joint Legislative Budget Committee (JLBC) process (2022-23 funding request) and the annual budget process (2023-24 funding request) and limit legislative consideration of the final project plan to just one month before funding is released.

LAO's Recommendation. The proposed CSPS IT project was last estimated to cost at least $767 million General Fund and would affect nearly every state government entity. As such, if it is approved, the project would be one of the costliest and most complex IT projects undertaken by the state. While we raise no concerns with the $14.5 million ($8.7 million General Fund) and 48 positions requested in 2022-23 to continue project planning, we recommend that the Legislature defer consideration of the remaining $83.3 million ($50 million General Fund) in development and implementation funds for this project until 2023-24.

Staff Comments: Staff notes that the CSPS appears to be on track and moving through Stage 3 of the PAL process without major issues at this point. The SCO and the state have struggled in the past with large IT projects, and this project is accordingly being carefully monitored by the CDT, LAO, Legislature and additional related departments. The 2021 Budget Act included 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. The Legislature may wish to continue to monitor potential risks as the project moves forward.

Staff Recommendation. Hold Open.

CALIFORNIA LEGISLATURE

STATE CAPITOL
SACRAMENTO, CALIFORNIA
95814

JOINT HEARING

Senate Budget and Fiscal Review Subcommittee No. 4 on State Administration and General Government and Senate Housing Committee

Senator Sydney K. Kamlager and Senator Scott D. Wiener, Chairs

Wednesday, February 16, 2022

9:00 a.m. - State Capitol – Senate Chambers

Oversight Hearing

Subject: Reviewing California's Investments in Affordable Housing and Homelessness

I. Opening Remarks

II. Panel 1: State Investments in Affordable Housing and Homelessness

Lourdes Morales, Principal Analyst, Legislative Analyst's Office
Julie Lo, Executive Officer, California Interagency Council on Homelessness
Zachary Olmstead, Deputy Director, California Department of Housing and Community Development
Francesc Marti, Director of Legislation and Policy, California Housing Finance Agency

III. Panel 2: Local Experience with State Funding Programs

Sharon Rapport, Director, California State Policy, Corporation for Supportive Housing
Ann Silverberg, CEO NorCal and Northwest Affordable Divisions, Related California
Stephanie Dietz, City Manager, City of Merced

IV. Public Comment

V. Concluding Remarks

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Housing and Homelessness Program Descriptions

HCD PROGRAMS

1) Project Homekey – An initiative, which builds on Project Roomkey, to purchase and rehabilitate housing, including hotels, motels, vacant apartment buildings, and other types of innovating housing, and convert them into permanent, long-term housing for people experiencing or at-risk of homelessness.

2) Affordable Housing Backlog (Housing Accelerator Program) – Funds are used to fill funding gaps in shovel-ready projects that have received funding under other HCD programs and have been unable to access low-income housing tax credits. In other words, this program reduces the backlog of projects "stuck" in the funding pipeline to accelerate the development of housing for those most in need.

3) Local Early Action Plan (LEAP) and Regional Early Action Plan (REAP) Grant Programs (local planning grants) – Provides regions, cities, and counties with grant funding to update their planning documents (such as their 6th cycle Housing Elements), implement process improvements to facilitate the acceleration of housing production, and develop and implement housing projects that meet both housing and vehicle miles traveled goals.

4) Infill Infrastructure Grant (IIG) Program – Provides grants to cities and counties to fund infrastructure improvements like water, sewer, other utility service improvements, streets, roads, other transit linkages, sidewalks, and other streetscape improvements to reduce the cost of developing infill housing.

5) Foreclosure Intervention Housing Program – Offers grants or loans to qualifying nonprofits, community land trusts, or qualifying LLCs to purchase smaller housing properties (one to 25 units) either out of foreclosure or after the property has defaulted on its loans but before it enters foreclosure.

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7) Joe Serna, Jr. Farmworker Housing Grant Program – Finances the new construction, rehabilitation, and acquisition of owner-occupied and rental units for agricultural workers, with a priority for lower income households through loans or grants.

8) Golden State Acquisition Fund – Makes up to five-year loans to developers for the acquisition or preservation of affordable housing.

9) Excess State Lands Development – Provides grants to developers and local governments to support and accelerate selected affordable housing projects on excess state sites.

10) Farmworker Housing Deferred Maintenance – Provides funding to upgrade the state's 24 migrant farmworker housing centers.

11) Transitional Housing Program – Allocates funding to counties for helping young adults – aged 18 to 24 years -- secure and maintain housing, with priority given to young adults formerly in the foster care or probation systems.

12) Foster Youth Housing Navigators – Provides counties with funding to provide housing navigation services directly or through a contract with other housing assistance programs in the county in order to help young adults – aged 18 to 21 years – secure and maintain housing.

CA INTERAGENCY COUNCIL ON HOMELESSNESS

13) Homeless Housing, Assistance, and Prevention Program (HHAPP) – Block grants to large cities, counties, and CoCs, and more recently tribal governments, for a variety of solutions for those experiencing homelessness or at risk of homelessness, such as rapid rehousing, operating subsidies, street outreach, services coordination, delivery of permanent and innovative housing solutions, and homelessness prevention.

14) Homeless Emergency Aid Program (HEAP) – Block grants to large cities and continuums of care (CoCs) for a variety of solutions for those experiencing homelessness or at risk of homelessness, such as shelters, rapid rehousing, rental assistance, street outreach, homelessness prevention, and affordable housing construction and rehabilitation.

15) COVID-19 Emergency Funding – Provides emergency funding to local governments to help protect people experiencing homelessness and reduce the spread of COVID-19

16) Encampment Resolution Program – Provides grants to cities, counties, and CoCs to resolve homeless encampment concerns and transition individuals living in encampments into safe and stable housing.

17) Family Homelessness Challenge Grants -- Provide grants and technical assistance to local jurisdictions in order to address and end family homelessness.

18) Homeless Landscape Assessment – Requires the CA ICH to conduct a statewide assessment of state programs providing housing or services to persons experiencing or at-risk of homelessness, and to college and analyze data from those programs to provide a comprehensive view of the state homeless responses system. This assessment also includes data from local jurisdictional analyses.

19) Homeless Data Integration System (HDIS) – Statewide data tool that compiles and processes data from the 44 COCs into a statewide data warehouse, including services and interventions provided, as well as demographic information.

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

20) Low Income Housing Tax Credit (LIHTC) Program – State tax credits that finance the new construction of multifamily housing projects that receive federal 4% tax credits. Tax credits must be paired with tax exempt bonds awarded by the California Debt Limit Allocation Committee (CDLAC).

CALHFA

21) 1st-Time Homebuyer Downpayment Assistance – Provides loans through approved lenders to assist income eligible families achieve homeownership.

22) Mixed Income Program (MIP) – Provides long-term financing for new construction of affordable multifamily developments that provide housing for Californians earning between 30% and 120% of the Area Median Income (AMI).

23) Accessory Dwelling Unit (ADU) Grant Program – Provides grants up to $25,000 to reimburse pre-development costs associated with the construction of an ADU.

Major Recent Discretionary Housing and Homelessness Spending Augmentations[a]

(In Millions)

Program	2018-19	2019-20	2020-21	2021-22	2022-23[b]	Program Total
Housing and Community Development (HCD)						
Homekey Program	—	—	$800	$1,450	$1,300	$3,550
Affordable Housing Backlog (Housing Accelerator)	—	—	—	1,750	—	1,750
Local Planning Grants	—	$250	—	600	—	850
Infill Infrastructure Grant (IIG) Program[c]	—	300	—	250	—	550
Foreclosure Prevention and Preservation	—	—	—	500	—	500
Affordable Housing Preservation	—	—	—	300	—	300
Farmworker Housing (Joe Serna Jr. Farmworker Housing Grant Program)[d]	—	—	—	50	—	50
Golden State Acquisition Fund	—	—	—	50	—	50
Scaling Excess State Lands Development	—	—	—	45	—	45
Migrant Farmworker Housing Deferred Maintenance	—	—	—	30	—	30
Transitional Housing Program	—	—	—	13	17	30
Foster Youth Housing Navigators	—	—	—	5	5	10
Subtotals	(—)	($550)	($800)	($5,043)	($1,322)	($7,715)
California Interagency Council on Homelessness (Cal ICH)						
Homeless Housing, Assistance and Prevention Program (HHAPP)	—	$650	$300	$1,000	$1,000	$2,950
Homeless Emergency Aid Program (HEAP)	$500	—	—	—	—	500
COVID-19 Emergency Funding	—	100	—	—	—	100
Encampment Resolution Program	—	—	—	50	—	50
Family Homelessness Challenge Grants	—	—	—	40	—	40
Homeless Landscape Assessment	—	—	—	6	—	6
Homeless Data Integration System	—	—	—	4	—	4
Subtotals	($500)	($750)	($300)	($1,100)	($1,000)	($3,650)
California Tax Credit Allocation Committee (CTCAC)						
Low-Income Housing Tax Credit Program (LIHTC)[e]	—	$500	$500	$500	—	$1,500
Subtotals	(—)	($500)	($500)	($500)	(—)	($1,500)
California Housing Finance Agency (CalHFA)						
Homebuyer Assistance	—	—	—	$100	—	$100
Accessory Dwelling Unit Financing	—	—	—	81	—	81
Mixed-Income Program (MIP)[f]	—	$200	$50	45	—	545
Subtotals	(—)	($200)	($50)	($226)	(—)	($726)
Grand Totals	**$500**	**$2,000**	**$1,650**	**$6,869**	**$2,322**	**$13,591**

[a] This table generally captures the major discretionary spending actions within the state entities principally responsible for administering housing and homelessness programs. The table does not include augmentations within departments that have other primary missions, for example health and human services. The table also does not include the No Place Like Home Program, which was authorized by voters (Proposition 2, 2018). The table reflects all fund sources.

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[c] Bond proceeds have also supported the IIG Program—$850 million from Proposition 1C (2006) and $300 million from Proposition 1 (2018).

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Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, February 16, 2022
Upon of Adjournment of the Joint Hearing Budget Subcommittee No. 4 on State Administration and General Government and Senate Housing Committee
State Capitol – Senate Chambers

Consultant: James Hacker

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

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ITEMS FOR VOTE ONLY

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Issue 1: Pay Data Enforcement

Governor's Budget. The budget includes $716,000 General Fund and 3 positions in 2022-23, and $689,000 in General Fund and 3 positions in 2023-24 and ongoing, to analyze pay equity data and produce reports on an ongoing basis by industry showing the progress, or lack thereof, in demographic representation and gender pay equity.

Background. Department of Fair Employment and Housing (DFEH) receives, investigates, conciliates, mediates, and prosecutes complaints of alleged violations of the Fair Employment and Housing Act (FEHA), the Equal Pay Act, the Unruh Civil Rights Act, the Ralph Civil Rights Act, Civil Code section 51.9, the Disabled Persons Act, the California Trafficking Victims Protection Act, and Government Code section 11135 et seq (prohibiting discrimination in all state-funded activities and programs).

Government Code section 12999 was established by SB 973 (Jackson), Chapter 363, Statutes of 2020. This law requires that, on or before March 31, 2021, and on or before March 31 each year thereafter, a private employer with 100 or more employees and who is required to file an annual Employer Information Report (EEO-1 form) under federal law to the Equal Employment Opportunity Commission (EEOC) must submit a pay data report to DFEH that covers the prior calendar year, or "reporting year." All California employers with over 100 employees will be subject to this law. The law also authorizes DFEH to enforce the Equal Pay Act (Labor Code section 1197.5), along with the Fair Employment and Housing Act, to address pay discrimination.

Staff Comments. The requested resources are an augmentation to those provided for the implementation of SB 973. Specifically, DFEH received approval for 4 positions and funding for IT infrastructure costs to develop and implement an online portal to accept employer pay data. All of the positions have been filled.

DFEH successfully implemented and opened an online portal to accept the first year of employer pay data reports from 2/1/2021-3/31/2021 and is now analyzing more than 20,000 submissions and pursuing approximately 4,000 non-filers. DFEH has indicated that recruiting additional in-house resources would allow the department to more readily analyze the significant volume of data provided to identify and enforce pay equity violations and other unlawful discrimination. These resources would include a labor economist, research scientist and digital forensic specialist, rather than solely relying on outside expert witnesses, who can be costly and have limited availability.

Staff Recommendation: Approve as Budgeted.

ITEMS FOR DISCUSSION

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
0968 TAX CREDIT ALLOCATION COMMITTEE

Issue 2: Affordable Housing Package

Governor's Budget. The budget proposes $2 billion in General Fund resources over two years to accelerate the development of affordable housing. This includes:

- $500 million one-time General Fund ($225 million in 2022-23, and $275 million in 2023-24) for the Infill Infrastructure Grant program.

- $300 million one-time General Fund ($75 million in 2022-23, and $225 million in 2023-24) for the Affordable Housing and Sustainable Communities program.

- $100 million one-time General Fund ($25 million in 2022-23, and $75 million in 2023-24) to expand affordable housing development and adaptive reuse opportunities on state excess land sites.

- $100 million one-time General Fund ($50 million in 2022-23, and $50 million in 2023-24) for adaptive reuse incentive grants.

- $500 million in additional Low-Income Housing Tax Credits.

- $200 million one-time General Fund ($50 million in 2022-23, and $150 million in 2023-24) for the California Housing Finance Agency Mixed Income Program.

- $200 million one-time General Fund ($50 million in 2022-23, and $150 million in 2023-24) for the Portfolio Reinvestment Program.

- $100 million one-time General Fund ($25 million in 2022-23, and $75 million in 2023-24) for HCD's Mobilehome Park Rehabilitation and Resident Ownership Program.

This proposal is summarized below:

Item	2022-23	2023-24	Total
Adaptive Reuse Program	$ 50,000,000	$ 50,000,000	$ 100,000,000
Affordable Housing and Sustainable Communities	$ 75,000,000	$ 225,000,000	$ 300,000,000
Infill Infrastructure Grant Program	$ 225,000,000	$ 275,000,000	$ 500,000,000
Mixed Income Program	$ 50,000,000	$ 150,000,000	$ 200,000,000
Mobilehome Park Rehabilitation and Resident Ownership Program (MPRROP)	$ 25,000,000	$ 75,000,000	$ 100,000,000
Portfolio Reinvestment Program	$ 50,000,000	$ 150,000,000	$ 200,000,000
State Excess Sites Program	$ 25,000,000	$ 75,000,000	$ 100,000,000
Low Income Housing Tax Credits	$ 500,000,000	$ -	$ 500,000,000
Total	**$ 1,000,000,000**	**$ 1,000,000,000**	**$ 2,000,000,000**

Background. The Affordable Housing and Sustainable Communities (AHSC) Program was established through enactment of Chapter 36, Statutes of 2014 (SB 862) to provide funding for land-use, housing, and transportation projects to support infill and compact development that reduces greenhouse gas (GHG) emissions through the reduction of vehicle miles traveled. Funding for the AHSC program has historically been provided from the Greenhouse Gas Reduction Fund (GGRF), established to receive cap-and-trade auction proceeds. HCD implements AHSC under policy direction from the Strategic Growth Council (SGC).

The IIG program, enacted through Chapter 179, Statutes of 2007, awards grants to provide gap funding for infrastructure that supports higher-density affordable and mixed-income housing in locations designated as infill. Under the IIG program, developers and local governments can partner to apply for infrastructure grant funding. Since 2019, the state has invested over $500 million General Fund in the IIG Program under slightly different rules as part of the IIG Program of 2019.

The Mixed Income Program (MIP) was created in the 2019-20 Budget to provide long-term financing for new construction of affordable multifamily developments that provide housing for Californians earning between 30% and 120% of the Area Median Income (AMI).

MPRROP was established in 1984 to provide deferred-payment loans to mobilehome parks for 1) acquisition and conversion for resident, nonprofit, and local public entity ownership generally in return for long-term affordability; 2) mobilehome owners to purchase an interest in a mobilehome park; 3) individuals in mobilehome parks previously assisted with MPRROP to rehabilitate or replace their mobilehomes; and 4) replacement of a mobilehome park destroyed in a natural disaster. The program is funded through an annual per-mobilehome section registration fee for those mobilehomes that are not on a foundation system. As mobilehomes are installed on foundation systems and mobilehome owners voluntarily convert to property taxes, the amount of funding available diminishes each year.

The Portfolio Reinvestment Program was created as part of the 2021-22 Budget to provide loans or grants, or both loans and grants, to rehabilitate, capitalize operating subsidy reserves for, and extend the long-term affordability of HCD-funded housing projects that have affordability restrictions that have expired or are otherwise at-risk for conversion from affordable to market rate.

Low-Income Housing Tax Credits are state tax credits that finance the new construction of multifamily housing projects that also receive 4% federal tax credits, which also require the use of federally-limited Private Activity Bonds.

The 2021-22 budget included nearly $5 billion for a variety of housing programs. These investments are summarized below (dollars in millions).

Housing Program	**2021-22**
Affordable Housing Backlog	$ 1,750.0
Affordable Housing Preservation	$ 300.0
Foreclosure Intervention Housing Program	$ 500.0
Farmworker Housing	$ 130.0
REAP of 2021	$ 600.0
LIHTC	$ 500.0
IIG	$ 534.0
ADU Financing	$ 81.0
1st-Time Homebuyer DPA	$ 100.0
Housing Total	**$ 4,495.0**

Staff Comments. The proposed two-year housing package consists of a mix of existing and new programs. The Administration has indicated that the funds for a new State Sites Excess Lands program will leverage state land as an asset to expedite housing opportunities by offering low-cost, long-term ground leases in exchange for affordable and mixed-income housing. The Administration has indicated proposed funding for the new Adaptive Reuse program would help remove cost impediments to adaptive reuse (e.g., structural improvements, plumbing/electrical design, exiting) of non-residential properties and help accelerate residential conversions, with a priority on projects located in downtown-oriented areas. These per-unit grants will be paired with other Department of Housing and Community Development's (HCD) awards to remove impediments in delivering adaptive reuse projects.

Additionally, the Administration has proposed a handful of changes to existing programs. Specifically, the Administration has indicated that demand for the MPRROP has been weak, in large part because the rules are complex and difficult to follow. Recently, an effort to address regulatory changes was halted in lieu of an opportunity to make statutory changes through a trailer bill. The Administration has proposed trailer bill language to change the MPRROP name to the Manufactured Housing Opportunity and Revitalization (MORE) Program; to streamline program participation and administration; and to expand its authority to provide funding to support climate goals and living conditions in mobilehomes and mobilehome parks.

This suite of proposals raises a number of questions about the state's approach to addressing the current housing affordability crisis. Specifically:

What is the overall strategy? Most land use and housing decisions are made at the local level. However, the state can use its financial resources to encourage specific kinds of development. The Administration has made the decision to focus on infill development and affordable rental housing. The Legislature should consider whether this approach is appropriate, or if resources should be prioritized in another way. For example, this package, and most historical funding, has focused on development and preservation of affordable rental housing. While there is clearly merit in this approach, it does not seek to encourage affordable homeownership as a potential solution.

How should the state balance competing priorities? The Administration has correctly identified that the state's housing crisis is connected to several issues, including climate change, homelessness, and other issues. This means that any housing-related proposal is inherently balancing several competing priorities. For example, the proposed budget attempts to address both housing affordability and climate change by focusing on infill development where possible. While there is merit in this approach, it is worth noting that it will lead to more resources being spent in urban or developed areas, and fewer in rural or undeveloped areas, despite housing affordability being a statewide issue. The Legislature should consider how best to balance these competing priorities to achieve the desired policy outcomes.

What programmatic changes are necessary to help the state reach its goals? The state has numerous existing housing-related funding programs, some going back years or decades. Some of these programs were designed before the current affordability crisis became acute, or were designed to address policy issues that are no longer state priorities. As such, in addition to deciding how to allocate funds between state programs, the Legislature may want to consider the extent to which statutory changes to existing programs are appropriate. For example, the Administration has identified changes to the MPRROP that may improve program administration and participation. Additionally, the IIG program of 2007 has one set of rules for allocating funding, while the IIG program of 2019 has another, as well as a set-aside for rural jurisdictions. Having two separate programs helps balance competing policy priorities, but is burdensome for participants and program administrators. The Legislature may want to consider the extent to which programs can be modified to better balance various goals and priorities and improve outcomes.

LAO Comments.

- ***Housing Budget Package.*** The Governor's 2022-23 budget proposes $2 billion General Fund one time for several major housing proposals, largely reflecting expansions of existing programs.
- ***Devote Attention to Overseeing Recent Augmentations.*** Prior to authorizing increased funding for new proposals, we suggest the Legislature dedicate the early part of the budget process to overseeing the implementation of last year's significant housing augmentations.
- ***Assess How Governor's Housing Package Moves State Forward Towards Addressing Housing Goals.*** Consider the extent to which the proposed augmentations align with the recent land use and housing policy changes the state has enacted. In addition, increased focus on where housing is built will be necessary to mitigate and adapt to the current and growing impacts of climate change.
- ***Consider Longer-Term Plan for Expanded State Role in Housing.*** Understanding the impact of recent budget augmentations and policy changes will better position the Legislature to determine where continued actions are necessary and help guide the state's long-term fiscal strategy in addressing housing development and affordability.

Staff Recommendation: Hold Open.

0515 Business, Consumer Services, and Housing Agency

The Business, Consumer Services, and Housing Agency protects the public through the licensing and regulation of more than 100 businesses and 200 professional categories; regulates financial services and state-licensed financial institutions; regulates, licenses, and enforces the sale of alcoholic beverages and cannabis; regulates the horse racing industry; protects civil rights; prevents homelessness through the coordination of funding and services; and provides safe and affordable housing opportunities. The Agency oversees the Departments of Alcoholic Beverage Control, Cannabis Control, Consumer Affairs, Fair Employment and Housing, Financial Protection and Innovation, Housing and Community Development, and Real Estate; the California Housing Finance Agency; the Alcoholic Beverage Control Appeals Board; the Cannabis Control Appeals Panel, the California Horse Racing Board, and the California Interagency Council on Homelessness, previously named the Homeless Coordinating and Financing Council.

Budget Overview: The Governor's budget proposes $1.5 billion and 73 positions to support BCSH in the budget year, as shown in the figure below. This is an increase of 7 positions and roughly $400 million from 2021-22.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
0260	Support	16.0	19.0	26.0	$3,566	$4,362	$5,949
0265	California Interagency Council on Homelessness	18.5	47.0	47.0	290,996	1,131,017	1,503,940
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**34.5**	**66.0**	**73.0**	**$294,562**	**$1,135,379**	**$1,509,889**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$290,993	$1,131,241	$1,506,189
0240	Local Agency Deposit Security Fund	1	1	1
0299	Credit Union Fund	28	34	35
0317	Real Estate Fund	232	284	286
0995	Reimbursements	2,690	3,063	2,602
3036	Alcohol Beverage Control Fund	256	313	315
3153	Horse Racing Fund	37	46	61
3363	Financial Protection Fund	325	397	400
TOTALS, EXPENDITURES, ALL FUNDS		**$294,562**	**$1,135,379**	**$1,509,889**

Issue 3: Workload Resources

Governor's Budget. The budget includes $1.5 million and seven positions in 2022-23 and ongoing to address the current and anticipated ongoing workload stemming from an increase in oversight and strategic coordination required to support existing Agency programs along with significant growth in new program responsibilities, specifically in the housing and homelessness portfolio of programs.

Background. The Business, Consumer Services, and Housing Agency was created in 2013 as part of Governor Brown's Reorganization Plan Number Two of 2012 to:

- Protect consumers by licensing and regulating California professionals and businesses.
- Preserve, expand and fund safe and affordable housing opportunities.
- Protect the civil rights of all Californians from acts of hate violence and unlawful discrimination in employment, housing, and public accommodations.

BCSH originally had nine departments under its oversight and 15.0 employees to manage its workload. Agency has grown to provide oversight to 11 departments and directly administers the Cal Interagency Council on Homelessness with 19.0 authorized positions. In addition to increases and changes in the number of organizations under Agency's umbrella, major housing and homelessness initiatives are underway and continue to be developed which have required significant additional oversight, hands-on input in crafting policy and implementation plans, and administration.

Staff Comments. The Administration has indicated that this request includes the following positions:

- 1.0 Deputy Secretary of External Affairs (Appointee with position and funding temporarily provided by HCD)
- 1.0 Information Officer II
- 1.0 Agency Budget Manager – Staff Services Manager II (Position and funding temporarily from Cal ICH)
- 1.0 Senior Advisor (Position and funding temporarily from Cal ICH)
- 1.0 Deputy Secretary of Equity and Strategic Initiatives (Appointee with position and funding temporarily provided by DFPI)
- 1.0 Housing Policy Specialist – Staff Services Manager I
- 1.0 Office Technician

Three of these positions - the Information Office II, the Housing Policy Specialist, and the Office Technician - would be new positions. The two Deputy Secretaries, the Agency Budget Manager, and the Senior Advisor positions are currently-existing positions that have been administratively created and funded by redirecting budgetary resources from other departments. The Administration has indicated these positions have been funded by salary savings, rather than the transfer of existing positions.

It is worth noting that Agency has one of the smaller staff sizes among the various statewide department, with 19 full-time staff as compared to 26 at the Transportation Agency, 33 and Health and Human Services, and 43 at Labor and Workforce Development. Given the dramatic increase in budgets and programs under BCSH's purview, additional staff seems warranted. However, as some of the requested positions were created administratively, the Legislature should consider to what extent they fit the Legislature's needs and intent when it comes to BCSH, and whether the requested level of resources is appropriate for the work the Legislature has directed BCSH to perform.

Staff Recommendation. Hold Open.

Issue 4: Encampment Resolution Grants

Governor's Budget. The budget includes $500 million one-time General Fund, and trailer bill language, to continue the Encampment Resolution Grant Program established in the 2021 budget.

Background. The 2021-22 budget included a $12 billion package of homelessness services and rehousing funds to expand strategies and interventions across the full continuum of homelessness services. The Cal Interagency Council on Homelessness (ICH, formerly the Homeless Coordinating and Financing Authority) received $50 million General Fund and staff resources for grants to aid in the resolution of encampments.

According to the U.S. Department of Housing and Urban Development's 2020 Point-in-Time count, an estimated 161,000 people experienced homelessness at any given moment in California, and nearly 114,000 (70 percent) of these individuals are unsheltered, meaning they were living in places not meant for human habitation. A portion of the state's unsheltered homeless population live in encampments in local parks, and along local streets and the state's highway system.

Staff Comments. The Encampment Remediation grants included in the 2021 budget have just become available to applicants. The Administration has indicated that, as of December, 2021, ICH has received over $120 million in applications for the $50 million included in the 2021-22 budget. This suggests that there is a significant demand for funding. However, it is unclear if there is sufficient demand for $500 million in new grants, particularly given the significant

Additionally, because Cal ICH is still in the process for distributing funding, it is too soon to assess outcomes from the first round of funding. This means that it is unclear what kinds of interventions are most successful at remediating encampments, what kinds of efforts should be replicated, and what kind of mistakes should be avoided. The Legislature should wait to act on this proposal until clearer data around outcomes is available.

Additionally, this funding would augment the budget year funding originally agreed to as part of the 2021 Budget Act, which includes:

- $1.3 billion for Project Homekey
- $1 billion in flexible aid to local governments
- $1.4 billion for behavioral health infrastructure projects

The Legislature should assess this proposal in the context of other homelessness-focused funding in the proposed budget.

LAO Comments.

- ***Devote Attention to Overseeing Recent Augmentations.*** We suggest the Legislature dedicate the early part of the budget process to overseeing the implementation of last year's significant homelessness augmentations. Prior to authorizing increased funding for the activities proposed in the 2022-23 budget, ensuring that the homelessness efforts authorized in prior budgets are operating effectively, adequately supported, and can be maintained over time will be important.

- ***Consider Long-Term Plan for Ongoing Homelessness Efforts.*** In recent years, the state has increased its role in addressing homelessness by providing significant, albeit one-time and temporary, funding towards infrastructure and flexible aid to local governments in recent years. However, addressing this crisis requires a complex combination of services and infrastructure. As more information about recent state efforts becomes available, we suggest the Legislature assess which types of interventions appear most effective. This information could help guide the state's long-term fiscal and policy role in addressing homelessness.
- ***For Any Authorized Funds, Set Clear Expectations and Establish Metrics to Assess Performance.*** Setting clear expectations through statute and establishing reporting requirements to facilitate oversight over the state's progress towards addressing homelessness will be critical.

Staff Recommendation: Hold Open.

1700 Department of Fair Employment and Housing

The Department of Fair Employment and Housing (Department) is responsible for protecting the civil rights of the people of California. The Department receives, investigates, conciliates, mediates, and prosecutes complaints alleging unlawful discrimination in employment, housing, and public accommodation, and acts of hate violence and human trafficking. The Department is authorized to commence prosecution by filing cases directly in court, and to seek attorney's fees and costs when it is the prevailing party. The Department's jurisdiction extends to individuals, private and public entities, housing providers, and business establishments within California.

Budget Overview: The Governor's budget proposes $50 million and 315.3 positions to support DFEH in the budget year, as shown in the figure below. This is an increase of 10 positions but a decrease of roughly $9 million from 2021-22.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
1490	Administration of Civil Rights Law	247.1	304.2	314.2	$38,890	$59,313	$49,168
1495	Fair Employment and Housing Council	1.2	1.1	1.1	222	221	221
1500	Department of Justice Legal Services	-	-	-	429	429	929
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**248.3**	**305.3**	**315.3**	**$39,541**	**$59,963**	**$50,318**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$33,991	$53,667	$44,052
0890	Federal Trust Fund	5,550	5,760	5,730
3246	Fair Employment and Housing Enforcement and Litigation Fund	-	536	536
TOTALS, EXPENDITURES, ALL FUNDS		**$39,541**	**$59,963**	**$50,318**

Issue 5: Administrative Resources

Governor's Budget. The budget includes $1.3 million General Fund and 7 positions in 2022-23, and $836,000 General Fund and 7 positions in 2023-24 and ongoing, to provide additional resources to support DFEH's administrative workload, including appeals, public records requests, media outreach, contracts and procurement, and accounting processes, and help administer a Statewide Hate Crime Hotline.

Background. DFEH receives, investigates, conciliates, mediates, and prosecutes complaints of alleged violations of the Fair Employment and Housing Act (FEHA), the Equal Pay Act, the Unruh Civil Rights Act, the Ralph Civil Rights Act, Civil Code section 51.9, the Disabled Persons Act, the California Trafficking Victims Protection Act, and Government Code section 11135 et seq (prohibiting discrimination in all State-funded activities and programs). DFEH also collects and analyzes pay and demographic data from large employers pursuant to Government Code section 12999. DFEH affirmatively investigates discriminatory practices within the State in accordance with its statutory mandate "to eliminate discrimination in California."

In 2020, DFEH received 23,897 complaints from members of the public who alleged that their civil rights were violated. Of these, 13,707 were requests for an immediate "Right-to-Sue" in employment cases. 5,784 complaints were investigated by DFEH staff. As of January 2022 there were more than 7,235 open cases in DFEH's case management system pending investigation.

SB 170 (Committee on Budget and Fiscal Review), Chapter 240, Budget Act of 2021, appropriated $10 million to DFEH for the administration and implementation of a Statewide Hate Crime Hotline, with funds available for encumbrance and expenditure until June 30, 2025.

Staff Comments. DFEH's request for additional resources is based on staffing needs in DFEH's Executive Programs and Administrative Services Divisions to support the recent expansion of the department. DFEH has expanded significantly in the past two fiscal years, with a 29 percent increase in staffing. Despite this large increase in workforce, the administrative functions within DFEH have not been expanded to match. As such, additional resources seem generally reasonable. However, additional review of workload data is necessary to assess the appropriate level of additional resources to provide.

Staff Recommendation: Hold Open.

2240 Department of Housing and Community Development

The Department of Housing and Community Development's (HCD's) mission is to promote safe, affordable homes and strong vibrant communities throughout California by (1) administering housing finance, economic development, and community development programs, (2) developing housing policy and advocating for an adequate housing supply, and (3) developing building codes and regulating manufactured homes and mobilehome parks. HCD also provides technical and financial assistance to local agencies to support community development.

The California Housing Finance Agency's (CalHFA's) mission is to create and finance progressive housing solutions so more Californians have a place to call home. The Agency's Multifamily Division finances affordable rental housing through public and private partnerships, while its Single Family Division finances first mortgage loans and down payment assistance loans to first-time homebuyers through a network of preferred lenders. CalHFA, a statutorily independent agency and component unit of state government, is not subject to Budget Act appropriation. CalHFA is displayed, for budgetary reporting purposes only, within HCD's budget.

Budget Overview: The Governor's budget proposes $3.4 billion and 1,327.9 positions to support HCD in the budget year, as shown in the figure below. This is an increase of roughly 40 positions but a decrease of roughly $9 billion from 2021-22, mostly due significant one-time funding provided in the 2021-22 budget.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	**2021-22**	**2022-23**	**2020-21***	**2021-22***	**2022-23***
1660	Codes and Standards Program	181.4	247.0	246.6	$33,769	$42,198	$42,863
1665	Financial Assistance Program	350.2	696.0	722.4	5,027,488	11,412,416	3,227,308
1670	Housing Policy Development Program	57.0	122.0	135.3	196,026	693,252	59,245
1675	California Housing Finance Agency	176.7	223.6	223.6	32,089	37,850	38,019
1680	Loan Repayments Program	-	-	-	-5,678	-1,944	-1,944
1685	HPD Distributed Administration	-	-	-	-52	-180	-180
9900100	Administration	209.9	-	-	24,383	-	-
9900200	Administration - Distributed	-	-	-	-24,383	-	-
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**975.2**	**1,288.6**	**1,327.9**	**$5,283,642**	**$12,183,592**	**$3,365,311**

Issue 6: Codes Field Operations Staffing Increase

Governor's Budget. The budget includes an augmentation of $393,000 in state operations from the Mobilehome-Special Occupancy Park Revolving Fund (Fund 0245) to support 3.0 positions in 2022-23 and ongoing.

Background. HCD's Division of Codes and Standards (Codes) develops, administers, adopts, and enforces uniform statewide building standards to ensure the health and safety of Californians. HCD is responsible for the implementation of the Mobilehome Parks program (MP), the Mobilehome Park Maintenance program (MPM); and Special Occupancy Parks program (SOP).

The Mobilehome Parks Act requires HCD or in some cases a city, a county, or a city and county, approved as the local enforcement agency (LEA), to enter and inspect mobilehome parks to ensure enforcement of the Act. In response to disasters within the state, the MPM program was created in 1990 to conduct detailed park health and safety inspections, and now establishes a goal for HCD or the LEAs to inspect five percent of mobilehome parks annually. The program is supported through a $4.00 per-lot fee that has remained unchanged since its creation. The Special Occupancy Parks Act regulates SOP's by requiring any person, prior to operating a SOP, to obtain a valid permit issued by the enforcement agency, as specified. All three of these programs are funded by fees collected by enforcing agencies.

According to the Department of Finance, approximately 1.6 million Californian's reside in mobilehomes. Residents of mobilehome parks tend to be older and have lower income than the overall population. HCD has enforcement responsibility for 82 percent of the mobilehome parks and 76 percent of the lots in the state.

Staff Comments. Of the 5,186 mobilehome parks scattered throughout the state, 714 are SOPs (often referred to as Recreational Vehicle (RV) parks) and are increasingly used for transitional living due to the extreme housing affordability crisis in the state. The trending business model in which mobilehome park owners rent specialized RV parks or tent camps, (often referred to as "glamping") require a SOP PTO. It has been reported to Codes that many property owners are illegally operating glamping facilities on private property across the state without local approval and without required permits to operate from HCD. The Administration has indicated that at current staffing levels Codes is unable to investigate and enforce compliance with the Act and HCD regulations to ensure these facilities meet required standards.

Codes is currently budgeted for 48 full-time positions statewide. This has not increased since 2015-16. These 48 field inspectors are responsible for monitoring the health and safety of approximately 6,251 mobilehome parks, special occupancy parks, and 399,518 park lots throughout California. The total number of field operations assignments has increased by 22 percent from 2014-15 to 2019-20 as homeowners emerged from the recession. Additionally, a 2019-20 audit by the California State Auditor noted that HCD has no record of entering and inspecting 10 percent of mobilehome parks within the last decade. The Administration has indicated that additional staff will help address this.

Codes staffing has remained consistent since 2014-15 despite an increase in workload and shortcomings in current performance identified by the California State Auditor. However, it is unclear whether the requested three positions is appropriate or sufficient to address these issues. The Legislature should consider the extent to which the requested staff will meet the identified workload, or whether an alternate level of resources is appropriate.

Staff Recommendation: Hold Open.

Issue 7: Consolidated Housing Accountability Application Procurement Project

Governor's Budget. The budget includes $6,713,000 in state operations from the General Fund in 2022-23 to improve its monitoring and management of loans and grants business programs through the procurement and implementation of a new enterprise Information Technology (IT) solution.

Background. HCD oversees more than 80 programs and funding from application through closeout for construction, acquisition, rehabilitation and preservation of affordable rental and ownership housing, homeless shelters and transitional housing, public facilities, and infrastructure. The Department's overall budget has increased by 547 percent over the past four fiscal years, 57 percent of which is comprised of federal funding.

A 2018 audit by the State Auditor states that despite concerns raised in prior audits, HCD has not fulfilled its obligation to monitor its recipients' use of housing bond funds. Audit report also stated that, even though HCD had implemented the Consolidated Automated Program Enterprise System (CAPES) database, CAPES does not have the necessary functionality to accurately monitor HCD's housing bond programs. The CSA recognizes that the challenges HCD faces to appropriately monitor its housing bond programs stem, in part, from inadequacies in its CAPES system. The CAPES system was implemented in 2007 and has a limited ability to generate reports. It requires users to perform unnecessarily steps to access information, and issues with database design complicate HCD's ability to develop ad hoc reports to monitor its loans and grants, respond timely and accurately to stakeholder requests, and answer complex research questions.

Staff Comments. The Administration has indicated that, due to the limitations inherent in the legacy systems, staff have developed and use manual data collection workarounds such as Microsoft (MS) Excel spreadsheets and MS Word documents, often maintained in desktop environment or shared files with limited access. In effect, the Department has several decentralized shadow databases, which lack a database audit trail, create multiple conflicting versions of program data, and lack necessary controls to prevent common data-keying errors from being introduced to the systems. When the Department receives requests to provide program specific information, staff must consolidate and compare multiple data sources, including data extracts from CAPES, individually maintained spreadsheets, and other documents. This manual process is prone to human error and results in data gaps that impacts everything from accurate reporting on program outcomes to financial record reconciliation and can result in audit and monitoring findings.

While the status quo has many issues and is not sustainable, the Legislature may want to delay action on this proposal until additional information about this procurement is available. Specifically, it is worth noting that the requested funding is one time and does not include ongoing operating costs for any newly-acquired system.

Staff Recommendation: Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair
SUBCOMMITTEE NO. 4 **Agenda**

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, February 23, 2022
1:30 p.m.
State Capitol – Room 2040

Consultant: Yong Salas

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

1115 Department of Cannabis Control

The Department of Cannabis Control (DCC) was consolidated from three cannabis licensing entities into one department pursuant to Assembly Bill 141 (Committee on Budget), Chapter 70, Statutes of 2021. DCC licenses and regulates cannabis businesses, including cannabis-related cultivation, manufacturing, and sales.

Budget Overview: The Governor's budget proposes $181.1 million and 626 positions in the budget year, as shown in the figure below. This is an increase of two positions but a decrease of approximately $110 million from 2021-22, mostly due to significant one-time funding provided in the 2021-22 budget.

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
1460	Department of Cannabis Control	-	624.0	626.0	$-	$293,584	$181,117
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**-**	**624.0**	**626.0**	**$-**	**$293,584**	**$181,117**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$-	$125,733	$1,429
0995	Reimbursements	-	185	737
3288	Cannabis Control Fund	-	157,666	155,277
3335	Cannabis Tax Fund - Cannabis Control	-	-	13,674
3346	Cannabis Tax Fund - Department of Cannabis Control - Allocation 2	-	10,000	10,000
TOTALS, EXPENDITURES, ALL FUNDS		**$-**	**$293,584**	**$181,117**

Issue 1: Cannabis Tax Reform

Panel

- Seth Kerstein, Legislative Analyst's Office
- Greg Minor, City of Oakland
- Amber Senter, Supernova Women
- Virgil Grant, Los Angeles Equity Operator
- Kristin Heidelbach, Teamsters
- Jassy Grewal, United Food and Commercial Workers Union
- Terry Brennand, SEIU
- Beverly Yu, United Domestic Workers/AFSCME Local 3930
- Caren Woodson, Kiva Convections
- Adrien Keys, Small Homestead Cannabis Farmer from Trinity County
- Nick Maduros, California Department of Tax and Fee Administration
- Nicole Elliott, Department of Cannabis Control

Background

Since the passage of Proposition 64—the Control, Regulation and Tax Adult Use of Marijuana Act, which authorized adults aged 21 years or older to legally grow, possess, and use marijuana for non-medical purposes—in 2016, the Legislature passed two pieces of legislation that further implemented the Act. First, in 2017, the Legislature passed Senate Bill 94 (Committee on Budget and Fiscal Review), Chapter 27, Statutes of 2017, the Medicinal and Adult-Use Cannabis Regulation and Safety Act, that created a single-comprehensive system to control and regulate the cultivation, distribution, transport, storage, manufacturing, processing and sale of both medicinal and adult-use cannabis. Then, in 2019, Assembly Bill 97 (Committee on Budget), Chapter 40, Statutes of 2019, strengthened enforcement tools and licensing requirements, and extended the time for local governments to undergo the California Environmental Quality Act to July 1, 2021, related to cannabis activities, among other provisions. Most recently, Assembly Bill 141 (Committee on Budget), Chapter 70, Statutes of 2021, consolidated the three licensing entities into one department, the Department of Cannabis Control, and extended the state's provisional licensing program.

Prior to the passage of Proposition 64, the Legislature and the voters created a layered network of cannabis-related policies. These include:

- In 1996, California voters approved Proposition 215, known as the Compassionate Use Act, which statutorily authorized the use of medical cannabis, and provided protections for physicians who made medical cannabis recommendations.

- In 2003, Senate Bill 420 (Vasconcellos), Chapter 875, Statutes of 2003, established the voluntary Medical Marijuana Program under the California Department of Public Health, which provided access to medical cannabis for qualified patients and primary caregivers and created a medical marijuana identification card and registry database.

- In 2015, Governor Jerry Brown signed the Medical Marijuana Regulation and Safety Act, comprised of Assembly Bill 243 (Wood), Chapter 688, Statutes of 2015; Assembly Bill 266 (Bonta), Chapter 689, Statutes of 2015; and Senate Bill 643 (McGuire), Chapter 719, Statutes of 2015. Together, these bills established the oversight and regulatory framework for the cultivation, manufacture, transportation, storage, and distribution of medical cannabis in California.

As a result of varied and layered policies, the pathway for cannabis licensure has been burdensome and costly. Existing law and regulations require operators to be dually-licensed at both the local and state levels. In the 482 cities in California, approximately 41 percent allow for legal commercial cannabis business activity within their jurisdiction, while approximately 55 percent of counties allow for this activity.[1]

Cannabis Taxes

Proposition 64 established two state excise taxes on cannabis: 1) 15 percent excise tax on retail gross receipts, and 2) a cultivation tax on harvested plants that is based on weight. The California Department of Tax and Fee Administration (CDTFA), which administers these cannabis taxes, is statutorily required to adjust the cultivation tax rates annually for inflation. Beginning on January 1, 2022, existing law required the cultivation tax to be adjusted to $10.08 per ounce of dried flowers (an increase from the previous rate of $9.65 per ounce of dried flowers), $3.00 per ounce of dried leaves (an increase from the previous rate of $2.87 per ounce of dried leaves), and $1.41 per ounce of fresh plants (an increase from the previous rate $1.35 per ounce of fresh plants). Proposition 64 eliminated the standard sales tax on medical marijuana patients with a state ID card; but recreational cannabis is subject to existing state and local sales tax. Lastly, locals have discretion on setting additional taxes on cannabis activity. In some jurisdictions, local taxes on cannabis products can be as high as ten percent.

The retail excise tax and the cultivation tax are both collected by distributors. At the end of 2019, CDTFA raised the mark-up[2] on wholesale cannabis from 60 percent to 80 percent, and it has remained at 80 percent since. The following chart from the Legislative Analyst's Office (LAO) outlines the cannabis tax structure.

[1] https://cannabis.ca.gov/wp-content/uploads/sites/2/2021/12/CAC-Annual-Report-2021.pdf

[2] In an arm's length transaction, meaning the consideration received reflects the fair market value between two parties under no requirement to participate in the transaction, the distributor calculates the cannabis excise tax based on the "average market price," which is computed by applying the CDTFA's predetermined mark-up rate.

California's Cannabis Taxes

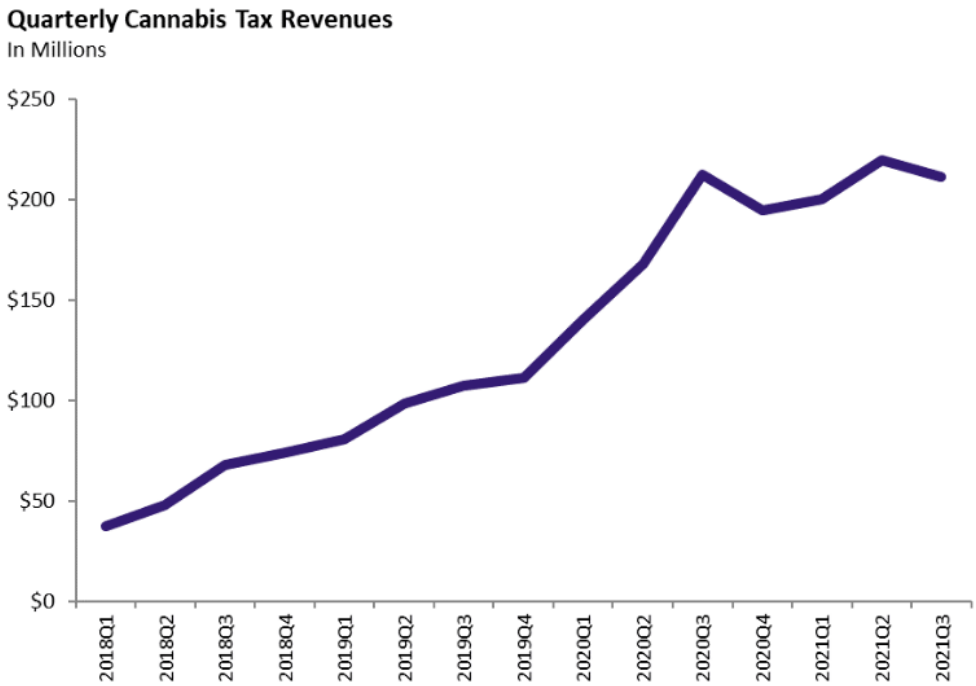
Tax	Type	Rate on January 1, 2020
State retail excise tax	Ad valorem tax primarily on wholesale sales	Nominally 15 percent of retail price. In practice: • For most sales, administratively determined percentage of wholesale price (currently 27 percent) • For some sales, 15 percent of retail price
State cultivation tax	Weight-based tax on harvested cannabis	• $9.65 per ounce of dried cannabis flowers • $2.87 per ounce of dried cannabis leaves • $1.35 per ounce of fresh cannabis plant
Local taxes	Varies; most commonly ad valorem or based on square footage	Varies—on average, roughly equivalent to a 14 percent tax on retail sales[a]

[a] LAO estimate of the average cumulative tax rate, including taxes on cultivation, manufacturing, distribution, testing, and retail.

Governor's Budget Proposal

The cannabis excise tax and the cultivation tax are deposited into the Cannabis Tax Fund, which is then distributed for various purposes as required by Proposition 64. The Cannabis Tax Fund revenue is distributed in three Allocations. Revenue collected in a given fiscal year is first distributed to Allocations 1 and 2 (both described in more detail below). After the distributions to Allocations 1 and 2, the remaining revenue is carried over to the next fiscal year and distributed to Allocation 3 (described in more detail below). Pursuant to the Governor's budget estimates, for the 2021-22 fiscal year, after distributions to Allocations 1 and 2, the balance is approximately $595 million, which is carried into the 2022-23 fiscal year for Allocation 3 disbursements. The balance from 2020-21 that was carried over to provide the Allocation 3 disbursements for the 2021-22 fiscal year was approximately $670 million. This represents an estimated $75 million less available for Allocation 3 programs in 2022-23 as compared to 2021-22.

The Administration estimates that cannabis tax revenues will be $786.8 million in 2022-23, an increase of $78.9 million from 2021-22. The below chart shows the quarterly revenue trends for the Cannabis Tax Fund, provided by the LAO.



The estimated revenues and expenditure allocations for the Cannabis Tax Fund provided by the Department of Finance are on the next page.

California Cannabis Tax Fund (3314) Estimated Revenues & Expenditure Allocations

	2020-21*	2021-22*	2022-23*
REVENUES:			
Beginning Balance	$337,762	$669,610	$594,868
Cannabis Tax	770,380	710,915	786,836
Total Revenues	**$1,108,142**	**$1,380,525**	**$1,381,704**
Allocation 1: Regulatory and Administrative			
Bureau of Cannabis Control (Equity Program)	15,517	-	-
Governor's Office of Business and Economic Development (Equity Program)	-	15,573	15,574
Department of Cannabis Control	-	-	13,674
Department of Fish and Wildlife	7,783	9,084	10,431
Department of Pesticide Regulation	3,418	2,726	2,729
State Water Resources Control Board	10,097	10,728	10,723
Employment Development Department	3,633	3,630	3,630
Department of Tax and Fee Administration	12,425	9,347	9,750
State Controller's Office	-	-	502
Department of Finance	-	440	-
Statewide General Administration	2,897	9,519	14,419
Total Allocation 1	**$55,770**	**$61,047**	**$81,432**
Allocation 2: Specified Allocations for Research and Other Programs			
Public University/Universities in California	10,000	10,000	10,000
California Highway Patrol	3,000	3,000	3,000
Governor's Office of Business and Economic Development	30,000	40,000	50,000
University of San Diego Center for Medicinal Cannabis Research	2,000	2,000	2,000
Total Allocation 2	**$45,000**	**$55,000**	**$65,000**
Allocation 3: Percentage of Remaining Revenue Collection			
Youth Education Prevention, Early Intervention and Treatment Account	202,657	401,766	356,921
Environmental Restoration and Protection Account	67,552	133,922	118,974
State and Local Government Law Enforcement Account	67,552	133,922	118,974
Total Allocation 3	**$337,762**	**$669,610**	**$594,868**
Based on prior year actual tax collection			
Total Expenditures	**$438,532**	**$785,657**	**$741,300**
Balance of Tax Receipts	**$669,610**	**$594,868**	**$640,404**

In the above chart, "Allocation 1" refers to regulatory costs as allowed by Proposition 64, for the following agencies:

- CDTFA for administering and collecting taxes, not to exceed 4 percent of the tax revenues received.
- DCC for implementing, administering, and enforcing cannabis laws, to the extent these costs are not reimbursed by the Cannabis Control Fund, which receives licensing fees, until the end of the 2022-23 fiscal year.
- Department of Fish and Wildlife, the State Water Resources Control Board, and the Department of Pesticide for cannabis-related activities as required by law, to the extent that these costs are not reimbursed.
- Governor's Office of Business and Economic Development to implement the Cannabis Equity Act.
- The State Controller's Office, for cannabis-related activities, including audits.
- The Division of Labor Standards Enforcement and the Division of Occupational Safety and Health within the Department of Industrial Relations and the Employee Development Department for the costs of applying and enforcing state labor laws to cannabis licensees.

For the 2022-23 Budget, the Administration proposes new spending under Allocation 1:

- *Department of Cannabis Control.* One-time $13.7 million Cannabis Tax Fund an information technology assessment of a unified cannabis licensing system, consumer awareness campaign, and data collection and sharing efforts.
- *Department of Tax and Fee Administration.* $882,000 Cannabis Tax Fund in 2022-23 and $815,000 beginning in 2023-24 and ongoing for to provide audit support for the Cannabis Taxes Program.
- *Department of Fish and Wildlife.* $1.3 million in 2022-23, $1.2 million in 2023-24, and $1.2 million in 2024-25 from the Cannabis Tax Fund for costs related to the provisional licensing program.
- *State Controller's Office.* $502,000 in 2022-23 and $489,000 ongoing from the California Cannabis Tax Fund to support 3.0 permanent positions for audits of the California Cannabis Tax Fund.
- *California Highway Patrol.* Authority for 9 positions to provide oversight for the Cannabis Tax Fund grant program ($40 million under Allocation 3).

"Allocation 2" refers to set allocations for research and other programs, as required by law, and includes for 2022-23:

- $2 million annually to the University of California San Diego Center for Medicinal Cannabis Research.
- $50 million annually for the Governor's Office of Business and Economic Development for the Community Reinvestment grants program.
- $3 million to the California Highway Patrol until 2022-23 to establish and adopt protocols related to impaired driving.
- $10 million for the Department of Cannabis Control to award funds to public universities to conduct cannabis-related research until 2028-29.

"Allocation 3" distributes the remaining revenues from the prior year after the expenditures in Allocations 1 and 2, so that 60 percent of the remaining revenues are deposited into the Youth Education, Prevention, Early Intervention and Treatment Account, 20 percent are deposited in the Environmental Restoration and Protection Account, and the final 20 percent going to the State and Local Government Law Enforcement Account.

The chart below describes in further detail how the Allocation 3 funds will be distributed at Governor's Budget:

Cannabis Taxes - Allocation 3	2021-22 at 2021 Budget Act	2021-22 at 2022-23 Governor's Budget	2021-22 Difference Compared to Budget Act	2022-23 at 2022-23 Governor's Budget
Youth Education Prevention, Early Intervention & Treatment Account	$377,457,000	$401,766,000	$24,309,000	$356,921,000
CDPH for surveillance and education activities	$12,000,000	$12,000,000	$0	$12,000,000
DSS for access to subsidized child care (remaining 75%)	$274,093,000	$292,325,000	$18,232,000	$258,691,000
DHCS for competitive grants (remaining 20%)	$73,091,000	$77,953,000	$4,862,000	$68,984,000
Natural Resources Agency for Community Access (remaining 5%)	$18,273,000	$19,488,000	$1,215,000	$17,246,000
Environmental Restoration and Protection Account	$125,819,000	$133,922,000	$8,103,000	$118,974,000
Fish and Wildlife	$75,491,000	$80,353,000	$4,862,000	$71,384,000
Parks and Recreation	$50,328,000	$53,569,000	$3,241,000	$47,590,000
State and Local Government Law Enforcement Account	$125,819,000	$133,922,000	$8,103,000	$118,974,000
CHP for impaired driving activities and IT/admin staff	$2,614,000	$2,614,000	$0	$10,000,000
CHP for impaired driving/traffic safety grant program (includes related admin)	$36,962,000	$39,392,000	$2,430,000	$40,000,000
BSCC's public safety services grant program	$86,243,000	$91,916,000	$5,673,000	$68,974,000
Total	$629,095,000	$669,610,000	$40,515,000	$594,869,000

Source: Department of Finance

Suggested Questions

- LAO/DOF: If the cannabis tax revenues decline, how would programs, particularly in Allocation 3, be impacted? Would any potential tax reform this year change the Allocation 3 funding levels in 2022-23?

- DCC: Are provisional licensees on track to transition to annual licenses? If the licensees are unable to successfully transition provisional licenses to annual licensure, what impacts would this have on cannabis tax revenues?

- General: In addition to tax relief, are there other things that the state can do to help alleviate regulatory burdens?

Staff Recommendation. This is an informational item only.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, March 2, 2022
1:30 p.m.
State Capitol - Room 2040

Consultants: Anita Lee, Joe Stephenshaw, and Elisa Wynne

Vote Only Items

Discussion Items

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS FOR VOTE ONLY

0855 GAMBLING CONTROL COMMISSION

Issue 1: Support Staffing

Request. The Governor's budget includes $494,000 ($217,000 Indian Gaming Special Distribution Fund and $277,000 Gambling Control Fund) and four positions in 2022-23, and $486,000 in 2023-24 and ongoing for the Gambling Control Commission to support implementation of recommendations by the California State Auditor and to address an increase in workload within the Licensing, Information Technology and Support, and Legislative and Regulatory Affairs Units.

The four positions are as follows: one Information Technology (IT) Specialist I in the IT Support Unit, one Staff Management Auditor in the Administration Division, one Staff Services Manager (SSM) in the Licensing Division, and one SSM in the Legislative and Regulatory Affairs Division.

Background. The Information Technology Support Unit under the Administration Division of the Commission has three permanent full-time employees (Chief Information Officer, Network Engineer and Application Developer), and is also temporarily supported by three Retired Annuitant positions to meet increasing needs. The Administration notes that workload for the unit has continued to increase from a PY equivalent of 3.6 in 2018-19 to 3.2 in 2020-21; additionally processing times for IT ticket requests have increased from 20 minutes to 30 minutes. The Administration notes that the increased time spent on IT requests have increased due to additional business systems that have been deployed (mobile devise management systems, web workload), increased telework support, increased complexity of telework infrastructure, increased number of IT devices and systems. In order to create a permanent solution and to reduce the reliance on Retired Annuitant positions moving forward, the Administration requests position authority and funding for an Information Technology Specialist I and Staff Management Auditor.

The Governor also requests an additional Staff Management Auditor who will report to the Deputy Director of the Administration Division and will supervise the existing Associate Management Auditor and will directly address the needs identified in the 2018 State Auditor report. The California State Auditor recommended that the Commission implement procedures to track the number of license application, conduct cost analysis of activities supported by the Gambling Control Fund, and adjust regulatory fees to reflect cost of activities. The Commission notes that it will conduct the cost workload analysis on an annual basis and analyze its fee structure every two years. Additionally, the Commission intends to ensure that all policies and procedures are reviewed on a three-year cycle. However, the Administration notes that due to lack of resources, auditing is mostly performed by high-level staff at the Deputy Director and Executive Director Levels. The Administration notes that the Commission requires a dedicated position to ensure sufficient auditing in performed with consistency.

The Governor also requests position authority for one Staff Services Manager (SSM) I in the Licensing Division. Currently, the Division has one SSM that manages the daily operations and supervises six AGPAs, and a Deputy Director overseeing all workload for Commission Licensing Meetings and oversight over the Division. Prior to the Governor's 2013 Reorganization, the division had three SSM positions. The Administration notes that current structure has resulted in unintended silos, limiting in-depth reviews, created inefficiencies and shifted the supervisory responsibility to crisis management. Additionally, the current structure does not provide emergency backup for the SSM and does not allow for succession planning. The Administration notes that an additional SSM will increase program oversight, performance, management, mentoring and delegation.

Lastly, the Administration requests one SSM in the Legislative and Regulatory Affairs Division. The Commission is the primary regulatory body over gambling establishments, and they anticipate increased needs to promulgate or update regulations due to recent legislation. The Administration notes this position is needed to update regulations and statutory analysis in a timely manner.

Staff Recommendation. Approve as budgeted.

0981 CALIFORNIA ACHIEVING A BETTER LIFE EXPERIENCE ACT BOARD

Issue 2: CalABLE Marketing and Outreach

Request. The Governor's budget includes $197,000 for the addition of one Associate Governmental Program Analyst (AGPA) level position and funding to support the development of a marketing, outreach, and public education program to successfully implement and grow the California Achieving a Better Life Experience ("CalABLE") Program.

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

The Budget Act of 2016 authorized the Board to receive up to $1.5 million as a General fund loan to support startup and administrative costs, including three permanent positions (Executive Director, 1 Staff Services Manager I, and an Associate Governmental Program Analyst), as well as funding for external consulting/contract services, development of regulations and program operations. The Board received an initial appropriation of $850,000 for 2016-17 and $650,000 for 2017-18. CalABLE has operated with GF loans, totaling $4.8 million since its inception. In the Budget Act of 2021, CalABLE was provided $1.2 million General Fund for program administrative operations. CalABLE's staffing level has remained the same since 2016.

The Program launched for public enrollment in December 2018. The latest report (3rd quarter of 2021) report shows 6,473 active accounts with over $60 million in assets under management. CalABLE has recently completed a marketing plan under its current budget with contractor, with the goal to achieve 17,000 accounts by 2023. Under current growth and budget assumptions, CalABLE is expected to reach self-sustainability (revenue exceeds operating expenditures) when it reaches approximately 20,500 accounts.

CalABLE does not have sufficient staffing to provide outreach and education to the disability population of the state to reach our aggressive growth targets, especially as it relates to the Spanish speaking population of the state. To continue the programs growth and reach its goal of self-sufficiency the CalABLE Board requests:

- One position at the AGPA level to allow for a Field Representative to support a broad outreach and public education campaign to target specific California and national audiences: eligible individuals with disabilities, their family members, and organizations and agencies providing disability advocacy, services, and public benefit programs, estimated at $197,000.

Staff Recommendation. Approve as Budgeted.

0890 SECRETARY OF STATE (SOS)

Issue 3: California New Motor Voter Program Task Force (AB 796)

Governor's Budget. The Governor's budget includes $481,000 General Fund in 2022-23 ($466,000 ongoing) to fund three positions to implement and administer the provisions of AB 796 (Berman), Chapter 314, Statutes of 2021.

Background. AB 796 codified into state law voter registration information transmittal requirements in the federal National Vote Registration Act of 1993, as specified, and various provisions from a legal settlement regarding the transmission of voter registration information, as specified. The bill also required the SOS to establish a taskforce to evaluate the California New Motor Voter Program.

Staff Comments. Requested resources are consistent with the legislative bill analysis.

Staff Recommendation: Approve as Budgeted.

Issue 4: Campaign Disclosures – Limited Liability Companies (SB 686)

Governor's Budget. The Governor's budget includes $566,000 General Fund in 2022-23 ($125,000 ongoing) to support one position and to incorporate the changes and new filing type to the California Automated Lobbyist and Campaign Contribution and Expenditure Search System (CAL-ACCESS) Replacement System(CARS) required by SB 686 (Glazer), Chapter 321, Statutes of 2021.

Background. SB 686 amended the Political Reform Act to require Limited Liability Companies that qualify as a political committee to file a disclosure statement with the SOS.

Staff Comments. Requested resources are consistent with the legislative bill analysis.

Staff Recommendation: Approve as Budgeted.

Issue 5: Electioneering Regulations (SB 35)

Governor's Budget. The Governor's budget includes $50,000 General Fund in 2022-23 for temporary help to assist in the promulgation of regulations related to electioneering as required by SB 35 (Umberg), Chapter 318, Statutes of 2021.

Background. SB 35 made changes to the distance within which electioneering and specified political activities near a voting site are prohibited, as specified. The bill also extended an existing deadline for a candidate for Governor to submit tax returns to the SOS in order to have the candidate's name printed on the direct primary election ballot, and makes changes to the process for submitting those documents, as specified.

SB 35 requires the SOS to promulgate regulations specifying the manner in which notice regarding prohibitions on electioneering and activity related to corruption of the voting process will be provided to the public.

Staff Comments. Given the additional requirements imposed on the SOS by SB 35, this request is reasonable.

Staff Recommendation: Approve as Budgeted.

Issue 6: Ensure Safe at Home Applications and Materials are Available in Additional Languages (AB 277)

Governor's Budget. The Governor's budget includes $44,000 General Fund in 2022-23 ($9,000 ongoing) to meet requirements of AB 277 (Valladares), Chapter 457, Statutes of 2021.

Background. AB 277 requires the SOS to provide application forms, notices, and explanatory materials related to the Safe at Home program in at least five languages and requires information about the Safe at Home program to be included on Judicial Council forms relating to domestic violence.

Staff Comments. Requested resources are consistent with the legislative bill analysis.

Staff Recommendation: Approve as Budgeted.

Issue 7: Systems Unit FI$Cal Augmentation

Governor's Budget. The Governor's budget includes $136,000 ($95,000 Business Fees Fund and $41,000 General Fund) in 2022-23 and $131,000 ($93,000 Business Fees Fund and $38,000 General Fund) annually thereafter to fund one existing, currently unfunded, position to ensure that SOS has the necessary resources to transact effectively and successfully in the Financial Information System of California (FI$Cal).

Background. In May of 2021, the SOS brought in a retired annuitant to assess the current Management Services Division staffing and architecture of FI$Cal support staff. One of the recommendations posed by the consultant was to move the Systems Unit functions from Budgets to Accounting and request permanent funding for one Associate Accounting Analyst in efforts to mitigate the issue of key person dependencies and establish a team of critical resources to ensure business continuity.

Staff Comments. State agencies and departments must have adequate resources to successfully transact within FI$Cal to ensure timely completion and submission of year-end financial statements. This request supports the SOS in these efforts.

Staff Recommendation: Approve as Budgeted.

1111 DEPARTMENT OF CONSUMER AFFAIRS

Issue 8: Board of Pharmacy – Site Licensing Staff Augmentation

Request. The Governor's budget requests an increase of two Associate Government Program Analyst (AGPA) positions and $314,000 in fiscal year 2022-23 and $298,000 ongoing. These resources enable the Board's Licensing Unit to address an increase in temporary license applications received and increased workload from the expansion of Board authority related to management and control of site licenses. As a result of the increase in licensing workload, the Board is exceeding its current mandated licensing timeframes established by the Board via regulations.

Background. Under various provisions of Pharmacy Law, entities may seek a temporary license while also seeking permanent licensure to operate a pharmacy. Business and Professions Code (BPC) section 4110 provides that the Board may, at its discretion, issue a temporary permit for a period not to exceed 180 days. The provisions for temporary licensure were initially limited to changes in ownership or changes in location; however, in 2018 the provisions were expanded to allow for any applicant to seek temporary licensure. The Board is required to evaluate applications and supporting documents, including funding, assessment of ownership, management and control, and other operational issues, as well as assess and review ownership structures and positions to identify issues of management and control that may compromise consumer protections.

As a result of the expansion of temporary license, the Board has experienced a 78 percent increase in the number of Limited Liability Corporations involved in various layers of ownership, and about 50 percent of site applications have more than one level of ownership. The Board anticipates a 50 percent increase in the number of temporary license applications it receives on average over the next three fiscal years based on historical figures. Under regulations, the Board is required to process pharmacy applications in 30 days, however current processing time is 60 days to process the initial application. The current processing time to review responses to deficiencies is 79 days. Similarly, the Board's processing time for initial sterile compounding pharmacy applications is 64 days and an additional 87 days to review responses received to mitigate deficiencies identified.

The Board requests two AGPA positions to address the increase of temporary license applications and to reduce processing times of temporary and site license applications. One AGPA will conduct an enforcement background check at the time of initial application and before the issuance of the site license. The AGPA will conduct a thorough enforcement investigation on all tiers of ownership of the facility applying for a license. The other AGPA will conduct and expedite abbreviated and meticulous analysis of documentation submitted for each temporary license application and authorize the issuance of temporary licenses. With the addition of these two staff, processing times will be significantly reduced, addressing the barrier to licensure created by extended processing times.

Processing times for incomplete pharmacy and incomplete nonresident pharmacy applications are projected in 2021-22 to be 129-201 days. With the additional staff, the Board anticipates a reduction in the overall processing time for these applications to 100-140 days by the end of 2022-23, 60-90 days by the end of 2023-24, and 45-60 days by the end of 2024-25 and ongoing.

Staff Recommendation. Approve as budgeted.

Issue 9: Board of Registered Nursing - Permanent Funding for Licensing and Call Center Positions

Request. The Board of Registered Nursing (BRN) requests $1.88 million in fiscal year 2022-23 and ongoing to support 22 positions provided in 2019-20 with limited-term funding. Funding is requested to continue supporting 22 existing positions in the following programmatic areas:

- Public Information Unit (PIU) – Consumer Assistance Call Center and Correspondence: 14.0 positions
- Licensing Division - Fingerprint Unit: 3.0 positions
- Licensing Division - United States Licensing Evaluation: 5.0 positions

This request also includes a reduction of nine positions previously assigned to the Call Center that were authorized in 2019-20. Due to various efficiencies, these positions will no longer be required to address ongoing workload.

Background. The 2019-20 Budget Act provided BRN 67 positions, of which 31 positions were three-year limited-term. These additional resources, combined with organizational integration of streamlined procedures, and fully leveraging the functionality of the Board's BreEZe IT system, has allowed the BRN to improve its average licensing processing timeframes from 12-20 weeks to as low as 8-12 weeks for the initial review.

Currently, licensing processing times are within the 10-12 weeks for initial review. The Board's goal is to complete the initial assessment within 4-6 weeks. By completing the initial review within the 4-6 week target, applicants will be granted an authorization to test (ATT) and application deficiencies will be identified, and applicants will be notified quicker. The pass rates of applicants taking the National Council Licensure Examination (NCLEX) immediately following graduation are higher. The quicker an applicant is approved, the sooner they can take the examination. Additionally, the sooner applicants are notified of application deficiencies, they can submit the required documentation to clear the deficiencies. The 4-6-week target for the initial application review is paramount to serve our stakeholders and the public.

During 2019-20 and 2020-21, nursing license applications and fingerprint submissions increased over 20 percent. Due to this increase in applications, the BRN requests ongoing and permanent funding for 22 of the 31 positions that were previously approved with limited-term funding. These resources will continue to address and create further efficiencies in managing the increased workload in the Administration and Public Information Unit and the Licensing Division.

ADMINISTRATION AND PUBLIC INFORMATION UNIT	
Call Center & Correspondence	**Positions**
Supervising Program Technician II	1.0
Program Technician III	1.0
Program Technician II	9.0
Staff Services Analyst	1.0
Office Technician	1.0
Staff Services Manager I	1.0
LICENSING DIVISION	
Fingerprint Unit	**Positions**
Program Technician II	2.0
Staff Services Analyst	1.0
United States Licensing Evaluations	
Program Technician II	5.0
Total Request	**22.0**

BRN anticipates the existing fund condition of the BRN Fund, which is funding through application fees, license fees and penalty fees associated with practice of registered nursing, is sufficient to support the proposal ongoing. Based on budgetary projections of the BRNs current and future fund condition, the Administration notes that the current fees are sufficient to support the proposal.

Staff Recommendation. Approve as budgeted.

Issue 10: Dental Board – Permanent Resources for Chapter 929, Statutes of 2018 (SB 501)

Request. The Dental Board of California (DBC) requests $586,000 and four positions (one Staff Services Manager I, two Associate Governmental Program Analysts, and one Staff Services Analyst) and an additional $20,000 for IT support and software licensing in 2022-23 and ongoing to allow the continued implementation of the provisions outlined in Senate Bill 501 (Glazer), Chapter 929, Statutes of 2018.

Additionally, the Board is requesting two-year limited-term funding of $182,000 in fiscal year 2022-23 and $272,000 in 2023-24 to support required modifications to the Board's BreEZe Licensing IT system for costs associated with the implementation of SB 501.

Total Request by Fiscal year

- FY 2022- 23 - $788,000
- FY 2023-24 - $878,000
- FY 2024-25 ongoing - $606,000

Background. SB 501 established new requirements and minimal standards for the use of sedation and anesthesia in pediatric dental procedure, as well as create processes for DBC to issue various permits, conduct inspection or evaluations prior to issuance of sedation permits. The 2019 Budget provided $547,000 and four positions in 2019-20 and $465,000 in 2020-21 and 2021-22 to implement the provisions of SB 501. The Administration requests that these positions be made permanent.

Staff notes that DBC has about a 23 percent vacancy rate, with 20 of 88 positions vacant. The Board notes in the last year, while some positions were filled, others were vacant due to retirements, promotions, or other employment opportunities. The Board notes that three positions are expected to bill filled at the end of February, three are in the hiring process, 11 are in active recruitment, and three are being discussed with Office of Human Resources for possible reclassification. DBC notes that they cannot redirect existing resources to support this proposal, and that most of the savings that the Board generates each year is associated with vacant positions.

DBC's Anesthesia Unit ensures that applicants meet the eligibility requirements for an anesthesia and sedation permit, checks for compliance with continuing education requirements, and reviews anesthesia and sedation processes and procedures in accordance with the Dental Practice Act.

The requested two AGPA positions will responsible for data regarding any adverse events related to delivery of anesthesia and sedation of a dental patient, review results of on-site inspection and evaluations for permit holders, and will review and analyze data for implementation or changes as relates to SB 501. The requested Staff Services Analyst (SSA) will be responsible for process applications related to anesthesia and sedation and reviewing eligibility requirements. The SSA will also prepare correspondence with applicants regarding application status and deficiencies. The requested Staff Services Manager SSM will supervise the unit staff and direct operations and oversee program leadership and prepares reports and responses to the Governor and legislative correspondence.

Lastly, the Administration projects IT costs of approximately $20,000 in 2022-23 and on-going for general IT support (e.g., web, telecom, service desk, etc.) and software licensing. Additionally, $182,000 in 2022-23 and $272,000 in 2023-24 are required for IT contractor work. Existing maintenance resources at the Department cannot be redirected for this level of effort as it involves creating two new license types, retiring one existing license type, numerous and complex related modifications, and updating approximately eight fees.

Staff Recommendation. Approve as budgeted.

Issue 11: Dental Hygiene Board - Continuing Education Audit Analyst

Request. The Dental Hygiene Board of California (DHBC) requests $129,000 in fiscal year 2022-23 and $121,000 in 2023-24 and ongoing, and 1.0 Staff Services Analyst position to increase annual continuing education (CE) audits for license renewal compliance.

Background. In 2019, the DHBC was established under DCA and has authority regarding all aspects of the licensing of the dental hygiene profession, enforcement and investigation of its licensees, and the approval of educational programs that provide the prerequisite education to become a licensed dental hygienist. Part of its oversight authority, DHBC is required to conduct ongoing continuing education audits to verify the licensees completed the required number of hours to renew their license. The Board is required to audit at least five percent of the licensee population each year. Through the mandated five percent audit rate, the board found that approximately 40 percent of audited dental hygiene licensees were non-compliant at the time of their last renewal. The Board believes that increasing its current audit rate to 10 percent is necessary to increase CE compliance to ensure licensees are taking the mandated CE courses.

In order to meet the Board’s goal to increase CE audits to 10 percent each year, the Board notes it will need additional SSA to conduct these reviews. The Board renews roughly 10,900 dental hygiene licenses each year on average, so by conducting a 10 percent audit each year once the BCP is approved, about 1,090 licensees would be selected for a random CE audit beginning in 2022-23 and ongoing.

In July 2021, the Board approved a fee increase to increase its license renewal fee for Registered Dental Hygienists to $300 to be effective July 1, 2022. The Administration notes that this fee increase will sustain the Board’s fund for the foreseeable future.

Staff Recommendation. Approve as budgeted.

Issue 12: Bureau of Household Goods and Services Enforcement Staff Augmentation

Request. The Bureau of Household Goods and Services requests four Special Investigator positions and an increase in expenditure authority of $620,000, Household Movers Fund, Professions and Vocations Fund, in fiscal year 2022-23 and $588,000 in 2023-24 and ongoing to actively target household movers operating without a valid permit in violation of the Household Movers Act.

Background. Effective 2018 the Household Movers fund and jurisdiction over household movers transferred from the California Public Utilities Commission to the Bureau. Existing law specifies that a household mover shall not engage, advertise, solicit, or enter into an agreement to engage in the business of transporting used household goods and personal effects by motor vehicle over any public highway unless they have a valid permit issued by the Bureau. In order to obtain a permit, the household mover must submit fingerprints for a criminal background clearance, pass an examination showing financial responsibility, and obtain workers' compensation, cargo liability, public liability, and property damage insurances. Existing law also requires the Bureau to implement a process to conduct appropriate and timely enforcement against illegally operating household movers.

Since the authority over household movers was transferred to the Bureau, the number of complaints received that require an investigation has risen by 40 percent. In 2018-19 the Bureau opened a total of 199 investigations based on complaints received. In 2020-21, the Bureau opened 332 investigations. Out of the 332 investigations opened as of April 2021, 309 complaints were against unpermitted movers. Unpermitted movers account for over 90 percent of the complaints received by the Bureau annually. The Bureau prioritize investigation hold hostage cases, where movers will not release the consumers property while demanding higher payment an agreed upon by the consumer. The Bureau has only been able to close 14 hold hostage cases out of the 83 hold hostage complaints received. In total, the Bureau has closed 73 complaints out of the 365 complaints received in 2020-21. The rest of the complaints are pending further action.

Of the Bureaus 11 authorized positions, five positions are for enforcement - one Supervising Special Investigator (SI) position and four SI positions to perform field investigations. The Administration requests four additional SI positions in order to prioritize timely processing of consumer complaints and implement a process for appropriate and timely enforcement against illegally operating household movers, as well as conduct sting operations. The additional positions will also help the Bureau maintain relationships with, and implement outreach and education programs to, local law enforcement, district attorneys, and airports, and coordinate with law enforcement agencies. The Bureau anticipates an improvement of nearly 55 percent case closure and/or action taken by 2025-26, increasing from the current 34 percent closure rate.

Staff Recommendation. Approve as budgeted.

Issue 13: Department of Consumer Affairs Office of Human Resources - Legislative and Regulatory Consultant

Request. The Department of Consumer Affairs (DCA), Office of Human Resources (OHR) requests $175,000 in fiscal year 2022-23, $167,000 in 2023-24 and ongoing, and one Staff Services Manager I (SSM I) specialist to address workload increases related to legislative and regulatory changes impacting employment law and coordinate the application and interpretation of directives for DCA. The Administration notes that OHR does not have a position designated to this responsibility.

Background. OHR provides a wide range of administrative and personnel support services 36 boards and bureaus. These personnel services include, but are not limited to:

- Examination, Hiring, and Recruiting.
- Payroll and Benefits.
- Health and Safety-Related Benefits.
- Labor Relations.
- Employee Discipline.
- Training, Policy Interpretation and Dissemination, and Position Control.

Nearly every action OHR takes is prompted by a requirement of a law, employee bargaining unit contract, or control agency guideline. For example, OHR is responsible for reviewing approving requests for reviewing and approving requests for Family and Medical Leave Act (FMLA), California Family Rights Act (CFRA), reasonable accommodations, and workers' compensation.

The Administration notes that while existing management and staff maintain the daily operations of examinations, hiring, recruiting, payroll, benefits, labor negotiations, employee discipline and the ongoing interpretation of control agency directives, OHR does not have sufficient resources to provide the same level of service when new laws and regulations become effective. OHR requires an additional resource to make sure the department is up-to-date and in compliance with new laws and regulations that impact employees department-wide.

The SSM I specialist would be responsible for keeping abreast of any new legislative and regulatory changes, as well as control agency directives that impact employment law and the health and safety of DCA employees. The position will:

- Interpret statutes, regulations, and/or control agency directives.
- Formulate recommendations on how to internally and externally implement the statute, regulation and/or control agency directive.
- Communicate those changes to boards, bureaus, DCA leadership, and OHR staff.

Once the policy changes are reviewed and adopted by OHR upper management, the SSM I specialist will be responsible for working with the various OHR units to develop procedures to implement the new requirements of the law, regulation, and/or control agency directive. The approval of this proposal will benefit DCA employees and reduce the risk of liability to the department.

Staff Recommendation. Approve as budgeted.

2100 Department of Alcoholic Beverage Control

Issue 14: Business Modernization and Responsible Beverage Service

Request. ABC requests four positions and an increase in expenditure authority of $2.8 million, Alcohol Beverage Control Fund in 2022-23 and 2023-24, $2.3 million in 2024-25, and $1.8 million ongoing, for support costs following the completion of the Business Modernization and Responsible Beverage Service (BizMod/RBS) Project and to continue the initiative to modernize the department's operations and services to the public.

Background. Prior to its modernization efforts, ABC licensees did not have the option to renew licenses online, pay fees electronically, apply for licensure online, or other administrative actions that can be generally completed online in this modern time. Additionally, AB 1221 (Gonzalez Fletcher), Chapter 487, Statutes of 2017 required that alcohol servicers receive training on responsible beverage service within 60 days of their employment date beginning July 1, 2021.

The 2019 Budget provided the first phase of funding to build a system to support the implementation of the Responsible Beverage Service (RBS) Training Program Act, which was deployed in March 2021. The 2020 and 2021 Budgets provided additional funding to ABC to implement public services including electronic payment, electronic notifications, license renewal, and online application origination options to provide licensees the ability to interact with ABC in a more efficient and customer-centric manner. The third phase of the funding in 2021-22 was for the first year after the project's completion date of June 30, 2021 and to continue to address modernization of ABC's public services. The 2020 Budget Act also shifted the effective date of the AB 1221 requirement that all servers be trained by July 1, 2022.

This proposal will continue to provide the resources to expand the online service offerings included in the BizMod/RBS Project while also providing production support to those services already made available to the public, including the RBS system, which will experience its greatest level of utilization during the summer of 2022, when the RBS training mandate becomes effective. The resources will expand functionality of electronic payment processing to support new online services, increase public facing services, expand electronic payments to all transactions, while also conducting normal maintenance and operations among others.

Staff Recommendation. Approve as budgeted.

Issue 15: San Jose, San Diego, and Stockton District Office Relocations – Vote only

Request. ABC requests an increase in expenditure authority of $254,000 Alcohol Beverage Control Fund in 2022-23, $439,000 in 2023-24, and incremental adjustments thereafter for increased rent costs for the San Jose, San Diego, and Stockton district offices. These three offices are required to move to private buildings because the state buildings within which they currently reside have been moved into the surplus process by the Department of General Services.

Background. The ABC San Jose District Office is responsible for the licensing, enforcement, and administrative duties for all licensed locations in Santa Clara and San Mateo Counties. Currently there are 6,471 active licenses within this office's jurisdiction, which includes on-sale retail, off-sale retail, and non-retail licenses.

The ABC San Diego District Office is responsible for the licensing, enforcement, and administrative duties for all licensed locations in southern San Diego County. Currently there are 5,906 active licenses within this office's jurisdiction.

The ABC San Diego District Office is responsible for the licensing, enforcement, and administrative duties for all licensed locations in southern San Diego County. Currently there are 5,906 active licenses within this office's jurisdiction.

DGS has operated and ABC has occupied state buildings in San Jose, San Diego, and Stockton for many years. DGS has deemed all of these office buildings as too costly to renovate, identifying them as surplus property to be sold, and will be relocating all building tenants to privately-owned space. DGS plans to find alternative office space in the greater San Jose, San Diego, and Stockton areas resulting in higher rental rates, which necessitates this request. DGS proposes to relocate the ABC office in San Jose by December 31, 2022, the office in San Diego by October 1, 2022, and the Stockton office by December 31, 2022. ABC has already submitted the paperwork to begin the planning process for accommodating ABC's needs in the new buildings.

Staff Recommendation. Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 16: Facilities Management Division Special Repair Workload Transfer

Governor's Budget. The Governor's budget includes position authority for 10.0 permanent positions in 2022-23 to transition workload associated with deferred maintenance, special repair projects, and ongoing technology maintenance from a private contractor to state personnel.

Background. In response to an audit conducted by State Auditor which identified opportunities for DGS to improve management of its facility deferred maintenance program, Facilities Management Division (FMD) was created as a separate division to be responsible for the safety and security of buildings under the jurisdiction of DGS as well as providing building management, maintenance, trades, engineering, custodial, landscaping, and minor construction services. FMD contracted with Kitchell to assist with the development of a building maintenance program including program and project management to assist FMD with improving standards, systems, and processes for the maintenance of buildings under the jurisdiction of DGS. This contract included enhancement of an automated maintenance system (Maximo) and a comprehensive dashboard tracking system in conjunction with a new internal governance process to identify, prioritize, track, and monitor the status of ongoing maintenance projects.

The consultant contract is ending in September of 2022, and workload will be transitioned to the civil service classifications included in this request. The requested positions are necessary to continue the pace of special repairs that DGS is making and maintain the software platform that enables all workload to be properly tracked and billed.

Staff Recommendation: Approve as Budgeted.

Issue 17: Position Authority for Facilities Grant Program

Governor's Budget. The Governor's budget includes position authority for 5.0 permanent positions in 2022-23 for workload related to the recently expanded California Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facilities Grant Program.

Background. The Full-Day Kindergarten Facilities Grant Program was established through the 2018- 19 Education Omnibus Trailer Bill using $100 million one-time General Fund. The program is administered by the State Allocation Board to provide grants to school districts that lack facilities to provide full-day kindergarten. Priority for grants is given to those districts that meet the requirements of financial hardship and for districts that are located in underserved communities. The bill allowed administrative costs of up to 2.5 percent for DGS/Office of Public School Construction (OPSC) to be charged to the program.

Chapter 44, Statutes of 2021 (Assembly Bill 130), the 2021-20 Education Omnibus Trailer Bill provides an additional $490 million one-time General Fund to expand the program. The program's scope is changed from solely full-day kindergarten facilities to also include transitional kindergarten and California state preschool facilities. The expanded program is now known as the California Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facilities Grant Program. The bill allows for administrative costs of up to 2.5 percent for DGS/OPSC to be charged to the program.

Staff Recommendation: Approve as Budgeted.

Issue 18: Statewide Insurance Services Program Workload Adjustment

Governor's Budget. The Governor's budget includes $153,000 from the Service Revolving Fund in 2022-23, ongoing, and one position to provide the necessary support to sustain the Equipment Management Maintenance Insurance Program (EMMP).

Background. In 2010, DGS, which is responsible for the procurement of insurance for state agencies, piloted the EMMP to replace expensive equipment maintenance service contracts. The EMMP replaces an organization's multiple service contracts with a comprehensive program that consolidates the cost of equipment maintenance and repair. Once the existing warranty expires, the equipment is eligible for enrollment in the EMMP. The insurance broker's standard practice is to quote an ongoing savings of 25 percent from the current coverage cost for new participants from the insurance premium paid by an organization. The EMMP also maintains a centralized online data portal, which provides departments with enhanced visibility of their equipment portfolio and creates administrative efficiencies for participating departments.

The pilot proved to be successful by initially generating savings of $260,000 from a small number of DGS offices. Over the past five years, the program has expanded substantially to include over 50 state departments with more than 46,000 pieces of equipment covered, achieving cumulative savings of over $34 million through fiscal year 2020-21. However, with this significant growth, the program has had the same level of staff, two positions, since the 2013-14 fiscal year.

Staff Recommendation: Approve as Budgeted.

8260 California Arts Council

Issue 19: California Poet Laureate and Youth Poet Laureate

Request. The California Arts Council requests $173,000 ongoing General Fund and one AGPA to support the California Poet Laureate and California Youth Poet Laureate, and also to enable the Arts Council to provide outreach and technical assistance to all 58 counties on literary arts programs, including the Poet Laureate, Youth Poet Laureate, and the Poetry Out Loud programs.

Background. Existing law establishes the position of the California Poet Laureate and California Youth Poet Laureate, who are appointed by the Governor from a list of three nominees provided by the Arts Council established through a selection process, for one two-year term. The California Poet Laureate is also confirmed by the Senate.

Existing law authorizes the Arts council to provide a stipend for the California Poet Laureate and the Youth Poet Laureate, and must provide payment of the travel; expenses incurred in fulfilling their responsibilities' as established in statute and by the council. Statute authorizes the Arts Council upon appropriation by the Legislature to provide an annual stipend of $10,000 for the Youth Poet Laureate. The Arts Council notes that, when feasible, it has provided a $5,000 stipend annually to the Poet Laureate. The Arts Council provided this stipend and $2,500 travel expenses in 2018-19, 2017-18 and 2016-17 to the Poet Laureate.

The Arts Council budget request will provide a $25,000 annual stipend to the Poet Laureate and a $10,000 annual stipend will be provided to the Youth Poet Laureate. Both Poet Laureate roles are to publicize the art of poetry and encourage literacy arts participation and learning throughout the state. Additionally, they will provide a minimum of six public readings in urban and rural settings. They will also undertake a significant cultural project during the term that includes the goal of bringing the poetic arts to students who might otherwise have little or no opportunity to be exposed to poetry.

Additionally, $138,000 of this request will support one AGPA to facilitate the Poet Laureate search and application process and manage and support the program. Currently, the Arts Council contracts with a consultant to administer the application process, but the Poet Laureates have not been supported in their role due to lack of staff at the Arts Council. The additional AGPA will help work and conduct outreach for statewide literary arts programs, create an online web presence for the program, provide technical assistance, and create a supportive structure both Poet Laureates.

The Administration notes that statewide outreach to recruit the Poet Laureate and Youth Poet Laureate will result in a diverse cadre of candidates and allows access to these appointments to individuals that have been traditionally excluded from the opportunity due to barriers and lack of resources.

Staff Recommendation. Approve as budgeted.

8620 FAIR POLITICAL PRACTICES COMMISSION

Issue 20: Campaign Disclosure: Limited Liability Companies – SB 686 (Glazer), Chapter 321, Statutes of 2021

Request. The Fair Political Practices Commission (FPPC) requests one Special Investigator position and $131,000 General Fund in 2022-23 and $124,000 annually thereafter to implement the provisions SB 686 (Glazer), Chapter 321, Statutes of 2021.

Background. SB 686 requires a limited liability companies (LLCs) that qualifies as a campaign committee or a sponsor of a campaign committee under the Political Reform Act of 1974 to file a statement of members with the Secretary of State. The statement of members must include certain information about the LLC, including a list of all persons who have a membership interest in the

LLC of at least 10 percent or who made a cumulative capital contribution of at least $10,000 to the LLC after it qualified as a committee or sponsor of a committee, or within the 12 months before it qualified.

In the last few years, hundreds of LLCs qualified as committees. Because of the number of entities subject to this new reporting requirement, the FPPC anticipates an increase in the number of investigations on potential violations and in bringing appropriate enforcement actions against those in violation of the Act. This proposal would add one permanent position: 1 Special Investigator. This position is needed to conduct an effective investigation for each complaint in relation to the LLC.

Staff Recommendation. Approve as budgeted.

8820 California Commission on the Status of Women and Girls

Issue 21: Regional Outreach and Interdepartmental Coordination

Request. The Commission on the Status of Women and Girls requests $493,000 ongoing General Fund and three positions for additional outreach and coordination with state entities and regional women and girls commissions, and to bolster daily operations of the Commission.

Background. The Administration notes an increase in demands for the Commission with requests for information, speaking, and programmatic assistance from local commissions as well as other women service organizations, including nonprofits and foundations, working to meet the needs in strategic and informed ways. The Commission has been unable to fulfill the growing demand due to limited staff capacity.

Currently, the Commission has 10.2 authorized positions, and requests the following:

- Interagency Coordination—One Staff Services Manager I Specialist to act as an interagency coordinator on a variety of topics and coordinates with both internal and external stakeholders, conducts sensitive/confidential projects, analytical studies and surveys, formulates program alternatives, and makes recommendations for gender equity solutions to partners on behalf of the Commission.

- External Affairs & Outreach—Two Associate Governmental Program Analyst positions to perform duties related to external affairs involving outreach and coordination with regional women and girls' commissions and local community-based organizations to identify and research opportunities for collaboration to support women and girls, generating important communication feedback loops to inform statewide programmatic and policy efforts.

In addition, funds are requested to: (1) re-classify an existing permanent full time Staff Services Manager I Specialist to a Staff Services Manager II exceptionally allocated to fulfill the needs at the commission to perform at a level that require increased skillset and experience which will also support staff retention, (2) $15,000 help pay for operating expenses of the Commission, and (3) $10,000 to pay for travel costs of the new positions to conduct outreach.

The Administration notes that having dedicated staff for strategic outreach and collaborative efforts would improve the Commission's accessibility to local, diverse and underserved communities. Additionally, the Administration hopes to create stronger coordination with state agencies will bring increased awareness and education on gender equity issues for the purpose of impactful programming, resources and services for women and girls throughout the state. Additional resources for daily operations would allow the Commission to build more robust tools that support multicultural communications, event-based trainings for partners, research and delivery of content and reports on relevant issues from a statewide perspective.

Staff Recommendation. Approve as budgeted.

8940 MILITARY DEPARTMENT

Issue 22: State Information Technology Network Phase 3

Request. The California Military Department requests 11 State Civil Service positions and $3.1 million General Fund in 2022-23, and $2.1 million General Fund annually thereafter, to continue the development, implementation, and maintenance of its State Information Technology Network.

Background. Prior to November 2019, all programs in the CMD relied on federal computer systems operating on a federal Department of Defense (DoD) network for all daily functions. In November 2019, the DoD introduced and implemented a nationwide modernization and convergence of the Federal network in order to improve the resiliency and security of all DoD networks. Consequently, state programs and access to state systems are no longer supported. This has resulted in a significant adverse impact to daily state operations which include web services, monthly and emergency pay processing, accounting, calculating utility usage costs, and other IT related services (i.e. voice, storage, email, and video conferences) used daily. CMD has stated that payroll, personnel, benefits, and other business functions have been negatively impacted and delayed.

The CMD State Network is required to conduct daily operations for over 1,000 state employees in the CMD that support state specific functions for disaster preparation and planning, youth programs, facilities maintenance, accounting, and personnel management. The State Network will enable CMD to integrate with other state systems to streamline business processes, allow CMD to support state interdepartmental efforts, among others. At present, the CMD is conducting these functions on a degrading federal DoD network with a few departments operating on the nascent State Network initiated with funds and positions provided in the 2020 Budget Act and 2021 Budget Act. The 2020-21 Budget Act provided nine permanent positions and $3.9 million one-time General Fund and $2.8 million ongoing as the first phase of this project. The 2021-22 budget act provided an additional 11 positions and $2.7 million in General Fund ($2.1 million ongoing and $0.6 million one-time).

The 2020 Budget Act and 2021 Budget Act authorized approximately one-half of the staffing and funding for the CMD State Network. For continued funding and position authority, the CMD is submitting this proposal (Phase 3) to improve and maintain the efficiency of the network for the long-term. Permanent (long-term) funding for the personnel and equipment is essential to the long-term success of the CMD state centric network, as this network will remain in place as a permanent solution to meet the requirements of the CMD state personnel.

The Governor requests 11 positions as follows:

1. One Information Technology Supervisor II
2. One Information Technology Supervisor I
3. Three Information Technology Specialist I
4. Three Information Technology Associates
5. Three Staff Services Analysts

Staff Recommendation. Approve as budgeted.

Issue 23: State Personnel Staffing

Request. The California Military Department requests four positions and $479,000 General Fund in 2022-23, and $475,000 General Fund annually thereafter, to address increased administrative requirements and demands on State Personnel.

Background. The administrative demand on the CMD's State Personnel has increased over the last six years commensurate with the dramatic expansion of CMD's existing programs, such as Youth Programs, and the development of newer programs such as Work for Warriors, Cyber, Fire Guard and the establishment of a new Information Technology section to create and manage a state network. The CMD's State Personnel staff is also challenged with incorporating the steady increase in California Department of Human Resources (CalHR) driven administrative requirements across a broad scope of Human Resource and administrative functions. Largely, these actions fall into five categories: Classification and Pay, Payroll and Benefits, Workers Compensation and Training, Labor Relations and Performance Management, and Audit and Investigations.

The CMD manages both State Active Duty Service Members and State Civil Service employees, each with their own rules and regulations. Civil Service adjustments are automatically completed by the State Controller's Office (SCO), while Active Duty pay rate changes require manual annual adjustments for each Service Members' pay and allowances which are driven by rank, time in service, and duty location. Inadequate staffing and an increase in administrative actions has also led to a growing number of errors, which results in additional Accounts Receivables and creates a larger backlog of pay, benefits and leave issues.

Staff Recommendation. Approve as budgeted.

8955 California Department of Veterans Affairs (CalVet)

Issue 24: Administrative Support

Request. The California Department of Veterans Affairs requests 10 positions and $1,562,000 ($1,508,000 General Fund and $54,000 Farm and Home Building Fund of 1943) in 2022-23, and $1,505,000 ($1,454,000 General Fund and $51,000 Farm and Home Building Fund of 1943) annually thereafter, for administrative support in the Homes, Legal Affairs, Administration, and Communications Divisions.

Background. CalVet employs more than 3,500 staff located throughout the state at eight Veterans Homes of California (Homes), three satellite Veteran Services Division (VSD) District Offices, three state cemeteries, the Farm and Home Loan Program, and headquarters in Sacramento.

CalVet requests additional funding and position authority for one Standards Compliance Coordinator. Six of the eight Homes have Standards Compliance Coordinator (SCC), which play a vital role in maintaining compliance with state and federal regulatory standards. SCCs engage in clinical and non-clinical compliance reviews, identify deficiencies, and resolve them before they result in negative findings or pose a risk to resident welfare. CalVet currently lacks a statewide SCC. This impacts CalVet's ability to support and oversee compliance in the Homes, to backfill vacancies as they arise, and to coordinate SCC efforts as a system.

CalVet requests full one Registered Dieticians (RD) to be located in Los Angeles. RDs are highly specialized, recruitment can be challenging when the Homes have vacancies, and CalVet has struggled to identify temporary backfills. CalVet lacks a headquarters-based RD position to provide oversight and act as a liaison for the dietary operations at its eight Homes. These dietary services and staff are integral to the operations of long-term care facilities and the health and wellbeing of their residents. CalVet struggles to support Homes-wide compliance due to the lack of an RD position. The RD position will also have the ability to backfill current RD shortages.

CalVet requests a Career Executive Assignment position to serve as the Chief Financial Officer for the Homes. The Homes are projected to collect $135.6 million in revenue and reimbursements during fiscal year 2021-22. The primary sources of revenue are USDVA per diem and Aid and Attendance allowances, member fees, Medicare, Medi-Cal, and other health insurance. Revenue collected is returned to the General Fund to offset the Homes' budgetary footprint. The CFO would be responsible for oversight of revenue collection. Without a CFO, CalVet struggles to maintain full oversight of reimbursement streams and related compliance.

CalVet requests three positions for the Legal Affairs Division. Existing staff resources are insufficient to represent CalVet adequately in the work currently assigned to the Legal Affairs Division. CalVet is currently a defendant in 16 cases currently pending in Superior Courts throughout California. These cases are complex tort, contract, real property, and employment law matters, and require experienced attorneys with trial experience. CalVet is currently filling this need by the use of a retired annuitant Attorney IV funded through salary savings from vacant positions. CalVet is also contracting out representation in 4 of the 16 cases to the Attorney

General's Office and private counsel, due to the large number of active matters and the insufficient CalVet resources presently available. During the 2020-21 fiscal year, the total amount spent on Attorney General legal billing was $836,085 and $367,569 on legal services from Department of Human Resources, for a total outside legal expense of $1,203,654. Due to the insufficient resources available to resolve matters expeditiously, the Legal Affairs Division currently has 1,261 open and unresolved matters pending resolution.

CalVet requests a reclassification of an AGPA position to a Staff Services Manager 1 position for the Small Business (SB) and Disabled Veterans Business Enterprise (DVBE) Advocate (Advocate). The Advocate provides technical assistance on how to do business with CalVet and conducts outreach to the community. The Advocate needs to be at a level to handle issues independently. Since 2018, the responsibility of the Advocate has increased, and is required to submit three annual reports to the GFS, process quarterly and annual reports to stakeholders and among others.

CalVet requests two AGPA positions to in the Office of Procurement and Contracts due to a substantial increase in contracting-related responsibilities. OPC has to work overtime to complete many executed contracts by their official start date and over the past few years has worked hundreds of overtime/compensating time off hours. Although working the extra hours to accomplish as much work as possible, OPC still averages more than 100 contracts not executed on time. The two AGPA positions will be responsible for processing and developing non-IT service contracts for the eight Homes. The positions will also be responsible for any changes or revisions to those contracts and service orders.

CalVet requests one graphic designer position. CalVet notes that the division is no longer sufficient to meet the graphic design, digital media, Americans with Disabilities Act (ADA) compliance requirement, event management, emergency response, and report production needs of CalVet. Without adequate staffing, the Communications Department risks being out of compliance with ADA requirements, may fail to produce annual required reports to the Legislature, and may be unable to meet the continued demand for digital media, event management, and emergency response.

Staff Recommendation. Approve as budgeted.

Issue 25: CalVet Electronic Health Record Project Phase 3 Continued

Request. CalVet requests a one-time augmentation of $433,000 General Fund in 2022-23 for the third year of implementation of a new long-term care electronic health record system in the Veterans Homes of California and Headquarters.

Background. 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. The 2021-22 budget provided $10 million General Fund for the second year of implementation, and was used to enhance the system at the initial four Homes, and implementing the system at the remaining Homes in Fresno, Redding, West Los Angeles, and Yountville. At the time, the project was scheduled to be completed in December 2021.

However, due to the COVID-19 pandemic, subject matter experts were not available for the project for extended periods, leading to project delays. This triggered a Special Project Report to the CDT. While the scope of the project did not change, adjustments were made to project timelines and order of implementation, as well as applications. The project timeline expanded by 20 months, and will be completed by 2023-24. This delay increased total project cost by $6.2 million, however because the 2021 budget provided funding authority, the Administration requests $433,000 in 2022-23 to complete phase of the project.

Completing Phase 3 of the Electronic Health Record Project will provide CalVet with a modern EHR and enable the Homes to maintain all health records and PHI within the EHR. Additionally, finishing Phase 3 will eliminate the need for paper records. Furthermore, the digitization of all active health records will provide CalVet with the ability to track and report, have complete and comprehensive audit logs, and maximize the technical safeguards as they pertain to HIPAA compliance, which boosts confidence in information security.

Activity	Start Date	End Date
Phase 3 – Remaining Homes Implementation + Enhancements		
Chula Vista	11/29/2022	1/12/2023
Barstow	1/14/2023	3/29/2023
Yountville	3/29/2023	5/11/2023
Redding	5/3/2023	6/15/2023
Fresno	6/27/2023	8/9/2023
Project Completion		9/13/2023

Staff Recommendation. Approve as budgeted.

Issue 26: CalVet Timekeeping Tool

Request. CalVet requests $120,000 ($116,000 General Fund and $4,000 Farm & Home Building Fund of 1943) in 2022-23 and $270,000 ($262,000 General Fund and $8,000 Farm & Home Building Fund of 1943) annually thereafter for planning, procurement, implementation, and ongoing maintenance of a CalVet timekeeping tool. This automated timekeeping tool will replace the current paper process and will be used by all employees in the Veterans Homes of California, district offices, cemeteries, and headquarters.

Background. Currently, CalVet utilizes a manual paper process of timekeeping for employees. State laws, rules, regulations, and collective bargaining agreements set forth the mandatory deadlines for processing timesheets by the state, which includes processing leave balance usage, mandatory leaves, appointments, separations, and overtime in the State Controllers' Office (SCO) payroll system and other control agency system. In the October 31, 2019, Compliance Review report, the State Personnel Board (SPB) found CalVet to be in serious violation of a timekeeping documentation process. Additionally, CalVet is currently going through another SPB audit and in review of this audit, CalVet will be in violation in the timekeeping documentation process, due to the inability to conduct a second monthly in-house leave usage audit required by the California Department of Human Resources policy.

This request will support CalVet in the planning, procurement, implementation, and ongoing maintenance of automated timekeeping Software as a Service tool. This will improve accessibility and enable employees to submit their timesheets without printing or manually signing a paper timesheet. In addition, as the timekeeping tool is automated, it will feed into the SCO without manually keying in every timesheet.

Staff Recommendation. Approve as budgeted.

Issue 27: Cemetery Operations

Request. CalVet requests five positions and $492,000 General Fund in 2022-23, and $483,000 General Fund annually thereafter, to support operational, custodian, and security requirements at the Northern California Veterans Cemetery (NCVC) and California Central Coast Veterans Cemetery (CCCVC).

Background. CalVet operates three veterans cemeteries: the NCVC, CCCVC, and Yountville Memorial Grove Veterans Cemetery (YMGVC). These state veteran cemeteries are operated by state employees who provide burial services and maintain the grounds.

The NCVC, located in Igo, was dedicated on November 11, 2005, with the first interment occurring on December 21, 2005. Over 7,300 veterans and their eligible dependents are interred in burial sites at the cemetery. The State of California is responsible for the operation and perpetual maintenance of the cemetery and is required to meet the United States Department of Veterans Affairs (VA) National Cemetery Administration (NCA) standards. The NCVC staff is also the most experienced staff among the three cemeteries and as such, they are used to provide initial and ongoing training for staff at the other two cemeteries and will be looked upon for the training of all future state veteran cemeteries.

The janitorial and security services are performed by independent contractors at the NCVC and the CCCVC. The NCVC has been without a janitorial contract since June 2020 because CalVet did not receive a responsible bidder within the budget for the contract. Therefore, the duties are being performed by NCVC staff including the SSM II, OT, AGPA, Supervising Groundskeeper II, and Groundskeepers. Currently, the cemeteries use contracted janitorial services for cleaning the offices and restrooms. The NCVC has attempted other means of providing janitorial services including using services through Department of General Services (DGS) and other local agencies and has been unsuccessful. The NCVC also went through a lengthy issue with a janitorial contractor who was failing to properly complete their required duties.

CalVet requests five positions and $492,000 General Fund in 2022-23, and $483,000 General Fund annually thereafter, to support operational, custodian, and security requirements at the NCVC and

CCCVC. The five positions are: one AGPA, four 0.5 full-time equivalent Custodian Is, and four 0.5 full-time equivalent Security Guards.

Staff Recommendation. Approve as budgeted.

Issue 28: Facilities Planning and Management

Request. CalVet requests three positions and $515,000 General Fund in 2022-23, and $498,000 General Fund annually thereafter, to address the increased workload in facilities planning and construction management. The increased workload resulting from five recently operationalized Veterans Homes has increased beyond existing staff's ability to coordinate and manage.

Background. CalVet's Architectural and Engineering (A&E) Regulations, approved by the Office of Administrative Law in 2015, allow CalVet to pursue design work independently from the Department of General Services (DGS). The A&E regulations allow CalVet to independently pursue design and/or specifications to address public work responsibilities at the Veterans Homes or cemeteries. Currently, CalVet operates eight Veterans Homes and three cemeteries. Annual licensing inspections of the Veterans Homes are conducted by state and federal authorities and must demonstrate that they are being maintained in a manner that ensures a safe environment for the residents. When licensing inspectors find facilities-related deficiencies, the Veterans Home is required to take immediate action to correct those deficiencies. Projects associated with these corrective actions often exceed the technical abilities of current staff.

CalVet currently has only two staff positions with the technical competencies needed to plan and oversee large maintenance and repair projects that are required to ensure the long-term viability of the Veterans Homes which are all licensed care facilities. A Departmental Construction and Maintenance Supervisor currently manages a group of three analytical staff who oversee the agency's infrastructure and capital outlay program, deferred maintenance tracking and reporting, and sustainability programs. In addition, a Senior Architect serves as an advisor to CalVet's executive leadership by providing insight and guidance regarding matters related to architectural, engineering, and facilities planning.

As the newer facilities begin to age and their building systems reach the end of their expected useful life, the current staff will not be able to identify and manage the types of projects that will be required to effectively maintain these facilities.

CalVet requests three positions and $515,000 General Fund in 2022-23, and $498,000 General Fund annually thereafter, to address the increased workload in facilities planning and construction management. The request is for two Associate Construction Analysts and one Office Technician (Typing) to assist with the increased workload related to facilities planning and construction management.

The Administration notes that the requested positions are a more cost effective and efficient use of state resources than the use of DGS design services. Without these positions, CalVet will be obligated to pursue the services through DGS. The Administration notes that if CalVet was required to pursue this work through the DGS public works process, CalVet would not be able to meet its plan of correction due to costs and lengthy timeline.

Staff Recommendation. Approve as budgeted.

Issue 29: Health Informatics Support

Request. CalVet requests four positions and $657,000 General Fund in 2022-23, and $635,000 General Fund annually thereafter, to improve core operations, effectiveness, and to address the staffing needs of the Information Services Division (ISD).

Two positions are for the CalVet Health Informatics Program unit (also known as Health Informatics) and two positions are for the Application & Development Services (ADS) unit. The positions are necessary to provide support for CalVet infrastructure, applications, websites, SharePoint sites, data analytics, healthcare system management, and maintenance of various environments.

Background. The CalVet ISD supports the programs through services provided by application and web support, infrastructure and operation support, information technology (IT) security, project management, IT administration, and policy and procurement. ISD is supported by various units, but the ADS and Health Informatics units work closely together on various systems and applications. The ADS and Health Informatics units work on system and software application support, data analytics, testing, configuration, data validation, and support to system or application updates and routine releases. In addition, the units work with the subject matter experts (SMEs) to create and develop system reports or updates to features.

After system testing is completed, the Health Informatics unit is responsible for updating training materials and creating communication documents to inform end-users about new system functions or options. Staff in this unit travel to provide system training and support. Additionally, Health Informatics also helps maintains the IT systems. The 24 to 48-hour turnaround has now become 2 to 3 weeks for testing or maintenance before placement of updates into production environments. As business needs grow within IT and healthcare, the system updates have become more frequent and in-demand with urgency to keep the systems functioning and running smoothly.

The ADS unit supports the application support and automation needs for all CalVet lines of business. Additionally, ADS provides configuration management and helpdesk support of the electronic medical record suite of applications used to provide care for residents the Veterans Homes. Over the last few years, ADS was tasked with providing more services to veterans and identifying and implementing productivity and collaboration opportunities for CalVet staff in support of California’s veterans. New tools and custom applications were implemented requiring expertise and specialized technology skills to support. Unfortunately, the addition of these services outpaced CalVet’s ability to appropriately support and expand the technology solutions that provide information and services to veterans and staff.

CalVet’s ISD requests 4 positions for additional support for the ADS and Health Informatics units: 1 Information Technology Specialist II and 3 Information Technology Specialist Is. The request to increase staffing in the ADS and Health Informatics units is to test, maintain systems/website/ applications, and perform data analytics, especially with growing business needs and evolving information technology advances in healthcare.

Staff Recommendation. Approve as budgeted.

Issue 30: Information Services Division Information Technology Refresh

Request. CalVet requests $1,356,000 ongoing General Fund for information technology refresh to accommodate the increase in the number and complexity of the CalVet information technology hardware and software assets. Refresh includes:

- Replacing current desktop computing devices (computers, printers, monitors, etc.)
- Replacing core network infrastructure.
- Replacing medical IT equipment.

Background. The 2007 Budget Act included $715,000 to cover the ongoing IT refresh costs for CalVet headquarters and the three Homes that existed at that time located in Yountville, Barstow, and Chula Vista. Since then, there has been an ever-growing demand for long-term care services for veterans and their spouses, leading CalVet to more than double the number of Homes from 5 to 12. In addition, the CalVet's business environment has significantly evolved over the last decade not only by increasing the number of supported facilities but also by adding new business services through IT projects (EHR, Medication Dispensing, etc.), and expanding technology into new areas such as heating, ventilation and air conditioning systems, dental systems, and nurse call systems.

For staff resources to achieve CalVet's mission and objectives, CalVet provides employees with the IT tools they need to perform their business functions. These IT tools, collectively referred to as the IT infrastructure, include:

- Workstation hardware and software
- Network components
- Servers and software
- Printers
- Other peripheral devices
- All the interconnecting cabling and devices

CalVet's IT Hardware portfolio has a value of approximately $12.6 million. For CalVet to refresh on its established schedule, CalVet needs a total of $2.1 million annually. In 2007-08, CalVet received $715,000 in annual refresh funding which addresses only 29 percent of the amount needed annually. This leads to hardware systems that fail beyond repair and for software systems to become increasingly outdated and therefore incompatible with systems external to CalVet. Over 32 percent of CalVet's devices are currently beyond their industry-recommended refresh date. Aging technology presents many risks, including security risks, diminished productivity, impact on resident care, and increased cost of repairing aging equipment.

In the absence of adequate funding, CalVet took numerous steps to minimize the impact and ensure continued functioning. These steps included: reduction of hardware infrastructure through the utilization of statewide cloud services, replacing multiple specialty solutions with a combined enterprise solution (e.g., reducing four backup solutions with a single solution), and researching cost-saving measures for printing through managed print services.

CalVet is requesting $1.4 million in additional funds per year to address this hardware refresh deficiency.

Staff Recommendation. Approve as budgeted.

Issue 31: Information Technology Security Operations

Request. CalVet requests two positions and $365,000 ($354,000 General Fund and $11,000 Farm & Home Building Fund of 1943) in 2022-23, and $354,000 ($343,000 General Fund and $11,000 Farm & Home Building Fund of 1943) annually thereafter, to improve the information technology security operations. The requested resources will improve the overall information security program, including implementing new security solutions and mitigating security risks and incidents.

Background. CalVet has numerous systems that are mission-critical. These critical systems include Supervisory Control and Data Acquisition for the Yountville Rector Reservoir water treatment plant, pharmacy dispensing for resident medications, and wander elopement that tracks memory care residents. In addition, CalVet operates other systems including electronic health record, medical asset management system, pharmacy management system, dietary management system and resident wireless.

Over the past four years, CalVet has completed mandatory information security assessments and audits to highlight gaps and deficiencies. While CalVet has resolved many of these security gaps, there are still many that still need to be addressed. The remaining gaps and deficiencies require additional funding for staff.

Currently, CalVet does not have any full-time staff dedicated to technical security operations activities. The Information Security Office consists of three positions that work on policy, procedure, and technology recovery planning. By not having staff dedicated to security operations, CalVet is unable to adequately protect the existing IT solutions.

CalVet requests one Application Security Architect and one Information Security Risk Management Lead position and $365,000 ($354,000 General Fund and $11,000 Farm & Home Building Fund of 1943) in 2022-23, and $354,000 ($343,000 General Fund and $11,000 Farm & Home Building Fund of 1943) annually thereafter, to improve IT security operations. The requested resources will improve the overall information security program, including implementing new security solutions and mitigating security risks and incidents. This request will assist CalVet in establishing security operations controls as required by State Administrative Manual (SAM) section 5305.

The requested resources will significantly improve CalVet security posture by: 1. Implementing policies and procedures that improve compliance with established frameworks. 2. Establishing an information security risk management program. 3. Continuously scanning for vulnerabilities and remediating in a rapid manner. 4. Establishing a security data management program to ensure the protection of Personal Health Information (PHI) and Personal identifiable information (PII).

Staff Recommendation. Approve as budgeted.

Issue 32: Northern California Veterans Cemetery, Igo: Columbaria Expansion

Request. CalVet requests $2,154,000 for the construction phase of the columbarium expansion project at the Northern California Veterans Cemetery (NCVC) in Igo, California. The scope includes the construction of 10 new columbaria, each consisting 100 niches on each side totaling 2,000 additional niches; new walk-ways, ramps, curb and gutters; landscaping; and irrigation. CalVet's preapplication for federal grant funds were accepted by the United States Department of Veterans Affairs (USDVA) Veterans Cemeteries Grants Program in July 2018, and when funded will provide 100 percent reimbursement of allowable costs.

Background. 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 June 17, 2021, only 216 columbaria niches remain and with the current interment rate, the columbaria will be exhausted by August 2022. 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 preapplication 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.

The 2021 Budget provided $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. At the time, the construction costs were estimated to be $1.55 million.

The construction amount includes $1,822,000 for the construction contract, $91,000 for contingency, $162,000 for architectural and engineering services, and $79,000 for other project costs. The current project schedule estimates preliminary plans complete in April 2022. Working drawings to begin in May 2022 and to be completed in September 2022. Construction to begin in November 2022 and will be completed in April 2023.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

0511 GOVERNMENT OPERATIONS AGENCY

The Government Operations Agency is responsible for coordinating and overseeing state operations, including procurement, information technology, and human resources. The mission of the Government Operations Agency is to improve management and accountability of government programs, increase efficiency, and promote better and more coordinated operational decisions.

The Government Operations Agency oversees the Office of Administrative Law, California Public Employees' Retirement System, California State Teachers' Retirement System, State Personnel Board, Victim Compensation Board, Department of General Services, Department of Technology, Department of Human Resources, Franchise Tax Board, and Department of Tax and Fee Administration. In addition, the Government Operations Agency administers the California Complete Count-Census 2020 Office, Office of Digital Innovation, Cradle-to-Career Data System, and Racial Equity Advisory Council.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
0250	Office of the Secretary of Government Operations	22.4	32.0	38.0	$316,780	$98,989	$8,264
0255	State Planning and Policy Development	9.7	-	-	12,120	2,242	-
0256	Digital Innovation	10.7	50.0	50.0	12,025	25,382	15,214
0257	Cradle to Career	-	12.0	16.0	-	16,314	9,614
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**42.8**	**94.0**	**104.0**	**$340,925**	**$142,927**	**$33,092**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$335,948	$124,308	$24,643
0995	Reimbursements	4,977	8,447	8,449
9753	Digital Innovation Services Revolving Fund	-	10,172	-
TOTALS, EXPENDITURES, ALL FUNDS		**$340,925**	**$142,927**	**$33,092**

Issue 33: Government Excellence and Transformation Center Staffing

Request. The Governor’s budget includes four positions (Career Executive Assignment A, Staff Services Manager I, Research Data Specialist I, and Associated Governmental Program Analyst) and $665,000 General Fund in 2022-23 and ongoing to staff the Government Excellence and Transformation (GET) Center.

The GET Center seeks to accelerate the modernization of state operations by state departments to conduct pilots that could be scaled across state government for broad adoption. Additionally, the GET Center will establish a repository of best practices and case studies of successful operational innovations that measurably improve the state’s operational effectiveness.

GovOps has used existing staff to establish the GET Center. Specifically, they used two Deputy Secretaries, a Staff Services Manager and an Executive Fellow to varying degrees to develop strategy and design general framework for the Center. GovOps developed the Center's goals, selection criteria for pilots and conducted several beta projects to determine what capacity will be needed to support the administrations goals. However, the Administration notes that GovOps can no longer support this worker with internal redirections.

The Administration notes that ongoing funding is needed to conduct outreach to state agencies and select departments, establish new business models, provide and analyze data to prioritize pilots and projects, design and implement projects and pilots (with two or three new projects quarterly), establish communication through various means including newsletter and podcasts, and collaborate efforts with state agencies and departments, and potentially with new contracts or public private partnerships.

The Administration expects that once fully staffed, the GET Center will implement five scalable projects annually, issue three case studies highlighting lessons learned, and establish a website by 2023.

Staff Recommendation. Hold Open.

Issue 34: Workload Adjustments

Request. The Governor's budget includes two positions and $435,000 ($170,000 General Fund and $265,000 reimbursements) in 2022-23 and ongoing to fund and manage existing workload associated with oversight and management of state government operations. The two positions are Statewide Privacy Officer and Assistant Secretary.

The Administration notes that due to the COVID-19 pandemic and wildfire emergencies, GovOps has had to internally redirect staff to manage workload associated with their emergency services. GovOps notes that the frequency and severity of emergency events has limited their ability to monitor and assist the Department of General Services and other departments, and can no longer manage their normal workload.

GovOps notes that there is a need for an individual that is dedicated within GovOps to coordinate emergency response activities amongst their control agency departments, track response efforts, report on fiscal impacts, and assisting with other department plans such as the Cradle-to-Career Data System and Office of Digital innovation.

GovOps also requests the establishment of a Statewide Privacy Officer to coordinate and oversee GovOps compliance with state and federal privacy laws, work with GovOps control agency departments to promote privacy of data, perform assessment and inventory of operations, and participate in special projects on an as-needed basis.

Staff Recommendation. Hold Open.

Issue 35: Chief Equity Officer

Request. The Governor's budget includes trailer bill language to establish a Chief Equity Officer that is to be appointed by the Governor and to report to the Secretary of GovOps.

Background. The Governor's 2021-22 budget requested funding and trailer bill language to establish and appoint a Chief Equity Officer. The 2021-22 Budget provided $540,000 to support the Chief Equity Officer and two positions ongoing, but deferred trailer bill language as a part of discussions around Senate Bill 17 (Pan).

SB 17 (Pan), pending in Assembly Appropriations Committee, seeks to establish the Office of Racial Equity, an independent public entity, governed by a Racial Equity and Advisory Committee to develop a statewide Racial Equity Framework outlining the state's visions and goals to address structural racism and racial inequities with a focus on the work of state government. The bill requires state agencies to develop and submit Racial Equity Plans to the Office for review and approval, among other responsibilities. The bill also establishes a Chief Equity Officer at GovOps, and directs the Officer to work with the Office of Racial Equity.

The Governor's proposed trailer bill language specifies that it is the duty of the Chief Equity Officer to improve equity in state government operations and authorizes the Chief Equity Officer to engage with state entities to improve equity and inclusion practices. The language also authorizes the Chief Equity Officer to create, in consultation with the appropriate control agencies, standards and procedures on equity and inclusion for state entities in the state administration manual, human resources manual, or state contracting manual.

Staff Recommendation. Hold Open.

0890 SECRETARY OF STATE (SOS)

The SOS, a constitutionally established office, is the chief elections officer of the state and is responsible for the administration and enforcement of election laws. The Office also is responsible for administering and enforcing laws pertaining to filing documents associated with corporations, limited liability companies, partnerships, limited partnerships, unincorporated associations and pertaining to filing bonds and perfecting security agreements. In addition, the Office is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, administering a state records management program and preserving documents and records having historical significance. The SOS is the filing officer for lobbying and campaign registration and disclosure documents filed under the Political Reform Act. The SOS also operates the Safe at Home program, maintains the Domestic Partners and Advance Health Care Directives registries, provides support functions for the Voting Modernization Board, and is home to the California Museum.

Below is the Governor's budget display of positions and expenditures for the SOS. In the 2022-23 fiscal year, the Governor's budget proposes a total of $146.8 million in expenditures ($97.6 million from the General Fund) and 560.5 positions.

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
0700	Filings and Registrations	319.5	322.5	322.5	$75,003	$78,075	$75,591
0705	Elections	62.5	64.5	67.5	160,217	113,978	55,534
0710	Archives	31.3	33.3	35.3	8,990	13,872	14,798
0715	DOJ Legal Services	-	-	-	765	852	852
9900100	Administration	114.2	128.2	135.2	30,317	43,072	46,854
9900200	Administration - Distributed	-	-	-	-30,317	-43,072	-46,854
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**527.5**	**548.5**	**560.5**	**$244,975**	**$206,777**	**$146,775**

Issue 36: Fee Relief for New Businesses

Governor's Budget. The Governor's budget includes $39.8 million General Fund on a one-time basis to waive document filing fees for all new businesses registering with the SOS during the 2022-23 fiscal year.

Background. Despite the negative impacts of the COVID-19 Pandemic, over the past few years the number of California filings for corporations, limited liability corporations (LLCs) and limited partnerships (LPs) has continued to rise as new businesses have been created, formed, and relocated. In 2018, the total number of filings was 289,879, in 2019, the number of filings was 301,614, in 2020, the number of filings was 343,877, and in 2021 (through November 30), the number of filings was already 396,290. Various documents are required to be filed with the SOS when forming a business in California, and the necessary document filings are accompanied by filing fees of $100 for a corporation and $70 for a LLC or LP.

This request allocates $39.8 million one-time General Fund for the SOS to waive filing fees on a onetime basis for all new businesses registering with the SOS from July 1, 2022 through June 30, 2023, to continue to encourage business growth in California. This amount of funding in this proposal is the estimated amount needed to backfill all revenues related to waiving first-time SOS filing fees for new businesses including corporations, LLCs and LPs.

In addition, it is requested that budget bill language be added that will: (1) allow the amount available for transfer to be increased, if necessary, by an amount sufficient to backfill revenues lost as a result of the fee waivers, (2) require the SOS to report to the Department of Finance, by January 1, 2024, on the revenues related to waiving the first-time SOS filing fees, and (3) allow the funds to be available for transfer through September 30, 2023.

Legislative Analyst's Office (LAO). The LAO had the following findings in relation to this proposal:

Waiving Fee Likely Would Do Little to Stimulate Business Growth. Businesses likely consider the filing fees an unwelcome cost. However, the proposed one-time fee waiver would provide limited financial assistance to new businesses relative to the overall cost of starting a new business. These costs—such as equipment, construction costs, employee salaries, and rent— often sum to tens of thousands of dollars, or considerably more. Paying a $100 or $70 fee likely is not a barrier to the formation of new business entities in California. Further, the request indicates that the number of filings has grown considerably over the past few years—from 289,879 in 2018 to 343,877 in 2020 and—through November 30— 396,290 in 2021. This growth in new business entity formations has been occurring under the existing fee structure. Although new businesses may appreciate the one-time filing fee relief, we doubt that the Administration's proposal would do much, if anything, to stimulate meaningful business growth.

Business Filing Fee and Reserve Structure Needs Attention. The Business Fees Fund consistently has a fund balance in excess of $1 million at the end of the fiscal year. This has resulted in significant sums of money being transferred from the Business Fees Fund to the General Fund. For example, between 2011-12 and 2020-21, the General Fund received $179 million from the special fund. The amount transferred to the General Fund has varied significantly year to year, ranging from $5 million in 2011-12 to $36 million in 2017-18. As a percentage of revenues, the transfer to the General Fund has varied from 9 percent of fee revenues in 2019-20 to 41 percent of fee revenues in 2017-18. The consistent and large transfers to the General Fund suggest that business entities have been paying higher fees than are necessary to support the program. The fee structure should be designed so that businesses pay fees that are at a level that is reasonable for the support of the program. That being said, lowering fees creates risk that the special fund might not have sufficient resources in a particular year. This is demonstrated by the volatility in revenues to the fund. For example, between 2011-12 and 2020-21, year-over-year growth in revenues ranged from a 40 percent increase in revenues between 2013-14 and 2014-15 (from $50.7 million to $71.1 million) and a 5 percent decrease between 2017-18 and 2018-19 (from $87.8 million to $83.3 million). The current reserve limit of $1 million makes it difficult for SOS to charge businesses a lower fee while still fulfilling the requirements of Section 12176 that the fund be self-sufficient. A higher reserve limit for the fund would allow a lower fee for all businesses while still providing that the fund is self-sufficient.

California Business Connect (CBC) Should Change SOS Operations. The CBC project is automating the business filing processes at SOS. While many processes already have been automated under the project, filings related to business entities is the last module to be rolled out. This module is scheduled to be completed by April 2022. The project is scheduled to be through maintenance and operations by April 2023. Once fully operational, CBC will fundamentally change SOS operations. This could lead to changes in revenues and resource needs for the program.

Budget Bill Language Could Be Clearer. The administration proposes budget bill language to implement its plan to waive filing fees for new business entities. Specifically, provision one of the language states that the $39.8 million General Fund appropriation "shall be limited to backfilling revenues related to waiving first-time Secretary of State filing fees for businesses (corporations, limited liability companies and limited partnerships)." If the Legislature is interested in adopting this fee waiver, this language could be clearer as to which fees are waived for 2022-23.

Reject Proposal. Because we do not view the business filing fees to be a barrier for new businesses, we recommend that the Legislature reject the proposal. Instead, we recommend that the Legislature use the proposed $39.8 million in a more targeted manner that achieves legislative priorities—whether that be encouraging business growth in California or supporting other legislative priorities supported by the General Fund.

If Adopting Proposal, Modify Budget Bill Language. If the Legislature chooses to waive fees paid by new LPs, LLCs, and corporations, we recommend that the Legislature modify the proposed budget bill language to clarify legislative intent.

Direct Administration to Evaluate Fund Structure. Regardless of whether or not the Legislature approves the proposal, we think that the Business Fees Fund requires attention. The appropriate structure of the fund will not be known until the operational needs become clearer in a year or two after CBC is fully operational. We recommend that the Legislature direct the administration to include, with any future proposals related to the business filing division, a justification for existing fee levels and how those levels align with services provided by the SOS. After the full implementation of CBC, the Legislature could consider requiring SOS to report on options that align the fees for the Business Fees Fund with desired service levels. The report should include an analysis of (1) the fee levels, (2) service costs, (3) reserve levels, and (4) mechanisms for annual fee adjustments based on reserves.

Staff Comments. Providing support that California businesses need to sustain, reopen, or form as we continue to deal with the impacts of the COVID pandemic should continue to be a priority. As we deliberate the 2022-23 budget over the next couple of months, this proposal should be considered as part of a larger effort to provide such support.

Staff Recommendation: Hold open.

1111 DEPARTMENT OF CONSUMER AFFAIRS

The Department of Consumer Affairs (DCA) helps promote good business practices and make sure California's consumers receive quality services by establishing minimal competency standards for approximately 250 professions and occupations involving more than three million professionals. In general, fs Boards and Bureaus provide exams and licensing, enforcement, complaint resolution, and education for consumers.

DCAs staff investigate complaints against licensees; develop valid examinations for applicants for licensure; monitor and advocate for legislation; provide consumer education and outreach; provide legal and audit services; and provide general administrative support involving personnel, budgeting, accounting, purchasing, and space management.

There are currently 26 boards, one committee, and one commission under the broad authority of DCA, and seven bureaus and one certification program under the direct oversight of DCA.

Issue 37: BreEZe System Maintenance and Credit Card Funding and Business Modernization Cohort 1 Maintenance and Operations

Request. DCAs Consumer and Client Services Division (CCSD) requests appropriation authority of $8.5 million in 2022-23 and ongoing for the continued support 37 positions that conduct BreEZe maintenance and operation. This request also includes $4.2 million in funding for 2022-23 and ongoing for programs to fund credit card processing fees on behalf of users of credit card payments.

DCA also requests $1.7 million in fiscal year 2022-23 to fund software licensing, project management, maintenance, credit card services, technical knowledge transfer, and three existing positions for the Business Modernization Cohort 1. These are boards and bureaus that are not on BreEZe.

Background on BreEZe. BreEZe is the system of record for 18 of the departments 36 boards and bureaus, and specifically supports DCA's applicant tracking, licensing, renewal, enforcement, monitoring, cashiering, and data management requirements. When first initiated, the BreEZe project was proposed to be an integrated, web-enabled enforcement and licensing system that would replace various systems that have been in place at all of the boards and bureaus within DCA. It was proposed to be completed in three phases (or “releases”), with roughly half of the boards and bureaus in the third release.

In November 2009, the BreEZe project was approved with a budget of $28 million and an expected completion date of June 2014. DCA selected Accenture as the vendor for the project in September 2011. The first release was launched in October 2013, but experienced various implementation challenges. Notably, according to a report by the California State Auditor, executive officers for most of the Release 1 boards and bureaus reported that BreEZe decreased their regulatory entity’s operational efficiency. In January 2015, the Administration informed the Legislature of its intent to cancel the contract with Accenture after Release 2 due in large part to rising project costs, which had grown to $96 million for Releases 1 and 2 alone. The Legislature concurred with the Administration's proposed approach in March 2015, but expressed a desire for closer oversight over the project and for a plan for development of IT systems for Release 3 boards and bureaus. In January 2016, DCA launched Release 2 and has since reported that the second release has proceeded successfully.

The 2020 Budget provided $11.5 million special funds in 2020-21 and $10.6 million 2021-22, a total of a two-year period, for the continued support of BreEZe Maintenance and Operations.

The Department requests $8.5 million ongoing to continue to fund 37 existing positions to support the core maintenance and operations services of business requirement analysis, configuration, development, testing, and software release management. This is the same level of staffing that has been supporting BreEZe maintenance and operations since July 2019.

This proposal also requests ongoing funding of $4.2 ongoing million for payment of credit card processing fees on behalf of users of credit card payments. BreEZe interfaces with third party payment processors which provide DCA the ability to accept electronic payments while meeting compliance with Payment Card Industry Security Standards. This request also incorporates funding for four programs not currently on BreEZe that have implemented an interim online payment solution in advance of their business modernization efforts.

Background on Business Modernization Cohort 1. The 16 boards and bureaus not currently on the BreEZe system are proceeding individually through a structured business modernization initiative to identify and implement business and technology improvements. In January 2020, three boards and one bureau completed the PAL process and began project implementation activities. These boards and bureaus include the Board for Professional Engineers, Land Surveyors, and Geologists (BPELSG), the Bureau for Private Postsecondary Education (BPPE), the California Acupuncture Board (CAB), and the Board of Chiropractic Examiners (BCE). Collectively, they are known as Business Modernization Cohort 1.

The 2021 Budget Act provided $1.8 million one-time for Cohort 1 maintenance activities associated with software licensing, project management, maintenance, credit card services, technical knowledge transfer and 3.5 existing positions.

The Governor requests $1.7 million in 2022-23 to fund software licensing, project management, maintenance, credit card services, technical knowledge transfer, and three existing positions.
Below is a summary table of the request, broken down by board or bureau:

Acupuncture Board	$272,000
Board of Chiropractic Examiners	$113,000
Bureau for Private Postsecondary Education	$263,000
Board for Professional Engineers, Land Surveyors, and Geologists	$694,000

DCA Admin - Distributed (Office of Information Services) *Costs included in the above boards/bureau authority*	$511,000
Total	$1,342,000

For each board or bureau, the project has already delivered functionality to production that includes online application submissions, back office streamlined workflows, online consumer complaint submissions, and real-time application status updates with the applicant via email and text messages. To date, the project is within its baseline budget and will complete its project phase in Spring 2022.

With upgrading current systems to allow for a more substantial online presence, the Department and some of its boards and bureaus are integrating functionality to allow applicants and licensees to pay fees using credit card payments. Cohort 1 is funding credit card processing fees on behalf of users of credit card payments.

The budget proposal also includes $353,000 in 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 estimated revenue will be collected via online payments and assumes an average convenience fee of two percent per transaction in the second year of the project's implementation.

Legislative Analyst's Office Comments. The LAO does not have concerns with the above proposals. However, the special funds that would support the proposals each have a structural imbalance and are projected to become insolvent within the next three years. Specifically:

- ***State Board of Chiropractic Examiners Fund.*** The Governor proposes $181,000 onetime to support various costs associated with the Business Modernization IT project for the Board of Chiropractic Examiners, including funds for software licensing and project management.

- ***Board of Podiatric Medicine Fund.*** The Governor proposes $40,000 ongoing to support maintenance and operation costs of the BreEZe IT system for the Podiatric Medical Board.

- ***Private Postsecondary Education Administration Fund.*** The Governor proposes $1.5 million ongoing to provide permanent support for the operations of the Office of Student Assistance and Relief and the Student Tuition Recovery Fund Unit. The Governor also proposes $921,000 onetime for various costs associated with the Business Modernization IT project for the Bureau for Private Postsecondary Education, including funds for software licensing and project management.

- ***Respiratory Care Fund.*** The Governor proposes $120,000 ongoing to support maintenance and operations costs of the BreEZe IT system for the Respiratory Care Board.

- ***Electronics and Appliance Repair Fund.*** The Governor proposes $130,000 in 2022-23 and $122,000 ongoing to implement Chapter 452 of 2021 (AB 1221, Flora) that expanded the definition of services covered under the regulatory purview of the Bureau of Household Goods and Services.

- ***Contingent Fund of the Medical Board.*** The Governor proposes $1.9 million ongoing to support maintenance and operation costs of the BreEZe IT system for the Medical Board of California. The Governor also proposes $603,000 in 2022-23 and $377,000 in 2023-24 and ongoing to review applications and respond to applicants and consumers as part of the board's implementation of Chapter 649 of 2021 (SB 806, Roth), which changed the training and licensing requirements for medical doctors.

- ***Occupational Therapy Fund.*** The Governor proposes $112,000 ongoing to support maintenance and operation costs of the BreEZe IT system for the California Board of Occupational Therapy

Moreover, the Administration reports that the fees that support these funds are at the maximum level authorized in statute. The figure below shows the administration's projected year-end fund balance for each fund from 2021-22 through 2024-25—assuming the level of expenditures proposed in the Governor's budget and no changes impacting the amount of revenue going into each fund. As the figure shows, the Administration forecasts that three of the funds will become insolvent in 2023-24 and the other five will become insolvent in 2024-25.

Fee-Supported Business Regulation Funds With Structural Imbalances and Proposed Expenditure Increases

(In Thousands)

		Projected End-of-Year Fund Balance			
Administering Entity	**Fund**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Department of Real Estate	Real Estate Fund	$25,281	$1,398	$2,721	-$8,165
Board of Chiropractic Examiners	State Board of Chiropractice Examiners Fund	1,714	976	84	-951
Podiatric Medical Board of California	Board of Podiatric Medicine Fund	423	326	18	-19
Bureau for Private Postsecondary Education	Private Postsecondary Education Administration Fund	7,321	1,975	-16,066	-22,615
Respiratory Care Board	Respiratory Care Fund	944	561	53	-576
Bureau of Household Goods and Services	Electronics and Appliance Repair Fund	1,853	999	48	-1,003
Medical Board of California	Contingent Fund of the Medical Board	10,582[a]	75	-30,904	-45,801
California Board of Occupational Therapy	Occupational Therapy Fund	798	283	-336	-1,058

[a] The 2021-22 ending fund balance assumes the administration makes a loan to the fund of $18 million in order to maintain solvency of the account.

According to the Administration, it will seek to increase the fees for (1) the Board of Chiropractic Examiners Fund, (2) the Private Postsecondary Education Fund, and (3) the Contingent Fund of the Medical Board this year through the legislative policy process. While increasing fees through the policy process is a common practice, the Administration's approach could result in increased expenditures being approved from the funds without fee revenue being correspondingly increased to support the expenditures. This would occur if the Governor's proposals to increase expenditures were approved through the budget process and the necessary fee increases were not approved in the policy process.

To the extent that the Legislature approves the Governor's expenditure proposals, the LAO recommends adopting provisional budget bill language to ensure that there is sufficient revenue in the respective funds to support the additional expenditures. Specifically, for each approved expenditure, the LAO recommends specifying that the associated funding is only available for expenditure if legislation is enacted in the current legislative session to increase fees at a level to fully support the expenditure.

Staff Recommendation. Hold Open.

1703 California Privacy Protection Agency

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

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

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
1600	Administration of the California Privacy Protection Act	-	-	34.0	$4,043	$10,000	$10,000
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**-**	**-**	**34.0**	**$4,043**	**$10,000**	**$10,000**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$4,043	$10,000	$10,000
TOTALS, EXPENDITURES, ALL FUNDS		**$4,043**	**$10,000**	**$10,000**

Issue 38: Consumer Privacy Implementation and Enforcement

Request. The California Privacy Protection Agency (CPPA) requests 34 positions in fiscal year 2022-23 and ongoing to provide the initial staff resources to allow the Agency to start up and fulfill its immediate statutory responsibilities.

Background. In November of 2020, voters approved Proposition 24, the California Privacy Rights Act of 2020 (CPRA), which provides consumers various rights to limit and control businesses' collection and sharing of personal information and imposes on businesses various disclosure, security, and other responsibilities. For example, the law grants consumers rights to opt out from certain business uses of personal information, to delete or correct personal information held by businesses, to correct inaccuracies in or delete personal information held by businesses, and limit businesses' use of "sensitive personal information" such as precise geolocation, race, ethnicity, and health information. The CPRA affects all California consumers and a wide swath of California businesses: it applies to any business that has $25 million in gross revenues, or sells or shares the personal information of 100,000 or more California consumers, or derives 50 percent or more of its annual revenue from selling or sharing consumers' personal information.

The Agency's responsibilities include (but are not limited to) engaging in rulemaking, investigating violations, assessing penalties, cooperating with other jurisdictions, and promoting public awareness including providing guidance to consumers and businesses on complex matters relating to online privacy, cybersecurity, and automated decision making. The Agency and the Office of the Attorney General will share enforcement powers.

The Agency's Board was appointed in March 2021. CPRA appropriated $5 million for 2020-21 and $10 million per fiscal year thereafter, for expenditure to support the operations of the CPPA. The Agency established an Architectural Revolving Fund account from the initial $5 million appropriation in 2020-21 with the expectation that it will explore physical offices at the conclusion of the COVID-19 Pandemic. The Agency also entered into, or is in the process of entering into, Interagency Agreements (IAAs) with the Department of General Services (DGS) and the Department of Consumer Affairs (DCA) for human resources, finance and budget, and information technology services. The Business, Consumer Services, and Housing Agency (BSCH) has also provided extensive support. In September 2021, The California Office of the Attorney General (OAG) began to provide legal services and some limited administrative services on a fee-for-service basis. The Administration notes that these are short-term solutions, and insufficient to meet the Agency's ongoing responsibilities.

As directed by the CPRA, the Board hired an Executive Director in October 2021. The agency currently has two employees in addition to the Executive Director, a Deputy Director of Administration who was hired December 2021 and a retired annuitant serving half-time as an Attorney IV.

CPPA requires position authority to hire permanent staff to establish its administrative functions and fulfill its statutory obligations. Its first rulemaking package is due on July 1, 2022, with enforcement to follow in July 1, 2023. The CPRA directs the Agency immediately to begin rulemaking on more than twenty complex topics, involving, inter alia, consumer opt-out preference signals, the treatment of consumer personal information and sensitive personal information, cybersecurity auditing, geolocation, and automated decision-making.

The Administration requests the following 34 positions in six divisions (Executive Function, Legal Division, Enforcement Division, Policy/ Legislative Affairs Division, Public Affairs Division, and the Administrative Division) as follows:

1. One Executive Director
2. One Office Technician
3. Four Staff Services Manager I
4. Three Staff Services Manager II
5. Nine Associate Governmental Program Analysts
6. One Information Officer II
7. One Attorney I
8. One Attorney IV
9. Two Attorney III
10. One Assistant Chief Counsel
11. Three Career Executive Assignment A

12. Five Career Executive Assignment B
13. Two Career Executive Assignment C

The Administration notes that these positions, including salaries, wages and benefits, would cost $5.6 million. Additionally, the operating expenses and equipment for the Agency is $408,000. Agency notes that the remaining funds not spent on personal services will be used to establish contracts as necessary to start up administrative functions, including implementation of regulations by July 1, 2022 and enforcement regulations beginning July 1, 2023. Staff notes that the Administration may be submitting additional requests for the establishment of the Agency.

Staff Recommendation. Hold Open.

2320 DEPARTMENT OF REAL ESTATE

The mission of the Department of Real Estate is to safeguard and promote the public interests in real estate matters through licensure, regulation, education, and enforcement.

Effective July 1, 2018, the California Bureau of Real Estate, under the Department of Consumer Affairs, became the Department of Real Estate, pursuant to Chapter 828, Statutes of 2017 (SB 173).

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
1700	Department of Real Estate	346.9	376.7	381.7	$51,167	$57,586	$58,408
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**346.9**	**376.7**	**381.7**	**$51,167**	**$57,586**	**$58,408**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0317	Real Estate Fund	$50,950	$56,951	$57,773
0995	Reimbursements	17	435	435
3295	Education and Research Account	200	200	200
TOTALS, EXPENDITURES, ALL FUNDS		**$51,167**	**$57,586**	**$58,408**

Issue 39: Various Proposals

Requests. The mission of the Department of Real Estate is to safeguard and promote the public interests in real estate matters through licensure, regulation, education, and enforcement. Effective July 1, 2018, the California Bureau of Real Estate, under the Department of Consumer Affairs, became the Department of Real Estate, pursuant to Chapter 828, Statutes of 2017 (SB 173).

The Department of Real Estate requests the following:

- **Information Technology Security:** $370,000 in 2022-23 and $354,000 in 2023-24 ongoing, from the Real Estate Fund, and two Information Technology Specialist II's to meet State of California mandated information technology security regulations and processes and to support DRE's Information Technology and Security Programs, providing compliance with statewide policies.

- **Internal Audit Workload:** $176,000 in 2022-2023, and $168,000 in 2023-2024 ongoing, from the Real Estate Fund, and one Senior Management Auditor in the newly formed Internal Audit Unit within the DRE's Audit Program.

- **Real estate applicants and licensees: education requirements:** $216,000 in 2022-23, and $200,000 in 2023-24 and ongoing, from the Real Estate Fund, and one Associate Governmental Program Analyst, and one Office Technician to meet the requirements of SB 263 (Rubio), Chapter 361, Statutes of 2021.

Background on IT Security. DRE's Information Security Office (ISO) consists of one full time staff managing and implementing the ISO program. The Information Security Officer has a full workload managing, implementing, measuring, and overseeing the program, which includes but is not limited to awareness training, drafting security policies, procedures and standards, reviewing access levels, reporting vulnerabilities, identifying, tracking and reporting risks, and performing required compliance and reporting activities.

A 2019 Independent Security Assessment performed by the California Military Department as well as an internal assessment conducted by DRE identified various IT security risks, deficiencies and areas of to improve privacy compliance at the DRE. The redirection of staff from other sections has already been explored and utilized. DRE notes that they cannot afford to transfer additional staff from other sections to the Information Security Office on a permanent basis because the workload in those programs would become backlogged, resulting in delays, and additional complaints to DRE, BCSH, and the Legislature. DRE requests additional two positions and funding ongoing to address IT security at the department.

Background on Internal Audit Workload. An Internal Audit Unit (IAU) was formed in July 2020 within DRE's existing Audit program, which performs external audits of real estate licensees. The purpose of the newly created IAU was to provide independent and objective guidance to mitigate risk and improve the operations of the Department. The IAU is responsible for performing internal audits, special management reviews, employee investigations, and other special requests by Executive Management. The IAU was started with existing resources from the Audit program. Currently, DRE has 1.5 positions dedicated to internal audits. Unfortunately, this leaves the department in a vulnerable position where it lacks the ability to conduct proactive audits initiated by Executive Management or those audits necessary in response to compliance reports received from other state entities and control agencies.

DRE relies on Executive Management to establish and maintain the internal controls with each of their program areas. Adequately staffing the IAU will assist Executive Management decision making by providing objective audits on DRE operations in a timely manner. With one additional position, the IAU will be able to address the internal audit workload demands and be able to assist Executive Management in establishing and maintaining internal controls. Audits and evaluations with meaningful action plans will be developed.

Background on Real Estate Applicants and Licenses. Existing law requires any person who wishes to engage in the real estate business must be licensed by the DRE. Additionally, the existing law specifies that real estate salesperson or broker applicant must successfully complete various college level courses. The broker and salesperson licenses are issued for a four-year period, and existing law outlines the renewal process, including the requirement to complete continuing education, as specified.

SB 263 (Rubio), Chapter 361, Statutes of 2021 provides that the statutorily required pre-license Real Estate Practice course must include a component on the topic of implicit bias. Additionally, SB 263 requires that the statutorily required prelicense Legal Aspects of Real Estate course include a component on state and federal fair housing laws as they apply to the practice of real estate. SB 263 also makes changes to the continuing education course requirements for salespersons and brokers, and establishes a two-hour continuing education course in implicit bias training.

DRE's Education Section is responsible for processing, reviewing, and approving all pre-license and continuing education course applications in which these courses are used to qualify for California real estate salesperson or broker examinations and license renewal requirements. DRE will need to review and approve course modifications and new courses associated with the implementation of SB 263, and be updated before January 1, 2023.

The request for one Associate Governmental Program Analyst (AGPA) position and one Office Technician (General) (OT) position is based on the high volume of additional work provided for in SB 263. Specifically, the AGPA will assist in establishing new course guidelines, inform providers and licensees of the new requirements, draft correspondence to colleges and universities, assist in revising policies and procedures, conduct course reviews for approval, overseeing the audit program, among others. The OT will complete intake duties, prepare course applications to have funds processed, enter information onto the DRE database, preparing and mailing certificates, among other duties.

Staff Comments. The LAO does not have concerns about the proposals. However, these proposals request ongoing support, and the Real Estate Fund is projected to be insolvent in 2024-25**.** According to the Administration, fees are at the statutory maximum and were last increased in 2009. The Administration notes that DRE is in the final stages of contracting out for a fee study to assess whether fee changes are necessary. DRE anticipates that the fee study will be completed sometime in August 2022. DRE will not pursue a fee increase this year, and will implement any necessary fee increases in future years.

Staff Recommendation. Hold Open.

7502 Department of Technology

The Department of Technology (CDT) is the central information technology (IT) organization for the State of California. CDT is responsible for the approval and oversight of statewide IT projects, statewide IT professional development, and provides centralized IT services to state and local governments, as well as non-governmental entities. CDT promulgates statewide IT security policies and procedures, and has responsibility over telecommunication and IT procurement.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
6230	Department of Technology	790.3	887.0	1,017.6	$446,703	$3,774,429	$508,432
9900100	Administration	109.7	135.5	4.9	16,422	23,427	550
9900200	Administration - Distributed	-	-	-	-16,422	-23,427	-550
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**900.0**	**1,022.5**	**1,022.5**	**$446,703**	**$3,774,429**	**$508,432**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$6,916	$68,794	$95,976
0995	Reimbursements	-	10	10
8506	Coronavirus Fiscal Recovery Fund of 2021	-	3,250,000	-
9730	Technology Services Revolving Fund	436,306	451,653	408,242
9740	Central Service Cost Recovery Fund	3,481	3,972	4,204
TOTALS, EXPENDITURES, ALL FUNDS		**$446,703**	**$3,774,429**	**$508,432**

Issue 40: OTech Decrease in Services and Statewide Centralized Services General Fund Request

Request. CDT requests a conversion of $41.1 million from Technology Services Revolving Fund (TSRF) to the General Fund from 2022-23 through 2024-25 to support critical Statewide Services, Mandatory/Oversight Services, and CDT Internal Indirect and Administrative costs. Additionally, CDT requests a three-year augmentation of $3 million for the Statewide Strategic Initiatives positions.

CDT also requests $10.5 million in General Fund for three years beginning in 2022-23 through 2024-25 to supplement loss of revenue due to customers moving operations to cloud-based services. Over the three-year period, CDT will re-evaluate its State Data Center rates and services and then shift the requested funding back to cost recovery thereafter.

Background. CDT is the Administration’s main IT entity with broad authority over most aspects of technology in state government. CDT is organized into several offices, including the Office of Technology Services (OTech). About 80 percent of CDT’s proposed 2022-23 budget is funded through cost recovery—that is, billing for IT services it provides to state entities (and others) and using revenues from those services to cover most of its expenditures.

OTech provides IT services to state entities (and others) primarily through its State Data Center. OTech (and others) also manage statewide contracts for vendor-hosted subscription services (VHSS), IT services provided and primarily supported by private vendors, not CDT—to offer services to entities at a lower cost than they might be able to negotiate with vendors as individual entities. State entities, however, may enter into separate contracts with private vendors for IT services—even at a higher cost—because state entities generally are not required to use CDT's IT services.

CDT sets State Data Center IT service rates to recover the cost of services, both direct (such as hardware and software) and indirect (such as internal CDT administration). To calculate these rates, CDT generally divides the direct and indirect costs of a service by its projected demand. As the projected costs of and demand for services change, CDT re-calculates its service rates and submits them annually to the Department of Finance (DOF) for approval.

The Technology Services Revolving Fund (TSRF) is CDT's primary cost recovery fund. Revenues from the department's State Data Center IT services are deposited into the fund, and expenditures on direct and indirect service costs are made from the fund. As a cost recovery fund, the TSRF does not maintain a balance from one fiscal year to the next like, for example, a special revenue fund. Accordingly, there is no fund balance to provide a cushion for increased expenditures or revenue losses. CDT requests its expenditure authority from the fund through the budget process. CDT estimates its expenditure authority primarily based on projected demand for its services at the rates approved by DOF. If demand for services is higher than anticipated, CDT can request further expenditure authority from DOF through recurring provisional budget bill language. If demand for services is lower than anticipated, however, CDT absorbs the associated revenue losses until its service rates can be increased to account for lower demand or its service costs can be reduced.

Governor's Budget Proposals. The Governor's budget proposes $54.6 million General Fund each year for three fiscal years, starting in 2022-23, as follows:

- $41.1 million in expenditures and 205 positions shift from TSRF to General Fund to reduce State Data Center rates by an estimated 10 percent. CDT also requests an additional $3.1 million General Fund for external consulting costs and internal positions to work on statewide strategic initiatives, such as the development of a statewide IT Strategic Plan.

- $10.5 million General Fund to cover the short-term net revenue losses from state entities, such as the Department of Child Support Services and the Department of Motor Vehicles, migrating some of their business applications and IT services off the State Data Center and onto service offerings from private vendors.

CDT proposes that, over the next three fiscal years, it will undertake a "rate re-revaluation process" to assess (among other considerations) its current rate development processes and State Data Center service offerings. The Administration's intent for this re-evaluation is to make CDT's cost recovery model more sustainable to, for example, avoid additional short-term net revenue losses. Once a revamped cost recovery model and associated rate structure is in place, the administration would revert the expenditures and positions funded by General Fund in these proposals to cost recovery (in 2025-26).

Legislative Analyst's Office Comments. One of CDT's main responsibilities is to provide IT services to state entities. These proposals, however, raise questions about CDT's business model for providing IT services. This is because the proposals seek to address not only revenue losses, but also a declining customer base for CDT's State Data Center IT services. The chart below is a sample comparison provided by CDT of State Data Center and private vendor rates for three IT services. This comparison appears to suggest that at least some of CDT's State Data Center rates are not competitively priced. CDT acknowledges that some State Data Center services cannot be provided at comparable or lower rates than private vendors *even if rates are reduced to cover only direct costs*. In other words, despite the 10 percent reduction in fees, the department's proposal to temporarily cover some of its indirect administrative costs outside of the rate structure would not make some of the IT services it provides competitively priced.

Service[a]	CDT	Amazon	Microsoft	Google	IBM
Storage (per GB, per month)	$0.26[b]	$0.03	$0.02	$0.02	$0.02
Windows Virtual Private Server (per month)[c]	514.24	181.58	154.08	248.40	253.44
Linux Virtual Private Server (per month)[c]	540.40	185.76	185.76	159.12	181.44

[a]Features, levels of service, and other service options not available for comparison.

[b] Lowest end of the range, but can be as high as $1.38 per GB per month.

[c] Rates based on comparable virtual private server configurations.

CDT = California Department of Technology; IBM = International Business Machines Corporation; and GB = gigabyte.

Moreover, the lack of information available for state entities to make direct comparisons between private vendor rates and State Data Center rates makes state entities' decisions about the provision of IT services more difficult. The inability of state entities to directly compare the benefits and costs of private vendor and State Data Center IT services and the much higher State Data Center rates for at least some IT services suggest that additional work is needed not only to re-evaluate rates, but also to re-evaluate the department's business model for providing IT services.

The proposals as currently presented to the Legislature are missing key information about the anticipated rate re-evaluation process. For example, the proposals do not provide any details on the methodology for evaluating State Data Center IT services to reduce rates or on the time line for the process. Based on anecdotal information, some services may be eliminated, added or shifted. Some services may also be shifted from cost recovery fund to the General Fund. These results of the rate evaluation process suggest the need for a more active role for the Legislature in its oversight of the process.

The BCP requests funding based on forecasted revenues from and expenditures on the Data Center. However, CDT notes that they cannot accurately forecast either its revenues from or expenditures on services over a three-year period because demand can change significantly year over year. By approving the BCP over three years, the Legislature would limit its ability to conduct oversight and make appropriate adjustments based on changing fiscal conditions of the TSRF.

Multiyear funding of these proposals also would limit legislative involvement in the rate re-evaluation process. The Administration notes that they will provide updates at their quarterly legislative briefings, however LAO notes that these briefings will cover a wide range of topics and are unlikely to provide the Legislature with the requisite information and time to learn about and be involved in the rate re-evaluation process. Requests for funding on an annual basis would allow the Legislature to decide whether the administration's progress on the rate re-evaluation process warrants additional legislative involvement and/or oversight.

The LAO recommends approving only one year of funding for both proposals to ensure legislative oversight continues through the annual budget process. Annual funding for these proposals also would allow CDT to better forecast additional net revenue losses. Budget-year funding to shift some internal administrative costs to the General Fund also would allow the Legislature to evaluate whether the anticipated reduction in State Data Center rates changes state entities' demand for IT services from CDT.

The LAO also recommends establishing trailer bill language to allow for more Legislative direction and oversight of the rate re-evaluation process. Specifically, the trailer bill should at a minimum include at least objectives for the rate evaluation process, outcome metrics for the process, and an evaluation of the CDT's current business model for providing IT services.

Staff Recommendation. Hold Open.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

DGS, as an enterprise organization under the Government Operations Agency, provides centralized services to state agencies in the areas of: management of state-owned and leased real estate, including design and construction of state infrastructure projects; approval of architectural designs for local schools and other state-owned building; printing services; procurement of commodities, services, and equipment for state agencies; and management of the state's vehicle fleet. Furthermore, DGS employs practices that support initiatives to reduce energy consumption and help preserve California resources. The Director of DGS serves on several state boards and commissions.

Below is the Governor's budget display of positions and expenditures for DGS. In the 2022-23 fiscal year, the Governor's budget proposes a total of $1.3 billion in expenditures ($117.8 billion from the General Fund) and 4,144.3 positions.

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
6320	Building Regulation Services	369.8	400.8	400.8	$90,002	$102,205	$100,817
6324	Facilities Management Division	1,581.7	1,785.2	1,785.2	526,445	557,442	616,977
6325	Real Estate Services	384.7	391.7	398.7	89,503	100,235	90,417
6330	Statewide Support Services	904.5	1,000.4	1,010.4	542,913	589,474	539,270
6335	Program Overhead Allocations Interagency Support Division and RESD Executive	14.0	10.0	10.0	-	-	-
9900100	Administration	517.3	524.2	539.2	997,752	492,755	99,959
9900200	Administration - Distributed	-	-	-	-78,508	-89,034	-94,307
9900300	Distributed Services	-	-	-	-11,513	-11,513	-13,117
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**3,772.0**	**4,112.3**	**4,144.3**	**$2,156,594**	**$1,741,564**	**$1,340,016**

Issue 41: Facilities Management Division Deferred Maintenance

Governor's Budget. The Governor's budget $100.7 million General Fund on a one-time basis to address critical elevator and Direct Digital Control deficiencies in buildings owned and operated by DGS.

Background.

Elevator Projects

Industry standards dictate that elevator equipment should be modernized every 20-25 years; however, the actual life cycle can vary depending on the type of equipment installed, its age, the level of usage, and maintenance performed. There are three types of modernization that may be employed depending on the condition of the conveyance system: maintenance, repair, and replacement. Elevator maintenance includes a routine examination, lubrication, cleaning, and adjustment of parts, components, or subsystems for the purpose of ensuring performance in accordance with the applicable code requirements. Elevator repair refers to reconditioning or renewal of parts, components, or subsystems necessary to keep equipment in compliance with applicable code requirements. Replacement means the substitution of a device, component, or subsystem in its entirety, for ensuring performance in accordance with applicable code requirements. For example, a rewound hoist motor is a repair, a new hoist motor with the same characteristics is a replacement, and a new hoist motor with new controls, features or functions is a modernization.

The following chart lists the proposed elevator projects.

Location	Building Name	Age of Elevators	Number of Stories	Number of Cars	Estimated Project Cost
Los Angeles	Junipero Serra Building	24	10	7	$8,190,000
Sacramento	Attorney General Building	27	19	8	$8,184,000
San Francisco	Ronald M. George SOC (Hiram Johnson)	23	14	13	$15,210,000
Totals				**31**	**$31,584,000**

Junipero Serra Building: ($8,190,000) Equipment was installed in 1997 (24 years ago) and includes outdated, uncommon controls that prevent competitively-bid maintenance jobs for this building. These elevators are frequently down and have resulted in at least one injury due to cab misalignment. The requested funding will be used to modernize the existing elevator system.

Attorney General Building: ($8,184,000) Equipment was installed in 1994 (27 years ago). These elevators are now past the end of their useful life and the requested funding will be used for elevator modernization.

Ronald M. George Complex (Hiram Johnson Building): ($15,210,000). Thirteen elevator cars are located within the Hiram Johnson Building. Two of the elevators were originally installed in 1955 and subsequently modernized in 1998 when the remaining fourteen cars were installed; meaning all of the cars and equipment are at least 23 years old. Replacement of the elevator drives and access to technician support is limited due to the age of the equipment. The requested funding will be used for elevator modernization.

Direct Digital Control (DDC)

System Projects Advanced DDC systems (also known as building energy management systems or BEMS) can automate fault detection and diagnostics of newer Fire and Life Safety (FLS) systems to help reduce downtime and operation and maintenance costs, adding to the energy savings from simply optimizing equipment set points and setting timers.

In 2020-21 and 2021-22, FMD received one-time General Fund authority through an approved Budget Change Proposal to repair or replace FLS systems including fire alarm control panels, accessible pull stations, smoke detection systems, and accessible audio-visual announcement devices. Once the FLS projects began in 2020 DGS found that numerous DDC systems that interfaced with the FLS systems were obsolete and in need of upgrade or replacement—as they could no longer fully communicate with the myriad of additional sensor and enunciation devices (e.g. alarms, strobes, etc.) that now interface with the FLS systems. This communication is essential to minimizing the spread of fire and smoke during a fire event. When a sensor is activated, communication is sent to the DDC system to close dampers, reduce or stop certain airflows, or engage the stairwell pressurization system to provide positive air pressure in the exit stairwells that prevents smoke intrusion. The absence of this communication could allow a small fire to spread and/or risk the possibility of the exit stairwells filling with smoke. As smoke inhalation is the major cause of loss of life in a fire event, having a reliable communication path that ensures occupants can be protected from this hazard is essential.

The following chart lists the proposed DDC projects.

Location	Building Name	Square Feet	Cost/ ft²	Estimated Cost
Los Angeles	Junipero Serra	550,000	$15.00	$8,250,000
Los Angeles	Ronald Reagan	850,000	$15.00	$12,750,000
Riverside	Riverside Cal-Tower	162,000	$15.00	$2,430,000
Sacramento	Attorney General Building	560,661	$15.00	$8,409,915
Sacramento	East End Complex	1,492,501	$15.00	$22,387,515
Sacramento	Franchise Tax Board	514,616	$15.00	$7,719,240
San Francisco	Pat Brown (CPUC)	383,503	$15.00	$5,752,545
Santa Rosa	Santa Rosa	97,377	$15.00	$1,460,655
Totals				**$69,159,870**

Staff Recommendation: Hold open.

8260 California Arts Council

The California Arts Council (Council) consists of eleven members, nine appointed by the Governor and one each appointed by the President pro Tempore of the Senate and the Speaker of the Assembly. The Council establishes general policy and approves program allocations.

The Council recognizes that the Arts are essential for the cultural, educational, social and economic development of California. The Council seeks to further its mandates and services to the public through the development of partnerships with the public and private sectors and by providing support to the state's non-profit arts and cultural community, which are broad-based and extended across the state from its largest metropolitan areas to its most rural areas.

3-YEAR EXPENDITURES AND POSITIONS †

	Positions			Expenditures		
	2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
6540 Arts Council	23.4	23.4	24.4	$29,132	$192,719	$68,583
TOTALS, POSITIONS AND EXPENDITURES (All Programs)	**23.4**	**23.4**	**24.4**	**$29,132**	**$192,719**	**$68,583**

FUNDING	2020-21*	2021-22*	2022-23*
0001 General Fund	$19,140	$177,587	$56,642
0078 Graphic Design License Plate Account	-	3,680	2,275
0890 Federal Trust Fund	1,992	2,755	1,219
0995 Reimbursements	8,000	8,197	8,197
8085 Keep Arts in Schools Fund	-	500	250
TOTALS, EXPENDITURES, ALL FUNDS	**$29,132**	**$192,719**	**$68,583**

Issue 42: Support for Cultural Districts

Request. The California Arts Council requests $30 million one-time General Fund, to be spent over three years, to support the existing 14 cultural districts and to expand the cultural districts program to serve traditionally underserved communities, represent a cohort that reflects the geographic and racial diversity of the state, and enable the California Arts Council sufficient capacity to provide technical assistance.

Background. AB 189 (Bloom), Chapter 396, Statutes of 2015, directed the Arts Council to create a cultural district program. It defined a state-designated cultural district as a certified geographical area with a concentration of cultural facilities, creative enterprises, or arts venues. AB 189 directed the Arts Council to create a competitive application system for certifying state-designated cultural districts, provide technical and promotional support for these districts, and collaborate with public agencies and private entities to maximize the benefits of these districts.

In 2015-16, the Arts Council began dedicating some of its operating funds to create a cultural district pilot program. In July 2017, the Arts Council designated 14 areas across the state as cultural districts. Starting in 2017-18, the Arts Council awarded each of these districts $5,000 stipends per year for three years as an incentive to participate in the pilot. To date, the Arts Council has spent roughly $300,000 to fund these stipends and has incurred costs related to program support, development, and evaluation.

Cultural District	City
Balboa Park Cultural District	San Diego
Barrio Logan Cultural District	San Diego
The BLVD Cultural District	Lancaster
Calle 24 Latino Cultural District	San Francisco
Rotten City - Emeryville Cultural Arts District	Emeryville
Eureka Cultural Arts District	Eureka
Grass Valley-Nevada City Cultural District	Grass Valley/Nevada City
Little Tokyo	Los Angeles
Oceanside Cultural District	Oceanside
Redding Cultural District	Redding
San Pedro Arts & Cultural District	San Pedro
Downtown San Rafael Arts Districts	San Rafael
SOMA Pilipinas - Filipino Cultural Heritage District	San Francisco
Truckee Cultural District	Truckee

In 2019, the Council contracted with third-party evaluators to review the pilot cohort’s first two years. The evaluation suggested 12 recommendations to enhance future program effectiveness: 1) provide significantly greater financial support to the districts; 2) continue current program inputs (designation, stipend, marketing materials, State partner agencies, technical assistance, and peer-to-peer networking) and develop them in ways that will increase their impact; 3) develop a comprehensive technical assistance resource center to support capacity building for cultural districts; 4) develop inter-agency partnerships to support capacity building for cultural districts; 5) do a round of applications in 2020 to select a second cohort of cultural districts but then pause for three years; 6) defer decisions about program expansion beyond the initial two cohorts until the first five years of the program can be assessed; 7) increase program investment through a legislative request or allocation of CAC Program Funds; 8) conduct ongoing and annual evaluation; 9) document economic impact of the districts and the program; 10) increase CAC staffing of the program; 11) revisit and clarify the legislative language in AB 189; and 12) encourage cultural districts to consider applications to other CAC programs.

The evaluation identified an additional seven recommendations specific to equity:

1. Prioritize designation of African American/Black, Native American, and Chinese American cultural districts in the next cohort.
2. Prioritize designation of districts in areas of the state that are underfunded or not directly funded by the CAC.
3. Support the development of applications that promote equity.
4. Build inter-agency partnerships to identify and support diverse districts.
5. Provide technical assistance to communities considering an application and to applicants.
6. Revisit and refine the selection criteria for the program with an equity lens.
7. More strongly make the case for the importance of the state designation.

In 2020, the Governor's January budget proposed $9 million to provide stipends of $100,000 annually for three years for 30 cultural districts (14 existing districts and 16 new districts). However, due to the COVID-19 pandemic, this proposal was withdrawn in the Governor's May Revision.

Under the Governor's budget request of $30 million, the Arts Council notes that it will focus on the establishment of the following, based on the 2019 gap analysis evaluation:

- African American districts, or Black "umbrella" districts that encompass several culturally specific communities within it, who are absent from the current cultural district cohort.
- Districts that represent Chinese American and Native American communities, who are also absent from the current cohort.
- Districts that represent Latinx and Asian American communities, who are underrepresented in the current cultural district cohort.
- Districts in lower-income and rural counties.

In addition, the Arts Council reports that it would seek to achieve the following goals with the funding:

- Identify, support, and connect centers of arts and cultural activity statewide.
- Provide increased access to the arts and culture through the development and preservation of cultural centers statewide.
- Foster increased opportunities for artists, craftsmen, and other small businesses.
- Encourage the retention of local assets and actively work to mitigate displacement of such assets.
- Support improvements to the built environment.
- Contribute to increased public awareness of, and visits to, California's centers of cultural activity.

Staff Comments. The 2019 gap analysis found that half of the 14 cultural districts are located in counties whose residents live above the state's median household income and half are below. However, when comparing the median household income of each zip code where these districts are located (as reported by the United States Census Bureau), and to the poverty level threshold used for Medi-Cal applicants (138 percent of the federal poverty level, which is $35,535 in 2019), 13 out of the 14 cultural districts are located in zip codes where the median household income is above the poverty line. The evaluation notes that some of the cultural districts face challenges with gentrification and displacement of lower-income residents. The chart below is from the subcommittee's 2020 analysis on the Administration's cultural district proposal.

Cultural District	Zip Code	Median Income*	Poverty Level**
Balboa Park Cultural District	92101	$ 60,417	Above
Barrio Logan Cultural District	92113	$ 33,125	Below
The BLVD Cultural District	93534	$ 37,883	Above
Calle 24 Latino Cultural District	94110	$ 109,747	Above
Rotten City - Emeryville Cultural Arts District	94608	$ 68,352	Above
Eureka Cultural Arts District	95501	$ 40,629	Above
Grass Valley-Nevada City Cultural District	95945/95959	$ 53,609	Above
Little Tokyo	90012	$ 38,786	Above
Oceanside Cultural District	92054	$ 56,170	Above
Redding Cultural District	96001	$ 48,125	Above
San Pedro Arts & Cultural District	90731	$ 49,464	Above
Downtown San Rafael Arts Districts	94901	$ 85,889	Above
SOMA Pilipinas - Filipino Cultural Heritage District	94103	$ 49,052	Above
Truckee Cultural District	96161	$ 89,091	Above

* As reported by the U.S. Census.
** Poverty level is defined at $35,535.

Above	13
Below	1

Additionally, the evaluation notes that "the cultural districts are not often located in regions of the state that are underserved by the Arts Council, especially the northeastern, southeastern, and Central Valley counties of the state."

Legislative Analyst's Office Comments. ***Key Details Lacking.*** While the Governor's proposal is potentially promising in that it seeks to address some of the findings from the evaluation of the pilot, it is not possible to fully evaluate the proposal as key details are currently lacking. Specifically, the Arts Council has not provided information that would allow the following questions to be answered:

- How would funds be allocated between existing and new cultural districts?
- What would be the allowable uses of the funds?
- What criteria would be used to award grants?
- How will the goals and outcomes sought by the Arts Council be measured?

The Arts Council has indicated that more details on the proposal will be provided by this spring. Without such details, it is not possible to determine the extent to which the proposed funding would effectively address concerns about the lack of diversity of cultural districts and the extent to which the planned uses of the funds are appropriate for one-time funding. Accordingly, the LAO recommends that the Legislature withhold action on the Governor's proposal until the Arts Council is able to provide sufficient details about how the program would be implemented.

Staff Recommendation. Hold Open.

8940 MILITARY DEPARTMENT

The Military Department is responsible for the command, leadership and management of the California National Guard, Youth and Community Programs, State Guard and the Naval Militia. The California Military Department, under proper authority, organizes, resources, and trains forces with unique capabilities to serve the community, state, and nation. The purpose of the California National Guard is to provide mission ready forces to the federal government as directed by the President, emergency public safety support to civil authorities as directed by the Governor, and support to our member's families and to the community. With an authorized strength of approximately 19,000, the Army National Guard and Air National Guard are organized, manned, and funded in accordance with federal Departments of the Army and Air Force regulatory guidance.

The Military Department Youth and Community Program serves California communities and families by delivering national level, high quality educational support programs, in partnership with the educational community, within a military, academic structured environment.

3-YEAR EXPENDITURES AND POSITIONS †

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
6911	National Guard	572.8	614.8	644.8	$198,824	$181,751	$237,362
6912	Youth & Community Programs	117.0	201.0	309.0	36,674	40,571	40,820
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**689.8**	**815.8**	**953.8**	**$235,498**	**$222,322**	**$278,182**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$75,318	$89,265	$144,513
0485	Armory Discretionary Improvement Account	-	136	136
0890	Federal Trust Fund	118,854	123,076	123,622
0995	Reimbursements	40,373	7,564	7,602
3085	Mental Health Services Fund	934	1,531	1,559
8078	California Military Department Support Fund	19	250	250
8504	Military Department Workers' Compensation fund	-	500	500
TOTALS, EXPENDITURES, ALL FUNDS		**$235,498**	**$222,322**	**$278,182**

Issue 43: Drug Interdiction Efforts

Request. The Military Department requests $20 million one-time General Fund in 2022-23 to expand the Military Department's existing drug interdiction efforts supporting law enforcement agencies within the four High Intensity Drug Trafficking Areas (HIDTA) in California. This will amplify the CMD's focus on drug-trafficking transnational criminal organizations (TCO) throughout the State. It is expected that 100 service members will be deployed for drug interdiction efforts to assist various Law Enforcement Agencies (LEAs).

Background. The Counterdrug Task Force is a federally funded, Title 32 program that has been part of California National Guard's (CNG) mission since 1986. This program, which currently receives $27 million annually in federal funds, provides support to local law enforcement agencies in areas known to have high levels of drug trafficking. The Administration indicates that requests for assistance from local law enforcement have far exceeded CMD's level of ongoing funding. Accordingly, the proposal would allow CMD to fulfill in 2022-23 more of the requests it receives from local law enforcement.

The CMD proposes to use the existing California National Guard (CNG) model to support law enforcement agencies as they target the illegal smuggling and distribution of fentanyl and other illegal drugs. The 100 service members will be managed by the CNG's current Counterdrug Task Force and be employed to support LEAs at the four HIDTA sites located in San Diego, Los Angeles, Central Valley (Sacramento) and Northern California (San Francisco). The Counterdrug Task Force processes requests from LEAs and responds using available resources.

The $20 million is expected to be expended in the following areas to enhance the existing Counterdrug Task Force:

- $17.1 million for service member salaries and benefits (including $1.5 million for per diem costs).
- $600,000 for vehicles and fuel.
- $2.3 million for other items of expense (travel, equipment, lodging, communications, etc.).

The existing Counterdrug Task Force model will be used to determine the proper allocation of the state resources for various drug interdiction efforts supporting LEAs throughout the four HIDTA. Enhancing the existing interdiction model with additional one-time state funding will likely lead to additional drug seizures.

In addition to the Counterdrug Task Force, the CMD has managed Task Force Vigilance which operated as a Title 32, federally funded, state-controlled task force from 2018 until 2020. Pursuant to the Governor's General Order #2019-01, Task Force Vigilance included 100 service members employed to assist LEAs in detecting and intercepting transnational crime and drugs coming into California from Mexico. During its two-year duration, Task Force Vigilance Task Force Vigilance assisted in the seizure of:

- $18.4 million in Fentanyl

- $9.7 million in Heroin
- $89.6 million in Methamphetamines
- $52.1 million in Cocaine
- $690 million in Marijuana
- 411 liters in Pesticides

Legislative Analyst's Office Comments. The Governor's proposal seeks additional resources to reduce opioid overdoses, as well as crimes and violence related to the smuggling and distribution of illegal drugs, by increasing CMD's capacity to respond to local law enforcement requests for support. However, according to the Administration, the vast majority of local law enforcement requests tend to involve targeting illegal cannabis cultivation and trafficking rather than illegal drugs linked to overdose deaths. Accordingly, as currently structured, the proposal is likely to have little effect on overdose deaths. Addressing illegal cannabis cultivation and trafficking is a reasonable statewide goal. However, if the state is interested in reducing overdose deaths, this proposal would likely not be an effective way to do so.

Staff Recommendation. Hold Open.

Issue 44: Enhancing and Expanding Fire Crews: Task Force Rattlesnake

Request. The California Military Department requests 15 State Active Duty positions and $39.9 million General Fund in 2022-23, and $41.3 million General Fund annually thereafter, to convert 13 Type I hand crews currently operating on temporary COVID-19 Federal Emergency Management Agency funding and seasonal reimbursement contracts with the California Department of Forestry and Fire Protection (CAL FIRE) into 14 Type I, year-round hand crews that conduct vegetation management, hazardous fuel reduction projects, and wildland fire suppression.

Background. CMD maintains a reciprocal cooperative agreement with the foresting agencies that defines the force packaging and procedures for CMD activations to a wildland fire. Before 2019, CMD would be called on to fill emergency resource gaps in the response phase only. CMD would mobilize the resource to fulfill the emergency requirement and then be released.

In 2019, CAL FIRE partnered with CMD to develop full-time year-round concept for hand crews, forming Joint Task Force Rattlesnake. Joint Task Force Rattlesnake originally consisted of five hand crews, formed by the Governor's General Order 2019-01, Executive Order N-05-19, to assist in the prevention of wildfires in the State of California and assist with the completion of 35 priority fuel reduction projects.

The Budget Act of 2020 provided CAL FIRE funding to support 10 CMD crews to operate for six months out of every year through an inter-agency agreement. This $4 million was designed to give CAL FIRE fuels mitigation assistance and temporary help Fire Captain and Firefighter positions to supervise and support those crews. Additionally, in April 2020, Joint Task Force Rattlesnake was augmented with FEMA Federal Mission Assignment (MA) funding to conduct its fuel reduction and fire suppression operations. These actions allowed CMD to temporarily expand to 13 CMD hand crews statewide. The current MA authorizing Title 32 forces is set to expire on

April 1, 2022. When the MA expires, CAL FIRE is left with permanent funding that will only support 10 crews for six months out of the year.

The CMD requests $39.9 million General Fund in 2022-23 and $41.3 million General Fund annually thereafter, to convert 13 Type I hand crews currently operating on temporary COVID-19 FEMA funding and seasonal reimbursement contracts with CAL FIRE into 14 Type I, year-round hand crews that conduct vegetation management, hazardous fuel reduction projects, and wildland fire suppression.

CMD also requests 15 permanent positions to support command and control administration functions of the task force: Task Force Commander (one position), Task Force Senior Enlisted Advisor (one position), Executive Officer (one position), Operations Section (five positions), Logistics Section (two positions), and Administration and Finance Section (five positions).

There are two components to the CMD crew staffing, the administrative support cell that consists of 15 personnel, and 308 service members and officers that staff the 14 crews. The minimum daily staffing per crew will be 13 service members and one Fire Captain (FC) and Fire Apparatus Engineer (FAE) from CAL FIRE.

Legislative Analyst's Office Comments. The proposed CMD hand crews (and associated support staff, as relevant) would provide a significant increase in the resources available to assist in responding to active wildfires, as well as conducting hazardous fuel removal projects at other times. The LAO expects that such an expansion would provide important value to the state. However, the additional CalFire staffing proposal (heard in Senate Budget Subcommittee No. 2) is anticipated to be required to oversee the proposed changes to the CMD crews. According to the Administration, this additional staffing is included in the staffing and operational enhancements proposal. Given this, it will be important for the Legislature to consider the proposals together. Therefore, the LAO recommends withholding action on the CMD proposal so that they may be considered together.

Staff Recommendation. Hold Open.

9201 LOCAL GOVERNMENT FINANCING

Issue 45: Insufficient Educational Revenue Augmentation Fund (ERAF) Backfills

Governor's Budget. The Governor's budget includes $96.2 million General Fund to reimburse San Mateo County and Alpine County for Vehicle License Fee (VLF) insufficiencies in 2020-21 driven by insufficient Educational Revenue Augmentation Fund (ERAF) revenues.

In addition, statutory amendments are proposed to provide a continuous appropriation and a process to claim funding for VLF insufficiencies driven by insufficient ERAF revenues in future years. Trailer bill language would also specify that excess ERAF within the county would be first applied to the VLF insufficiency, with General Fund backfilling the remainder.

Background.
The Motor Vehicle License Fee (VLF) is a tax on ownership of a registered vehicle. All revenue from vehicle license fees is distributed to counties and cities and used for general purposes and some specific, required health and human services-related purposes. In the mid 1990's the state lowered the VLF rate and reimbursed counties and cities for the reduced VLF revenue with state General Fund, known as the "VLF Backfill".

Also in response to a severe budget deficit in the 1990's, the state met its legal obligation to fund schools by diverting specified amounts of local property taxes into an "Education Revenue Augmentation Fund" or ERAF in each county. ERAF funds are then transferred to local K-14 school entities. Some school districts, known as "Basic Aid School Districts" do not receive any ERAF allocations as local property taxes for K-14 education, already cover the level of funding provided for K-14 education, therefore the school district was not receiving state General Fund that could be offset by ERAF.

In 2004, a new mechanism for backfilling the VLF was created and a portion of property taxes from schools (through ERAF or other K-14 property taxes if ERAF was insufficient) was provided to counties and cities to replace the VLF Backfill, known as the "VLF swap". Prior to 2004, the amount counties and cities received was based on their populations. Today, counties and cities' VLF swap amounts increase annually based on growth in the assessed value of property within their boundaries. After the adoption of the VLF swap, statewide growth in assessed valuation—and, as a result, VLF swap payments—has significantly exceeded growth in VLF revenues. Although the VLF swap reduced the amount of property tax revenue in ERAF available to fund schools, state law specified that the shift would not affect the calculation of excess ERAF.

Over the past several years, some counties, currently San Mateo and Alpine, have been unable to cover insufficiencies in their VLF funds with ERAF funding. When all or most school districts in the county are in basic aid status, the county is unable to direct enough K-14 property taxes or ERAF from school districts, as it will not generate a General Fund backfill. This shortfall has been relatively low in past years, but growing property tax revenue combined with declining enrollment has increased the shortfall and projections assume continued growth. State General Fund has been provided in prior budget acts to cover the shortfall, but it has been provided in arrears. The Governor's budget continues this practice by including $96.2 million General Fund to reimburse San Mateo County and Alpine County for insufficiencies in 2020-21. County projections show this amount growing and potentially creating insufficiencies in other counties, with Napa projecting basic aid status for school districts in the coming years. In response to concerns from counties that these larger insufficiencies would create immediate budget impacts and potential reductions in services while county applies for a backfill, the Governor's budget included a new process, for insufficient VLF Revenues amounts expected to occur in the 2023-24 fiscal year and for each fiscal year thereafter for which:

- Creates a continuous appropriation from the General Fund sufficient to pay any claims for Insufficient VLF Revenues.
- Creates a process by which the auditor of a county with insufficient VLF Revenues shall file with the State Controller's Office a claim for the amount of insufficient VLF Revenues

preceding the fiscal year in which such insufficient VLF Revenues is expected to occur. The Controller shall pay the auditor the approved amount of insufficient VLF Revenues claimed pursuant this section in the fiscal year after the claim is submitted. The Controller shall remit to the auditor fifty percent of the approved amount on or before December 31, and shall remit the other fifty percent to the auditor on or before April 30.

- The Controller shall perform reviews or audits of insufficient VLF Revenues claims at his or her discretion.
- Specifies that for the 2022-23 fiscal year and each fiscal year thereafter, funds allocated to a city, county, or a city and county as excess ERAF after K-14 obligations have been met, shall be counted by the auditor toward satisfying the city and county vehicle license fee adjustment amount.

Staff Comments. Counties with insufficient VLF currently (San Mateo and Alpine) and those anticipating this situation in the near future (Napa) note that they appreciate the mechanism for front-loading of the insufficient VLF backfill. This would serve to prevent reductions in planned budget expenditures. However, several counties and cities oppose the provision requiring excess ERAF revenues to first backfill the VLF insufficiency (in the past the entirety of the excess ERAF had been available for city and county expenditure).

The Department of Finance notes that the General Fund obligation will continue to grow in these counties with growing property taxes. Since 2012-13, the state has provided over $33 million for Insufficient ERAF backfills. Another $96 million is proposed for 2022-23. These backfills are not required by law. They also note that this practice has Proposition 98 implications. In a Test 1 year, the Proposition 98 Guarantee is calculated as a specific percentage of General Fund revenues and property taxes are added on. When the majority of school districts within a county are basic aid, the county may reduce K-14 property taxes in other school districts to fill the VLF insufficiency. Under Test One of Proposition 98, which has been operative since 2018-19, and which will be operative for the foreseeable future, the shifted property tax revenue is not backfilled by the state. It is a revenue loss for schools.

Staff Recommendation. Hold Open.

0954 SCHOLARSHARE INVESTMENT BOARD

Issue 46: CalKIDS Savings Accounts

Governor's Budget. The Governor's budget includes the following changes related to the California Kids Investment and Development Savings Program (CalKIDS):

- $238,000 ongoing General Fund to support 2 additional staff for CalKIDS.
- An increase of $4 million one-time General Fund in 2022-23 to notify participants in grades 1 through 12 of their CalKIDS accounts, as well as $400,000 ongoing General Fund beginning in 2023-24 to notify each incoming cohort of first graders.
- An increase of $1 million one-time General Fund in 2022-23 for a short-term marketing campaign to increase awareness of the CalKIDS program upon its launch.
- An increase of $5 million ongoing General Fund for financial literacy outreach efforts that will inform families of the long-term benefits of saving for college associated with CalKIDS.

Background.

The ScholarShare Investment Board (SIB) administers the Golden State ScholarShare College Savings Trust Program (ScholarShare 529), the California Memorial Scholarship Program (CMS), and the California Kids Investment and Development Savings Program (CalKIDS). The CalKIDS program funds college savings accounts targeted to low-income and underrepresented public school students, in addition to establishing college savings accounts for all newborns.

The 2021 Budget Act provided approximately $1.9 billion in one-time federal and state funds to establish college savings accounts for all current low-income public school students in grades 1-12 in 2021-22, as defined for purposes of the Local Control Funding Formula, with supplemental investments for foster youth and homeless students enrolled in a public school. Approximately $170 million ongoing General Fund is provided in 2022-23 and ongoing to establish college savings accounts for incoming first-grade cohorts of low-income public school students, as defined for purposes of the Local Control Funding Formula, with supplemental investments for foster youth and homeless students enrolled in a public school.

The SIB did not receive additional positions in the 2021-22 budget package for the expansion of CalKIDS, but did receive an increase of $700,000 General Fund ongoing that is being used for various administrative costs, including the program's IT platform. The SIB has one Staff Services Manager I (SSM I) partially dedicated to the program, that was intended to focus on the administration of the CalKIDS serving the newborn population, as well as other children's savings account (CSA) initiatives. The SIB is currently redirecting other staff to support program administration. The additional positions requested would have various responsibilities, including but not limited to compiling and analyzing participant data, conducting marketing and outreach, assisting with regulations, and communicating with stakeholders.

LAO Comments.

The LAO notes that given the ongoing workload associated with the considerable expansion of the CalKIDS program in the 2021-22 budget the staffing increase requested is justified.

The LAO also notes that in order for CalKIDS to meet the goals of expanding college access, particularly for low-income students, participants and their families need to know about their CalKIDS account and any deposits from the state, as well as how they can contribute their own funds toward saving for college. However, the Governor's three outreach proposals have similar purposes. The participant notifications and marketing campaign are designed to make participants aware of their accounts, while the financial literacy outreach initiative is intended to inform participants of the benefits of those accounts (for example, by introducing participating families to the concept of compound interest). Incorporating these separate components into one initiative could provide a more coordinated message to students and their families simultaneously notifying them of their accounts and informing them of the associated benefits. A consolidated approach could also reduce duplication across initiatives, potentially leading to lower overall costs.

Finally, the LAO has concerns about the funding justifications for some proposed activities. In particular, limited justification has been provided for the financial literacy outreach funding. The Administration indicates this initiative would allow SIB to produce informational materials, translate those materials into various languages, update the program website, and provide other financial literacy activities to participants and their families. However, the proposed funding level is not linked with the cost of these activities. Instead, the Administration determined the proposed funding level based on the combined one-time cost of the other two initiatives (participant notifications and marketing campaign). In addition, while the proposed funding is ongoing, several of the proposed activities (including producing initial informational materials and updating the website) would be one time.

As a result of their review, the LAO recommends that the outreach proposals be modified. The LAO recommends creating one combined initiative, providing at least the proposed $4 million one-time and $400,000 ongoing for participant notification, as participants and their families need a basic level of awareness of their CalKIDS accounts for the program to have its intended effect. The LAO notes that the Legislature could also consider including the proposed $1 million one-time General Fund for a short-term marketing campaign to further increase program awareness. However, the LAO recommends withholding action on the proposed $5 million ongoing for financial literacy outreach and requesting the administration develop a more detailed proposal. Such a proposal would identify the specific financial literacy outreach activities that would occur, the estimated cost of those activities, the duration of those costs (one time vs. ongoing), and any opportunities to coordinate or consolidate these outreach activities with the related participant notification and marketing activities.

Staff Recommendation: Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Thursday, April 28, 2022
Upon Adjournment of Session
O Street Building - Room 2100

Consultant: James Hacker

ITEMS FOR VOTE ONLY

ISSUES FOR DISCUSSION

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS FOR VOTE ONLY

0515 BUSINESS, CONSUMER SERVICES, AND HOUSING AGENCY

Issue 1: Workload Resources

Request. The budget includes $1.5 million and seven positions in 2022-23 and ongoing to address the current and anticipated ongoing workload stemming from an increase in oversight and strategic coordination required to support existing Agency programs along with significant growth in new program responsibilities, specifically in the housing and homelessness portfolio of programs. The requested positions include two Deputy Secretaries, one Senior Advisor, a Budget Manager, and several technical staff. Four of these positions are currently being redirected from other departments.

BCSH has one of the smaller staff sizes among the various statewide department, with 19 full time staff as compared to 26 at the Transportation Agency, 33 and Health and Human Services, and 43 at Labor and Workforce Development. Given the dramatic increase in budgets and programs under BCSH’s purview, additional staff seems warranted. Doing so would also allow the redirected resources to return to the work for which they were originally budgeted. However, given the uncertainty of the Agency’s future workload, limited term resources are more appropriate to permanent position authority.

Staff Recommendation. Approve the requested positions for three years.

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 2: California Learning Lab

Request. The budget includes ongoing funding of $3 million General Fund beginning in 2022-23 for the California Education Learning Lab. This includes $2 million to restore 2020 Budget Act reductions to Learning Lab's grant pool and $1 million to support the Individualized Adaptive Learning Open Educational Resources (IAL-OER) project, which aims to address equity gaps in chemistry while also working towards reducing equity gaps in other Science, Technology, Engineering, and Mathematics (STEM) fields.

The Learning Lab was reduced as part of the 2020 Budget due to anticipated fiscal pressures resulting from the Covid 19 pandemic. As the fiscal picture has improved it is reasonable to return the Lab's funding to previous levels.

Additionally, the state has prioritized efforts to improve STEM education across the state. The requested funding for the IAL-OER project furthers this goal. It is also consistent with the Learning Lab's statutory mission. Pursuant to Section 650592.2 of Government Code, Learning Lab's purpose is "to increase learning outcomes and to close equity and achievement gaps, using learning science (also known as the science of human learning) and adaptive learning technologies in online or hybrid college-level lower division courses in science, technology, engineering, and mathematics (STEM) and other disciplines."

This proposal was first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve the requested resources through the 2025/26 Fiscal Year.

Issue 3: California Volunteers: Neighbor to Neighbor

Request. The budget includes $10 million General Fund in 2022-23 and ongoing to support the mobilization and unification of California around service, volunteerism, and neighbor-to-neighbor outreach. The resources will expand California's existing volunteer infrastructure and bolster a statewide Neighbor-to-Neighbor initiative to recruit, train, equip and organize neighbors in response to community needs.

California Volunteers proposes to use the requested funding for the Neighbor-to-Neighbor program to build a statewide network of neighborhood leaders and train them to organize neighborhood activity in response to community needs. This proposal builds on and formalizes previous efforts begun during the Covid 19 pandemic.

This proposal was first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve the requested resources through the 2025/26 Fiscal Year.

Issue 4: California Volunteers: Foster Grandparents and Senior Companions

Request. $10 million General Fund one-time in 2022-23 to develop and implement the Foster Grandparent and the Senior Companion Programs to increase older adult volunteerism, help people age in place, reduce isolation, enhance intergenerational partnerships and relationships, and provide benefits to schools, libraries, local community sites, and more.

California's 10-year Master Plan for Aging provides a blueprint to prepare the state for the coming demographic changes and to continue California's leadership in aging, disability, and equity. According to the Master Plan for Aging, California's over-60 population will increase from 16 percent of the total in 2010 to 25 percent in 2030. Providing opportunities for older adults to share their talents, experience, and time will be key to meeting the state's growing needs. The Master Plan for Aging specifically addresses engagement.

The LAO has noted that the AmeriCorps Foster Grandparent and Senior Companion programs were established in 1973 and are evaluated on a three-year cycle. Recent studies show that these programs expand service opportunities to diverse group of participants. Participants reported fewer symptoms of depression and feeling less socially isolated. Further, expanding the number of FG and SC service opportunities likely would be consistent the state's Master Plan for Aging by increasing the number of opportunities to volunteer.

This proposal was first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve as budgeted.

Issue 5: Precision Medicine Proposals

Request. The budget includes several proposals related to the California Institute to Advance Precision Medicine (CIAPM). These include:

- $10 million General Fund one-time in 2022-23 to provide grants for projects focusing on depression, and that apply a precision medicine approach to using data in county behavioral health settings.

- $9.25 million General Fund one-time in 2022-23 to address health disparities and enhance equity by increasing participation by underrepresented minorities in biomedical research projects.

Especially as the state emerges from the COVID-19 pandemic and mental health challenges are at peak levels, new interventions could help to support the mental health and wellbeing of communities. Additionally, evidence shows that certain subpopulations are less likely to participate in biomedical research. These subpopulations include people with racially diverse backgrounds and older, LGBT, rural, youth, and/or physically or developmentally disabled people. Because members of these groups are underrepresented in research, advances in biomedical research might not be as effective for them or may even be harmful.

These proposals were first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve as budgeted.

Issue 6: Transfer of the Office of Tribal Affairs

Request. The Governor's budget includes a net-zero transfer of $115,000 Environmental License Plate Fund (ELPF) ongoing and $441,000 General Fund ongoing and 3 positions from the Native American Commission to establish the Office of Tribal Affairs within the Governor's Office, the net-zero transfer of $450,000 ELPF through FY 2024-25 to the Governor's Office of Planning and Research to support the California Truth & Healing Council.

This proposal is net-zero and predominantly administrative in nature.

This proposal was first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve as budgeted.

Issue 7: Legislative Staff Increase

Request. The budget includes $438,000 General Fund and two positions in 2022-23 and ongoing to support OPR's growing amount of legislative workload across OPRs budget programs including the Strategic Growth Council (SGC), California Volunteers (CV), and OPR's State Planning & Policy (SPPD) programs.

Past budgets have provided significant additional administrative resources for OPR, none of which have been focused on legislative work. Given the increase in legislation affecting OPR, additional resources are appropriate. However, given the uncertainty around future legislation, limited-term resources are more appropriate than permanent resources.

This proposal was first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve the requested positions through the 2025/26 Fiscal Year.

Issue 8: Legislative Proposals

Request. The budget includes several requests related to enacted legislation. These include:

- $374,000 General Fund and one position in 2022- 23 and $224,000 annually thereafter to modernize the California Environmental Quality Act (CEQA) process and filing of CEQA-related documents, and transfer the responsibilities of upgrading, hosting, and maintaining CEQANet to OPR pursuant to Chapter 97, Statutes of 2021 (AB 819).
- $574,000 Greenhouse Gas Reduction Fund (GGRF) and 1.0 position in 2022-23 and ongoing to support the California Air Resources Board to update GGRF grant guidelines and eligibility, and support grant applicants connecting with workforce development resources in their region pursuant to Chapter 746, Statutes of 2021(AB 680).
- $421,000 one-time General Fund in 2022-23 to contract with a third-party planning facilitator to support the newly created 16-member Associate Degree for Transfer Intersegmental Implementation Committee pursuant to Chapter 566, Statutes of 2021 (AB 928).

These proposals are in-line with earlier fiscal estimates and are consistent with legislative intent in drafting and passing the relevant bills.

Staff Recommendation. Approve as Budgeted.

Issue 9: Golden State Awards

Request. The budget includes $30 million one-time General Fund to establish the Golden State Awards grant program. The program will provide between 20 and 30 grants to innovative projects based at or associated with a California public college or university.

The Administration has indicated that the Golden State Awards initiative would support at least 20 awards to individuals or teams at, or associated with, the public higher education segments who have developed or are developing innovative practices. Unlike past innovation award programs, this initiative not only would aim to improve student outcomes but also could cover any activity deemed innovative and high impact, including but not limited to programs that improve student outcomes, research on climate change, and research on low-carbon industries. CELL would administer the grant program, with oversight from a 12-member grant selection committee, with 10 members appointed by the Governor, 1 member by the President pro Tempore of the Senate, and 1 member by the Speaker of the Assembly. CELL would have three years to award the funds, and would be required to report by January 1, 2026, on how the awards were allocated.

While there is merit in incentivizing and rewarding innovation and cutting-edge research and education, the lack of structure and oversight in this proposal is concerning. Funding should be paired with reporting language to ensure that the legislature has insight into how and why certain awards are made.

Staff Recommendation. Approve $30 million in one-time funding. Adopt provisional reporting language requiring OPR to report to the legislature on project selection and awards.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Issue 10: Administrative Resources

Request. The budget includes $1.3 million General Fund and 7 positions in 2022-23, and $836,000 General Fund and 7 positions in 2023-24 and ongoing, to provide additional resources to support DFEH's administrative workload, including appeals, public records requests, media outreach, contracts and procurement, and accounting processes, and help administer a Statewide Hate Crime Hotline.

This request was increased by 1 position ongoing to provide support for the implementation of a Statewide Hate Crime Hotline. The 2021 Budget Act included $10 million one-time available until June 30, 2025, for the Department of Fair Employment and Housing to administer and implement a Statewide Hate Crime Hotline, which will fund this position.

The requested positions are generally reasonable and consistent with the workload faced by the department.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 11: Community Partnerships and Strategic Communications

Governor's Budget. The Governor's budget includes $65 million General Fund in 2022-23 and ongoing to create and implement the Office of Community Partnerships and Strategic Communications (OCPSC) to manage the state's highest priority public awareness and community outreach campaigns.

Background. The state made significant communication and community outreach efforts in recent years, including communications around the 2020 Census (for which $187 million was appropriated over three years) as well as ongoing communications related to the COVID-19 pandemic and related public health issues.

Staff Comments. The Administration has indicated that a number of important lessons have been learned from the 2020 Census and COVID-19 communication campaigns, including the importance of data, the important of engaging communities directly, and the need for closer coordination between involved state entities. The Administration has indicated that these communication efforts were typically separate from one another, even if they were communicating with the same communities or organizations.

The Administration has indicated that this proposal is split into two components:

- Resources to stand up the new Office of Community Partnerships and Strategic Communications (OCPSC) to coordinate and manage statewide communications campaigns across state government.
- Contracting resources to establish and maintain a network of community-based organizations with which to partner on communications efforts in impacted communities across the state.

The LAO has noted that the Administration has identified a legitimate need for this kind of investment. The state has several disparate efforts to raise awareness of critical issues across state government. There is no single entity that coordinates or standardizes these activities. For this reason, there could be benefits from designating a single entity to focus on maintaining a statewide network of CBOs and other trusted messengers, managing communication grant programs, and coordinating interagency expertise and resources. However, the LAO has noted that this proposal is high-level, and it is unclear to what extent it will meet the identified need, or if it will be cost-effective in doing so.

As the Legislature considers making a significant, ongoing investment in community outreach and coordinated communications, it should consider the extent to which the Administration's proposal would address the issues identified above. As such, the committee may wish to ask the following questions:

- How will this proposal improve statewide communications efforts? How will the office coordinate efforts between state departments and agencies? Will it improve efforts, or just add another layer of administration?
- Is this the most cost-effective model for establishing a network of community-based organizations? For example, could contract administration be streamlined, or could OPR adopt innovative contracting models to accomplish the same goal at lower cost?

This proposal was first head in Subcommittee 4 on February 9th.

Staff Recommendation: Hold Open.

Issue 12: California Climate Action Corps State Service Program

Governor's Budget. The Administration requests $3.86 million General Fund in 2024-25 and ongoing to support statewide cohorts of fellows dedicated to addressing climate change through direct service and community outreach in local communities across California.

Background. The California Climate Action Corps was established through executive action in 2020. The Climate Action Corps provides AmeriCorps service opportunities—such as urban greening and wildfire prevention home hardening—to respond to climate change. The 2021-22 budget package included $4.7 million one-time General Fund to expand the climate corps program and fund stipends and administrative costs through 2023-24. This provided 236 service opportunities in the summer of 2021 and 50 full-time service opportunities for the 2021-22 year. Climate Corps received 562 applicants for the summer program and 285 applicants for the full-time program.

Staff Comments. California Volunteers requests funding for the Climate Action Corps program in 2024-25 in this budget cycle so that it can demonstrate the state's funding commitment to this program when it applies for continued federal AmeriCorps funding in spring 2023. As this request is for out year funding, it has no impact on the 2022-23 budget.

LAO Comments. While ongoing funding for the Climate Action Corps program likely would strengthen their AmeriCorps application, it seems premature. Should the Legislature support the efforts of California Volunteers to enhance its AmeriCorps application for this program with a firm funding commitment, we would recommend instead providing another round of temporary funding (through 2026-27). The Legislature should plan to review the effectiveness of the Climate Action Corps program in several years, when more information is available.

Staff Recommendation: Hold Open.

0515 Business, Consumer Services, and Housing Agency

Issue 13: Encampment Remediation Grants

Governor's Budget. The budget includes $500 million one-time General Fund, and trailer bill language, to continue the Encampment Resolution Grant Program established in the 2021 budget.

This proposal was first heard in Subcommittee 4 on February 16.

Background. The 2021-22 budget included a $12 billion package of homelessness services and rehousing funds to expand strategies and interventions across the full continuum of homelessness services. The Cal Interagency Council on Homelessness (ICH, formerly the Homeless Coordinating and Financing Authority) received $50 million General Fund and staff resources for grants to aid in the resolution of encampments.

Staff Comments. ICH indicated that they received roughly $120 million in applications for the $50 million in funding provided as part of the 2021 budget. This suggests that there is additional demand for the program above and beyond the level budgeted in 2021. On February 24 ICH announced awards for the program, allocating the entire amount of funding made available in the 2021 budget.

As part of their analysis of the 2022 budget proposal, the LAO recommended that the Legislature focus on overseeing recent budget augmentations related to homelessness, consider the state's long-term vision for addressing the issue, and set clear expectations and metrics for any new funding.

Considering the recent awards, and the LAOs comments, the committee may want to ask the following:

- What types of projects were funded in the recent round of program funding?
- What outcomes does ICH expect to see from these projects?
- How does the Encampment Resolution Grant program fit into the state's broader strategy for addressing homelessness? What benefit does it provide that another program, such as the Homeless Housing, Assistance, and Prevention Program, does not?

Staff Recommendation. Hold open.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Issue 14: Information Technology Workload Support

Request. The budget includes $521,000 General Fund and 3 positions in 2022-23 and $517,000 General Fund in 2023-24 and ongoing to provide in-house support for the Information Technology Services Division (ITSD).

Background. DFEH receives, investigates, conciliates, mediates, and prosecutes complaints of alleged violations of the Fair Employment and Housing Act (FEHA), the Equal Pay Act, the Unruh Civil Rights Act, the Ralph Civil Rights Act, Civil Code section 51.9, the Disabled Persons Act, the California Trafficking Victims Protection Act, and other laws prohibiting discrimination. In 2018 DFEH received 27,840 complaints with 5,395 investigations opened; in 2019 DFEH received 28,739 complaints with 6,600 investigations opened; in 2020, DFEH received 28,897 complaints, with 7,235 open investigative cases.

The ITSD is integral to DFEH’s mission as it supports all of the technological functions of the department, including information security, telecommunications (department-issued cell phones and the Virtual Contact Center for telephone customer service), the department's online case management system (CCRS), litigation support applications, external and internal websites, network and server integrity, social media accounts, Help Desk functions, project management resources, and telework-supportive applications.

Staff Comments. The department has grown in recent years. DFEH added 36.7 positions and funding for two additional locations in 2020-21, and 32 additional positions in 2021-22, representing a 29% growth rate. Multiple changes have since occurred, including the addition of the pay data reporting program and new requirements around information security

Chapter 363, Statutes of 2020 (SB 973)) requires that private employers of 100 or more employees (with at least one employee in California) must report certain pay and other data to DFEH by March 31, 2021, and annually thereafter to identify wage patterns and allow for targeted enforcement of equal pay or discrimination laws. As a result of the Pay Data program, DFEH has indicated that the number of service desk tickets has increased by 300% (5500 to 17000) from 2020 to 2022. Additionally, with the increase in litigation at DFEH, the department has purchased, and ITSD has needed to support, several new legal tools (Relativity, CaseMap, Legal Hold) to secure and track case-related documents. These new tools require constant support and updates by DFEH IT staff.

Given the increase in DFEH workload, additional resources are warranted. The requested positions are broadly reasonable and consistent with the needs of a growing department.

Staff Recommendation. Approve as Budgeted.

Issue 15: Enforcement Investigation and Conciliation Enhancements

Request. The budget includes $1.4 million General Fund in 2022-23, 2023-24, and 2024-25 to decrease the wait time between complaint intakes and investigative appointments, and to increase the number of complaints successfully conciliated and settled by investigators.

Background. To file a complaint with DFEH, a complainant must submit an intake form and schedule an intake interview with a DFEH investigator to discuss their allegations. The Enforcement Division's Employment Unit is responsible for investigating employment cases. The Enforcement Division's Housing Unit is responsible for investigating housing cases.

Historically the typical average wait time between when an intake form is submitted and when the intake interview is conducted is about three months. In 2021, DFEH experienced a surge in complaints and intakes that increased the wait time for the Enforcement Division's Employment Unit from three months to four months, and for the Enforcement Division's Housing Unit from three months to six months.

Staff Comments. DFEH has indicated that this surge was, in part, due to an increased number of employment complaints as the labor market rebounded, and due to a greater number of complaints received at the approach of various state, local and federal eviction moratorium deadlines designed to protect tenants during the COVID-19 pandemic. However, the department also has a roughly 15 percent vacancy rate – high relative to other departments, and particularly acute in technical and difficult-to-fill positions, such as Legal Attorneys and Enforcement Investigators.

DFEH's service level goal is to decrease the wait time for both the Employment and Housing Units to 1-month to fulfill its mission. Based on current workload estimates, the requested positions may be adequate to reach this goal. However, the high vacancy rate is a concern, and may create issues with reaching the target wait time if the department is unable to reduce it. As such, the committee may want to discuss the department's efforts to reduce this vacancy rate and identify additional opportunities to address the issue.

Staff Recommendation. Hold Open

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, May 4th, 2022
9:00 a.m.
1021 O Street - Room 2100

Consultant: Elisa Wynne

Vote Only Issues

Issues for Discussion

Public Comment Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS FOR VOTE ONLY

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 1: Hope Act: California Electronic Cigarette Excise Tax

Request. The Governor's budget requests $1.4 million E-Cig Fund for 5.5 positions and 9,253.5 for 3.5 positions and 15,253 hours in 2024-25 for mandated workload associated with SB 395, the Healthy Outcomes and Prevention Education (HOPE) Act. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

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

Issue 2: Human Resources Staffing

Budget. The Governor's budget includes $110,000 (General Fund) in 2022-23 and ongoing to support one new permanent position to allow the Human Resources Unit to provide administrative support for Department's growing and new programs. This item was previously heard in subcommittee #4 on February 9, 2022.

Staff Recommendation. Approve as budgeted.

7730 FRANCHISE TAX BOARD

Issue 3: Enterprise Data to Revenue Project 2

Budget. The Governor's budget requests $151.1 million General Fund and 17.0 permanent positions, 23.5 full time equivalent limited-term positions, and 21.0 permanent-intermittent positions to begin second-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan at the Franchise Tax Board. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

Issue 4: Section 41 Workload

Budget. The Governor's budget requests $657,000 General Fund and 4 permanent positions in 2022-23; $610,000 General Fund in 2023-24; $760,000 General Fund and one permanent position in 2024-25; and $749,000 General Fund in 2025-26 and ongoing for the Franchise Tax Board. This will allow the Economical and Statistical Research Bureau (ESRB) to manage the increasing workload due to the volume of bills with a Revenue and Taxation Code (R&TC) Section 41 reporting requirement. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

0860 BOARD OF EQUALIZATION

7330 FRANCHISE TAX BOARD

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION

Issue 5: Removal of Provision 1 – Position Control

Request. The Governor's budget includes the elimination of provisional language from the budget act items from the Board of Equalization, the Franchise Tax Board, and the Department of Tax and Fee Administration that required notification to the Joint Legislative Budget Committee if specified positions were redirected from their intended purposes. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Reject proposal. Staff continues to feel there is merit in keeping Provision 1 in place.

0959 CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Issue 6: Bond Allocation Program Workload

Request. The Governor's budget requests $1,036,000 for six permanent positions: 5 AGPAs and 1 SSM I Specialist for FY 2022-23 and ongoing to accommodate workload for the California Debt Limit Allocation Committee (CDLAC) and its support areas. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

0968 CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Issue 7: Development and Compliance Sections Workload Increase

Request. The Governor's budget requests an increase for the California Tax Credit Allocation Committee (CTCAC) of $1,423,000 for fiscal year 2022-23 and ongoing to hire eight new staff members; six Associate Governmental Program Analyst (AGPA) positions, one Research Data Specialist I (RDS) position, and one Staff Services Manager (SSM I) (Supervisor) position to accommodate workload increases. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

0971 California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA)

Issue 8: CA Hub for Energy Efficiency Financing Pilot Programs Administration

Budget Request. The California Alternative Energy & Advanced Transportation Financing Authority (CAEATFA) requests additional reimbursement and expenditure authority in the amount of $27.4 million for FY 2022-23 and available through FY 2026-27 to (1) continue to appropriately carry out its functions as the administrator of the California Hub for Energy Efficiency Financing (CHEEF) programs on behalf of the California Public Utilities Commission (CPUC), and (2) allow for the incorporation of non-ratepayer funds to expand the reach of the programs. To support the continued administration, scaling and expansion of the CHEEF programs, CAEATFA requests authority to hire five (5) new permanent staff positions: One (1) Staff Services Manager I, three (3) Associate Governmental Program Analysts (AGPAs), and one (1) Office Technician (OT).

Background:

The CHEEF financing pilot programs were established to "test new and innovative strategies to help leverage ratepayer and private financing to assist in achieving energy efficiency goals. The CHEEF programs focus on attracting and leveraging private capital, given the challenge in meeting the State's energy efficiency goals using traditional approaches of IOU rebates and incentives. The CHEEF creates a centralized platform serving as an open-market infrastructure to encourage additional private capital investment for energy efficiency and demand response measures. To the extent the funding source allows, the CHEEF programs support the state's decarbonization goals by facilitating the adoption of heat pump technology for air and water heating in existing buildings, while also lowering costs and expanding access to capital for Californians.

The CHEEF programs are currently supported with investor-owned utility (IOU) ratepayer funds that are approved and authorized by the CPUC. This request aligns CAEATFA's reimbursement and expenditure authority with the CPUC's August 5, 2021 Decision 20-08-022, which grants up to $75.2 million in additional ratepayer funding to support the CHEEF programs through FY 2026-27 and beyond, and allows for the incorporation of non-ratepayer funds. To support the expansion of the CHEEF to non-IOU customers or for energy saving projects not related to an IOU fuel, CAEATFA is pursuing other sources of funds

Over the five-year period, CAEATFA will continue transitioning the residential program from a "pilot" to a full "program;" improve operations for programs to support scale; create a seamless statewide program to support customer investments for decarbonization; attract new and different types of private capital; and integrate with other programs, platforms and efforts.

Staff Recommendation. Approve as budgeted

Issue 9: Expanded Staff Resources for Administration of the Sales Tax Exclusion Program

Budget Request. The California Alternative Energy & Advanced Transportation Financing Authority (CAEATFA) requests limited-term expenditure authority of $315,000 to support two positions (a Staff Services Manager I - Specialist (SSM1) and Office Technician (OT)) beginning in fiscal year (FY) 2022-23 to continue the administration of the Sales Tax Exclusion (STE) program.

Background: The Sales Tax Exclusion (STE) Program is intended to promote the creation of California-based manufacturing, California-based jobs, advanced manufacturing, the reduction of greenhouse gases, or reductions in air and water pollution or energy consumption. The STE attracts and retains companies and economic activities in California that might otherwise locate or relocate to other states.

In 2010, the Sales and Use Tax Exclusion Program was established and authorized CAEATFA to grant a sales and use tax exclusion to eligible businesses that purchase equipment to design, produce, manufacture, or assemble Advanced Transportation Technologies or Alternative Source products, components, or systems until January 1, 2021. Future legislation expanded the STE Program to include Advanced Manufacturers and projects that process or utilize Recycled feedstock. The program was extended to January 1, 2026 and the criteria by which CAEATFA must evaluate applications was expanded to include the extent to which the project will result in the loss of permanent, full-time jobs in California, including the average and minimum wage for each classification of full-time employees proposed to be hired or not retained.

According to the BCP, the continued expansion of the program has led to a doubling of the applications received and processed, as well as of the compliance workload. As the program's eligibility pathways have expanded, the number and types of applications have correspondingly increased. Programmatic changes have also increased workload over the past few years and the due to the competitive nature of the Program, CAEATFA has established a competitive process for determining the order of review of applications, which requires an initial review of all applications received.

Given the current Program authorization until January 1, 2026, there remain at least four more years of workload growth, which cannot be timely and effectively executed by the existing number of staff.

Staff Recommendation. Approve April Finance Letter.

8885 COMMISSION ON STATE MANDATES

Issue 10: Election Mandates

Budget Request. The Governor's finance letter requests an increase of $5.791 million (one-time) and $5.943 million ongoing General Fund to reimburse cities and counties for the workload costs associated with complying with Elections Code Section 3010.

Background: Election Code Section 3010 requires local election official to provide pre-paid postage on identification envelopes delivered to voters with their vote-by-mail ballots for specified elections. The Commission on State Mandates found Elections Code Section 3010, as amended by Chapter 120, Statutes of 2018 (AB 216), imposes a reimbursable state-mandated program.

Staff Recommendation. Approve Spring Finance Letter.

9201 LOCAL GOVERNMENT FINANCING

Issue 11: Wildfire Property Tax Backfill

Budget Request. The Governor's finance letter requests an increase of $3,783,000 General Fund on a one-time basis to backfill Plumas County and El Dorado County for estimated 2021-22 and 2022-23 property tax revenue losses incurred as a result of the 2021 wildfires.

To receive funds appropriated in this item, each county shall submit to the Department of Finance a countywide claim detailing the losses incurred by the county and the cities and special districts located therein due to property damage caused by the wildfires in 2021. DOF will review and forward claims to the State Controller's Office.

Staff Recommendation. Staff notes this proposal is consistent with similar wildfire-related backfills in past budgets. Approve Spring Finance Letter.

ISSUES FOR DISCUSSION

0984 CALSAVERS RETIREMENT SAVERS BOARD

Issue 12: Fullscale Implementation of the Calsavers Retirement Savings Program.

Budget Request. The Governor's budget includes a General Fund loan of $6 million from 2022-23 through approximately 2024-25 to provide resources for the Board and the CalSavers Retirement Savings Program to continue to operate, including funding for existing staff, employer compliance enforcement services through the Franchise Tax Board (FTB), external consultants, and marketing, administrative, and overhead costs.

Background: The CalSavers Retirement Savings Program (CalSavers or Program) is overseen by the CalSavers Retirement Savings Board (Board) and provides a retirement savings program for private-sector workers who lack access to an employer-sponsored retirement savings plan.

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

Loan Funding and Revenue. This proposal requests an additional $6 million in loan funding beyond the initial $16,900,000 that has been drawn to-date (as shown in the table below).

Loan History

Transfer Date	Loan Amount	Repayment Due
11/22/16	$1,900,000	6/30/2024
09/06/17	$804,000	6/30/2024
06/04/18	$14,196,000	6/30/2024
TOTAL	**$16,900,000**	

Approximately $8 million of loan funding has been spent through June 30, 2021, with approximately $9 million fund balance remaining at the beginning of 2021-22. Expenditures are expected to be just under $2.6 million in 2021-22 and $5.1 million in 2022-23. Based on projected revenue, the Board is expected to ask for a postponement of the loan repayment date beyond June 30, 2024 in the future, in addition to new loan funding to support the ongoing rollout and scaling-up of the Program through this BCP.

CalSavers is also requesting Budget Bill language to allow for reassessment in the future should Wave 3 registration numbers meet the projection, and CalSavers and Finance determine that additional staff are needed at that time. CalSavers may need up to three additional full-time equivalent positions based on Wave 3 projections. Due to the structure and mechanics of the Program, Program growth is driven largely by employer deadlines. Employees may not enroll and begin saving until their employer has (1) registered, (2) uploaded their roster thereby enabling the Program to conduct the enrollment period, and (3) started facilitating payroll deductions and remitting contributions to the Program. Since more than 90 percent of employer volume is subject to the third and final compliance deadline on June 30, 2022, dramatic growth of employer onboarding activity, employee enrollment activity, funded accounts, and assets is expected in the summer and fall of 2022, along with increased needs for customer service, outreach, and education.

Staff Recommendation. Hold Open.

0840 California State Controller's Office

Issue 13: Unclaimed Property Management System Replacement

Budget Request. The State Controller's Office (SCO) requests $323,000 in 2022-23, $1,183,000 in 2023-24, $1,647,000 in 2024-25, $1,685,000 in 2025-26, and $1,724,000 in 2026-27 and ongoing from the Unclaimed Property Fund (UPF) to support the replacement of the current Unclaimed Property System (UPS2000) with a new unclaimed property management system (UPMS) and significantly decrease the risk of system failure.

Background:

In 2008, the Unclaimed Property Division (UPD) implemented the UPS2000 as the system to manage the unclaimed property the state receives from businesses, safeguards for owners, and returns to claimants. The UPS2000 and its related programs and websites are critical to UPD operations; they record all of the unclaimed property received by the state including details of when the property was reported and by which business, who the owner or owners are, when they were last in contact with the business, and how they are related to the property. UPS2000 records property types and values, claims made against each property and whether they have been paid, denied, or are still outstanding. The system is the data hub for all unclaimed property that is listed on the Controller's website, where owners and heirs can initiate their claims. Further, the version of UPS2000 used by UPD and its related systems are unique to California due to the two-report process outlined in the Unclaimed Property Law (UPL) (Code of Civil Procedure [CCP] Section 1500 et. seq.)

The UPS2000, and by extension the Controller's unclaimed property program, are at risk of failure due to the system's outdated, static platform and the service provider's inability to commit ongoing development resources. UPS2000 is 13 years old and is obsolete. The outdated system architecture does not allow UPD to keep pace with current advancements in technology from the past 10 years. The system structure of UPS2000 has a unique, one-off functionality that prevents the development of modern solutions.

The requested funding would allow for replacement of the system and provide for the following:

- **Reduce risk of critical system failure, increase confidence, stability, and longevity in the UPMS and ongoing program activity.** This request would allow for a cloud-based UPMS software service, which reduces dependency on architectural platforms because the components are supported across different environments that can be integrated and updated.
- **Increase holder compliance and remittance of unclaimed property.** With the online reporting feature of the new UPMS, holders will be able to submit a report online and the system will identify any errors and notify the holders in real time, allowing holders to make corrections immediately without staff involvement.
- **Reduce processing times for holder reports and claims from owners and increase reunited property.** The new UPMS and its ability to receive and house documents related to unclaimed property reports and claims will result in increased processing efficiencies.
- **Increase efficiencies in workflow processes across the Division.** The new UPMS will automate many manual processes including the processing of unclaimed property reports, recording and reconciling stock properties with broker statements, recording of mail and

email correspondence with holders and owners, and the managing, assigning, and tracking of staff workload.
- **Improve financial integrity and accountability**. The new UPMS will not only automatically reconcile remitted securities with brokerage statements but will also automatically post receipts for transactions.
- **Increase user experience in claiming and reporting property**. The new UPMS will provide holders and claimants the ability to submit required forms and documents electronically rather than through paper, email, or physical media, thereby making it easier for holders to comply with mandated responsibilities, and for owners to claim property.
- **Implement an automated fraud prevention system.** The new UPMS, will analyze claimant data and digital trails via external data sources to identify bad actors and fraudulent activity.

The SCO provides the following outline for project planning and implementation:

Consulting and Professional Services: External – $135,000 in 2022-23, and $90,000 in 2023-24 for independent verification and validation services for project and implementation plans. $208,000 in 2023-24 to support vendor costs for claim scanning workload.

Office Equipment – $3,000 in 2023-24 for two small volume document scanners to digitize incoming claims.

Information Technology –$188,000 in 2022-23 and $563,000 in 2023-24 for the procurement and implementation of a new unclaimed property management system, and $319,000 in 2023-24, $1,647,000 in 2024-25, $1,685,000 in 2025-26, $1,724,000 in 2026-27 and ongoing for continued support of the new system.

Implementation Plan:

October 2021 to January 2022: Complete Stages 1 and 2 of the Project Approval Lifetime (PAL) process by identifying the problem, conducting market research, determining solution alternatives, and determining mid-level requirements.

February 2022 to December 2022: Complete Stage 3 of the PAL process by developing business requirements, developing solicitation, and planning implementation.

January 2023 to February 2023: Complete Stage 4 of the PAL process and procure new unclaimed property management system.

March 2023 to April 2024: Migrate data and implement new system, procure document scanners and imaging vendor contract, and scan document inventory.

May 2024: Go live with new system.

Suggested Questions:

- Is the project on track with the implementation timeline provided in the BCP, with the SCO completing Stage 3 of the PAL process by December of 2022?

- How will the new system change the Unclaimed Property process for consumers, businesses, and the SCO?

Staff Recommendation. Hold Open.

Issue 14: California State Employees Telework and Healthcare Stipends

Budget Request. The State Controller's Office (SCO) requests $495,000 [$297,000 General Fund (GF); $198,000 Central Service Cost Recovery Fund (CSCRF)] in 2022-23 and $194,000 [$116,000 GF; $78,000 CSCRF] in 2023- 24 and ongoing to support the disbursement of the California State Employees Telework and Improving Affordability and Access to Healthcare stipends.

Background:

Telework Stipend. During the COVID-19 global pandemic, the Administration directed all non-essential telework eligible staff to transition to telework as a protective measure to limit the spread of the virus. The state deployed an emergency telework program (ETP) based on guidance from the California Department of Human Resources (CalHR) in order to reduce the number of employees at state buildings. Since the initial ETP, the state conducted multiple studies related to staff telework eligibility, and benefits and savings attributed to teleworking such as reduced vehicle expenses, time saved due to decreased commute times, and other pertinent sources of information. In 2021-22, the state began implementing a mostly permanent teleworking workforce, with an additional requirement that every state department incorporate telecommuting as a work option.

CalHR informed state departments and SCO of agreements reached with specified bargaining units (BUs) for a telework stipend and the requirements departments must meet to ensure timely payment of the stipend upon full ratification. SCO anticipates the statewide telework stipend upon ratification and legislative approval, will be retroactive to October 1, 2021. As of March 2022, six BUs have negotiated consistent telework stipend side letters. All active state employees who have a telework agreement on file and meet criteria to telework shall receive either a $25 (if office-centered employee) or $50 (if remote centered employee) stipend for each eligible pay period. Based on the initial analysis of the telework stipend and the known population of state employees eligible to receive these payments, SCO anticipates issuing 200,000 direct deposit payments and 32,000 printed warrants in 2021-22 (1 retroactive payment and 3 payments for April, May and June) and 600,000 direct deposit payments and 96,000 printed warrants beginning in 2022-23.

Affordability and Access to Healthcare Pay Differential. In 2019, CalHR and SEIU Local 1000 ratified an MOU providing a healthcare stipend. Under this MOU, SEIU Local 1000 represented employees eligible to be enrolled in a CalPERS health plan receive a monthly cash payment of $260. This payment will be provided for 36 months commencing with the July 1, 2020 pay period, expiring the June 30, 2023 pay period. This letter was revised, effective, July 1, 2022, and provides that anyone enrolled in state sponsored health benefits will still be eligible to receive the $260 cash payment; anyone not enrolled in state sponsored health benefits will not be eligible to receive the $260. This population may be eligible to enroll in a flex cash program during a special open enrollment period. Further, Excluded and Exempt employees aligned with SEIU BUs are also receiving this monthly additional cash payment.

In 2020-21, SCO issued a monthly average of more than 109,000 new healthcare payments. While the update to the side letter will reduce the number of monthly payments related to the Healthcare payments for the final year of the program, SCO will continue to incur increased costs and therefore requires additional funding to process and disburse these payments.

The SCO notes that it does not have the resources to absorb increased costs related to the telework stipend and healthcare payments. Based on initial estimates, these workloads will result in SCO issuing an additional 1,786,000 (696,000 telework stipend and 1,090,000 healthcare payments) in 2022-23; and 696,000 telework stipend payments in 2023-24 ongoing. The estimated costs for this workload was calculated based on current eligible and actual telework percentages from DGS Telework Dashboard statistics as of February 2022. Proposed funding would cover direct deposit electronic funds transfer service fees, operating expenses, as well as printing and postage costs associated with printing and mailing warrants.

Staff Recommendation. Hold Open.

0509 Governor's Office of Business and Economic Development (GO-Biz) - IBank

0974 California Pollution Control Financing Authority

Issue 15: State Small Business Credit Initiative Update – Information Only

The IBank and the California Pollution Control Financing Authority will provide an update on the federal State Small Business Credit Initiative 2.0. According to the IBank and the California Pollution Control Financing Authority:

The American Rescue Plan Act of 2021 included $10 billion for the reauthorization of the State Small Business Credit Initiative (SSBCI 2.0). SSBCI was originally created through federal legislation, the Small Business Jobs Act of 2010 (SSBCI 1.0).

In 2010, SSBCI was funded with $1.5 billion to strengthen state programs that support financing of small businesses. California received $168 million of the $1.5 billion and the Infrastructure and Economic Development Bank (IBank) and the California Pollution Control Financing Authority (CPCFA) – an agency housed within the State Treasurer's Office (STO) split the funding equally between the two agencies. The allocation was utilized to assist small businesses gain access to capital and create jobs in California. More than 10,000 eligible small businesses in California received SSBCI fund support, which created or saved more than 90,000 jobs.

The $10 billion from the American Rescue Plan Act of 2021 was appropriated as follows:

- $5 billion available to states to be distributed by formula based on 2020 unemployment numbers (prorated funds)
- $1.5 billion for socially and economically disadvantaged businesses based on population residing in CDFI Investment Areas (SEDI funds)
- $1 billion incentive program to encourage investment in socially and economically disadvantaged businesses, to be allocated based on performance in tranches two and/or three (SEDI performance funds)
- $500 million for very small businesses (funds for small businesses with under 10 employees)
- $500 million for technical assistance such as legal, accounting, and financial advisory services for small businesses (technical assistance funds)
- $500 million for tribal governments (tribal funds)
- $1 billion to be retained by the U.S. Treasury for operations and to fill out other allocations as needed.

In November 2021, the U.S. Treasury released a state-by-state allocation of the $10 billion appropriated, except the technical assistance funds, and California was allocated $1.182 billion. California's allocations are as follows: $829 million pro-rated funds, $66 million very small businesses funds, $187 million SEDI funds, and $100 million SEDI performance funds, which will be received in three separate tranches as funds are utilized. The SEDI performance funds will be provided to states in tranches two and three and additional funds ($100 million nationally per tranche) may be available based on performance reaching the socially and economically disadvantaged individuals.

The technical assistance funds will be distributed in a separate application process, which is due March 31, 2022. CalOSBA and/or STO may be best positioned to apply for those funds. The tribal funds are being provided directly to the tribes that choose to participate.

Updated Funding: taff notes that in conversations with IBank, they are anticipating funding amounts for the program may be subject to further change. Congress has proposed cutting $2.3 billion from SSBCI 2.0: Reducing the main credit support allocation by $2.1 billion ($6.3 billion to $4.2 billion, effectively eliminating the third tranche and maybe some of the second) and reducing the technical assistance funds from $500 million to $300 million. This may lead to reductions and adjustments in the use of the funds as described below:

IBank and CPCFA have been meeting bi-weekly to prepare to put the new funding to work. The initial priority is to determine how much both IBank's and CPCFA's existing small business credit enhancement programs (Small Business Loan Guarantee Program, California Capital Access Program [CalCAP] for Small Business, and Collateral Support Program) need and can be utilized by California's small businesses. SSBCI 1.0 authorized two other programs (Venture Capital and Loan Participation) that California did not use the first time around. Both programs are currently under consideration for SSBCI 2.0 funds.

IBank and CPCFA have also been meeting with stakeholders to see what other needs may be addressed with the SSBCI funds. IBank and CPCFA have also participated in and requested feedback from many other events where SSBCI was publicized. IBank and CPCFA have each established dedicated SSBCI webpages and email addresses to keep the public informed and receive questions and comments. From the feedback received so far, some of the themes that have emerged are:

- Better target underserved markets
- Provide further enhancements to encourage growth in underserved markets.
- Increase loan capital for Community Development Financial Institutions (CDFIs)
- Increase capacity and reduce administrative burden of our existing programs (e.g., increase guarantee cap for the Small Business Loan Guarantee Program, remove recapture rules and increase the matching contributions for CalCAP loans)
- Provide less cashflow-intensive capital options for small business, like equity or revenue-based financing

To receive SSBCI funds, a state match is not required. However, there must be at least a dollar-for-dollar match from the private sector and there is a cumulative leverage requirement of 10-to-1 between all SSBCI programs (i.e., $10 private sector: $1 SSBCI) over the life of the program, which is the same as the original program. That will be achieved by creating additional financing programs that generate private sector participation.

The programs that IBank and the CPCFA are intending to fund are as follows:

Small Business Loan Guarantee Program. The Small Business Loan Guarantee program was established in 1968 and was a recipient of SSBCI 1.0 funds. The program increases access to capital for small businesses by providing guarantees (effectively insurance) to bank loans in cases where banks might not otherwise make a loan, or only at a higher interest rate.

California Capital Access Program for Small Business. The California Capital Access Program (CalCAP) for Small Business was established by legislation enacted in AB 253 (Chapter 1163, Statutes of 1994) and was created to be administered by CPCFA. CalCAP assists small businesses in obtaining loans through participating financial institutions (lenders). CalCAP is a loan loss reserve program that may provide up to 100% reimbursement on losses as a result of qualifying loan defaults. While each lender is entirely liable for its loan losses, those losses can be reimbursed from each lender's loan loss reserve account. The loss reserve accounts are built through fees paid by the borrower and lender and contributions made by CPCFA.

California Collateral Support Program. The CalCAP Collateral Support Program (CalCAP CSP) is a credit enhancement program that pledges cash to cover the collateral shortfall of loans of $50,000 or more made by participating lending institutions. CalCAP CSP was designed to enable financing that might otherwise not occur due to a collateral shortfall for small businesses in California.

Venture Capital. With this new authorization of SSBCI, California plans to establish a Venture Capital program focused on:

1. Supporting demographically underrepresented venture capital managers
2. Investing in underrepresented and underserved entrepreneurs and business owners
3. Investing in geographic areas that are socio-economically disadvantaged or that receive very limited venture capital funding
4. Seeking to promote climate equity and climate justice

LAO Comments:

In their handout, the LAO notes the following key issues to consider:

Improving Access to Credit for Businesses That Would Otherwise Have Difficulty Could Conflict With Leverage Goals. Small business lending programs to specifically aid businesses that have difficulty borrowing money without insurance or public guarantees often have leverage ratios that are below the 10:1 goal of the SSBCI program. As the real or perceived risk of a borrower increases, the amount that must be obligated by the public agency increases. For example, the state COVID-19 disaster relief loan program requires SBFC to encumber $1 for every $2 loaned. The SSBCI programs may need to allocate funding to programs that have both high and low leverage ratios. However, programs with high leverage ratios may in some instances benefit businesses that might not require aid.

Expending Funding Quickly Could Conflict With Both SEDI and Leverage Goals. Programs with a relatively high leverage ratio, like CalCAP, may expend funds more slowly because, for a given amount of private investment, programs with a high leverage ratio require less public funding than programs with a low leverage ratio. Funds could be more quickly expended if they are used to support larger loans or venture capital investments. However, these types of programs may not serve SEDI-owned businesses as well as other programs. To meet the federal government's expectations that the state expends 80 percent of the first tranche of SSBCI funding as quickly as possible, the state may want to consider ways to expand support for both large and small loans simultaneously.

Consider Tolerance for Risk. The default rates in the existing state programs have historically been somewhat lower than for the SBA loan programs. However, as the influx of SSBCI funding will require these programs to expand, they likely will support lending to higher-risk borrowers who may default on their loans at higher rates. The Legislature will need to consider its tolerance for higher default rates. Ultimately, to the extent the expansion focuses on improving access to credit for borrowers who otherwise would have difficulty qualifying for a loan, somewhat higher default rates are likely unavoidable.

Legislative Oversight. The state lending assistance programs will be subject to U.S. Treasury oversight through 2030. The Legislature may want to consider how its oversight and policy guidance of these programs relates to federal oversight during that time. In addition, the Legislature may also want to look ahead to 2030 and how funds that are made available following the repayment of loans are redeployed and what level of ongoing General Fund support, if any, would be required.

Staff Recommendation. Information Only

0950 STATE TREASURERS OFFICE

Issue 16: Banking Operations Item Processing Software Upgrade

Budget Request: The State Treasurer's Office (STO) requests expenditure authority, and corresponding funding, for one-time costs of $625,000 to upgrade its check processing software; and ongoing costs of $217,000 for increased annual support costs for this software. On December 31, 2022, the software used by the STO will reach end of life; and accordingly, the vendor will end its support. Thus, it is critical that the STO upgrades to the current, supportable version to ensure that it can continue to perform its responsibilities of cash management without interruption.

Background:

On December 31, 2022, the software used by the STO will reach end of life; and accordingly, the vendor will end its support. Thus, it is critical that the STO upgrades to the current, supportable version to ensure that it can continue to perform its responsibilities of cash management, specifically item processing, for the State of California without interruption. On December 31, 2022, the software used by the STO will reach end of life; and accordingly, the vendor will end its support. Thus, it is critical that the STO upgrades to the current, supportable version to ensure that it can continue to perform its responsibilities of cash management without interruption.

The cost of this software upgrade and ongoing maintenance would be appropriately funded through the following sources: CTSMD manages the cash flow of all state funds, forecasts cash balances, revenue, expenditures, and the amounts available for daily investments, ensures accurate and timely agency deposits, administers and executes the wire transfer of funds, reconciles State accounts with depository banks and redeems all state items submitted by presenting banks for payments. CTSMD is also responsible for executing the clearance and income collection for state investments (excluding PERS and STRS) and securities pledged to the state, the clearance and settlement of securities pledged to the state for the Time, Demand, and other state agency programs, and for the safekeeping of securities and other personal property owned by or pledged to the state. CTSMD consists of the Division Administration, Securities and Banking Services, and Banking Operations. As part of Banking Operations, the Item Processing Section (IPS) is responsible for redeeming all items presented by banks for payment (about 94,000 items daily), for handling forgeries, and managing Stop Payments.

The STO performed analysis and conducted research to determine the best way to respond to the end-of-life for its item processing system software. As a part of that analysis, the STO released a Request for Information (RFI) in 2021. Two software solution providers responded to the RFI. One respondent provides the product that the STO is now using. The other respondent offered a competing product. Implementing the first respondent's offering would involve an upgrade of the software product that is now in use by the STO. Implementing the second respondent's offering would involve a project to migrate the functionally from the current software solution to a new one. It would also require the STO to reengineer any business process that are dependent upon the present software solution. According to the RFI responses, the first vendor would charge the STO $625,000 to upgrade the current version of the STO's existing package. The provider of the other solution estimated that it would charge the STO a $1.1 million startup cost. Although the estimated migration cost is already almost twice that of the cost to maintain the current vendor, that number does not include additional project costs that the STO would expend in migrating to the new product.

Staff Recommendation: Hold Open

Issue 17: Pooled Money Investment Account (PMIA) Operations

Budget Request: Through a spring finance letter, the STO requests one Associate Treasury Program Officer to support the workload associated with the increase in the amount of securities held in the PMIA. Funding would be $136,500 (Surplus Money Investment Fund) and $19,500 (General Fund).

Background: The Investment Division invests temporarily idle funds of the PMIA as part of the Centralized Treasury System. The PMIA is made up of commingled monies from the General Fund, Surplus Money Investment Fund (SMIF), and the Local Agency Investment Fund (LAIF). SMIF represents the available cash from state agencies that do not have investment authority of their own and from those that have independent investment authority but choose to participate in the program. As of June 30, 2021, there were more than a thousand special funds and accounts participating in SMIF with an available resource balance of $85.5 billion. LAIF was established to provide California cities, counties, and special districts with an investment alternative.

As of June 30, 2021, the LAIF balance was $37.1 billion with over 2,378 participating agencies. The PMIA also manages the Time Deposit Program (TDP) which provides money to community financial institutions at competitive rates. Eligible institutions are commercial banks, savings banks, and credit unions that are federally insured and licensed to accept time deposits in California. The TDP allows institutions that receive time deposit funds to use the money to expand economic opportunity and create jobs in their communities. As of June 30, 2021, there were 147 time deposits totaling $3.9 billion in 59 institutions.

The goal of the Investment Division is to prudently manage and safely invest the State's idle or surplus monies to maximize the earnings and to meet the cash flow needs of the State. There is a high degree of visibility and sensitivity regarding the investment of public funds and the subsequent outcome of these investments. As of June 30, 2021, the PMIA totaled $193.3 billion with daily investment activity for the month averaging $3.584 billion.

Workload History

Workload Measure	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	% Increase (6/30/2017-6/30/2021)
Portfolio (PMIA) Balance	$77.6 billion	$88.8 billion	$105.7 billion	$101.0 billion	$193.3 billion	**149.25%**
	FY 2016/17	**FY 2017/18**	**FY 2018/19**	**FY 2019/20**	**FY 2020/21**	**(FY 2016/17 – 2020/21)**
Number of Security Transactions	7,321	8,201	8,364	8,687	10,653	**45.51%**

The PMIA currently consists of five positions: Treasury Program Manager II, Treasury Program Manager I, Associate Treasury Program Officer, Staff Services Analyst, and an Office Technician (OT).

Staff Recommendation: Hold Open

7730 FRANCHISE TAX BOARD

Issue 18: Legal Workload Growth

Budget. The Franchise Tax Board (FTB) requests $4.64 million (General Fund) for 16 permanent positions, 10 position upgrades, and unfunded needs for staff salaries in 2022-23; $4.49 million in 2023-24 and ongoing to address increased volume and complexity in tax appeal, protest, and litigation workloads.

Background:

FTB's Legal Division is organized into four Subject Matter Bureaus: General Tax and Administration, Technical Resources, Multistate and Business Entity, and Litigation and Settlement. The Legal Division represents FTB in appeals before the Office of Tax Appeals (OTA) and administers FTB's Docketed Protest program. Taxpayers have statutory rights to file protests of proposed assessments issued by FTB's Audit Division and to file appeals of disputed determinations of taxes to the OTA. Appeals and protests are mandatory workloads for the Legal Division. Increased Workloads. Since OTA's inception, FTB has received a more than 50 percent increase in the number of income tax appeals; this increase is expected to continue. In January of 2021, FTB, at OTA's request, adopted a new procedure simplifying the filing of an appeal that has also increased FTB's workloads resulting in insufficient staffing levels to manage the appeals inventory. To address the work associated with the increase in appeals in OTA, FTB requests:

Tax Administration and Procedure Bureau:

- Assistant Chief Counsel -One permanent position
- Tax Counsel IV - Two permanent position
- Tax Counsel III - Three permanent positions
- Tax Counsel -Three permanent positions
- Legal Analyst - One permanent position

General Tax Bureau:

- Tax Counsel III – Two permanent position

Enhanced Complexity. There is increasing complexity in matters pending before the OTA and matters in docketed protest. Additionally, novel constitutional arguments and class action lawsuits brought against the FTB in California Superior Court, Federal Court, and other-state courts, have caused additional complexities. As a result, the Legal Division needs higher level attorney positions to preserve taxpayers' rights to a timely appeal and to address developing and complex issues with appropriately experienced staff. FTB would note the following technical issues showing increased complexity:

Multistate Tax Bureau:

- Tax Counsel IV – One upgraded position
- Tax Counsel III – One upgraded position

Business Entity Tax Bureau:

- Tax Council IV – One upgraded position Litigation Bureau
- Tax Counsel IV – One upgraded position General Tax Bureau
- Tax Counsel IV – One upgraded position
- Tax Counsel III – One upgraded position

Technical Resources Bureau:

- Tax Counsel IV – One upgraded position

Tax Administration and Procedure Bureau:

- Tax Counsel IV – One upgraded position
- Tax Counsel III – Two upgraded positions

Insufficient Salary Funding. FTB’s legal division is predominantly composed of staff who have a number of years of state service and are paid at the highest salary level for their classification. Over the last several years, to balance salary costs with the budget, the division has kept vacancies open longer than the three month hiring period to ensure all salaries for existing staff are covered within the existing budget. FTB reviewed the salaries paid to legal staff and compared this to the budgeted funds to cover these salaries. FTB found these positions are funded at first or mid step, but many of the staff in the positions are paid at the top step creating an ongoing unsustainable funding gap.

Staff Comments: The staffing request appears reasonable given the increased workload and need for additional position funding for higher steps.

Staff Recommendation: Hold Open.

Issue 19: Volunteer Income Tax Assistance Program

Budget Request. FTB requests a one-time augmentation of $1,217,000 million (General Fund) in 2022-23 to extend five limited term positions set to expire on June 30, 2022 and allow reimbursement of costs incurred by the Department of Community Services Development (CSD) for administering the California Earned Income Tax Credit (CalEITC) grants. The resources will allow FTB to administer the Voluntary Income Tax Assistance (VITA) program at expanded levels in order to support the 2022-23 grant funding appropriated to increase free tax preparation, and to expand marketing and outreach of CalEITC, the Young Child Tax Credit, and Individual Taxpayer Identification Number (ITIN) tax status eligibility.

Background:

The VITA volunteer program provides free assistance to individuals who need help in completing federal and state income tax returns. Since 2018-19, one-time grant funds have been appropriated to support the efforts of community-based organizations and nonprofits to maximize program participation for both the federal EITC and CalEITC claims. The grant funding also seeks to expand free tax preparation sites and services throughout California. As a result, FTB has enhanced the VITA program to support the additional volunteers and VITA sites funded by the grants. FTB has entered into an Interagency Agreement (IA) with the Department of Community Services and Development (CSD) to issue and manage the grants awarded to various nonprofit and community based organizations. The IA includes fees for administering the grants and FTB is responsible for reimbursing CSD for these costs. In 2021-22, FTB received funding for both of these costs – staff resources, and funding to cover administrative costs for CSD. In other years, FTB was able to redirect some resources to cover these costs but FTB is unable to continuing absorbing these costs without impacting other workloads.

The proposed budget for 2022-23 includes $10,000,000 in one time funds for grants to support CalEITC for education and outreach, free tax preparation services, and ITIN assistance. The extension of these five limited term positions and the funding to cover CSD's administrative costs will allow FTB to continue to support sites through additional trainings and technical support, consistent with the intent of the grant.

Suggested Questions:

- Does the January budget and this April letter include all funding needed for FTB to implement their workload related to EITC and YCTC changes?

Staff Recommendation: Hold Open

VARIOUS DEPARTMENTS

Issue 20: Putting Wealth to Work Tax Proposals – Information Only

Proposal:

The Senate Democrats "Putting Wealth to Work" Plan includes the following priority proposals related to tax programs, including:

- Updating the Earned Income Tax Credit Program (EITC) to provide a minimum credit of $255 per eligible individual taxpayer, estimated at $400 million ongoing General Fund and beginning in 2024, restrict the application of the state's debt intercept program to EITC recipients.

- Build upon the Governor's January proposals and provide an additional $20 million (for a total of $30 million ongoing) to increase CalEITC Outreach and Education, provide year round funding to support free tax preparation services and Volunteer Income Tax Assistance (VITA) program, and related administrative support.

- The plan also includes proposals to phase in expansions of the Young Child Tax Credit (YCTC) and the Renter's Tax Credit, increasing benefits to those eligible for these existing credits. Staff notes that the cost and phase-in period would be dependent on the structure of the final budget agreement.

- Amend the Governor's proposal to provide tax payment flexibility to low and moderate income taxpayers during COVID to ensure relief is available for those who are working with the FTB to settle debt or work out payment plans for late taxes during the COVID pandemic period, and to create an ongoing first-time abatement program for personal income tax filers.

Background:

EITC Changes:

The California EITC is a state personal income tax provision that benefits individuals and families who earn less than $30,000. The amount of the credit depends on taxpayers "earned income" (which primarily includes wages and self-employment income), filing status, and the number of qualifying dependent children.

According to the California Budget & Policy Center, about half of workers without children in the home receive a CalEITC of less than $100 with a minimum credit of $1, and the majority of these workers are excluded from the federal EITC. More than 100,000 families with children also receive a CalEITC of less than $100.

Establishing a minimum credit of at least $255 would provide a more meaningful credit to families and ensure workers without children receive a more equitable credit ($255 is the maximum credit for workers without dependents in tax year 2021, but only a small number of these workers will qualify for a credit this large.) A more significant credit could encourage more people to file their taxes, boosting CalEITC take up overall, regardless of how they prepare their taxes. It would also support outreach and enrollment efforts from community-based organizations and reduce the administrative burden in calculating the credit to allow for greater innovation in simplifying the filing process.

EITC Outreach and Free Tax Preparation

Currently, the EITC Outreach program funds grantees who provide Volunteer Income Tax Assistance (VITA) for only seven months out of the year. This creates major funding and programmatic challenges for the community based organizations (CBOs) who do this work, many of whom do not have gap funding available to keep staff and maintain service levels for low-income tax filers.

Providing year-round services matches the IRS cycle for federal VITA grants and will ensure trusted messengers at the local level are engaging in education and providing resources whenever they are needed. An annual grant cycle would also allow CBOs more time to better strategize around the upcoming tax season, properly recruit and retain volunteers, use data mindfully, retain year-round staff and maintain their connection to the community.

Young Child Tax Credit.

The California YCTC provides a refundable young child tax credit not to exceed $1,000 per qualified taxpayer per taxable year. The Senate's proposal would increase the amount of the renter's credit over time to $1,500 per qualified taxpayer per taxable year.

Renter's Credit.

The state's Personal Income Tax law allows eligible taxpayers who rent their principal residence to claim the Renter's Tax Credit on their Personal Income Tax Return. Specifically, because renters do not directly benefit from property tax reductions, the Legislature enacted the credit to provide a direct benefit to renters.

State law requires an annual inflation adjustment of the credit's AGI limitations, but does not annually increase the credit amount for inflation, which has remained at its current amount since 1979. The credit is nonrefundable, which means that the credit can reduce a taxpayer's tax liability to zero, but it cannot result in a refund.

For the 2021 taxable year, the credit is equal to:

- $60 for filers that are single or married filing separately with an adjusted gross income (AGI) of $43,533 or less; and
- $120 for filers that are married filing jointly, head of household, or a qualified widow(er) with an AGI of $87,066 or less.

The Senate's proposal would increase the amount of the renter's credit over time to $1,000 for spouses filing joint returns, head of household, and surviving spouse filers, and to $500 for all other tax filers, increase the amount of the renter's credit annually for inflation, and make the credit refundable.

Tax Payment Relief.

The Governor's budget provides additional flexibility for certain taxpayers in meeting tax obligations, specifically, for tax years 2019, 2020, and 2021, families with less than $150,000 in adjusted gross income ($75,000 for individuals) will be given until September 30, 2023 to pay any personal income tax liability for those years and will be relieved of any penalties and interest related to delayed filing or delayed payment. Participating taxpayers would be allowed to make installment payments. Late penalties and interest would again apply to outstanding amounts, if any, at the end of the program. The Subcommittee heard this proposal on February 2, 2022, however trailer bill language was not available at that time.

The Senate's proposal would amend the Governor's proposal to allow the FTB flexibility to provide relief through the collections process for low and moderate income tax filers who can demonstrate they were negatively impacted by COVID. In addition, an ongoing first time abatement program would be established for personal income taxpayers that pay their taxes late. Eligible taxpayers (those who have previously paid on time or are in a payment program) would receive a one-time abatement of the timeliness penalties.

Staff Recommendation: Information Only

Issue 21: Putting Wealth to Work – Supporting Children in Foster Care and Those Impacted by COVID.

Proposal:

The Senate Democrats "Putting Wealth to Work" Plan includes the following priority proposal to support children in long-term foster care and those who lost parents or caregivers due to COVID:

The HOPE Account Program would be established in and administered by the State Treasurer, to provide eligible children with a state funded trust account.

The program would provide a deposit into the trust account of $4,000 for children under 10 years of age and $8,000 for children 10 years of age or older.

The bill defines "eligible children" as a minor resident of California who is under the age of 18 and meets one either of the following:

- Their parent or guardian died and the cause of death for the parent or guardian is listed as COVID-19 on their death certificate or they die as a consequence of having long-term COVID-19 and the minor's family household income (considering the income prior to death of the parent) is at or below the income that would make the child eligible for Medi-Cal benefits or the state medium income for the previous year, whichever is more.

- Has been adjudged a dependent child of the juvenile court, pursuant to existing law under Welfare and Institutions Code, who has:
    - Been subject to a foster care order and;
    - has been in foster care for at least 12 months;
    - that the court has determined is not likely to be able to return to the home of their parent or legal guardian, and;
    - that the court has made an order for adoption, tribal customary adoption, legal guardianship, placement with a fit and willing relative, or another planned permanent living arrangement.

A HOPE Account Program enrollee would be able to withdraw or transfer funds from their HOPE trust account on or after their 18th birthday, or for non-minor dependents, on and after their 21st birthday or upon exit from foster care if prior to 21 years of age.

Staff Comments: This proposal would be a start to providing an opportunity for low-income children, with limited family support to achieve some additional financial stability as they age into adulthood. While the program could be expanded to a larger pool of low-income children in future years, the proposal is to take the first step focusing on children in the foster system and low-income children impacted by the loss of a parent due to the COVID-19 pandemic.

Staff Recommendation: Information Only

0509 Governor's Office of Business and Economic Development (GO-Biz)

Issue 22: Local Government Budget Sustainability Fund

Budget. The Governor's budget provides statutory changes to establish the Local Government Budget Sustainability Fund to provide short-term grants to local entities facing significant challenges to their near-term sustainability, but demonstrate a clear commitment to advancing a more climate-resilient local economy. This request also includes $100 million General Fund in 2023-24, $100 million in 2024-25, and $250 million in 2025-26 to support this program.

Background. According to the BCP, the overall policy goal for the Local Government Budget Sustainability Fund is to support targeted local county governments facing future and current threats to the sustainability of their local revenues and services, while empowering these counties to pursue economic diversification initiatives and projects that will provide long-term stability. These grants will inject funds into county-led projects that are aimed at process improvement, economic diversification, climate technologies, economic development, job mobility, and job creation. As these economies grapple with the impacts of COVID-19 and climate change, these grants will offer flexibility to the qualified counties enabling investment in opportunities for future economic resilience, without the need to reduce necessary allocations for vital services.

GO-Biz requests statutory changes to establish the Local Government Budget Sustainability Fund to provide grants to counties that both are facing sustainability challenges and are committed and willing to advancing a more climate-resilient local economy. GO-Biz also requests $100 million General Fund in 2023-24, $100 million in 2024-25, and $250 million in 2025-26 for this program. Counties will be selected based on Designated Geographic Areas (DGA) inclusive of High Poverty and High Unemployment counties from January 2022 California Competes Tax Credit list of High-Poverty and High Unemployment Areas listing and all subsequent changes to the DGAs under future CalCompetes application periods until funds have been exhausted.

This proposal was previously heard in subcommittee on February 9, 2022, however Trailer Bill Language for this proposal was not released until February 24, 2022. The trailer bill describes the grant as intended in the following way:

"This article is intended to focus on providing short-term support for county government services in areas of the state facing high unemployment or high poverty that demonstrate a commitment to advancing a more climate-resilient local economy and pursuing economic diversification initiatives and projects that will provide long-term budget stability. *Funds provided under this article are intended to enable county governments to pursue a range of projects that have the potential to diversify their industry presence and create high road jobs, while allowing for the unmitigated continuation of constituent services*."

The program would provide grants on a rolling basis to local entities. Go-Biz shall develop, in consultation with other state agencies and departments, as it sees fit, criteria for the selection of grant recipients, which shall include, but not be limited to, all of the following:

- Applicants shall be limited to county governments in high unemployment or high poverty areas. For purposes of this grant program, high unemployment and high poverty areas are defined as geographic areas with a poverty rate or geographic rate that is 150 percent of the California statewide poverty rate, per the most recently updated data available from the United States Census Bureau's American Community Survey 5-Year Estimates on or after January 1, 2022.

- Applicants shall explain current challenges to local revenue sustainability with the next four years, and specifically challenges that pose a risk to the ability of applicants to continue existing government services.

- Applicants shall explain how funding secured from this program will be used to support its ability to pursue projects that would advance one of the following three categories:

    - Process Improvement Projects

    - Economic Diversification and Stability Projects

    - Workforce Development Projects

Go-Biz shall report to the Legislature on an annual basis on the dollar amounts and number of grants provided to each local entity.

The office shall evaluate and prioritize grants, to the extent permissible under state and federal equal protection laws, in accordance with the following criteria:

- Assessment of proposal details
- Assessment of coalition-building capacity
- Other qualitative and quantitative measures determined by the specific project or grant application utilizing these funds for required match funding.

Eligible uses for grant funds shall include, but are not limited to:

- Staffing requirements, position classifications, and wages
- Projects Costs
- Match Funding

Legislative Analyst's Comments:

The 2021-22 Budget Act included $600 million one-time American Recovery Plan (ARP) Act fiscal relief funds to start a Community Economic Resilience Fund (CERF), a new grant program for regions to develop and implement regional plans to diversify their economies and develop sustainable industries, including zero-emission vehicle infrastructure, climate resilience, transit systems, biomass projects, offshore wind, and oil well capping and remediation. As of early February 2022, the Governor's Office of Planning and Research, the California Labor Workforce Development Agency, and GO-Biz still are developing the CERF. Proposed budget bill language in Control Section 11.96 would change the funding source for the CERF from federal ARP fiscal relief funds to General Fund.

The LAO notes that the Administration is still developing its statewide economic recovery and economic diversification framework, the Just Transition Roadmap, and the CERF. Once the Administration has more clearly articulated its economic recovery and economic diversification objectives, it may be able to better answer the following questions:

- <u>Would the Local Government Budget Sustainability Fund Complement Other State Economic Development Initiatives?</u> The proposal lacks many key details, such as what projects would be eligible and the award criteria. We cannot evaluate the merits of this proposal until we better understand the objectives of the CERF in the context of the statewide Just Transition framework.
- <u>What Amount of Funding Is Appropriate and Necessary?</u> The proposal does not provide a justification for the amount requested. The CERF was funded at $600 million. The proposed Local Government Budget Sustainability Fund, which is intended to fill gaps in the CERF, is a relatively large amount of money. With more information about the scope of the Administration's statewide economic diversification objectives, the Legislature will be able to better assess whether a total of $600 million, $1.05 billion, or some other amount is most appropriate.

Staff Comments:

Staff is concerned that the proposal provides broad discretion to Go-Biz to set project criteria and funding amount and the Legislature does not have a clear understanding of how projects would actually be selected, funded, and provided oversight. Staff is also concerned that the proposal does not seem to have a clear path to meeting the intent noted; while funds for projects may be needed, it is unclear that investment towards future economic improvements protect constituent services in the short term. Finally, Staff notes that funds are not appropriated until 2023-24, and given the need for additional clarity on the proposal, the Legislature may wish to ask for an updated proposal to be instead submitted in the next budget cycle.

Suggested Questions:

- Specifically, how does this proposal complement the CERF program?
- How did the Administration determine the amount of funding needed for this proposal? Why is the funding split - $100 m for the first two years and $250 million the last year?
- How much in grant funding would each local entity likely receive?
- How does the grant provide for the immediate needs of local governments in stabilizing revenue for local constituent services as noted in the intent language?
- What feedback has the Administration received from local government entities that may be eligible for these funds?
- Why did the Administration provide Go-Biz with broad discretion in setting grant criteria and funding amounts?
- What accountability measures are in place to ensure funds are used appropriately and projects are meeting their objectives?

Staff Recommendation: Hold Open

Issue 23: Combatting Organized Retail Theft

Budget Request. The Governor's budget requests $20 million one-time General Fund in 2022-23 for GO-Biz to develop and distribute grants to small businesses that have been the victim of retail theft or that have suffered damage caused during retail theft incidents. The $20 million is part of a larger request on combating organized retail theft. This Subcommittee will focus on the GO-Biz funding. This proposal was heard on February 9, 2022, however at that time trailer bill language describing the program was not available. Trailer bill language was released on April 25, 2022 on the Department of Finance Website.

The Trailer Bill provides the following details on the proposal:

To be eligible for the program, a small business must be:

1) A small business as defined:

a. A sole proprietor, independent contractor, 1099 employee, C-corporation, S-corporation, cooperative, limited liability company, partnership, or limited partnership, with an annual gross revenue of no greater than five million dollars ($5,000,000), but greater than five thousand dollars ($5,000), in their most recent taxable year

b. A registered 501(c)(3), 501(c)(6), or 501(c)(19) nonprofit entity with an annual gross revenue of no greater than five million dollars ($5,000,000), but greater than five thousand dollars ($5,000), in their most recent taxable year.

2) Experienced retail theft at their commercial property on or after January 1, 2022

3) Is currently active or operating or has a plan to reopen when repairs have been made to the applicant's business

4) Provide documents including business permit, state tax return, copy of filing with Secretary of State

5) Acceptable form of government-issued photo identification.

Defines retail theft to mean a crime or crimes in California that meets the following:

1) Robbery, as defined in Section 211 of the Penal Code

2) Arson, as defined in Section 451 of the Penal Code.

3) Burglary, as defined in Penal Code Section 459.

4) Shoplifting, as defined in Section 459.5 of the Penal Code.

5) Larceny, as defined in Section 484 of the Penal Code.

6) Grand theft, as defined in Section 487 of the Penal Code.

7) Petty theft, as defined in Section 488 of the Penal Code.

8) Vandalism, as defined in Section 594 of the Penal Code.

9) Trespassing, as defined in Section 602 of the Penal Code .

Provides that the retail theft was reported to law enforcement agency that accepted the report and either the law enforcement agency concluded the business was a victim of retail theft or an insurance claim concluded the business was a victim of retail theft. Results in cumulative physical losses of over $5,000. These losses would not include those covered by insurance.

Grants will be awarded on a first come, first serve basis as follows:

1) $5,000 for applicants with an annual gross revenue greater than $5,000 and up to $100,000 in their most recent taxable year

2) $15,000 for applicants with an annual gross revenue greater than $100,000 and up to $1,000,000 in their most recent taxable year.

3) $25,000 for applicants with an annual gross revenue greater than $1,000,000 and up to $5,000,000.

Of the total fifteen percent would be used for Administrative costs. According to CalOSBA and GoBiz, this allocation allows for three percent for staffing within the state agency, and the remaining twelve percent to contract with a vendor to do the complex work of verifying documentation as noted above.

Staff Comments:

Funding under this program would likely reach only a fraction of businesses, and the proposal is broad in its definition of business and does not limit the applicants to retail businesses, which in January appeared to be the focus of the proposal. In addition, the first-come, first serve nature of the grants may result in less of the funds reaching smaller, or less established businesses who may need the additional funding the most. Staff has concerns that this proposal raises a variety of questions that may need additional review on a very short time frame given the delay in receipt of proposal details. Staff also notes that CalOSBA would be seeking to contract out this program to a third party vendor. Staff notes that with the administrative costs, there would be $17 million available for grants.

Given that the grants are not tied specifically to damages and that this one time program would not necessarily result in an equitable distribution of funds, staff notes that the Legislature may wish to consider providing funds to one of the existing small business grant programs established for pandemic relief and provide for an additional round of grants or an increased allocation to current grantees.

Suggested Questions:

- What data does the Administration have on the need for these grants? How many businesses are anticipated being served with the $17 million? What is the Administration’s plan if the program is oversubscribed?

- How does this plan ensure that the small businesses with the greatest need for funds will receive fair access given the first-come first-serve nature of the grants and the paperwork required?

- Why is fifteen percent needed for Administrative costs?

- Why did the Administration design the program to provide grants based on gross revenues rather than actual damages related to incidents? Does this mean that a smaller business with greater damages could receive less than a larger business with small damages?

Staff Recommendation. Hold Open

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, May 11, 2022
9 a.m.
1020 O Street, Room 1200

Consultants: Anita Lee and Elisa Wynne

Part A

Vote Only Items

Discussion Items

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS PROPOSED FOR VOTE ONLY

0511 GOVERNMENT OPERATIONS AGENCY

Issue 1: Excluded Employees Trailer Bill Language

Summary. The Administration proposes trailer bill language to expand the definition of excluded employees to include employees of the Secretary of Government Operations within Government Operations Agency.

Background. The Administration notes that when Government Operations Agency was formed under the Governor's Reorganization Plan II it was agreed by the Governor's Office, Department of Finance and California Department of Human Resources that employees of the Office of the Secretary would be excluded from collective bargaining due to the access to policies being developed within GovOps and/or their control agency departments that impact all state employees. The Administration notes that for nearly a decade, CalHR had routinely designated all GovOps staff as such. However, recently due to staff turnover at CalHR some GovOps hires have not been classified in this historical manner. New CalHR staff point to statute where GovOps is not delineated along with the other state department employees who are deemed to be excluded from bargaining.

An excluded employee is excluded from the collective bargaining process. The most common type of excluded employees are managers and supervisors. However, non-managerial employees also can be excluded from collective bargaining. These types of employees often are designated as excluded because they are involved in management's process to establish its position at the bargaining table or to establish the budget.

Currently, the Office of the Secretary has 33 authorized positions. The Administration notes that this trailer bill would impact three employees at this time, who were recent hires that were classified as rank-and-file.

Staff Recommendation. Approve as proposed.

Issue 2: Government Excellence and Transformation Center Staffing

Summary. The Governor's budget includes four positions (Career Executive Assignment A, Staff Services Manager I, Research Data Specialist I, and Associated Governmental Program Analyst) and $665,000 General Fund in 2022-23 and ongoing to staff the Government Excellence and Transformation (GET) Center.

The GET Center seeks to accelerate the modernization of state operations by state departments to conduct pilots that could be scaled across state government for broad adoption. Additionally, the GET Center will establish a repository of best practices and case studies of successful operational innovations that measurably improve the state's operational effectiveness.

The Administration expects that once fully staffed, the GET Center will implement five scalable projects annually, issue three case studies highlighting lessons learned, and establish a website by 2023.

This item was heard in the subcommittee's March 2nd hearing.

Staff Recommendation. Approve as budgeted.

Issue 3: Workload Adjustments

Summary. The Governor's budget includes two positions and $435,000 ($170,000 General Fund and $265,000 reimbursements) in 2022-23 and ongoing to fund and manage existing workload associated with oversight and management of state government operations. The two positions are Statewide Privacy Officer and Assistant Secretary.

GovOps notes that there is a need for an individual that is dedicated within GovOps to coordinate emergency response activities amongst their control agency departments, track response efforts, report on fiscal impacts, and assisting with other department plans such as the Cradle-to-Career Data System and Office of Digital innovation.

GovOps also requests the establishment of a Statewide Privacy Officer to coordinate and oversee GovOps compliance with state and federal privacy laws, work with GovOps control agency departments to promote privacy of data, perform assessment and inventory of operations, and participate in special projects on an as-needed basis.

This item was heard in the subcommittee's March 2nd hearing.

Staff Recommendation. Approve as budgeted.

0840 California State Controller's Office

Issue 4: Unclaimed Property Management System Replacement

Budget Request. The State Controller's Office (SCO) requests $323,000 in 2022-23, $1,183,000 in 2023-24, $1,647,000 in 2024-25, $1,685,000 in 2025-26, and $1,724,000 in 2026-27 and ongoing from the Unclaimed Property Fund (UPF) to support the replacement of the current Unclaimed Property System (UPS2000) with a new unclaimed property management system (UPMS) and significantly decrease the risk of system failure. This item was previously heard in Subcommittee #4 on May 4, 2022.

Staff Recommendation: Approve Spring Finance Letter.

Issue 5: California State Employees Telework and Healthcare Stipends

Budget Request. The State Controller's Office (SCO) requests $495,000 [$297,000 General Fund (GF); $198,000 Central Service Cost Recovery Fund (CSCRF)] in 2022-23 and $194,000 [$116,000 GF; $78,000 CSCRF] in 2023- 24 and ongoing to support the disbursement of the California State Employees Telework and Improving Affordability and Access to Healthcare stipends. This item was previously heard in Subcommittee #4 on May 4, 2022.

Staff Recommendation: Approve Spring Finance Letter.

0950 STATE TREASURER

Issue 6: Pooled Money Investment Account (PMIA) Operations

Budget Request: Through a spring finance letter, the STO requests one Associate Treasury Program Officer to support the workload associated with the increase in the amount of securities held in the PMIA. Funding would be $136,500 (Surplus Money Investment Fund) and $19,500 (General Fund). This item was previously heard in Subcommittee #4 on May 4, 2022.

Staff Recommendation: Approve Spring Finance Letter.

0890 SECRETARY OF STATE

Issue 7: Augmentation of Rent Funding for the Secretary of State

Summary. The Secretary of State (SOS) requests an augmentation of $3.6 million ($1.9 million Business Fees Fund and $1.7 million General Fund) in 2022-23 and $4 million ($2.1 million Business Fees Fund and $1.9 million General Fund) annually thereafter to cover rental rate increases.

Background. Since 2014-15, the SOS has paid an average annual increase of four percent in expenditures for rent of the March Fong Eu Building while not receiving a budget augmentation.

Pursuant to the DGS Price Book and the projected 2022-23 rental rates for the March Fong Eu Building/SOS Headquarters, the deficit within the SOS rent authority will continue to increase at the annual rate of four percent and will create a $3.6 million deficit in the SOS' budget. To date, the SOS has absorbed these additional rental costs through a combination of deferred equipment purchases and savings generated by leaving positions vacant for one or more additional months.

However, the SOS is no longer able to absorb these costs as there are other facility operations costs which the SOS is absorbing above and beyond the increased rent of the Headquarters building. These costs include increased rent of the Southern California Regional Office location, unarmed Security for the Headquarters location, COVID-19 health screening services, as well as DGS and other statewide surcharges. The SOS has also experienced a large increase in the number and costs of Elections-related litigation

The amounts requested are only projected to cover costs through 2023-24. Based on the projected increases, however, the gap between allotments and invoice will once again begin from 2024-25 onward.

Staff Recommendation. Approve as budgeted.

Issue 8: Business Programs Division Processing Times

Summary. The SOS requests a continuation of spending authority for the resources needed to reach and maintain an average five business day or better turnaround/processing time for Business Filings and Statements of Information until California Business Connect is fully implemented.

Due to recent and ongoing automation and online improvements, the SOS has reduced the requested ongoing support from 56 positions to 47 positions, a 16 percent reduction. Therefore, the SOS is requesting one-time spending authority in 2022-23 in the amount of $5.3 million Business Fees Fund to support 47 positions, temporary help, and overtime. The Business Fees Fund is comprised of the filing and service fees that businesses pay to the Secretary of State for this service.

Background. The SOS maintains business records and provides information related to business filings of record to the public and/or other governmental agencies. The SOS processes over 150 different types of business filings, using more than 20 different software applications. In addition, the data for several types of these business filings continues to be recorded on 3” x 5” index cards. The SOS has business related responsibilities including, but not limited to (1) overseeing the creation of a new business, including filing of documents for formation, amendment, dissolution, mergers and conversions, (2) providing copies of business records to members of the public and other government agencies for taxing, licensing and other regulator purposes, (3) providing “Good Standing Certificates” on businesses, which allows business to open bank accounts, (4) registering trademarks, business bonds, domestic partners, among other responsibilities.

The California Business Connect is an information technology project that seeks to automate paper-based process, allowing business to file and request copies of records online, provide access to SOS business records allowing government agencies to perform functions in an efficient manner, and allow fee payments to be processed within one business day. While many processes already have been automated under the project, the project is not fully implemented, with filings related to business entities is the last module to be rolled out. The project is now expected to be fully implemented in 2022. The majority of all incoming business filing documents are submitted on paper accompanied by payments and are processed manually. The Administration notes that there may be backlogs with additional funds and personnel.

Prior to 2013-14, business filing documents took as much as 95 business days to process. In 2013-14, the SOS submitted a Finance Letter that was approved for 56 limited- term positions in 2013-14, 54 limited-term positions in the second and third years (2014-15 and 2015- 16) and additional temporary help and overtime. Additionally, the SOS also received $5.5 million to support the additional positions, temporary help and staff overtime in both 2016-17 and 2017-18 to maintain the 5-business day turnaround times.

Automation efforts outside of the project and increasing improvements to online services as parts of the project are implemented, has enabled SOS to reduce this request. Reductions for ongoing support decreased by 16 percent from the initial request, from 56 positions down to 47 positions. However, the COVID-19 Pandemic has negatively impacted SOS's ability to maintain acceptable processing times. SOS is once again struggling to process business entity paper documents in a timely manner. In 2020-21 and 2021-22, business entity documents took as long as 35 days to process. While statement of information documents took as long as 10 days to process. Additionally, in the last 3 years, the active businesses of record with the SOS has grown from 1,948,031 to 2,371,290, an increase of 22 percent. Although the pandemic has impacted the paper processing times, once the SOS is able to have more staff return back into the office, it is expected that the 47 positions are sufficient until CBC is fully implemented and stable.

Budget Request. SOS requests an extension of the spending authority ($5.3 million) for positions, temporary help and overtime for 2022-23 to allow the SOS to reach and maintain the average processing time of 5- business days or better for business filings and statements of information in the current manual paper process environment. Additionally, previously established positions in Information Technology, and Management Services, are needed to support the additional temporary staffing.

The projected outcome is to continue processing business filings at an average processing time of five-business days or better for business filings and statements of information, timely processing of requests for certificates and certified copies of business records and handling the increased public phone calls.

Staff Recommendation. Approve as budgeted.

Issue 9: California Business Connect

Summary. The SOS requests $8.1 million ($1.5 million Business Programs Modernization Fund and $6.6 million Business Fees Fund) in 2022-23 to complete the California Business Connect project including nine months of maintenance and support costs and three months of program costs. The total project cost for 2022-23 is $9.7 million of which $8.1 million is new spending authority and $1.6 million represents costs to be absorbed within existing resources.

Background. 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.

The CBC is a comprehensive technology solution that has increased online services for business filings and requests for information. CBC allows the SOS to process business documents virtually, instantly, in some cases, also within a few hours or days and avoids processing fluctuations that vacillate depending on the time of year.

Business Entities, including Limited Liability Companies, Limited Partnerships, and Corporations Filing online forms are addressed in the first module, the second module addressed Trademarks. Uniform Commercial Code (UCC) was addressed in the third module and the remaining Business Entities business services and infrastructure will be the fourth and final module. With successful completion of Modules 1 to 3, Module 4: Business Entities Features remains. The current Business Entities processes make it increasingly difficult to comply with current mandates and implement new legislative mandates. In addition, current processes are prone to human error. Without the CBC solution, Business Entities backlogs. Special Project Report #4 for the California Business Connect Project was approved in May 2020. SPR#4 allows the project team to focus on the largest annual volume of paper flings with development and implementation in modules, while also replacing outdated legacy systems.

The release of this new flagship Business Entity system is planned for March 29, 2022. Once deployed, Tecuity's SOS Enterprise Software will be the new system of record for Business Entities replacing the legacy mainframe databases. The estimated total project cost is $68.4 million.

Starting in the last quarter of 2021-22, the project will move into the maintenance and operation (M&O) phase. Immediately after deployment to production, the project team will stabilize the final Module 4 within a three-month warranty period. The M&O phase will continue for a full year after Module 4 has been deployed to production. During the M&O phase, the CBC Project Management Office will complete a Post Implementation Evaluation Report (PIER), which is scheduled for submission to the California Department of Technology in September of 2022.

Therefore, with the end of the M&O phase, March 29, 2023 will mark the closing of the CBC project and thus an end to CBC project funding. Between March 30, 2023 and June 30, 2023, this BCP will fund the bizfile program for the SOS until the PIER proposal is complete.

CBC Modules	Estimated Completion Date
Module 1: Online Business Filings (completed)	04/27/2020
Module 2: Trademark/Service Marks (completed)	10/312019
Module 3: UCC	07/15/2020
Module 4: Business Entities (LLC/LP & Corp)	3/29/2022
PIER	12/31/2022
Maintenance and Operations	3/29/2023

Budget Request. The Administration requests $8.1 million ($1.5 million Business Programs Modernization Fund and $6.6 million Business Fees Fund) in 2022-23 to proceed with the CBC

M&O activities. This request will support a contract for systems integration vendors, project management services, Independent Project Oversight, Independent Verification and Validation, Organizational Change Management, temporary help to backfill behind redirected staff, and other operating expenses related to the project. The consultants will also work with SOS staff on organizational change management planning.

It should also be noted that no additional positions will be requested; however, staff will be redirected and reclassified to higher levels to work on the project and to provide customer services and maintenance of the new system(s) once the project is implemented.

Staff Recommendation. Approve as budgeted.

Issue 10: Expanding Space and Resources to California's Historic Artifacts and Records

Summary. The Secretary of State requests $1,005,000 General Fund in 2022-23 and $645,000 annually thereafter to support two positions and to convert existing storage space and expand protective measures for historic records housed in the California State Archives.

Background. Since 1850, the State Archives, a division of the SOS, has collected, preserved, and provided access to California's historical public records and artifacts. . The State Archives' collections are stored at the SOS March Fong Eu Building in Sacramento. To preserve the collection, physical records in a variety of formats are stored in acid-free archival boxes on six floors of climate and humidity-controlled stacks. The State Archives have received an influx of physical and electronic artifact and records transfers and anticipates a high quantity of paper and electronic records being transferred within the next six months from the California Legislature and state agencies due to building transitions and closures. Current estimates include several thousand boxes of new records and artifacts being transferred to the State Archives prior to June 30, 2022.

The State Achieves has does not have the storage capacity, facilities or equipment to keep up with demand. For example, the current physical storage facility for records is approximately 85 percent full, with a combination of fixed shelving (unable to be moved) and mobile shelving (compact shelving that can be moved to accommodate more records). Additionally, the storage space and specialty storage for historic artwork and artifacts is approximately 85 percent full, with artifact storage at 69 percent capacity. At the collection's current growth rate, SOS anticipates the State Archive will run out of space within seven to 12 years. In 2021-22, SOS received one-time funding for bulk digitization, however, there is no dedicated ongoing funding for scanning paper records and physical items for public access. Digitization projects not only provide broader online access but may free up physical storage space with digital preservation copies of records. Additionally, The State Archives does not currently have a large freezer storage to prevent wet records that arrive to the State Archives damaged, from developing mold. SOS notes that they also have limited staffing to respond to public request levels, process increased quantities of records, scan records for remote access, and limited management staff. Limited funding is available to reclassify existing positions to address expanding higher-level workloads.

The Administration requests the following:

Item	Estimated Cost One-Time	Estimated Cost Ongoing
Shelving Conversion – convert fixed to mobile shelving, add new shelving and storage racks,	$150,000	N/A
Disaster Recovery Resources – freezer, mobile quarantine hub, preservation tools	$300,000	$150,000
Scanning Equipment	$50,000	N/A
Ongoing Digitization	$250,000	$250,000
Additional Positions – One Staff Services Manager II, one Associate Governmental Program Analyst, one Archivist II, and two Digital Composition Specialist Is	$255,000	$245,000
TOTAL	$1,005,000	$645,000

The two permanent positions will be responsible for the following:

- Staff Services Manager II: Oversee a first level manager that oversees the unit reviewing records retention schedules, as well as a new artifacts collection program unit, which includes the requested positions (Associate Governmental Program Analyst, Archivist II, and Digital Composition Specialist Is). This unit will oversee projects on collections care in ingesting artifacts. This position provides an additional manager to oversee first line managers and assist with strategic, workforce, and succession planning.

- Digital Composition Specialist I: Scan and digitize artifacts and records, format artifacts photo digitization and image stitching for online presentation, assist with virtual access, and provide imaging support for increased public requests and online access.

Staff Recommendation. Approve as budgeted.

Issue 11: Help America Vote Act Spending Plan

Summary. The SOS requests $3.7 million Federal Trust Fund in 2022-23 to continue implementation of the statewide mandates of the Help America Vote Act (HAVA) of 2002.

Background. The federal HAVA 2002 (P.L. 107-252) was enacted October 29, 2002. The Help America Vote Act (HAVA) of 2002 was passed by the United States Congress to make sweeping reforms to the nation's voting process. HAVA addresses improvements to voting systems and voter access that were identified following the 2000 election. Most recently, in 2021-22, the SOS was authorized to expend $22.735 million for voter education and training programs for election officials and poll workers, development and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, county assistance for improving voting systems, implementing risk limit auditing, ensuring election assistance for individuals with disabilities, and improving the secure administration of elections.

To date, California has received $459.8 million in federal funds to implement these mandates. Currently, including interest earned, total funds received equal $521.1 million. Since 2002, the SOS has used these funds for a variety of purposes, including replacement of county punch-card systems, voter outreach and education activities, poll monitoring, parallel monitoring, reimbursement to counties, grants to counties for voting assistance to individuals with disabilities, and other HAVA related activities.

Most recently, in 2021-22, the SOS was authorized to expend $22.735 million for voter education and training programs for election officials and poll workers, development and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, county assistance for improving voting systems, implementing risk limit auditing, ensuring election assistance for individuals with disabilities, and improving the secure administration of elections.

Budget Request. The Administration proposes to expend $3.73 million in federal funds for voter education and training programs for election officials and poll workers, development and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, county assistance for improving voting systems, ensuring election assistance for individuals with disabilities, election auditing, and improving the secure administration of elections.

This proposal is not intended to address existing state workload or improve state business workflow. Rather, it is a spending plan created by the SOS to utilize and/or distribute federal grant funds to underwrite the implementation of HAVA.

Staff Recommendation. Approve as budgeted.

Issue 12: Help America Vote Act Spending Plan - VoteCal

Summary. The Secretary of State requests $10.2 million Federal Trust Fund authority in 2022-23 to cover the procurement costs of a new maintenance and operations (M&O) vendor and data analysis, security assessment, Election Management Systems support and verification, data lines, security enhancements, and off-premises cloud costs for the statewide voter registration system, VoteCal.

Background. Help America Vote Act (HAVA) of 2002 (Public Law 107-22, 107th Congress) mandates that each state implement, maintain and administer at the state level, a uniform, centralized, interactive, computerized voter registration database. VoteCal serves as the state's single system for storing and managing the official list of registered voters.

To fulfill the purposes of the voter registration program, the state distributes voter registration cards through many channels, including local advocacy groups, other state and local agencies, and provides online access to registration materials. The SOS also provides online voter registration. County election officials are responsible for processing voter registration applications, verifying eligibility, notifying voters of their registration status, and updating registration records. The information collected and maintained through the voter registration process is used by county election officials to conduct a variety of election management activities, such as determining precinct boundaries, establishing polling places, and mailing election information.

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

Budget Request. The Administration requests $10.2 million for: the procurement of a new M&O vendor, data analysis, security assessment, EMS support and verification, data lines, security enhancements, and off-premises cloud costs.

Budget Request Summary	
Maintenance and Operation	$3,690,000
Funding for External Consulting	$6,511,000
Total	$10,201,000

The current M&O contract for the VoteCal system ends on September 29, 2022. The M&O vendor provides critical services for all 58 counties in California for current voter registration data when performing any voter or election related activity.

Staff Recommendation. Approve as budgeted.

Issue 13: Improving the Project Management Office Structure, Processes and Standards in Project Management and Portfolio Reporting

Summary. The SOS requests six positions and $1,347,000 ($398,000 General Fund and $949,000 Business Fees Fund) in 2022-23, and $1,317,000 ($390,000 General Fund and $927,000 Business Fees Fund) annually thereafter, for IT project management.

Background. In 2016, the Project Management Office (PMO) within SOS was centralized under executive leadership for the purpose of prioritizing technology investments and spending in the Project Approval Lifecycle (PAL) framework, providing transparency on the progress of technology projects, establishing governance to address issues with project implementation, and to implement organization changes to respond to public needs. The PMO has managed contracted workers and government employees to deliver IT projects, review and approve IT project deliverables, manage project risks and activities, oversee system enhancements to VoteCal, and oversee projects related to California Business Connect.

The PMO consists of 13 positions funded by the General Fund and Federal Trust Fund. Some resources have backgrounds in IT application support, IT-related areas, and non-IT related program areas. However, there remains a significant gap in skills and resources with regards to project planning, especially in fulfilling the PAL process requirements before a project is executed. The common practice has been to pair PMO state staff with consultants (contracted workers) to run projects. During project execution or implementation, state staff are primarily responsible for managing contracted workers who carryout projects and reviewing and approving project deliverables.

Budget Request. SOS requests staffing and budget augmentation to the PMO function to correct gaps and deficiencies in project planning activities in the organization. Additional staffing resources with PMO knowledge and skills are needed for timely completion of project plans and to bring visibility to IT projects undertaken at SOS. This proposal requests six positions and $1,254,000 in permanent funding to bring new skills, experience, and talent into government to establish a PAL planning team and a Project Portfolio Management Team.

The PAL planning team will consist of four additional staff and $108,000 in CDT Services. This team will be guided by CDT project management professionals to produce higher quality project plans for more thorough planning and project management practices.

The Project Portfolio Management Team will consist of two positions and $108,000 in CDT Services. This team will conduct monthly and quarterly project portfolio reporting to executive leadership on the performance of approved projects (including costs/resources, budget, and schedule) and proposed projects for prioritization.

SOS has project proposals on hold at various stages of PAL, awaiting resources for planning and internal prioritization. The PMO may have reached maximum capacity with all existing staff assigned to projects in the execution phase since 2019. There are three current projects that remain in the execution phase longer than planned, due to scope, schedule, and cost issues, delaying completion and transition to maintenance and operations. This proposal requests resources to complete unfinished planning activities for projects currently in the PAL process as well accepting new proposals for technology improvements in support of our business programs.

Staff Recommendation. Approve as budgeted.

Issue 14: Elections Voter Hotline (Spring Finance Letter)

Summary. The Secretary of State is requesting $540,000 General Fund in 2022-23 and ongoing for the use of temporary staff to assist with statewide election voter support on the Secretary of State's Voter Hotline.

Background. Existing law requires SOS to operate a confidential toll-free Voter Hotline to report the denial of voting rights as outlined in the Voter Bill of Rights, report election fraud or misconduct, and to report the misuse of voter registration information. Additionally, existing law also requires the SOS to operate the Voter Hotline as a way for voters to access information regarding cross-over voting in a presidential primary election. The state voter information guide is also required to include the toll-free number, providing a way for voters to request published copies of the full text of proposed ballot measures ahead of an election, a request that must be fulfilled within one business day.

SOS also provides the Voter Hotline in English and nine additional language. SOS does not have staff that speak all nine languages, and instead uses a third-party translator to transcribe messages in these languages for response. If an additional contact with the voter is needed, SOS staff uses a third-party interpreter service to contact the voter in their native language to obtain any additional information needed to ensure the voter's inquiry is fulfilled. This may include sending the voter materials in one of the languages our office provides materials in or assisting the voter in locating their polling location, tracking their ballot, or explaining their rights as a voter.

The SOS's Elections Division has a staff of 38 full-time staff, with 4 staff dedicated to the operation of the Division's Front Office operations. These operations include answering calls on the Voter Hotline, processing Voter Hotline messages left after hours, processing incoming and outgoing mail, and general support of the Division. The Elections Division has historically used Student Assistants to support the Front Office staff with these tasks. SOS notes that it is difficult to cover the Voter Hotline full time when we must work around the students' school schedule and the full-time work prohibition, leaving gaps in coverage.

Ahead of the November 3, 2020 election, the Governor issued two executive orders which ordered that all active registered voters in the state receive a vote-by-mail ballot, as well as modified in-person voting opportunities and online tools. During this time, SOS contracted with a temporary staff agency to provide 25 full-time staff and two retired annuitants. During the 60-day period ahead of the regularly scheduled 2020 November general election, our office answered 105,085 live calls and responded to 16,853 voice messages. During this time, the Voter Hotline experienced spikes in volumes that exceeded 600 callers in queue with up to an hour and fifteen-minute wait. Ultimately, the Voter Hotline averaged a wait time of seven minutes and forty-one seconds, a significant increase from the four minute and forty second wait time in the 2018 general election, even with added resources.

During the 60-day period ahead of the September 2021 special recall election which was called 75 days before the date of the election, our office answered 29,614 calls and responded to 2,910 voice messages, in addition to over 3,700 emails. During this period, the average wait time was 16 seconds, a significant increase in response time and service to our voters. For the September 2021 recall election, SOS used 75 staff (Elections staff, student assistants, and other SOS agency staff), and up to 25 temporary workers to maintain reasonable response and hold times.

To adequately train and prepare temporary staff to be successful representatives of the SOS, we would anticipate the need to onboard temporary staffing at 90 days prior to a statewide election to allow for training (earlier for temporary managers). The SOS requests $85,757 to support three retired annuitant managers during the months prior to a statewide election, and $455,684 for a temporary staffing agency contract during the 90 days prior to a statewide election.

Staff Recommendation. Approve Spring Finance Letter.

Issue 15: SOS Building Security Improvements (Spring Finance Letter)

Summary. The Secretary of State requests a one-time augmentation of $2,678,000 ($808,000 General Fund and $1,870,000 Business Fees Fund) for the completion of a multi-phased security improvement project being implemented at the March Fong Eu Secretary of State Building Complex. These improvements are based on an updated security assessment performed by the California Highway Patrol (CHP) in fall of 2021 and prior assessment by DGS and CHP in 2015.

Background. The March Fong Eu Building Complex, which serves as the SOS's headquarters, houses the business operations of the SOS, the California State Archives, and the California Museum. The Building Complex is currently undergoing security infrastructure upgrades and improvements. The Building Complex enjoys a unique mix of public access consisting of visitors to the Archives and Museum, groups using the large auditorium for meetings and training, and people conducting business at a variety of public counters within the SOS. These public counters are located throughout the building on various floors and are open to the back offices (employee work areas). The physical design of the building poses an increased security risk to occupants and visitors as the building uses a very open concept that allows the public to move about throughout all common spaces of the building unescorted and without benefit of interior security cameras in several areas.

In response to an incident in 2015 in which an employee brought a firearm to work, DGS and CHP completed assessments in June 2015 to evaluate the facility's security. As a result, the recommended various security infrastructure improvements, such as additional security, card readers, installation of physical barriers, among others. The 2015 report noted that these upgrades would be divided into four phases for a cost of approximately $2.4 million. However since then, DGS and other control agencies have consolidated the projects into three phases. Phase two was set to complete in April 2022.

The SOS requests $2,678,000 ($808,000 General Fund and $1,870,000 Business Fees Fund) for the third and final phases of upgrades. Specifically, the project will consolidate the 10 public counters throughout the building to a maximum of four, install ballistic glass at public counters, install security doors and hallways. Phase three is currently in the working drawings and design stage, and will be completed in late September 2022. It is anticipated that construction will begin in late spring 2023 or early summer 2023.

Staff Recommendation. Approve Spring Finance Letter.

Issue 16: FI$Cal Staffing Needs (Spring Finance Letter)

Summary. The Secretary of State requests a permanent augmentation of seven positions and $951,000 ($664,000 Business Fees Fund and $287,000 General Fund) in 2022-23 and $916,000 ($639,000 Business Fees Fund and $277,000 General Fund) annually thereafter to position the Secretary of State with the resources necessary to perform the agency's budget functions effectively and successfully.

Background. The state began its transition to the new budgeting platform, Hyperion, with the SOS receiving training on the system in mid-September of 2016. The SOS transitioned to the new state accounting system of record, the Financial Information System of California (FI$Cal), in July 2018. The latter was an extremely difficult transition exacerbated by running dual systems during the first transition year, insufficient staffing to complete increased workload, a needed restructuring of positions, and constant turnover/vacancies. The SOS was successful in securing permanently funded positions to support the increased permanent workload within both the Procurement section and the Accounting Office as a result of the transition to FI$Cal. However, a request associated with the increase in workload in the Budgets Office was deferred so that attention could be given to the timely completion of the Month-End-Close (MEC) and Year-End-Close (YEC) processes in FI$Cal to meet the State Controller's Office's year-end financial statement deadlines.

With the difficult transition to FI$Cal in 2018, the SOS found itself delayed in the completion and submission of that transitional year's financial statements by an entire year; with the final reports for 2018-19 being submitted in late September 2020. In mid-May of 2021. The SOS hired a retired annuitant to assist with the FI$Cal MEC/YEC process and the timely submission of year-end financial statements to the SCO. The delayed completion of 2018-19 year-end delayed the completion of 2019-20 year-end, with the final reports being submitted in late May 2021. With the recently appropriated additional staffing in the Accounting Office, increased staff experience within the FI$Cal system, and assistance from the retired annuitant, the SOS was able to gain some ground and submit the 2020-21 year-end reports by early October 2021.

In addition to assisting with submitting the SOS Year-End statements to SCO and securing and maintaining current MEC/YEC FI$Cal status, the retired annuitant was also assigned to assess the current staffing and architecture of the Budget Office. The SOS notes that while the recent changes made to the Accounting Office staffing has addressed the resources necessary for the successful completion of the duties related to that function, the SOS, through the retired annuitant and internal evaluation, determined that there are insufficient resources related to budget functions, and is significantly understaffed. In just this last round of budget building, there have been multiple drill submissions that have either been tardy, missing required information, or required amendments once submitted.

The SOS currently has three Associate Budget Analyst positions and one Staff Services Manager II, which in turn reports to a Staff Services Manager III; working to build, track, and report on the agency's budget. To address the lack of necessary resources, the SOS is requesting 7 positions: 2 Staff Services Managers I and 5 Associate Budget Analysts. The Budget Office is proposed to be comprised of two distinct units; a technical unit which will complete the budget building duties and a program unit which will complete the duties related to divisional expenditure and revenue tracking and projecting. Each function will consist of four Associate Budget Analysts, each overseen by a Staff Services Manager I.

Staff Recommendation. Approve Spring Finance Letter.

Issue 17: Voters Choice Act Resources (Spring Finance Letter)

Summary. The Secretary of State requests $452,000 General Fund in 2022-23 and $437,000 annually thereafter to support three positions for the continued administration of the Voter's Choice Act (VCA) of 2016 mandates.

Background. The VCA was signed into law in 2016 with the purpose of modernizing elections in California by allowing counties to conduct elections under a new model which provides greater flexibility and convenience for voters. This new election model allows voters to choose how, when, and where to cast their ballot. The VCA permits counties to choose to conduct elections so that all voters are mailed a ballot, and for vote centers and ballot drop-off locations to be available prior to and on Election Day. The VCA ensures that voters can vote-by-mail, by ballot drop box, or in-person, anywhere in the VCA county. The VCA requires county election officials to have a voter education and outreach plan (EAP) that is approved by the SOS. The EAP must include a description of use of media for outreach and education about the upcoming election and availability of ballot, description of information on the website, method to identify language minority voters, description of how they will spend resources of education and outreach, among others.

The initial EAP review takes anywhere from 6 months to a year for many counties. The EAP renewal is then required at 2-year, and then 4-year intervals for as long as a county remains a VCA county, which means this work is ongoing into perpetuity. Since counties all become VCA counties at different times, the work to onboard, renew, and review the EAPs is ongoing year-round, every year, and the work is compounded during an election year.

In 2018, just five counties adopted the VCA voting model: Madera, Napa, Nevada, Sacramento, and San Mateo. By 2020, the number of VCA counties increased to 15 counties. This number nearly doubled in 2022 to 28 counties operating under the California VCA. While funding was obtained to cover county outreach and education costs and state-level outreach and education and reporting costs, no additional funding was received for the staffing costs associated with the increase in workload.

The SOS requests three staff to cover new workload associated with statewide compliance for new and existing VCA counties, ongoing legislative reporting and research, and coordinating statewide voter outreach and education across all 28 counties operating under the VCA model. SOS requests additional staff for ongoing compliance work of EAP, as well as to administer outreach and education contracts to counties to assist and reimburse the outreach and education expenses associated with the requirements of the VCA.

Staff Recommendation. Approve Spring Finance Letter.

0984 CalSavers Retirement Savers Board

Issue 18: Full Scale Implementation of the CalSavers Retirement Savings Program.

Budget Request. The Governor's budget includes a General Fund loan of $6 million from 2022-23 through approximately 2024-25 to provide resources for the Board and the CalSavers Retirement Savings Program to continue to operate, including funding for existing staff, employer compliance enforcement services through the Franchise Tax Board (FTB), external consultants, and marketing, administrative, and overhead costs. This item was previously heard in Subcommittee #4 on May 4, 2022.

Staff Recommendation: Approve as Budgeted.

1111 Department of Consumer Affairs

Issue 19: Legislative Workload – Implementation of Chapter Legislation

Summary. DCA requests $3.89 million and 20 positions in 2022- 23, $3.48 million and 21 positions in 2023-24, $2.22 million and 17.5 positions in 2024-25 and ongoing to address licensing and enforcement-related workload associated with provisions passed during the 2020-21 legislative session across numerous Boards and Bureaus.

This proposal includes a General Fund loan in the amount of $157,000 in 2022-23 and $149,000 in 2023-24 to the Veterinary Medical Board Contingent Fund for initial implementation costs related to AB 1282 (Bloom), Chapter 752, Statutes of 2021. This loan shall be repaid once sufficient revenue is available from the new community blood bank registration fee and annual renewal fee.

Additionally, DCA is requesting General Fund appropriation of $3.29 million in 2022-23 and $1.646 million in 2023-24 to support costs associated with AB 107 (Salas), Chapter 693, Statues of 2021, to update DCA's licensing system and software applications to provide temporary licenses, as prescribed.

Background. The Governor's budget proposes resources to implement 14 bills that were chaptered in 2021.

1. **SB 509 (Wilk), Chapter 219, Statutes of 2021 –** State Board of Optometry: Establishes a temporary license to practice optometry to any person who applies for, and is eligible for licensure, but who is unable to immediately take the National Board of Examiners in Optometry Part III, as specified, due to the state of emergency, proclaimed by the Governor on March 4, 2020 in response to the COVID-19 Pandemic. The California State Board of Optometry is requesting two-year limited-term resources, including a 0.5 position and $84,000 in 2022-23 and $76,000 in 2023-24 to implement SB 509.

2. **SB 362 (Newman), Chapter 334, Statutes of 2021 –** California Board of Pharmacy: Prohibits a chain community pharmacy from establishing a quota to measure or evaluate a pharmacist or pharmacy technician's performance of duties, prohibits a chain community pharmacy from communicating the existence of quotas to employees or those it contracts with, and provides authority to take enforcement action against a community pharmacy that establishes a quota related to a pharmacist or pharmacy technician duties, unless by clear and convincing evidence the community pharmacy can demonstrate the violation was contrary to its policy. The California State Board of Pharmacy is requesting $108,000 in 2022-23 and $100,000 ongoing, and a 0.5 Inspector position to conduct inspections and investigations necessary to implement SB 362.

3. **AB 1194 (Low), Chapter 417, Statutes of 2021 –** Professional Fiduciaries Bureau: Amends the Guardianship-Conservatorship Law to provide additional protections and rights for conservatee's and require better coordination between the courts and the Bureau. The Professional Fiduciaries Bureau requests an increase in expenditure authority of $387,000 Professional Fiduciary Fund in 2022-23 and $371,000 in 2023-24 and ongoing to support 1.5 positions as well as enforcement costs related to Attorney General (AG) and Subject Matter Experts (SMEs) to implement AB 1194.

4. **AB 1221 (Flora), Chapter 452, Statutes of 2021 –** Bureau of Household Goods and Services: Clarifies that service contracts can cover a single product or a class of products, and provides explicit authorization for a service contractor to enter into automatically renewing month-to-month service contracts with consumers, subject to certain requirements. The Bureau of Household Goods and Services requests an increase in expenditure authority of $130,000 Electronics and Appliance Repair Fund in 2022-23 and $122,000 in 2023-24 and ongoing to fund one Staff Services Analyst position to implement AB 1221. AB 1221 expands the definition and oversight of service contracts leading to an anticipated increase in complaints and enforcement actions to regulate.

5. **SB 534 (Jones), Chapter 491, Statutes of 2021 –** Dental Hygiene Board of California: Amends the operations of Registered Dental Hygienists, Registered Dental Hygienists in Alternative Practice, and the Dental Hygiene Board of California. The Dental Hygiene Board of California requests one Associate Governmental Program Analyst position and $157,000 in fiscal year 2022-23 and $149,000 ongoing to address the inspection requirements mandated by SB 534. This position will have oversight and inspection authority over Registered Dental Hygienists in Alternative Practice (RDHAP) working environments. This includes monitoring and assessment of their operations and worksite locations including mobile dental hygiene clinics, institutions, dental and medical facilities, schools, and the portable dental hygiene equipment used at the treatment site to ensure compliance with the law.

6. **AB 293 (Kalra), Chapter 514, Statutes of 2021 –** Cemetery and Funeral Bureau: Establishes a process for unclaimed preneed funeral arrangements, as specified, to escheat to the state under the Unclaimed Property Law (UPL) beginning January 1, 2023. The Cemetery and Funeral Bureau requests an increase in expenditure authority of $342,000 Cemetery and Funeral Fund in 2022-23 and $326,000 in 2023-24 and ongoing to fund two

positions to address the additional workload as a result of the mandates associated with AB 293. AB 293 expands the scope of the annual review and audits of preneed contracts.

7. **SB 310 (Rubio), Chapter 541, Statutes of 2021 –** California Board of Pharmacy: Establishes the Cancer Medication Recycling Act (Cancer Medication Program) until January 1, 2027 to allow for the donation and redistribution of cancer drugs between patients of a participating physician. The California State Board of Pharmacy is requesting $108,000 in 2022-23 and $100,000 in 2023-24 and ongoing and a 0.5 Inspector position to conduct inspections and investigations necessary as result of SB 310.

8. **AB 1533 (Committee on Business and Professions), Chapter 629, Statutes of 2021 –** California Board of Pharmacy: Extends the sunset date for the California State Board of Pharmacy until January 1, 2026 and makes additional technical changes, statutory improvements, and policy reforms in response to issues raised during the Board's sunset review oversight process. The California State Board of Pharmacy requests three positions, including one Inspector position and two Associate Government Program Analyst positions, and two-year limited-term funding of $537,000 in fiscal year 2022-23 and $513,000 in 2023-24 to fulfill obligations under a Memorandum of Understanding for Addressing Certain Distributions of Compounded Medications with the federal Food and Drug Administration, and to convene a workgroup to evaluate a standard of care enforcement model and make recommendations to the Legislature.
9. **AB 1534 (Committee on Business and Professions) Chapter 630, Statutes of 2021 –** State Board of Optometry: Revises and restructures the practice of Opticianry in California, requires registration of Non-Resident Spectacle Lens Sellers, and increases penalties for violations of the Optometric and Optician practice acts. The California State Board of Optometry is requesting $443,000 in 2022-23 and $419,000 in 2023-24 and ongoing and three positions to address increased workload related to AB 1534.

   AB 1534 revises and restructures the practice of Opticianry in California, requires registration of Non-Resident Spectacle Lens Sellers, and increases penalties for violations of the Optometric and Optician Practice Acts. The Board is requesting three analyst positions to address the increased workload as a result of these new provisions

10. **AB 1536 (Committee on Business and Professions), Chapter 632, Statutes of 2021 –** Board of Vocational Nursing and Psychiatric Technicians: Requires the Board to adhere to a strict timeline for approving schools by establishing an approval process for proposed schools. AB 1282 will also establish a fee schedule of $5,000 for the initial application, $15,000 for the final approval, and $5,000 for continuing approval every four years. The Board of Vocational Nursing and Psychiatric Technicians is requesting $549,000 in fiscal year 2022-23 and $525,000 in 2023-24 and two Nursing Education Consultant (NEC) positions, as well as one Associate Governmental Program Analyst position, on a two- year limited-term basis to address the proposed program backlog in the Education Division and strengthen the Board’s oversight of existing programs to ensure their sustainability, readiness, and service to an increasingly diverse population.

11. **SB 806 (Roth), Chapter 649, Statutes of 2021** – Medical Board of California and Osteopathic Medical Board: Requires the Boards to grant a full physician and surgeon license to residents who have received 12 months of board-approved postgraduate training at a medical school in the United States and Canada. The resident, at the time of initial renewal, is required to show evidence satisfactory to the Board that the applicant has received credit for at least 36 months of training. SB 806 also authorizes the Board to renew the license if the applicant has demonstrated substantial compliance with the 36-month requirement. The Medical Board of California is requesting $603,000 in fiscal year 2022-23 and $377,000 in 2023-24 and ongoing to support 2.0 positions in 2022-23 and 3.0 positions ongoing to address the workload as it relates to the provisions of Chapter 649, Statutes of 2021 (SB 806). This request also includes a one-time augmentation of $316,000 in 2022-23 to fund the costs of a contracted enforcement monitor.

12. **AB 107 (Salas), Chapter 693, Statues of 2021** – Various: Expands to all Department of Consumer Affairs licensing boards the requirement that specified boards issue temporary licenses to the spouses of active-duty members of the United States Armed Forces, as specified, requires the Department of Consumer Affairs and the Department of Real Estate to compile information on military, veteran, and spouse licensure into an annual report for the Legislature, and for the Department of Consumer Affairs to post its information on its website. The California State Board of Pharmacy (Board) is requesting $84,000 in 2022-23 and $76,000 ongoing and a 0.5 Associate Governmental Program Analyst (AGPA) position to perform regulatory and analytical functions related to the issuance of temporary licenses to veterans and military spouses as a result of AB 107.

13. **AB 229 (Holden), Chapter 697, Statutes of 2021** – Bureau of Security and Investigative Services: Requires, beginning January 1, 2023, that various licensees regulated by the Bureau complete a course of training in the exercise of the appropriate use of force in order to be issued a license or a firearms permit. AB 229 also specifies that in addition to existing reporting requirements, private patrol operators must report within seven business days any incidents involving physical altercation with a member of the public requiring any type of first aid or other medical attention, and any physical use of force or violence on any person while on duty. The Bureau of Security and Investigative Services requests an increase in expenditure authority of $130,000 Private Security Services Fund in 2022-23 and $122,000 in 2023-24 and ongoing to support one position to address the additional workload associated with AB 229.

14. **AB 1282 (Bloom), Chapter 752, Statutes of 2021** – Veterinary Medical Board: Provide implementation requirements for the Board and the California Department of Food and Agriculture. Specific impacts as they relate to the Board are: expand the definition of the practice of veterinary medicine; permit an Registered Veterinary Technician or Veterinary Assistant to collect blood from an animal for the purpose of transferring or selling blood and blood component products to a licensed veterinarian at a registered premises; establish new procedures governing community blood banks for animals; impose new requirements on veterinarians engaged in the production of animal blood and blood component products; add several new definitions to the Practice Act; among others. The Veterinary Medical Board is requesting $157,000 in fiscal year 2022-23 and $149,000 in 2023-24, Veterinary

Medical Board Contingent Fund, to fund staffing and required development and training costs necessary to address additional workload and regulations related to the implementation of this bill. This proposal also requests corresponding loans from the General Fund ($157,000 in 2022-23 and $149,000 in 2023-24) to cover implementation costs.

Staff Recommendation. Approve as budgeted.

7730 FRANCHISE TAX BOARD

Issue 20: Legal Workload Growth

Budget. The Franchise Tax Board (FTB) requests $4.64 million (General Fund) for 16 permanent positions, 10 position upgrades, and unfunded needs for staff salaries in 2022-23; $4.49 million in 2023-24 and ongoing to address increased volume and complexity in tax appeal, protest, and litigation workloads. This item was previously heard in Subcommittee #4 on May 4, 2022.

Staff Recommendation: Approve Spring Finance Letter.

7502 CALIFORNIA DEPARTMENT OF TECHNOLOGY

Issue 21: Oversight, Compliance and Advisory Services Program Expansion of Service (Spring Finance Letter)

Summary. The California Department of Technology (CDT), Office of Information Security (OIS) requests 11 positions and $2,761,000 in General Fund in 2022-23 through 2023-24 and $2,089,000 in 2024-25 ongoing.

This request will provide the necessary resources to perform interim assessments and training on all state entities under the Executive Branch to calculate security metrics on each of these entities to understand the state's security posture. This effort also allows OIS to correct findings in the California State Auditor (CSA) Report, 2021-602, published January 2022 as well as findings CSA noted in previous reports dating to 2013.

Background. The CDT's OIS is responsible for providing direction, oversight, and support for the State's information security and privacy programs. Existing law requires state entities within the executive branch that are under the Governor's direct authority to comply with the information security and privacy policies and procedures that CDT prescribes. It also mandates that such entities regularly report to CDT on their compliance.

Existing law requires CDT to issue and maintain policies, standards, and procedures governing information security and privacy for reporting entities. CDT developed Chapter 5300 of the State Administrative Manual (SAM 5300), that provides the security and privacy policy and standards which reporting entities must comply. SAM 5300 references and aligns to the Federal Information Processing Standards (FIPS) and National Institute of Standards and Technology (NIST) as its minimum information security and privacy control requirements.

Although reporting entities are ultimately responsible for their own information security, CDT plays a critical role in advising them on security issues and helping to ensure their program maturity and compliance with state policy. In fiscal year 2018-19, CDT implemented a multi-year oversight life cycle to independently verify the status of the State's information security and privacy programs. Using a risk-based methodology, CDT prioritized 52 high-risk entities to participate in the first multi- year cycle. CDT requires the remaining, lower-risk reporting entities to participate in a biennial oversight life cycle.

Whereas CDT designed the compliance audits to determine an entity's adherence to the State's administrative information security and privacy policies and processes, the Independent Security Audits (ISAs) evaluate the implementation, configuration, and practices of the entity's information security program. Existing law requires CDT to either conduct or require another entity to conduct at least 35 ISAs, performing security penetration and other security tests to validate the level of security of entity's' systems each year. CDT contracts with the California Military Department Cyber Network Defense team to perform the independent security assessments, although reporting entities may request permission from CDT to use a third-party vendor.

The CSA Report, 2021-602, published January 2022, highlighted several issues with the CDT, OIS's oversight of security assessment and compliance within the state. Specifically, CSA reported that OIS must:

- Use entity self-assessments toward measuring their security status and contribute that toward an aggregate state security posture.
- Improve reporting security status to Legislature and Executive leadership.
- Ensure compliance with mandated entity security self-assessments.
- More rapidly align state security and privacy policy with federal standards.
- Provide stricter oversight of entity security and privacy gaps.
- Increase the use of metrics to target services, training, and resources toward addressing common security gaps and high-risk areas.
- Increase entity support toward closure of deficiencies.

The OIS current staffing levels do not allow for them to meet nor comply with existing law and the CSA audit findings. The staff augmentations and vendor support efforts included in this request will provide state entities with the education and assistance to achieve the recommendations from audit discrepancies and increase their security metric score.

Budget Request. The CDT requests 11 positions and $2,761,000 in General Fund in 2022-23 through 2023-24 and $2,089,000 in 2024-25 ongoing to address the state auditor's findings.

- $600,000 for contracting vendor services to support audit assessments for a two-year period. CDT plans to create a program to independent review reporting entity's self-assessments and federal Nationwide Cybersecurity Review (NCSR) scoring. The OIS will establish a two year program of security assessment teams via a third-party contract to conduct a review of the 53 reporting entities that are not selected for the ISPA program. CDT requests $600,000 to fund contracting services for program development and administration, hire a vendor, train staff, conduct verifications and reporting of results.

- 0.5 IT specialist I to improve reporting of security status to the Legislature and Executive Leadership, and to develop a methodology to score Self-assessment Verification and Oversight Reporting [SAVOR] program.
- Two IT specialist I positions to ensure compliance with mandated entity security self-assessments. These positions will implement a self-assessment assurance task that will include notifications, criteria and timeframes for compliance.
- Two IT specialist II to align with state security and privacy policy with federal standards. Federal government is steadily adopting increased security and privacy standards that state government must keep up with if it is to sustain its interoperability, data exchanges and federal funding required for essential public service programs. The federal government original had a five year implementation period, but has recently proposed more aggressive timelines, in one case less than two years.
- Two IT Specialist II to provide stricter oversight of entity security and privacy gaps. Enforcement and accountability of reporting entities remediation of security gaps has been constrained due to limited resources and a lack of automation. The Security Risk Governance (SRG) unit within the OIS currently has seven full-time staff, equating to one PY for each of the following key statewide information security program function.
- 0.5 IT Specialist I position to increase use of metrics to target services, training and resources.
- Four IT Specialist II to increase entity support toward closure of deficiencies. These positions will help increase the o the standard post-audit workshops, there is a need for more sustained interaction to address finding remediation. This type of finding remediation requires highly tailored interactions with both business and support functions within each entity, in addition to IT units. The OIS requests four staff to provide sustained and embedded support. This includes post-Audit remediation planning, on-going support, and consistent and sustained interaction with entities. Additional workshops would include working as experts to develop and implement policy and entity-specific procedures to address security and privacy gaps.

Staff Recommendation. Approve Spring Finance Letter.

Issue 22: Security Operations Center (SOC) Infrastructure Cost Expansion (Spring Finance Letter)

Summary. CDT's Security Operations Center (SOC) requests $1,680,000 in ongoing General Fund authority in FY 2022-23 for infrastructure costs related to cloud hosting of SOC software and tools critical to the SOC's ability to continue with 24x7 continuous security monitoring of California government entities.

Background. The SOC was created in 2017 to increase and enhance the state's ability to effectively analyze, identify, and respond to the growing complexity and volume of cybersecurity threats, and to monitor assets within CDT, the Statewide Data Center, and the California Government Enterprise Network (CGEN). The vast majority of the SOC architecture is built within Amazon Web Services (AWS) and has been leveraged through CDT's statewide AWS contract.

Prior to 2021-22, the SOC was funded through the Technology Services Revolving Fund and its costs were recovered through CDT's rate structure. The costs for the SOC AWS infrastructure were included in those rates. In 2021, the Legislature approved a BCP that allowed SOC to be funded through General Fund authority instead of the rate structure. CDT's approved FY 2021-22. However, the AWS costs were inadvertently not included in the FY 2021- 22 budget and therefore CDT no longer has a mechanism to cost recover. This request is for General Fund authority to cover the AWS infrastructure costs.

Staff Recommendation. Approve Spring Finance Letter.

Issue 23: Office of Statewide Project Delivery (OSPD) Workload Increase (Spring Finance Letter)

Summary. CDT requests five positions and $3,490,000 in on-going Technology Services Revolving Fund (TSRF) authority in Fiscal Year (FY) 2022-23 to meet increased demand for project approval, independent project oversight, Budget Change Proposal analysis, and procurement services to state entities as required under existing law. The CDT notes that the consultant resources are needed to address increasing and sustained demand, consistently high workload, and projected increases which require increasing resource capacity to meet service demand.

The five positions are requested to meet the increased procurement workload to provide, develop, and manage innovative approaches, implement innovative Information Technology (IT) procurements and methodologies related to complex and high-risk IT projects. Additionally, these positions will address the increased IT and telecommunication procurement workload, enhance procurement development and engagement methodologies, oversee large projects, including procurement management, large acquisitions engagements, and statewide efforts. IT Projects continue to increase in complexity, duration, and importance.

Background. CDT establishes, maintains, and oversees the State's IT Strategic Plan, policies, standards, procedures, and enterprise architecture. Additionally, the Department approves and oversees State IT projects through their lifecycle and ensures the security of state information assets. Further, as the home of the State Data Center, CDT provides IT infrastructure services to its customers for their public facing and mission critical systems and offers both cloud and on-premises services.

The COVID-19 pandemic exposed deficiencies in current mission critical IT systems; therefore, several departments are significantly enhancing or replacing their IT infrastructure and applications. This is contributing to the increase in IT projects which require the Project Approvals and Oversight (PAO) unit's engagement during project planning (Project Approval Lifecycle (PAL)) and project implementation (Oversight).

CDT's Office of Statewide Project Delivery requests $2.4 million TSRF for consulting services for Project Approval Oversight (PAO) to provide the capacity required to support the increasing workload demand driven by increases in enterprise modernization efforts and significant increase in IT Projects and BCPs. PAO has been dependent on consulting services to respond to increases in independent project oversight services demand without permanent staff augmentation. CDT notes that 15 projects are anticipated to begin development in FY 2022-2023 alone, which equates to an approximate 50 percent increase to current project oversight workload. Additionally, at least nine proposed IT efforts are identified in the FY 2022-23 budget. Multiple departments including CDPH, CDSS, CDA and DHCS are incorporating an enterprise-wide strategy to modernize their IT systems.

The Statewide Technology Procurement (STP) is a part of OSPD, and is responsible for overseeing IT procurements related to non-delegated IT projects and completing telecommunications acquisitions for all state entities, and manages and negotiates procurement contracts. Statewide Technology Procurement requests five IT Manager I positions and $1.1 million TSRF to meet the demands of an increased workload that is driven by three factors: 1) implementation of innovative Challenge-Based Procurements, 2) increased use of statewide contracts, rather than individual departments conducting similar bids, requiring senior level staff, and 3) actions to modernize and digitalize procurement tools and methodologies requiring a technical manager.

Staff Recommendation. Approve Spring Finance Letter.

7760 DEPARTMENT OF GENERAL SERVICES

Issue 24: Enterprise Technology Solutions Workload Adjustment

Summary. The Department of General Services (DGS), Enterprise Technology Solutions (ETS) requests $4.9 million in authority from the Service Revolving Fund in 2022-23 and 2023-24, and then $4.7 million in ongoing authority from the Service Revolving Fund beginning in 2024-25.

DGS also requests position authority for seven permanent positions and limited-term funding for two positions beginning in 2022-23 to support DGS' information technology (IT) security, privacy, and enterprise services.

Background. ETS provides the services necessary for DGS' transition to telework in response to the COVID-19 pandemic, such as equipment and technology needed to work remotely. Prior to the pandemic, ETS costs were already increasing due to increases in vendor prices and transition to cloud-based or subscription-based models, but the telework transition has impacted their authority substantially. Additionally, various security audits and new policies, procedures, laws, and regulations have required ETS to invest in new technologies in an effort to maintain compliance, which have also impacted ETS' budget.

The shift to telework has also created significant security risks, such as a flood of pandemic-induced cyber-attacks (including phishing, ransomware, and denial of service attacks). These cyber-attacks are explicitly targeting hundreds of DGS information assets that are used by internal and external business programs as well as the public. The increased workload for ETS security staff has grown significantly beyond what was expected in 2019.

ETS has implemented many efficiencies to make its limited resources more productive and also comply with growing customer demand and industry changes. For example, to optimize use of resources, ETS employs a formal Project Management approach and department-wide IT Governance Council. These ensure ETS is focused on the requests that have the highest return on investment to DGS, and that those requests are implemented in a standardized way to improve efficiency. ETS also consolidated job functions and reorganized to maximize efficiencies and reduce siloes in workloads. Finally, ETS staff have received training on Lean/Six Sigma and implementing those efficiencies to significantly reduce the time to approve requests to procure IT goods and services.

Over the past three years, ETS has successfully completed 35 projects. While ETS is able to complete 10-12 projects a year, the number of project requests received has steadily grown by approximately 20 requests every year. As a result, while ETS currently has 20 projects in progress, there are four that have been approved but cannot be started due to a lack of available staff. In addition, ETS has a backlog of 35 requests that are seeking approval to become a project. While project requests have continued increasing at a steady rate, the number of projects impacting ServiceNow has grown to over 90 percent and use of collaboration tools such as Microsoft Teams has increased by 2,181 percent since the pandemic, and SharePoint by nearly 500 percent.

Budget Requests. The Administration requests position authority for seven permanent positions and two temporary positions. Specifically, the Administration requests: (1) three Information Security positions to help strengthen cybersecurity of DGS programs by performing new security functions are directed by agency, CDT and new state policies and standards, (2) three positions to support and manage the privacy programs, to address privacy gaps resulting from a distributed workforce, and (3) one permanent position and two two-year limited term positions for network and enterprise services.

The proposal requests $1.18 million to purchase enterprise software for all DGS programs. Several necessary enterprise software contracts have had cost increases over time due to vendor price increases. An analysis of invoices from 2017-18 compared to 2021-22 found that most critical impacts to increased pricing include our core services such as Adobe, eSignature software, its IT Service Management and workflow automation tools. If ETS does not have sufficient authority to cover the increased expenses for enterprise software applications, DGS will not be able to perform critical business functionality.

The proposal also requests $971,292 for Microsoft Licensing. ETS is required to purchase Microsoft licensing from CDT. The 2016-17 and 2021-22 contracts were obtained from CDT to complete an analysis of increased costs, which identified increased costs due to additional security features and licensing.

The proposal requests $608,758 for the purchase of laptop work stations, which are more costly than desktop workstations. This accounts for an increase of over $800 per device, as well as a five-year refresh on each device.

The request also includes $586,122 for security tools for protection and advanced threat monitoring capabilities. This includes anti-virus and malware protection, network security devises and email protection.

Lastly, the request includes $129,807 for infrastructure support and licensing. Specifically, ETS will purchase network devices to connect offices to the DGS network. This cost increase is due to increases in vendor pricing.

Staff Recommendation. Approve as budgeted.

Issue 25: Office of Public Affairs Workload Adjustment

Summary. The Department of General Services (DGS), Office of Public Affairs (OPA) requests $412,000 in ongoing authority from the Service Revolving Fund (SRF) and three positions beginning in 2022-23 due to the increased need for public affairs services to DGS programs and external customers.

Background. The Office of Public Affairs (OPA) is responsible for news media relations, managing DGS social media, developing and executing marketing for other offices and divisions, guidance on writing according to DGS standards, providing photography resources, overseeing public records act request processes, creating and disseminating departmental newsletter and website management oversight. OPA currently has five authorized positions.

At this time, staff is fully utilized with daily duties and is only able to be reactive. Staff often experience burnout from the long hours they put in to complete their tasks and still struggle with a backlogged workload. Recent Executive Orders (EOs) have increased the workload of other divisions and offices within the department, which, in turn, results in increased workload for OPA. The EOs have caused increased media inquiries, increased PRA requests, an increase in the need for external communication, and increased reports and documents requiring review.

DGS requests two information officer positions to act as subject matter experts for divisions and offices, develop images for use in publications, create publications, develop and execute a social media communication plan, respond to public records act requests, among other duties. At least one Information Officer will be requested to be certified as bilingual in Spanish since Spanish is the second-most used language next to English for public contacts. OPA has lacked a graphic designer in the office, requiring OPA to turn to other offices for assistance. The additional Information Officer I positions would allow for recruitment of staff with graphic design abilities, eliminating the need to contract externally and wait for availability.

DGS requests one Audio-Visual Specialist. The need for more video content due to staff and stakeholders teleworking has increased the need for more staff to record, produce, and edit videos.

Currently, OPA relies on student assistants to create videos. Hiring permanent staff to handle videos will better allow OPA to maintain consistency with video quality and assist in retention and succession planning. The Audio-Visual Specialist will work with programs to develop videos for stakeholder information dissemination as well as create video messaging for staff.

Staff Recommendation. Approve as budgeted.

Issue 26: Procurement Division Emergency Services Workload Adjustment

Summary. The Department of General Services' Procurement Division requests $728,000 ($305,000 ongoing) two-year limited-term authority from the Service Revolving Fund and five positions in 2022-23 to support emergency procurement services workload in accordance with the State Emergency Plan.

Background. In 2009, Cal OES developed the State of California Emergency Plan establishing the California Emergency Service Functions (CA-ESF), which consist of 17 primary activities deemed essential to address the emergency management needs of communities in all phases of emergency management. The State Emergency Plan assigns a single state agency to lead each CA-ESF based on its authorities, resources, and capabilities. The Government Operations Agency is the single lead agency for ESF-7, Resources, with primary mission responsibility assigned to DGS. During an emergency response, ESF-7 supports and coordinates state-level activities to protect life and property within California. ESF-7 provides emergency procurement assistance and support to other ESFs and to the response community.

In a declared emergency, Cal OES is statutorily mandated to coordinate multiple jurisdiction or multiple agency emergency and disaster operations. DGS has been designated as a department with designated response roles within the state emergency plan to provide continuous emergency support. The Resource Management and Logistics Support (RSLM) Unit was established within Procurement Division's Acquisition Branch to respond to the designated emergency response roles in the State Emergency Plan.

When Cal OES activates buyers from PD-RSLM staff are required to deploy to the State Operations Center (SOC) to provide emergency procurement support to OES. This includes facilitating the coordination of purchases and deployment of commodities and services, collaborating with suppliers to deploy services, assisting with supplier invoicing and payments, and amending contracts.

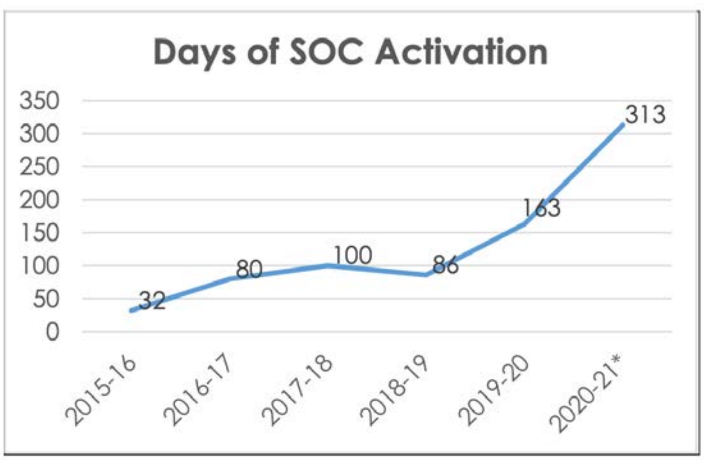
Instances where RSLM has provided emergency support in the past include CalFire Incidents, Civil Unrest, COVID-19, Ridgecrest Earthquake and Public Safety Power Shutoff. To support emergency procurement between activations, RSLM staff develop leveraged procurement agreements (LPAs) as contracting vehicles for goods and services commonly needed for emergency response to establish vendors when controlled pricing is available.

RSLM is currently comprised of two permanent, full-time positions consisting of one Staff Services Manager I (SSM I) and one Associate Governmental Program Analyst (AGPA). Because of the small number of staff, other personnel from within PD have been assigned to support the SOC in times of emergency. A Retired Annuitant has been assigned to assist RSLM with COVID-19 support from March 2020 until March 2022.

In 2018-19 RSLM was tasked to develop and manage several Leveraged Procurement Agreements (LPAs) for repetitively purchased services and goods to lessen the number of emergency contracts. To date, none of these contracts have been completed and all have been reassigned to other staff within PD. The requested positions would allow for emergency related LPAs to be established and continually administered within the RSLM.

Budget Request. PD is not able to redirect any further personnel to support emergency response workload, and the existing redirections are not sustainable. The need for five additional positions correlates to an increase in workload limiting PD's ability to fulfill its role in the State Emergency Plan. Specifically DGS requests four Associate Governmental Program Analysts, and one Management Services Technician to provide RSLM a dedicated purchasing team to support key functions provided by RSLM. The request seeks to alleviate the continued reliance on redirected staff to respond to emergencies and carry out planning and resiliency efforts year-round. The existing staff (1.0 SSM I and 1.0 AGPA) have been consumed with responding to declared emergencies and therefore core mission critical work has become backlogged.

DGS has been in emergency response or recovery mode almost continuously over the past few years. Due to the ongoing nature of the current environment, several staff have been redirected to emergency response for over a year, which delays core business functions and activities. This backlog adversely impacts not only the organization, but its ability to support the emergency response and recovery effort.



If this request is approved, disaster response readiness would be prioritized and resourced through a permanent team of skilled staff adequately equipped to meet the unique challenges of emergencies in California today and support needs of diverse communities across the state into the future. When not immediately responding to an emergency, this team would develop and manage contracts allowing for immediate access to responsible contractors at negotiated costs for scopes informed by recent emergency and lessons learned, continuously updating, and improving response plans as well as contributing to an after-action plan with DGS from each event.

Staff Recommendation. Approve as budgeted.

Issue 27: Sacramento Region: Joe Serna Jr. California Environmental Protection Agency Building Acquisition

Summary. DGS requests $36,000 from the General Fund in 2022-23 to exercise the lease purchase option to acquire the Joe Serna Jr. California Environmental Protection Agency (CalEPA) Building located at 1001 “I” Street in Sacramento. The building is occupied by various CalEPA departments, which will continue to be housed there after the acquisition. The 25-year lease agreement will expire in May 2023, and DGS has the option to purchase the building for one dollar at the end of the term. The request also includes funding for related acquisition and real estate due diligence activities necessary to complete the transaction, including a parking analysis and termination of bonds. A facility condition assessment is currently underway using existing departmental funding, which will help inform future maintenance and operation of the building by DGS.

Background. CalEPA was created in 1991 as part of a reorganization which placed several new departments, previously part of separate departments, under the new organization. The City of Sacramento proposed a joint venture with the state to develop an office building on a city-owned site. DGS was ultimately involved with design and management of the project and reimbursed for those services through agreement with the City as part of the bond financing.

In 1992, state law provided authority for the CalEPA Building, and allowed DGS to enter into a lease with an option to purchase the building. The City of Sacramento Financing Authority financed design and construction and lease revenue bonds were issued via the State Treasurer’s Office in 1998 ($196.6 million). The purchase includes the land but not the adjacent parking structure, which remains under City control. Debt service and operating expenses are currently paid directly by building tenants. Property management is handled through a contract between the City and Thomas Properties Group. Since the state does not currently operate or maintain the building, DGS must evaluate staffing and operational needs as part of a separate state operations budget proposal to be submitted as part of the Spring process. Construction was completed in 2000 and occupancy occurred in 2001.

The building is currently occupied by various CalEPA departments including the Air Resources Board, Water Resources Control Board, Department of Resources, Recycling and Recovery, Department of Pesticide Regulation, and Department of Toxic Substances Control. These programs will continue to occupy the building after the acquisition. The building has a capacity of 3,500 occupants. DGS notes that due to the pandemic, the building has been occupied at approximately 25 percent capacity. Future occupancy will likely take teleworking scenarios into consideration in conformance with state telework policies. DGS will assume responsibility for operation and maintenance of the building upon exercise of the purchase option.

Approval of this request will allow DGS to acquire the building for one dollar (rounded to $1,000) pursuant to the terms of the existing 25- year lease, and $35,000 for DGS’s Real Property Services

Section to complete necessary Due Diligence review, including parking analysis and termination of bonds.

Staff Recommendation. Approve as budgeted.

Issue 28: Statewide Travel Program

Summary. DGS's Office of Fleet and Asset Management requests $738,000 ongoing Service Revolving Fund authority and 4.0 permanent positions beginning in 2022-23 to address increasing workload from emergency response functions, support the training and compliance auditing of the statewide travel policy, and increase usage of its services among optional users.

Background. OFAM's Statewide Travel Program (STP) provides full travel management services for all Executive Branch agencies and offers its consolidated services and leveraged discounts to optional user agencies, which includes local governments, colleges/universities, K-12 public school districts and special districts within California. The program procures and manages airline reservations, commercial car rentals, travel payment systems, travel management services, lodging, disaster response, and transportation network services. All Executive Branch state agencies have been required to make travel arrangements through the STP since 2014. By consolidating the state's managed travel services to a single contracted travel agency and leveraging the state's purchasing power to secure advantageously negotiated contracts, STP now saves the state on average over $5 million dollars annually in travel service expenditures, and this number continues to grow.

While transient travel decreased significantly during calendar year 2020, emergency and disaster travel increased significantly. STP expects travel transactions to continue fluctuating between travel categories.

In recent years, the STP has been increasingly tasked with providing emergency travel management services. In 2018, the STP was mission tasked by the California Governor's Office of Emergency Services with establishing and managing the lodging operations at the Chico Base Camp, supporting the Camp Fire response efforts. In 2020, the STP was mission tasked with setting up and administering five different unique non-congregate shelter programs (Hotels for Healthcare Workers, Housing for the Harvest, Project Hope, and Border Response) for at-risk populations, as well as managing the state's Mass Care and Shelter program for fire evacuees. Increased use of the STP for emergency travel management services supports the state's provision of a rapid, flexible, and cost-effective emergency travel management solutions on an increasing statewide scale.

At the direction of the Governor's Office, the STP has issued statewide policy mandating that state agencies and employees adhere to specific costs saving practices when making airfare reservations. When not engaged in emergency response activities these positions will implement and manage a focused compliance program within the STP that will ensure state Executive Branch entities are adhering to the new statewide policy, as well as existing policies intended to ensure that state employees are using the most cost-effective modes of travel when conducting official government business.

DGS requests one Staff Services Manager III, one Staff Services Manager I and two Associate Governmental Program Analyst to provide travel management services to meet customer demands, manage increasing workload, increase transparency and efficiency, and consolidating and streamlining travel services to reduce rates and fares for government travelers.

While normal official state and local government travel has decreased over the past year due to the pandemic, STP's workload has not decreased. In fact, the scope of STP's role in supporting state and local government services and ensuring cost efficient travel has expanded, necessitating additional staffing resources.

Prior to 2020, STP experienced significant growth of its program, from 201,504 travel bookings in 2014-15 to 507,146 bookings in 2018-19, equating to a 152 percent growth in the program.

As a result of the pandemic, bookings dropped to 428,958 in 2019-20 and as of April 2021 the number of booking totaled 199,681. However, due to the nature of the STP's role in managing state and local government travel, workload does not directly correlate to the volume of bookings being made through the program. The processing of reservations, which has a direct workload correlation to travel volume, is managed by the STP's contracted Travel Management Services provider. The STP's role is to establish and manage travel service contracts, issue, and enforce statewide policy, continuously expand the suite of managed travel services offered to state employees, support state emergency response efforts, and grow the customer base of the program to better leverage aggregated travel volume. Over the past three years the STP's scope of responsibility in each of these areas has significantly expanded and is expected to continue to expand.

Staff Recommendation: Approve as budgeted.

Issue 29: Telework Policy Oversight and Compliance Review (Spring Finance Letter)

Summary. DGS requests $1.9 million in two-year limited term expenditure authority from the General Fund, and 10.0 positions, beginning in 2022-23 to implement oversight and review compliance functions to ensure the successful implementation of a productive distributed work environment.

Background. During the COVID-19 pandemic, the Newsom Administration advised departments to maximize telework to the greatest extent possible and ensure that post-COVID-19, departments continue to embrace telework as part of the state culture to achieve long-term efficiencies. In 2020, the Governor's Office approved the State's updated telework policy, spearheaded by DGS, and it was sent to the California Department of Human Resources (CalHR) for negotiations with the labor organizations. In April 2021, the Governor's Office approved a memo to all department heads reinforcing that the Administration supports telework as a long-term strategy to decrease office space, allow more flexibility for employees, and build resiliency in the case of future emergencies that may require people to work outside the office. In addition, both CalHR and DGS have been focused on the transition from an emergency telework environment to the management of a robust, ongoing telework program.

DGS released a Statewide Telework Policy in October 2021. The policy required each state department to establish their own telework policy by October 5, 2022. The departments' plans must specify: (1) the criteria to participate in the program, (2) how employees will be noticed of their eligibility to participate, (3) financial responsibility of telework costs, (4) technology and security responsibilities, among others. The Statewide Telework Policy also provides guidance on how to determine what positions are functions that are appropriate for telework. The policy also requires departments to: (1) establish a telework coordinator, (2) document arrangements, (3) establish performance management methods, (4) process to use technology equipment, and (5) responsibilities of the department management and employees. State agencies are required to begin reporting telework-related data to DGS as of January 2022.

Draft telework policies were due to DGS on January 31, 2022. DGS will review each department's draft policy and provide guidance to ensure adherence to the statewide policy DGS notes that they will establish regular compliance review, including telework metrics. DGS requests 10 positions to create to Statewide Telework Unit to conduct ongoing support and oversight of telework policy. These positions include one Career Executive Assignment (CEA) Level B, one Staff Services Manager (SSM) I, two SSM I (Specialist), one SSM II (Supervisory), four Associate Governmental Program Analysts (AGPA), and one IT Specialist II.

The CEA Level B, SSM I and AGPA positions will provide consultation, direction and tools to departments. The IT specialist will lead the collection and reporting of data and tracking of departmental telework. The SSM I and SSM II positions will perform compliance reviews to examine organization operations and internal management controls, as well as reviewing policies and procedures.

Staff Recommendation. Approve as budgeted.

Issue 30: Secretary of State Roof Replacement and Repairs (Spring Finance Letter)

Summary. DGS Facilities Management Division (FMD) requests $1,763,000 million in one-time expenditure authority from the General Fund in fiscal year 2022-23 for full project funding to replace and repair the roof structure at the Secretary of State Archives Building (SOS) located at 1500 11th Street in Sacramento.

Background. The Secretary of State/Archives Building complex was completed in 1995 and houses the office of the Secretary of State, The California State Archives, and the California Museum. The building is located at 1500 11th Street in Sacramento and occupies a full city block. The offices, Archives, and museum are connected by shared spaces and common walls and surround an interior courtyard. The site includes a below-grade parking structure. The gross building area is 531,000 square feet.

As identified in the 2015 Facility Condition Assessment (FCA), the Secretary of State and Archives Building roof structure is flat with single ply membrane roofing. The original roof still exists on the Archives Building, with reports of leaks, some significant, over the Archives area. The Secretary's office area has yet to be penetrated by water, however the office has experienced puddling around the windows. The FCA identified the roof as being in Poor/Fair condition with recommendations to replace the roof and flashings as soon as possible. The roof of the Secretary of State Building portion of the Complex was reported to be in Fair condition with a recommendation to replace the roof in five years. The roof is towards the end of its' design life.

Removal and reinstallation of the roof-mounted air handling units will render the portions of the office building served by these units uninhabitable until the reinstallation is complete, and the airflow is rebalanced. The estimate does not include relocation costs or temporary HVAC facilities, so those offices must be shifted to telework during the removal and reinstallation process.

The Administration estimates that the department will complete the competitive bidding process for construction by April 2023.

Staff Recommendation. Approve as budgeted.

Issue 31: Procurement Division Resources Alignment (Spring Finance Letter)

Summary. DGS' Procurement Division requests $938,000 in ongoing expenditure authority from the Service Revolving Fund (SRF) beginning in Fiscal Year 2022-23 to align budget authority with necessary personal services and operating expenses.

Background. The Procurement Division (PD) provides centralized procurement services and contracting policy administration to state agencies. Existing law also authorizes PD to delegate purchasing authority to other departments and state agencies. PD is statutorily responsible for setting state procurement policies and providing purchasing services for the state. PD is comprised of five branches: (1) Acquisitions, (2) Engineering, (3) Office of Small Business and Disabled Veteran Business Enterprise Services (OSDS), (4) Policy Training and Customer Services (PTCS), and (5) Operations.

PD's positions are revenue-generating and the costs for these positions are fully recovered by service rates which are set by DGS each year. While PD is able to generate sufficient revenue to fund all positions and operating costs required to fulfill its mission, a budgetary adjustment is necessary to align the expenditure authority with the costs of PD's business operations. PD has identified a gap between its current resources and its expenditure authority. The proposed budget authority of $40.4 million is not sufficient to allow PD to operate at full capacity and continue with current modernization efforts.

The requested resources will allow the Acquisitions Branch to effectively administer the statewide CAL-Card Program, provide effective and efficient one-time acquisition services, provide state financial marketplace services, provide transportation management services, as well as a multitude of leveraged procurement agreements (LPA). LPAs leverage the State's buying power and volume to lower prices and reduces state department and local government procurement processing time, which in turn saves taxpayer dollars. LPAs leverage the State's buying power and volume to lower prices and reduces state department and local government procurement processing time, which in turn saves taxpayer dollars. The Administration notes this providing permanent expenditure authority will allow PD to fill all vacancies and operate at full capacity.

Staff Recommendation. Approve Spring Finance Letter.

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

Issue 32: Information Technology Security and Internal Control Resources (Spring Finance Letter)

Summary. The Department of Financial Information System for California requests $5.3 million in 2022-23, $4.2 million in 2023-24 and 2024-25, $3.4 million ongoing and 13 positions to address information technology security and internal control and compliance risks. The resources requested will support the implementation of solutions needed to improve the security and integrity of the state's financial information.

Background. The Administration started the design, development, and implementation of the FI$Cal IT project in 2005 to integrate state accounting, budgeting, cash management, and procurement processes into a single new IT system—FI$Cal. The FI$Cal project is managed by a partnership of four control agencies—the Department of Finance, the Department of General Services, the State Controller's Office, and the State Treasurer's Office. State law mandates that the agencies collaborate in the design, development, and implementation of FI$Cal, and a project governance plan also guides the relationships between the partners.

In 2016, state law established the Department of FI$Cal to maintain and operate the IT system and support users. The department will assume responsibility for the system once the project is complete. The Department of FI$Cal's current year operating budget is $107.4 million ($59.4 million General Fund) and 318 positions. With the exception of a small number of departments that are deferred or exempted from the project, the vast majority of state departments will manage their finances through FI$Cal. FI$Cal is one of the largest IT projects undertaken by the state – according to the department of FI$Cal, the state has spent $959 million on the project as of March 31, 2022.

FI$Cal has been the subject of several audits by the California State Auditor (CSA), California Department of Technology – Office of Information Security (CDT-OIS) and the California Military Department (CMD). In addition to these audits, the department is also subject to audits from the State Personnel Board (SPB), State Controller's Office (SCO), and Department of General Services (DGS).

<u>Security Operations</u>

Due to the nature of FI$Cal's primary functions, it is critical that the FI$Cal System has security plans and protocols to provide sufficient levels of protection and integrity for the state's critical information. Specifically, FI$Cal needs to align with Cal-Secure, the Governor's multi-year Cyber Information Security Map, remain aligned with the State Administrative Manual (SAM) Chapter 5300 and National Institute of Standard and Technology (NIST) 800-53, as well as remediate the findings from mandated security audits and security assessments performed by the Department of Technology Office of Information Security and the California Military Department. FI$Cal also requests resources to comply with computer crimes investigations conducted by the Internal Revenue Service, California Highway Patrol (CHP) and CDT.

FI$Cal request nine new IT positions, and associated funding, to design, implement and maintain end-point protection systems, develop and test the Technology Recovery Plan, monitor IT security subsystems and email security systems, asset management and protection, and install and maintain security software tools. FI$Cal also requests $2.35 million in 2022-23, and $1.27 million ongoing for security related tools to assist with the Enterprise Services Offices and address finding of the CMD, CSA, and CDT audits and assessments. The tools will identify and track IT and network assets and threats. FI$Cal also requests $808,000 for three years for Subject Matter Experts (SMEs), to assist in the immediate planning, development and implementation of effective Information Security Program components for detecting, documenting, assessing, containing remediating threats against the FI$Cal system. These SMEs will not only develop and implement these components, but also document the procedures and provide training to state staff as they are hired to fill the position.

<u>Internal Controls and Compliance</u>

In October 2020, the CSA issued a report, which identified findings in the overall information technology (IT) general controls environment of the System. These CSA audits are ongoing, with the most recent audit fieldwork completed for 2019- 20 (report published on February 2, 2022). FI$Cal is currently undergoing the CSA 2020-21 audit field work, and the 2021-22 audit field work has yet to begin. These audits are expected to continue into the foreseeable future.

Based on the recommendations from the CSA and the CDT-OIS audit findings, there is a need to establish an Internal Control and Compliance Unit (ICCU) at FI$Cal. The ICCU will: (1) develop periodic reviews of security policies, (2) serve as a liaison and coordinate activities with external entities such as CSA and CDT, (3) coordinate accounting, procurement and HR audits with externa entities, (4) establish validation and verification control, among other duties. FI$Cal requests four positions (one Staff Services Manager (SSM) I and two SSMII) to establish the ICCU.

In total, FI$Cal requests $2 million ongoing for personal services and 13 positions ongoing, and $3.3 million in 2022-23, and $2.2 million in 2023-24 and 2024-25, and $1.4 million ongoing for operating expenses and equipment.

LAO does not have any specific concerns regarding this proposal.

Staff Recommendation. Approve Spring Finance Letter.

8955 DEPARTMENT OF VETERANS AFFAIRS

Issue 33: Home Care Funding Adjustment (Spring Finance Letter)

Summary. The California Department of Veterans Affairs requests a reduction of three positions beginning in 2022-23 and an augmentation of $216,000 General Fund in 2022-23, and $206,000 General Fund annually thereafter, as part of the census milestone reductions at the Veterans Home of California-Barstow as outlined in the 2021-22 Strategic Realignment of the Barstow Home and to address the need for permanent, full-time dental personnel at the Veterans Home of California-Chula Vista and Veterans Home of California-Fresno. A summary of the request are as follows:

	Positions	2022-23	Ongoing
Barstow Home Realignment	-7	-$784,000	-$784,000
Fresno Dental Personnel	2	505,000	495,000
Chula Vista Dental Personnel	2	495,000	495,000
Total	-3	$216,000	$206,000

Background. Opened in 1996, the Barstow Home offers three levels of care: Domiciliary (Dom), Intermediate Care Facility (ICF), and Skilled Nursing Facility (SNF). Although the Barstow Home has a capacity for 400 residents, it has averaged fewer than 200 residents since the early 2000s. CalVet conducted a full-scale appraisal of every Home, including levels of care offered, regional demand for services, hiring capabilities, infrastructure, and other characteristics necessary for strategic planning. The result was the Veterans Homes of California 2020 Master Plan (Master Plan). Contained in the Master Plan were specific recommendations that were intended to place each Home in the best possible position for success now and in the future. The recommendations for the Barstow Home included aligning the levels of care offered to more accurately reflect demand in the area. The proposed changes in levels of care included, through attrition over many years, closing the Dom program, converting the dual-occupancy 60-bed ICF to a single room 31-bed residential care facility for elders (RCFE), and reactivating 20 suspended SNF beds. It must be noted that no residents will be discharged as a result of these level of care changes.

The planned closure of the Dom through attrition was anticipated to take many years. However, the COVID-19 Pandemic, combined with other operational challenges, has reduced the Dom census to milestone points outlined in the Strategic Realignment for the Barstow Home that was approved for implementation January 1, 2022. The milestones were for a census drop of 30 and 60 beds as well as full closure. Each milestone included a corresponding reduction of positions. This proposal requests the implementation of the planned reductions.

CalVet requests a reduction of seven positions and $784,000 General Fund ongoing as part of the census milestone reductions at the Barstow Home. The Barstow Home has reached the 60-bed milestone which triggers the reduction of four Residential Care Specialists, two Custodians, and one Food Service Technician. These positions are currently vacant and no layoffs are required.

Additionally, this proposal includes the reduction of the cost of food for the 60 beds. CalVet is submitting this proposal as part of its obligation as outlined in the 2021-22 spring finance letter proposal.

Chula Vista Home Dental Positions

Currently, the Chula Vista Home has one Dentist Permanent Intermittent Employee (PIE) and one Dental Assistant PIE to provide all of the residents' dental care needs. PIEs may work up to 1,500 hours per fiscal year. The Dentist and Dental Assistant work in tandem to provide dental care to the residents plus perform the administrative tasks of the dental clinic. This means a total of 1,500 hours is available to perform dental services and administrative tasks. When calculating the amount of time needed to provide dental services to the approximate 300 Chula Vista veteran residents, it exceeds the 1,500 hours allocated to the PIE positions. The result is wait times for appointments of two months or more, on average, and an inability to treat and manage the dental needs of the resident population at the Chula Vista Home in a timely manner. Delays in scheduling dental appointments can cause progression of dental pathology and may have substantial impact on socialization, chewing, maintaining adequate weight, and nutrition. CalVet requests an increase of two positions and $495,000 General Fund beginning in 2022-23, for one Dentist and one Dental Assistant at the Chula Vista Home.

Fresno Home Dental Positions

The Fresno Home has contracted out dental services since it opened in 2013. The current vendor provides services offsite for SNF and RCFE residents. The Fresno Home's limited transportation resources are redirected to support these appointments. This places a burden on the residents, as transporting may be difficult, particularly for residents with significant physical or cognitive impairments. This contradicts CalVet's ongoing efforts to minimize offsite appointments to reduce infection control risk. The contracted workload can be performed effectively by permanent employees, as evidenced in the Homes with on-staff dentists. Converting from a contract to permanent dental employees better aligns with civil service standards. CalVet requests an increase of two positions and $505,000 General Fund in 2022-23 and $495,000 General Fund annually thereafter, for one Dentist and one Dental Assistant at the Fresno Home.

Staff Recommendation. Approve Spring Finance Letter.

Issue 34: Veterans Home of CA: Yountville Emergency Power Connection (Spring Finance Letter)

Summary. CalVet requests $5,321,000 General Fund in 2022-23 to install transfer switches and upgrade electrical panels in seven residential buildings at the Veterans Home of California-Yountville. Total project costs include design, construction, project management, and associated project fees. This project will allow for temporary emergency generator power connections and protect the health and safety of residents and staff.

Background. VHC-Yountville was the first veterans home in California to provide nursing care to qualified veterans and their spouses. Today, the facility spans 615 acres and more than 100 buildings, serving up to 876 veterans and their spouses. The largest level of care at VHC-Yountville is the Domiciliary (Dom) program, which offers independent living for up to 492 residents across eight residential buildings. One of these residential buildings also houses 48 residents who are in the Residential Care Facility for the Elderly (RCFE) program, which is a level of care that offers assisted living.

Currently, a major problem for VHC-Yountville is the increased frequency of unplanned power failures. Due to the age and condition of the electrical infrastructure at VHC-Yountville, as well as the increasing threat of natural disasters, power outages continue to grow in number and severity at the Home. Although VHC-Yountville does have onsite emergency standby generators to handle essential electrical loads to power its buildings housing residents in the Skilled Nursing Facility (SNF), SNF memory care, and Intermediate Care Facility levels of care, seven of the Home's eight residential buildings have no backup power. Of the seven buildings with no backup power, six exclusively house Dom residents, while an additional building serves both Dom and RCFE residents.

The residents of the Home are aged and/or disabled. When these seven buildings lose power, there is no lighting, heating, or air conditioning. With a prolonged power outage, CalVet has to find alternative storage for resident medication that needs to be refrigerated. In particular, extended or overnight power outages are a concern given the number of residents who rely on medical equipment (such as oxygen concentrators and continuous positive airway pressure machines [CPAP]) to maintain health and quality of life. Additionally, overnight power outages prevent lighting in the buildings, making it difficult for residents to safely walk or use mobility devices in their rooms or in the hallways or communal restrooms at night.

CalVet requests $5,321,000 General Fund in 2022-23 to install transfer switches and upgrade electrical panels in seven residential buildings at VHC – Yountville. Total project costs are based on an estimate from the Department of General Services and includes design, construction, project management, and associated project fees. This project will allow for temporary emergency generator power connections and protect the health and safety of residents and staff.

Staff Recommendation. Approve Spring Finance Letter.

Issue 35: Reappropriation of federal American Rescue Plan Act Funding (Spring Finance Letter)

Summary. CalVet submitted a Spring Finance Letter request to reappropriate American Rescue Plan Act (ARPA) funding from the 2021 Budget Act to provide CalVet additional time to spend the remainder of the funding on planned projects.

Background. CalVet's requests the following budget bill language to reappropriate federal ARPA funds with an extended encumbrance period through September 30, 2023.

8955-492—Reappropriation, Department of Veterans Affairs. The amount specified in the following citations are reappropriated for the purposes provided for in those appropriations and shall be available for encumbrance or expenditure until September 30, 2023:

0890—Federal Trust Fund
(1) Up to $8,172,000 in Schedule (3) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)
(2) Up to $1,434,000 in Schedule (4) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)
(3) Up to $3,384,000 in Schedule (5) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)
(4) Up to $5,143,000 in Schedule (6) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)
(5) Up to $1,966,000 in Schedule (7) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)
(6) Up to $3,325,000 in Schedule (8) of Item 8955-001-0890, Budget Act of 2021 (Ch. 240, Stats. 2021)

The Administration notes that these one-time appropriations are being used for various projects and purchases, including but not limited to, replacing old equipment, flooring, furniture including new beds and mattresses for the residents, paid overtime, updating nurse call systems, and COVID supplies.

Staff Recommendation. Approve Spring Finance Letter.

1703 CALIFORNIA PRIVACY PROTECTION AGENCY

Issue 36: Consumer Privacy Implementation and Enforcement

Background. The California Privacy Protection Agency (CPPA) requests 34 positions in fiscal year 2022-23 and ongoing in six divisions (Executive Function, Legal Division, Enforcement Division, Policy/ Legislative Affairs Division, Public Affairs Division, and the Administrative Division). These positions will provide the initial staff resources to allow the Agency to start up and fulfill its immediate statutory responsibilities. The Administration notes that these positions, including salaries, wages and benefits, would cost $5.6 million. Additionally, the operating expenses and equipment for the Agency is $408,000. Agency notes that the remaining funds not spent on personal services will be used to establish contracts as necessary to start up administrative functions, including implementation of regulations by July 1, 2022 and enforcement regulations beginning July 1, 2023.

This item was heard in the subcommittee's March 2nd hearing.

Staff Recommendation. Approve as budgeted.

ITEMS PROPOSED FOR DISCUSSION

0855 GAMBLING CONTROL COMMISSION

The mission of the California Gambling Control Commission (Commission) is to protect the public by ensuring integrity and justice in California's controlled gambling industry through regulations and fair application of the law. The Commission has jurisdiction over gambling establishments (cardrooms), third-party providers of proposition player services, and certain aspects of Tribal casinos, pursuant to its authority under state law and Tribal-State Gaming Compacts (Compacts). The Commission also has jurisdiction over gaming policies, regulations, criteria, and standards.

There are 86 licensed cardrooms in California over which the Commission has broad regulatory and adjudicatory authority. This authority extends to the operation, concentration, and supervision of the cardrooms and all persons and things related to each licensed establishment.

The Commission has fiduciary, regulatory, and administrative responsibilities related to Tribal gaming that include: (1) distributing specified Tribal gaming revenues to Non-Compact, Non-Gaming and Limited-Gaming Tribes; (2) making suitability determinations for key employees, gaming resource suppliers, and financial sources; and (3) serving as the administrator of the Indian Gaming Revenue Sharing Trust Fund, Indian Gaming Special Distribution Fund, and the Tribal Nation Grant Fund.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
0560	California Gambling Control Commission	63.9	36.0	40.0	$85,907	$154,198	$154,706
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**63.9**	**36.0**	**40.0**	**$85,907**	**$154,198**	**$154,706**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0366	Indian Gaming Revenue Sharing Trust Fund	$77,375	$96,500	$96,500
0367	Indian Gaming Special Distribution Fund	2,706	3,372	3,596
0567	Gambling Control Fund	3,436	4,326	4,610
8089	Tribal Nation Grant Fund	2,390	50,000	50,000
TOTALS, EXPENDITURES, ALL FUNDS		**$85,907**	**$154,198**	**$154,706**

Issue 37: Licensing Fee Methodology Trailer Bill Language

Request. The Administration proposes trailer bill language to amend existing law regarding state gambling license fee. The proposed trailer bill specifies that application fees shall be determined by the commission, and shall not exceed $1,200 and be limited to reasonable regulatory expenditures of the commission and department.

Background. The Gambling Control Act (Gambling Act) and state regulations give the California Department of Justice's Bureau of Gambling Control (bureau) and the California Gambling Control Commission (commission) distinct responsibilities for a range of licensing and enforcement activities related to gaming businesses—primarily card rooms—in California. Generally, the bureau is responsible for performing background investigations of applicants seeking licenses that will enable them to own or work in these gaming businesses and for enforcing gaming laws and regulations. The commission, on the other hand, is an independent body that makes licensing decisions in consideration of the bureau's recommendations and, when applicable, takes or upholds disciplinary actions against licensees, such as license revocation. To meet their responsibilities, the bureau and the commission receive funding from the Gambling Control Fund (Gambling Fund). The Gambling Fund receives revenue from a variety of licensing and regulatory fees, such as application fees, background deposits, site relocation fees, game review fees that those who own, operate, and work in card rooms and related businesses pay.

Existing law requires license applicants to pay nonrefundable application fees for all license types. Cardroom fees are based on annual revenue if they make over $200,000, and by the number of tables they are licensed to operate if they make under $200,000 in revenue. For example, a cardroom with one to five tables may be charged $300 per table, whereas a cardroom with 26 to 70 tables may pay $400 per table. Statute also specifies that it is the intent that the fees paid are sufficient to enable the department and commission to carry out their duties and responsibilities.

In May 2019, the California State Auditor conducted an audit on the Bureau and Commission's licensing processes and performance. The State Auditor's report notes that the Bureau and Commission have charged fees that do not align with regulatory costs and have resulted in excessive surplus. The current fund balance for the beginning of 2022-23 is $38 million. Additionally, there is an outstanding $45 million loan from the Gambling Control Fund to the General Fund that is scheduled for repayment in 2024-25. The State Auditor found that the licensing revenue that the Gambling Fund receives covers less than half the cost of processing license applications. In contrast, other non-licensing regulatory fees far exceed the cost of related oversight.

To better align the revenue in the Gambling Fund with the costs of the activities that the fund supports, the State Auditor recommended the bureau and the commission conduct cost analyses of those activities by July 2020. The State Auditor notes that using this information, the bureau and commission should reset their regulatory fees to reflect their actual costs. The Commission completed a cost and fee analysis in early 2021 with an independent consultant, submitted it to the DOF and CSA. The DOF and CSA both signed-off on the cost and fee analysis in September 2021. The Commission has authority to modify majority of its fees via regulations and the formal rulemaking process. The Commission immediately promulgated Emergency Regulations for those specified fees, which took effect in October 2021, to lower the fees identified for reduction. In addition, the 45-day comment period ended in February 2022 for its regular rulemaking package to permanently set those fees that are reducing, as well as the fees that are increasing. However, the Cardroom's Annual Fee, is set in statute.

The proposed trailer bill language allows the Commission to establish the cardroom license fee as determined by the Commission and adopted by regulation. In addition, the proposed trailer bill language will remove the "non-refundable" language to provide the Commission flexibility in issuing refunds for fees paid. The trailer bill maintains the existing language of "shall not exceed" $1,200 to clarify that the Commission will not increase the application fee beyond a level it already has existing authority to charge up to.

The proposed trailer bill does not include a methodology on how the cardroom fees will be adjusted, and will instead be determined through the Commission's formal rulemaking process. Based on the information in the independent fee study analysis, methodology from the formal rule making package on TPPPs, industry surveys and meetings with industry associations, the Commission estimates a net $10,000 average fee increase for cardrooms across the state. There are currently 86 cardrooms. The Commission estimates that the annual fee for about 25 percent of cardrooms would decrease and about 75 percent would increase. Of the cardrooms that would experience an increase, about half of them would have fees that are double or higher. The Commission notes that for many of those that have significant increases, many are non-operatives, these are cardrooms elect to hold a license and non-resell their interest to engage in a gambling business but rather keep the license and do not engage in business. The Commission notes that these estimates are based on a draft methodology, and may change as it moves through the formal rule making process.

Staff Recommendation. Hold Open.

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 38: Student Borrower Loan Assistance Program

Request. The Governor's Budget, and subsequent April Letter, provides the Department of Financial Protection and Innovation one-time funding of $10 million General Fund in fiscal year 2022-23 and Budget Bill Language to implement the Student Loan Borrower Assistance Program, as follows:

Marketing: $5 million for a statewide, cross-channel, multilingual marketing campaign focused on student borrowers, including an assessment of impacts. The Department's Communications and Outreach Team will be coordinating marketing efforts, with the project manager to oversee project work, vendor contracts, and the creation of a student borrower-focused webpage.

Student Borrower Assistance Grant Program: $4.25 million to launch a grant program funding legal aid and community-based organizations that will assist student borrowers across the state. The grant administrator will work closely with the Education and Outreach Team, the Student Loan Servicing Program, and the Student Loan Ombudsperson to develop guidelines, outreach materials, and to ensure compliance. Organizations receiving grant funds may use the grant money for the following purposes:

- Designing, developing, or offering, free of charge to consumers, classroom or web-based financial education and financial empowerment content intended to help student borrowers manage their student loans, access federal repayment and forgiveness benefits, or lower their debt balance.
- Provide individualized, free financial coaching or direct legal services to student borrowers.

Consumer Services: $750,000 for administration of the marketing campaign and grant program, including managing the expected increase in consumer complaints about student loan servicers. The department currently serves Californians by fielding and responding to thousands of calls, emails, and complaints from consumers each year and is anticipating an increase related to student loan servicers.

Background:

According to the LAO's report on, *The 2022-23 Budget: Student Financial Aid*:

Many Californians Have Student Loan Debt. In California, 3.9 million individuals owe a combined $145 billion in federal student loan debt. (The federal government issues the vast majority of student loans, with the remainder coming from private lenders including financial institutions.) Although the federal government suspended repayment on student loans at the onset of the pandemic in March 2020, repayments are scheduled to resume in May 2022. There are several repayment options for federal student loans—including four income-driven repayment plans in which a borrower's monthly payment is capped at a certain percentage (between

10 percent and 20 percent) of their discretionary income, and any loan balance that remains after a set repayment period (between 20 and 25 years) is forgiven.

Borrowers Unable to Repay Loans Risk Going Into Default. If a borrower does not make payments for a certain time period (typically nine months for federal student loans), the loan goes into default. Borrowers who default on their loans can face various consequences, including collection fees, wage garnishing, reduced credit scores, and loss of access to additional student financial aid. The U.S. Department of Education reports that 7.3 percent of borrowers nationally who entered repayment on their federal student loans in 2017-18 defaulted within three years. (This rate may be artificially low, as the three-year window includes six months during which repayments were paused under the pandemic. The three-year default rate for the 2016-17 cohort was 9.7 percent.) The default rate in California is somewhat lower than the national average. Based on U.S. Department of Education data, we estimate that the three-year default rate was approximately 6 percent among borrowers in the 2017-18 cohort who attended California institutions.

Certain Groups of Borrowers Have Relatively High Default Rates. National studies have found that student loan default rates are higher for students who do not complete a college degree or certificate, compared to students who do complete. As Figure 6 shows, default rates also vary by segment of attendance, with borrowers attending community colleges and for-profit institutions more likely to default. Moreover, research has found notable demographic disparities. For example, a 2019 study from the Federal Reserve Bank of San Francisco and the San Francisco Treasurer's Office of Financial Empowerment found that the percentage of student loan borrowers in default was nearly three times as high in Bay Area neighborhoods in the lowest income quintile (15 percent) compared to those in the highest income quintile (5.6 percent). The study further found that default rates were considerably higher in Bay Area neighborhoods with higher percentages of Black and Hispanic residents.

Figure 6

Default Rate Varies by Segment

Estimated Three-Year Default Rate for 2017-18 Cohort[a]

Segment	Default Rate
California Community Colleges	13%
Private for-profit	9
California State University	3
Private nonprofit	3
University of California	2
State Total	**6%**

[a]Percent of borrowers entering repayment on federal loans during federal fiscal year 2017-18 who defaulted by September 30, 2020. Reflects LAO estimates based on the U.S. Department of Education's Official Cohort Default Rates for Schools.

DFPI Regulates Student Loan Servicers and Receives Borrower Complaints. Broadly, DFPI provides consumer protection and oversight of financial service providers. As part of this work, DFPI regulates student loan servicers—the companies the federal government assigns to manage billing and payments on student loans. Recently, Chapter 154 of 2020 (AB 376, Stone) also created a student loan ombudsman under DFPI. The ombudsman's duties include receiving and reviewing complaints from student loan borrowers, providing information to the public regarding borrowers' concerns, and monitoring the development of relevant federal and state policies, among other activities.

Students Also Receive Information on Borrowing From Various Other Sources. The U.S. Department of Education provides mandatory entry and exit counseling to all federal student loan borrowers. These online sessions provide information on student budgets, loan terms, repayment, and default. Many colleges and universities also offer financial literacy services that cover student loans, among other topics. In addition, the state provides funding to the Bureau of Private Postsecondary Education (through the Office of Student Assistance and Relief) to offer outreach on student loans and other topics to prospective, current, and former students of private colleges and universities.

LAO Comments and recommendation:

Assessment Governor's Student Loan Proposal Lacks Clear Problem Definition. The Governor's proposal does not clearly identify the problems facing student loan borrowers, including those at risk of delinquency or default. In particular, it is unclear whether borrowers have difficulty with repayment because they lack information on their repayment options or because of other barriers, such as an inability to pay. As a result, it is difficult to assess whether the Governor's proposal—which focuses on providing information—addresses the problem. Moreover, borrowers already receive information on loans and repayment from various other sources. For example, the U.S. Department of Education provides mandatory entrance and exit counseling to all federal student loan borrowers, and many colleges and universities also offer financial literacy services that cover student loans, among other topics. The Administration has not identified what information gaps, if any, exist.

Proposed Borrower Assistance Activities Could Duplicate Existing Efforts. Several activities included in the Governor's proposal appear to duplicate existing efforts to assist student loan borrowers. One area of duplication is that the proposal would create a borrower-facing website to provide information on student loans, even though the U.S. Department of Education already maintains such a website. The proposal also would provide grants to organizations to develop and offer financial education content, even though other organizations (including colleges and universities) already provide such content. In addition, the proposal would provide targeted outreach to borrowers eligible for the Public Service Loan Forgiveness program, even though the 2021-22 federal budget provides $2.3 million to the U.S. Department of Education for a similar purpose.

Some Proposed Activities Are Not Well-Suited for One-Time Funds. Providing accurate and timely information related to student loans is an ongoing activity, with a new cohort of borrowers entering repayment every year. The Governor's proposed marketing campaign and grant program, however, would primarily reach current borrowers in the near term. Notably, the Governor's proposal also does not specify that organizations receiving grants to provide individualized financial coaching or legal services have a plan for sustaining those activities after the proposed funding expires. Overall, using one-time funds for such purposes could result in a short-lived impact, while creating pressure for the state to provide additional funding for these activities in the future.

Federal Changes Affect Need for Additional Borrower Assistance in Near Term. At the start of the pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act suspended repayment on federal student loans for six months. Since then, the federal government has extended this suspension six times, most recently on April 6, 2022. It remains uncertain whether repayments will resume on the currently scheduled date (September 1, 2022), or if the date will be further postponed. If the suspension of repayments is further extended into 2022-23, additional assistance related to student loan repayment would become less relevant during that fiscal year

For the reasons noted above, the LAO recommends rejecting the proposal.

Suggested Questions:

- How would the information and website provided under this proposal differ from those already existing from the federal Department of Education? How would the state's website, which is acting as a middle-man in providing information, be better poised to respond to changes in federal rules?

- Can DFPI or the Administration detail the information missing from federal or other existing outreach that this proposal would provide?

- Is a broad media campaign the best way to reach these borrowers? Are there more targeted strategies that may be more effective?

- Given the potential for changes in the student loan repayment rules from the federal government, how would a media campaign be able to respond to changing conditions that may extend beyond the 2022-23 fiscal year?

- Has the DFPI seen an increase in complaints about loan servicers during the pandemic?

Staff Recommendation. Hold Open.

0840 STATE CONTROLLER
7501 DEPARTMENT OF HUMAN RESOURCES

Issue 39: California State Payroll System Project

Spring Finance Letters: The State Controller's Office (SCO) submitted two Spring Finance Letters related to the California State Payroll System Project (CSPS) and FI$CAL submitted a related request:

The first request is for $379,000 General Fund (GF) in 2022-23 and $372,000 GF in 2023-24 through 2025-26 to support 2.0 four-year limited-term legal and budgetary resources for critical administrative functions of the CSPS project.

The second request amends a proposal to support the CSPS project through the continuation of the California Department of Technology (CDT) Project Approval Lifecycle (PAL) Stage 4 and into the execution phase System Development Lifecycle of the approved project. The original request was heard in Subcommittee #4 on February 9, 2022.

Updated Budget Request. The Governor's budget includes resources for both the State Controller's Office and the Department of Human Resources to support the California State Payroll System (CSPS) project through the continuation of the California Department of Technology (CDT) Project Approval Lifecycle (PAL) Stage 4 and into the execution phase System Development Lifecycle of the approved project. The request is as follows:

State Controller's Office:

- 2022-23: 33.0 positions [1.0 continuing two-year limited-term (LT) and 32.0 permanent] and $97,844,000 General Fund
- 2023-24: 40.0 positions (1.0 continuing two-year LT and 39.0 permanent) and $6,653,000 General Fund
- 2024-25 and ongoing: 39.0 permanent positions and $6,653,000 General Fund

Note: The position request has not changed since January, but has been updated to reflect only General Fund, and eliminating a share of costs with the Central Service Recovery Fund as originally proposed.

Department of Human Resources:

- 2022-23: 15.0 permanent positions and $3,424,000 GF
- 2023-24 and 2024-25: $3,319,000 GF
- 2025-26 and ongoing: $2,573,000 GF

Note: The position request for the Department of Human Resources has not changed since January.

FI$Cal Request: *Note, this request will be heard in more detail in the following item.* FI$Cal is requesting resources to collaborate with the SCO and CalHR and determine accounting functionality requirements, identify System interface requirements, and deploy the functionality and interfaces necessary to integrate FI$Cal and CSPS. Specifically, FI$Cal is requesting a total of $18.4 million one-time funding for contractor resources to meet the CSPS integration requirements of the System. Of the $18.4 million, $9.2 million will be held as a transfer item to be released if needed when the CSPS specifications are more fully known. FI$Cal requests provisional language be included in the Budget Act to release the $9.2 million, when needed.

Background. Beginning in 2016, SCO began to assess current information technology (IT) and the latest industry standards, and initiated the re-engineering of a new human resource (HR) management and payroll system. This initiative is named the California State Payroll System (CSPS) Project. CSPS product scope includes functionality for Core HR (Position Control, Benefits Administration, Personnel Administration, Time Management, and Payroll). This functionality is typically found in Human Capital Management (HCM) Solutions. In May 2021, CSPS added Travel and Expense Management functionality to its product scope through the CDT approved Change Request (CR) #007.

The project is currently under the oversight of the California Department of Technology (CDT). The Project received CDT approval on PAL Stage 1 Business Analysis (S1BA) in October 2017 and PAL Stage 2 approval in April 2021. In October 2021, the project team submitted PAL Stage 3 Solution Development (S3SD) Part A, which encompasses key project planning milestones including the submission of the detailed solution requirements and completion of a draft of the Request for Proposal (RFP) and Statement of Work (SOW) procurement documents, which provide the requirements for the CSPS solicitation of a future solution. The project team continues to work on tasks related to Organizational Change Management, Independent Verification and Validation (IV and V), Data Analysis and Planning, and Project Management Office Services. The Governor's budget includes funding for vendor resources to compliment state resources related to System Integrator Services, Business Analysis and Information Technology, Data Migration and Validation Services, IV and V Services, Organization change Management Services, and Project Advisor Services.

SCO is working closely with CDT as it completes each of the stages in the PAL process. Below are the PAL approval and expected submission dates:

- Stage 1 (Business Analysis): approved October 2017
- Stage 2 (Alternatives Analysis): approved April 2021
- Stage 3 Part A (Solution Development): submitted October 2021
- Stage 3 Part B (Solution Development): anticipated submission January 2022
- Stage 4 (Project Readiness and Approval): anticipated submission January 2023

The Governor's budget includes proposed provisional language that would require $83.3 million of the additional funding for the California State Payroll System Project future solution costs to be allocated with the approval of Department of Finance. Stage 4 of the Project Approval Lifecycle Process must be approved by the California Department of Technology prior to these funds being made available. Allocation of these funds will be made after a 30 day notification in writing to the chairpersons of the budget committees in both houses of the Legislature and the Joint Legislative Budget Committee.

State Controller's Office Staffing
(Dollars in Thousands)

Program Budget	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Authorized Expenditures	$2,377	$5,833	$3,974	$6,878	$9,458	$17,756
Actual Expenditures	$1,452	$4,541	$3,860	$6,780	$8,522	$17,756
Revenues						
Authorized Positions	4.0	19.0	19.0	18.0	25.0	44.5
Filled Positions	4.3	15.8	16.0	16.6	25.0	39.5
Vacancies		3.2	3.0	1.4		5.5

SCO requests funding to support 33.0 positions [1.0 continuing two-year LT and 32.0 permanent] and to reclassify 6.0 existing positions in 2022-23; 7.0 CalATERS Replacement Project (CRP) positions to become permanent for a total of 39.0 new positions in 2023-24 and ongoing to continue to work on the project activities that will drive the activities of designing a new statewide personnel and payroll solution.

Department of Human Resources Staffing

In 2017, SCO contracted with the Department of Human Resources (CalHR) to provide two CalHR staff to act as members of the CSPS Project. These positions provide information for the existing procedures and policies under the authority of CalHR, including Labor Relations (LR), Benefits Administration, Third Parties, and Unions. They support project activities related to an alternative assessment analysis, including development of business and user requirements. In 2021, CalHR received a position and $230,000 in ongoing funding to act as the CalHR CSPS Project Director. This position is to oversee and ensure the new system not only appropriately applies requirements set by laws, regulations, and bargaining agreements but also effectively supports statewide HR and LR programs' business policies, practices, and processes.

As the CSPS Project ramps up for the next phase, there is an upcoming need for additional CalHR staff involvement from multiple divisions including, Personnel Management (PMD), Benefits, and Information Technology (ITD) in the CSPS Project and its ancillary activities over the next three to five years. CalHR is requesting 15.0 permanent positions for this workload.

FI$Cal Needs:

The CSPS project has identified and the need to engage with FI$Cal on integrations required between the two systems. FI$Cal currently interfaces with CalATERS and utilizes the Payroll Warrant File in the highly customized Labor Distribution module. Additionally, FI$Cal receives payroll accounts receivable data from the SCO payroll systems. CSPS will replace these legacy systems and will need to integrate with FI$Cal. FI$Cal is requesting resources to collaborate with the SCO and CalHR in:

- Determining what additional accounting functionality will need to be added or modified in the FI$Cal System.

- Identifying critical interfaces and processes the FI$Cal System will need in order to integrate with CSPS.
- Designing, building, testing, and deploying those enhancements, new functionality, and new interfaces between the systems.

LAO Updated Findings and Recommendations:

The administration's April 1 BCPs / SFLs heighten our concerns from February with the proposed CSPS IT project.

Increased General Fund Expenditures, Delayed Legislative Review. The three April 1 BCPs / SFLs proposed by the administration would increase General Fund expenditures on the proposed CSPS IT project by $45 million from the Governor's 2022-23 budget proposal. More General Fund expenditures on a project that does not currently meet a SAL requirement without any additional information available about the vendor contracts could increase risk to the state. The updated project timeline reflects at least a two-month delay from the project timeline in January, which means legislative oversight through the Joint Legislative Budget Committee (as proposed by the administration) likely would not begin until April 2023 at the earliest. Increased General Fund expenditures on the project, combined with a delayed legislative review of the project plan, heightens our concerns from February that the Legislature does not have the information about the project it needs to approve development and implementation funds, that the assumed project timeline is likely unrealistic, and that the timeline limits legislative oversight.

Limited Information About Integration of CSPS and FI$Cal. FI$Cal acknowledges that there are dependencies between the FI$Cal IT system and the proposed CSPS IT project (as our office mentioned in its February analysis). The extent of the integration between the two systems will depend, however, on the system integrator vendor selected for CSPS. Without this system integrator vendor, FI$Cal is requesting $18.4 million not knowing how integrated these two systems will become. Of the $18.4 million, some unspecified amount is for FI$Cal to plan what interfaces, system changes, and other modifications will be needed in FI$Cal to integrate with CSPS. While we think there is merit to FI$Cal starting this planning effort, it is pre-mature for the Legislature to approve any associated development and implementation funding. It is our understanding from the administration that $9.2 million ($5.5 million General Fund) of the funding requested would support one "sprint team"—a team of contractors with expertise in business operations and technical skills to support system development—for one fiscal year. We think FI$Cal using this team to begin its planning effort in 2022-23 is reasonable, but think all remaining funding for integration should be deferred until 2023-24.

Possible Delays to Estimated Project Timeline Still Exist. The delay in the submission and approval of the Stage 3 Solution Development documentation and the anticipated delays in the procurement and onboarding of project vendors reinforce our finding from February that delays from a number of project risks are possible. The proposed CSPS IT project, if approved, would be one of the costliest and most complex IT projects undertaken by the state, and prior efforts to replace the payroll system did not succeed. The Legislature should carefully consider approval of development and implementation funding for this project unless and until it is formally approved by the Administration and, even then, take additional time to ensure this effort is more successful.

Recommendations. We restate our recommendation from February that the Legislature defer consideration of the $83.3 million (now all General Fund) in development and implementation funds for this project until 2023-24. Consistent with this recommendation, we also recommend the Legislature defer consideration of $9.2 million ($5.5 million General Fund) of the proposed $18.4 million ($11.1 million General Fund) (and proposed provisional budget bill language) for FI$Cal to develop and implement integrations between CSPS and FI$Cal until 2023-24. We raise no specific concerns with the additional administrative positions requested by SCO.

Staff Recommendation. Hold Open.

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

The Department of FI$Cal operates the statewide financial system to enable California to perform budgeting, accounting, procurement and cash management functions transparently and efficiently. The Department of FI$Cal is responsible for supporting the Financial Information System for California (FI$Cal) Project, including supporting the system's customers and stakeholders.

The FI$Cal Project is a partnership of four control agencies: the Department of Finance, the State Controller's Office, the State Treasurer's Office, and the Department of General Services. FI$Cal provides the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. FI$Cal, through the adoption of best business practices, reengineers business processes; improves efficiency; enhances decision making and resource management; and provides reliable, accessible, and timely statewide financial information allowing the state to be more transparent. FI$Cal further enables transparency through its Open FI$Cal website, which was implemented in 2018 pursuant to Government Code section 11862. The website will continue to expand providing the public with access to a growing number of the state's non-confidential expenditures.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
6890	Statewide Systems Development	273.2	318.0	318.0	$105,631	$107,386	$82,956
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**273.2**	**318.0**	**318.0**	**$105,631**	**$107,386**	**$82,956**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$59,430	$59,371	$49,774
9737	FISCal Internal Services Fund	1,270	3,472	-
9740	Central Service Cost Recovery Fund	44,931	44,543	33,182
TOTALS, EXPENDITURES, ALL FUNDS		**$105,631**	**$107,386**	**$82,956**

Issue 40: Departmental Onboarding and California State Payroll System Adjustment, and Transitioning Consultant Workload to State Staff and Workload Backlog Adjustment (Spring Finance Letters)

Summary. The Department of FI$Cal (DOFI$Cal) requests $24.3 million ($14.6 million General Fund [GF] and $9.7million Central Service Cost Recovery Fund [CSCRF]) in 2022-23, $5.0 million ($3.0 million GF and $2.0 million CSCRF) in 2023-24, $3.1 million ($1.9 million GF and $1.2 million CSCRF) in 2024-25, $0.8 million ($0.5 million GF and $0.3 million CSCRF) ongoing, and five permanent positions.

The requested resources are needed to onboard the California Department of Technology (CDT) and the Department of Rehabilitation (DOR) to FI$Cal and begin onboarding planning for the California Department of Transportation (Caltrans). Following the successful onboarding of CDT and DOR, DOFI$Cal will retain the new staff to support end-users and the increased technical and data demands placed on the System. The expected date that CDT and DOR will begin transacting in the System is July 1, 2024. Additionally, DOFI$Cal is requesting resources to prepare the System for integration with the California State Payroll System (CSPS).

FI$Cal also requests $16.6 million in 2022-23, $11.0 million ongoing, and 46 positions to transition consultant workload to state staff, work on existing backlogs, and provide additional training and support to FI$Cal end-users and client departments.

Background. One hundred fifty one departments perform financial management and procurement activities in the FI$Cal. There are 10 departments in the state who have been identified as deferred because they utilize existing financial management systems. These departments must onboard to the FI$Cal when their existing financial systems reach end of life.

Department Onboarding

CDT, DOR and Caltrans have been identified as deferred departments, but are now the next departments to onboard. The deferred effort to onboard these departments will be significant as they have unique business processes and requirements that differ from departments using the CalStars legacy system. The deferred department analysis identified new system-to-system interfaces and corresponding changes to the System are necessary to meet the departments' requirements. CDT and DOR have additional complexities due to unique business requirements.

DOFI$Cal will work with Caltrans to develop an extended onboarding plan during 2022-23—which is necessary due to the size and complexity of the department. During past onboarding efforts the system integrator (SI) led the efforts and were supported by DOFI$Cal staff. The SI is the company, Accenture, that was hired to build, implement and deploy the FI$Cal. The SI rolled off in phases over the past four years and DOFI$Cal staff absorbed the workload after knowledge transfer occurred. With the departure of the remaining SI resources and the addition of CDT and DOR to the System, DOFI$Cal requests additional one-time and ongoing resources to onboard and support these new System users.

DOFI$Cal requests contracted resources to address the one-time workload to onboard CDT and DOR during 2022-23 ($3.7 million), 2023-24 ($3.7 million), and 2024-25 ($1.8 million) and two positions (one IT specialist and one Accounting Administrator) to augment the onboarding activities and to support the new System end-users. Additionally, FI$Cal is requesting contracted resources in 2022-23 ($0.9 million) to begin onboarding planning for Caltrans.

Additionally, DOFI$Cal's Information Technology Division also requests three IT specialist positions ongoing to support onboarding efforts by providing legacy system data analysis and conversions, interface data transformation and design, interface security design, build and validation, application changes, among others. ITD provides technical design and build of enhancements to the System, change and release management, and security information and event management support.

California State Payroll System (CSPS) Project

As discussed in the prior issue, the State Controller's Office (SCO), in partnership with the Department of Human Resources (CalHR), initiated the CSPS Project. DOFI$Cal is requesting resources to collaborate with the SCO and CalHR and determine accounting functionality requirements, identify System interface requirements, and deploy the functionality and interfaces necessary to integrate FI$Cal and CSPS. Currently, the CSPS project is in Stage 3 of the Project Approval Lifecycle at the CDT. As of March 31, 2022, the estimated project timeline expects CSPS to finish CDT's Project Approval Lifecycle (PAL) by April 19, 2023 and start development and implementation no sooner than May 8, 2023. There are currently several budget change proposals regarding the CSPS project that is pending in this subcommittee.

The FI$Cal currently interfaces with CalATERS and utilizes the Payroll Warrant File in the highly customized Labor Distribution module. Additionally, the FI$Cal receives payroll accounts receivable data from the SCO payroll systems. CSPS will replace these legacy systems and will need to integrate with the System. DOFI$Cal is requesting resources to collaborate with the SCO and CalHR in:

- Determining what additional accounting functionality will need to be added or modified in the FI$Cal System.
- Identifying critical interfaces and processes the System will need in order to integrate with CSPS.
- Designing, building, testing, and deploying those enhancements, new functionality, and new interfaces between the systems.

FI$Cal is requesting a total of $18.4 million one-time funding for contractor resources to meet the CSPS integration requirements of the FI$Cal System. Proposed provisional budget bill language would withhold half of the requested funding—$9.2 million ($5.5 million General Fund)—until Department of Finance (DOF) decides additional funds are needed to integrate CSPS and FI$Cal.

Transitioning Consultant Workload to State Staff and Workload Backlog Adjustment

Expiring Vendor Contract and Workload. Business Operation Solution Division (BOSD) supports current users with system and process training, communications, system enhancements, ticket resolution, configurations, and on-boarding of new departments and functionality. As the SI rolled off, FI$Cal relied on smaller contracts to assist in maintaining service levels and provide support on the more complex tickets and enhancements. Enhancements are updates or changes that departments request to increase usability of FI$Cal. In 2022-23 this work will transition onto BOSD as the vendor contracts are set to expire. Even with the assistance of contracted resources, the BOSD continues to carry backlogs in the enhancements, case tickets, and training workload.

FI$Cal requests 11 positions (one IT Specialist, four IT associates, and six accounting specialist) and permanent resources to address the ticket workload currently handled by these expiring contracted resources. FI$Cal also requests $1.3 million ongoing contract funding for technofunctional consultation on the most complex tickets and enhancements requiring back-end table research.

Training. BOSD also provides system and training to departments using web based and virtual instructor led training (VILTs), and provides learning support. The Workforce Development Center (WDC) at the BOSD has dedicated staff creating and updating content; scheduling, managing registration and waitlists; and managing and facilitating VILTs.

FI$Cal requests nine positions (two Associate Accounting Analysts, four Accounting Administrators, two Associate Governmental Program Analysts, and one Graphic Designer) to conduct approximately 10 VILTs per month and review, update, and maintain the existing and new training material including the FI$Cal Manual to be released later this year.

IT Solutions and Support. The Informational Technology Division (ITD) provides technical support for user access fulfillment, application support, technical design and build of enhancements. Additionally, ITD provides support for installing, configuring, maintaining, managing and monitoring all of the software and hardware infrastructure supporting end user applications, back-office solutions, and the on-premises and cloud network infrastructures. ITD maintains technical environments and conducts code promotion, and change and release management. In addition, the ITD supports departments and the system with application security, performance analysis and tuning, and batch and interface operations. These processes are critical to the maintenance and operations of the System.

FI$Cal requests five new permanent positions (two IT Specialist I, and three IT Specialist III) within ITD to maintain processing timeframes, support new solutions, provide technical expertise to conduct technical analysis and troubleshooting of application issues and implement technical IT solutions for PeopleSoft, Oracle Business Intelligence, and Ledger Reconciliation Tool.

Enhancement Workload. FI$Cal requests 21 positions (19 IT Specialists I, and two IT Specialist II) to replace one-time contracts used to support the development of user requested enhancements. The workload supported includes analysis, functional design, technical design, build, functional and technical testing, and deployment.

In addition to these resources, FI$Cal requests a one-time appropriation of $5.6 million to address a backlog of 145 enhancements, assessed as of January 2022, that have accrued. FI$Cal is unable to continue releasing new enhancements and reduce the backlog using existing resources.

Lastly, FI$Cal requests provisional language to allow DOF to augment FI$Cal's budget annually in the amount necessary to fund Oracle license fee increases. There are three components to the Oracle licenses – base licenses, expansion costs and maintenance costs on the expansion. These costs are approximately $5.5 million this year and anticipated to increase in subsequent years. The budget request addresses the expansion and maintenance costs.

Legislative Analyst's Office Comments.

FI$Cal IT Project Not on Track to Meet Current Schedule and Scope. Special Project Report 9—the most recent project approval documentation for the FI$Cal IT project—set a project finish date of June 30, 2022, and confirmed the remaining project scope as production of state government annual financial reports using both FI$Cal and SCO's legacy system, with the underlying data validated by SCO using newly developed reports and tools. The Administration notes that the FI$Cal IT project will not finish this remaining project scope by the approved finish date.

Future of FI$Cal IT Project to Be Discussed Over Next Several Months. The Administration notes that the FI$Cal IT project partners will discuss how to complete the remaining project scope and prioritize future project activities over the next several months, starting in earnest in late May. Some of the topics to be discussed include (but are not limited to) the validation work for the state government annual financial reports, the FI$Cal system becoming the state's Book of Record, onboarding the remaining deferred (and possibly some of the exempt) departments, and prioritizing the list of user-requested system enhancements.

Decisions on these topics could inform the prioritization of user-requested system enhancements, which would impact the work of resources requested in the department's Transitioning Consultant Workload to State Staff and Workload Backlog Adjustment BCP. It is also at least possible more external contracting resources (alongside the additional state staff) will be needed to complete future project activities.

Supplemental Report Language Could Inform Conversations Between Administration and Legislative on FI$Cal's Future. Decisions about the future of the FI$Cal project must be clearly communicated to the Legislature to facilitate discussions about future budget actions and policy direction. To help inform the Legislature about the work that remains to be done for the FI$Cal IT project (and the FI$Cal IT system, in general), what disagreements between the project partners need to be addressed, and what key decisions have been and/or must be made to finish the project (and implement the system consistent with state law), the Legislature could consider requiring a report from Department of FI$Cal (DOFI$Cal) and the FI$Cal IT project team on these topics (at a minimum).

Provisional budget bill language that withholds some amount of funding for the user-requested enhancement backlog (which might change or be prioritized differently over the next several months) could ensure a report is timely delivered to the Legislature to inform its conversations with the administration about the future of FI$Cal.

Limited Information About Integration of CSPS and FI$Cal. DOFI$Cal acknowledges that there are dependencies between the FI$Cal IT system and the proposed CSPS IT project. The extent of the integration between the two systems will depend, however, on the system integrator vendor selected for CSPS. Without this system integrator vendor, DOFI$Cal is requesting $18.4 million not knowing how integrated these two systems will become. Of the $18.4 million, some unspecified amount is for DOFI$Cal to plan what interfaces, system changes, and other modifications will be needed in FI$Cal to integrate with CSPS.

While the LAO thinks there is merit to DOFI$Cal starting this planning effort, it is pre-mature for the Legislature to approve any associated development and implementation funding. It is the LAOs understanding from the Administration that $9.2 million ($5.5 million General Fund) of the funding requested would support one "sprint team"—a team of contractors with expertise in business operations and technical skills to support system development—for one fiscal year. The LAO thinks DOFI$Cal using this team to begin its planning effort in 2022-23 is reasonable, but think all remaining funding for integration should be deferred until 2023-24.

LAO Recommendations. The LAO recommends the Legislature approve supplemental report language that requires FI$Cal IT project partners (at a minimum) to identify what work remains to be done on the FI$Cal IT system, what disagreements between the project partners need to be addressed, and what key decisions must be made to finish the project (and implement the system consistent with state law). To ensure FI$Cal IT project partners submit this report, the LAO also recommends the Legislature approve provisional budget bill language that withholds some amount of funding for user-requested enhancements. Additionally, the LAO thinks that the provisional budget bill language and $9.2 million should be deferred until 2023-24.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, May 11, 2022
9am
O Street Building - Room 1200

Consultant: James Hacker

PART B

ITEMS FOR VOTE ONLY

ISSUES FOR DISCUSSION

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS FOR VOTE ONLY

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 1: California Climate Action Corps State Service Program

Request. The Administration requests $3.86 million General Fund in 2024-25 and ongoing to support statewide cohorts of fellows dedicated to addressing climate change through direct service and community outreach in local communities across California.

California Volunteers requests funding for the Climate Action Corps program in 2024-25 in this budget cycle so that it can demonstrate the state's funding commitment to this program when it applies for continued federal AmeriCorps funding in spring 2023. As this request is for out year funding, it has no impact on the 2022-23 budget. While ongoing funding for the Climate Action Corps program likely would strengthen their AmeriCorps application, ongoing funding seems premature. While the Legislature supports the efforts of California Volunteers to enhance its AmeriCorps application for this program with a firm funding commitment, another round of temporary funding would allow the Legislature to review the effectiveness of the Climate Action Corps program in several years, when more information is available.

This proposal was heard in Subcommittee 4 on April 28.

Staff Recommendation. Approve the requested resources through 2025-26.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Issue 2: Enforcement Investigation and Conciliation Enhancements

Request. The budget includes $1.4 million General Fund in 2022-23, 2023-24, and 2024-25 to decrease the wait time between complaint intakes and investigative appointments, and to increase the number of complaints successfully conciliated and settled by investigators.

DFEH's service level goal is to decrease the wait time for both the Employment and Housing Units to 1-month to fulfill its mission. Based on current workload estimates, the requested positions may be adequate to reach this goal. However, the high vacancy rate is a concern, and may create issues with reaching the target wait time if the department is unable to fill existing vacancies. While this is not a reason to deny the requested positions, it highlights an area in which the Legislature may want to provide closer oversight.

This proposal was heard in Subcommittee 4 on April 28.

Staff Recommendation. Approve as budgeted.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 3: Codes Field Operations Staffing Increase

Request. The budget includes an augmentation of $393,000 in state operations from the Mobilehome-Special Occupancy Park Revolving Fund (Fund 0245) to support 3.0 positions in 2022-23 and ongoing.

Codes is currently budgeted for 48 full-time positions statewide. This has not increased since 2015-16. These 48 field inspectors are responsible for monitoring the health and safety of approximately 6,251 mobilehome parks, special occupancy parks, and 399,518 park lots throughout California. Additionally, a 2019-20 audit by the California State Auditor noted that HCD has no record of entering and inspecting 10 percent of mobilehome parks within the last decade. The Administration has indicated that additional staff will help address this.

This proposal was first heard in subcommittee 4 on February 16.

Staff Recommendation. Approve as budgeted.

Issue 4: Consolidated Housing Accountability Application Procurement Project

Request. The budget includes $6,713,000 in state operations from the General Fund in 2022-23 to improve its monitoring and management of loans and grants business programs through the procurement and implementation of a new enterprise Information Technology (IT) solution.

A 2018 audit by the State Auditor states that despite concerns raised in prior audits, HCD has not fulfilled its obligation to monitor its recipients' use of housing bond funds. Audit report also stated that, even though HCD had implemented the Consolidated Automated Program Enterprise System (CAPES) database, CAPES does not have the necessary functionality to accurately monitor HCD's housing bond programs. Due to the limitations inherent in the legacy systems, staff have developed and use manual data collection workarounds such as Microsoft (MS) Excel spreadsheets and MS Word documents, often maintained in desktop environment or shared files with limited access. In effect, the Department has several decentralized shadow databases, which lack a database audit trail, create multiple conflicting versions of program data, and lack necessary controls to prevent common data-keying errors from being introduced to the systems.

The requested funding would allow HCD to procure software to address these issues. While the requested funding is reasonable and necessary, it does not include potential out year costs. The Legislature may want to ensure that it provides oversight of this and other planned IT projects.

This proposal was first heard in Subcommittee 4 on February 16.

Staff Recommendation. Approve as budgeted.

Issue 5: Workload Resources (Various Legislation)

Request. The budget includes a General Fund augmentation of $2,269,000 for 11.8 positions in 2022-23, $1,969,000 for 11.8 positions in 2023-24, and $1,678,000 for 10.3 positions in 2024-25 and ongoing, to implement and support various legislation. Additionally, HCD requests a Federal Trust Fund authority increase of $1,800,000 for 7.0 positions in 2022-23, and $1,187,000 ongoing for 7.0 positions to support and implement Chapter 396 Statutes of 2021 (AB 816).

Specifically, the budget includes funding for the following legislation:

- $186,000 in General Fund resources for 1.0 position in 2022-23 and ongoing for Chapter 341, Statutes of 2021 (AB 68), which requires the Statewide Housing Plan to include an estimate of the number of affordable units needed to meet the State's housing needs.
- $75,000 in General Fund resources for 0.3 attorney positions in 2022-23 and ongoing to implement Chapter 342, Statutes of 2021 (AB 215), which adds, among other things, five new areas of state housing law to HCD's existing accountability and enforcement authority under AB 72.
- $680,000 in General Fund resources for two positions, and a $300,000 consulting contract in 2022-23, $380,000 for two positions in 2023-24, and $190,000 for a one position in 2024-25 and ongoing to implement the provisions of Chapter 347, Statutes of 2021 (AB 602), which requires local jurisdictions to conduct a nexus study with prescribed standards before implementing any fee that impacts development.
- $186,000 in General Fund resources for one position in 2022-23 and ongoing to implement Chapter 350, Statues of 2021 (AB 787), which allows cities and counties to receive credit towards their regional housing need for the conversion of above moderate-income units to moderate-income units through reporting these conversions on the APR that is submitted to HCD each year.
- A Federal Trust Fund authority increase of $1,800,000 in 2022-23 and $1,187,000 ongoing for 7.0 positions to implement increased federal funding for the National Housing Trust Fund (NHTF) program.
- $101,000 in General Fund resources for 0.5 two-year limited term positions in 2022-23 and 2023-24 to research, develop, and implement new homeownership funding policy in the Affordable Housing and Sustainable Communities (AHSC) program per Chapter 355, Statutes of 2021 (AB 1095), which clarifies that the AHSC program can grant awards to

projects that create owner-occupied housing and authorizes the program to include criteria in its guidelines for projects that provide owner-occupied housing.

- $186,000 in General Fund resources for one position in 2022-23 and ongoing to implement Chapter 382, Statutes of 2021 (SB 63), which requires HCD, in coordination with the State Fire Marshal, to propose wildfire resilient building standards to be adopted by the California Building Standards Commission's (BSC) triannual code cycle.
- $70,000 in General Fund resources for 0.5 positions in 2022-23 and ongoing to implement Chapter 363, Statutes of 2021 (SB 478), which increases HCD's enforcement authority to prohibit a local agency from imposing specified standards to housing development projects consisting of three to 10 residential units.
- $89,000 in General Fund resources for 0.5 positions in 2022-23 and ongoing to respond to requests for technical assistance, enforce accountability, and update guidance documents related to State Density Bonus Law (SDBL) per Chapter 365, Statues of 2021 (SB 728).
- $695,000 in General Fund resources for 5.0 administrative positions in 2022-23 and ongoing to support ongoing business needs due to the passage of various enacted bills.

HCD has been the subject of numerous enacted bills in recent year, many of which have increased the department's workload. The requested positions are reasonable and necessary to implement the enacted legislation.

Staff Recommendation: Approve as Budgeted.

Issue 6: Workload Resources (Various Legislation)

Request. The budget includes $1,570,000 in state operations from the (General Fund) for 25 positions in 2022-23, and ongoing to support the Governor's priority of our various housing and homelessness programs. Specifically, the request includes:

1. Accounting Branch - 2.0 positions - To address the increasing workload in the general ledger and accounts payable units and support ongoing financial compliance with federal and state guidelines.
2. Business and Contract Services Branch (Contract Services) - 3.0 positions - To support HCD's ongoing purchasing, and service and local assistance contracting needs in relation to programmatic expansion and growth.
3. Financial Management Branch (FMB) - 6.0 positions – To effectively centralize financial management of HCD's loan portfolio, forecasting, and ongoing reconciliation of programmatic financial data to align with reporting to the federal government and the accounting book of record (FI$Cal).
4. Human Resources Branch (HRB) - 2.0 positions - To support HCD's ongoing human capital business needs due to programmatic expansion and growth.

5. Information Technology Branch (ITB) – 9.0 positions – To support the expansion and growth of HCD's programs through the development of technological support and solutions, the maintenance of IT infrastructures, and addressing security concerns while mitigating against the risk of cyber security threats.
6. Internal Audits - 2.0 positions - To provide independent review and analysis of HCD's state, bond, and federal funds to ensure fiscal and programmatic compliance.
7. Organizational Development (OD) - 1.0 position – To support HCD's expansion and growth by developing its capacity for change and reinforce strategies to achieve operational efficiencies and promote transparency.

HCD's program budgets have grown considerably in the last several years. The requested positions would increase HCD's administrative and support staffing to allow the department to better implement the workload for which it has been budgeted.

Staff Recommendation: Approve as Budgeted.

Issue 7: California Surplus Land Unit

Request. The budget includes $2,358,000 (General Fund) and 12 positions in 2022-23 and ongoing to establish the California Surplus Land Unit pursuant implement SB 791 (Chapter 366, Statutes of 2021), to facilitate agreements between local agencies and developers on surplus properties, collect and compile data on housing production on local surplus land, collaborate with state housing finance agencies, provide technical assistance, consultative and technical service to developers and local agencies, and prepare an annual report of its activities.

SB 791 creates the Unit within HCD upon appropriation of funds to establish the Unit. The primary purpose of the Unit will be to facilitate the development and construction of residential housing on land declared surplus under the SLA and land disposed of by the governing boards of local school districts. The requested funds are reasonable and necessary to implement the provisions of SB 791.

Staff Recommendation: Approve as Budgeted.

ITEMS FOR DISCUSSION

0515 BUSINESS, CONSUMER SERVICES, AND HOUSING AGENCY
0950 STATE TREASURER'S OFFICE
2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 8: Housing and Homelessness Proposals

Governor's Budget. The Budget proposes $2 billion in General Fund resources over two years to accelerate the development of affordable housing. This includes:

- $500 million one-time General Fund ($225 million in 2022-23, and $275 million in 2023-24) for the Infill Infrastructure Grant program.
- $300 million one-time General Fund ($75 million in 2022-23, and $225 million in 2023-24) for the Affordable Housing and Sustainable Communities program.
- $100 million one-time General Fund ($25 million in 2022-23, and $75 million in 2023-24) to expand affordable housing development and adaptive reuse opportunities on state excess land sites.
- $100 million one-time General Fund ($50 million in 2022-23, and $50 million in 2023-24) for adaptive reuse incentive grants.
- $500 million in additional Low Income Housing Tax Credits
- $200 million one-time General Fund ($50 million in 2022-23, and $150 million in 2023-24) for the California Housing Finance Agency Mixed Income Program.
- $200 million one-time General Fund ($50 million in 2022-23, and $150 million in 2023-24) for the Portfolio Reinvestment Program.
- $100 million one-time General Fund ($25 million in 2022-23, and $75 million in 2023-24) for HCD's Mobilehome Park Rehabilitation and Resident Ownership Program.

The Administration has also proposed $500 million for the Encampment Resolution Grant program, which was initially funded with $50 million in the 2021-22 budget. The 2022 budget also includes baseline funding of $1 billion for the Homeless Housing, Assistance, and Prevention Program (HHAPP) and $1.3 billion for Project Homekey. This funding was agreed to as part of a two-year homelessness package in the 2021-22 budget.

Background. The 2021-22 budget included nearly $5 billion for a variety of housing programs. These investments are summarized below (dollars in millions).

Housing Program	2021-22
Affordable Housing Backlog	$ 1,750.0
Affordable Housing Preservation	$ 300.0
Foreclosure Intervention Housing Program	$ 500.0
Farmworker Housing	$ 130.0
Regional Early Action Program of 2021	$ 600.0
LIHTC	$ 500.0
Infill Infrastructure Grant Program - ARPA Allocation	$ 250.0
Infill Infrastructure Grant Program - Prop 1 Funding	$ 284.0
ADU Financing	$ 81.0
1st-Time Homebuyer Downpayment Assistance	$ 100.0
Housing Total	**$ 4,495.0**

The Administration's proposed budget would continue the state's recent track record of investing significantly in affordable housing. Specifically, the proposed two-year housing package consists of a mix of existing and new programs.

Additionally, the 2021-22 budget included a two-year package of investments in combating homelessness. This included $1 billion per year for two years for HHAPP and $2.7 billion over two years for Project Homekey. The 2022 baseline budget includes $1 billion for HHAPP and $1.3 billion for Project Homekey.

Staff Comments. As discussed in Subcommittee 4 on February 16th, the proposed budget for housing and homelessness includes $2 billion over two years for a variety of new and existing programs. The Administration's proposal includes funding for the preservation of existing affordable housing, the development of additional affordable housing in a way that reduces greenhouse gas emissions, expanding adaptive reuse of existing properties, and reforming the way the state supports and regulates mobile homes.

The Administration's proposals are broadly reasonable, and will likely help in the production of new affordable housing. However, the proposed budget raises several issues. Specifically:

- As currently structured, the package focuses heavily on the production and preservation of affordable multifamily housing. While this is a laudable area of investment, it neglects investments in boosting affordable homeownership opportunities. Such investments could help address the state's housing affordability crisis while helping lower and middle-income families build wealth.

- The focus on affordable multifamily housing is reasonable, but it does not extend important investments made in the 2021 budget. Specifically, the Housing Accelerator program was created to replace financing typically provided by low-income housing tax credits and public activity bonds, which have a significant backlog. Absent additional funding for the Housing Accelerator program, new multifamily housing projects will most likely simply sit in the backlog until they are able to acquire tax credits and private activity bonds, reducing the number of units that will be built in the near term.

- Most significantly, the state's improving fiscal condition suggests that the state could increase its investment in affordable housing, increasing the proposed funding while also allocating funding to purposes not included in the administration's proposal, such as homeownership.

Additionally, the baseline budget provides significant funding for homelessness. However, the state's fiscal position allows the state to make additional investments in combating this critical issue. Additional funding could allow the state to expand the over-subscribed Project Homekey, and increase the amount of funding provided to local governments for local efforts to combat homelessness, while also funding the Administration's encampment resolution grant program.

To this end, the Senate majority has proposed significant additional funding for affordable housing and homelessness. This package of additional funding includes:

- $500 million for the Multifamily Housing Program.
- $500 million for the Housing Accelerator Program.
- $100 million for the Joe Serna Farmworker Housing Program.
- $350 million for the CalHOME Program.
- $200 million for the Downpayment Assistance Program.
- $50 million for ADU Financing Assistance, to help spur increase in housing supply through ADUs.
- $1 billion for the California Dream For All Program, a new revolving fund program for first time homebuyers to partner with the state and purchase homes with low to no downpayment and 20% reduced cost. This proposal will be discussed in detail in a later item.

Additionally, the proposal includes significant additional funding for homelessness. This includes $3 billion, over three years, to build on last year's two-year investment with:

- Additional funding for Project Homekey.
- Funding for Encampment Resolution Funding Program.
- Increased funding for HHAPP, to continue the state's support of efforts in cities, counties, and Continuums of Care to reduce and eliminate homelessness.

These proposed investments will allow the state to use its robust fiscal position to expand and continue its investments in addressing two of the most pressing issues facing the state - housing affordability and homelessness.

Staff Recommendation: Hold Open.

0950 State Treasurer's Office

Issue 9: California Dream for All First Time Homebuyer's Program

Background. The wealth gap – particularly among racial minorities – is a growing problem throughout the country and here in California. Generation after generation, those with wealth have gotten wealthier, and those without have fallen further behind. As has been the case so often throughout the nation's history, this has been made worse by racial barriers, such as redlining, constructed to hold communities back.

Thriving in the middle class and building generational wealth – the California dream – starts with homeownership. But with rising housing costs, this has become further and further out of reach for too many families.

Housing prices in California have risen dramatically in all parts of the state in the past decade, with annual price increases of 8-10%. Households who do not have large down payments, to offset the higher prices, are increasingly locked out of homeownership. This disproportionately prevents first time, and first-generation homebuyers, as well as households of color from becoming homeowners.

The 2021 budget included $3 million one-time General Fund for the State Treasurer to investigate and plan a state-funded first-time homebuyer's program. AB 140 (Committee on Budget), Chapter 111, Statutes of 2021, directed the State Treasurer's Office, in consultation with other relevant stakeholders, to develop and present to the Legislature a state-funded California Dream for All First Time Homebuyer's Program, with the goal of assisting low- and middle-income Californians achieve homeownership. The State Treasurer's office subsequently contracted with CAForward for the study, who assembled a team of experts to complete the report. This report was to be completed by April 2022, with funding for the program considered as part of the 2022 budget.

Report Findings. There were 555,858 home sales in California in 2021. Of these, 35.5 percent were purchased by first time homebuyers. The average price paid by a first-time home buyer in California was $712,040 in 2021; the median home price for first time homebuyers was $590,000. These home prices are out of reach for most Californians. Statewide, only 26 percent of households can afford to purchase a median-priced home. The issue is particularly acute for minority homebuyers, with only 17 percent of Latino and black households able to afford the median priced first-time home.

The report funded by the 2021 budget was intended to inform the development of a program that provides down payment assistance and lower monthly mortgage payments to address the affordability crisis by meaningfully expand access to homeownership in California. The program is intended to eventually:

1. Provide large down payment assistance and lower monthly mortgage payments to meaningfully expand access to homeownership.
2. Support wealth accumulation for households that purchase a home.

3. Maximize the number of households assisted over time with the public funding available.
4. Ensure efficient use of state resources.

The report noted that there are several options for first time homebuyers to finance a home but they are currently small scale, which still leaves homeownership out of reach for many homebuyers. These include forgivable downpayment assistance, fixed rate downpayment assistance, and shared appreciation models, in which homebuyers are offered loans with no monthly payment and due at exit based on a percentage share of home price appreciation / depreciation.

A brief outline of the California Dream for All program presented in the report is as follows:

- $1 billion in state funds per year for 10 years to establish a revolving shared appreciation first time homebuyer program.
    - Funds could come from the General Fund, internal borrowing from state resources, or revenue bonds.
    - This level of funding would support over approximately 8,000 first time homebuyers per year - enough to benefit a significant number of homebuyers, but not so much that it would skew home prices further up.
- The program would typically provide the homebuyer with 17% toward the purchase prices, or roughly $100,000 toward the median priced home for first-time buyers of $590,000.
    - This benefits homebuyers in one of two ways:
        - Saves $100,000 of what would be needed to provide a 20 percent down payment (something that is generally out of reach for most first-time homebuyers); or
        - Reduces monthly mortgage payments by about 1/3 since the homebuyer would have a smaller loan and no costly mortgage insurance if the homebuyer purchases the home through a 3% FHA loan (a more typical way first time homebuyers purchase homes). This would likely save the homebuyer over $1,000 per month and over $12,000 per year.
        - Protects homebuyers if prices go down by having the state program share in the depreciation.
- Homebuyers would receive extensive mortgage counseling to ensure participating in this program is the best financial decision for them.
- Once the homebuyer sells, transfers, or refinances the home to take cash out, the state would be reimbursed for the 17% share of the increase in value of the home value.
- The received funds would then be used to help new first-time homebuyers purchase a home and begin developing wealth.
- By using shared appreciation, the state should receive back enough to help the next generation of homebuyers purchase a home, even as prices continue to rise.

The “Putting Wealth to Work” Budget plan released by the Senate majority at the end of April included $1 billion from the General Fund for the California Dream for All program for 2022-23, along with ongoing funding for program administration costs. The budget plan envisioned internal borrowing in future years to provide the $1 billion per year for the full 10-year period. After that time, the revolving nature of the program will enable the program to continue without additional state resources – other than annual administration costs.

Staff Comments. California is facing a severe housing affordability crisis which is hampering the ability of Californians to find homes to live in and limiting wealth-building opportunities. Historically, the first step to reaching the California dream of thriving in the middle class and building family wealth starts with homeownership. But taking that first step is even more challenging as the cost of California homes has grown higher and higher. This is reflected in declining levels of homeownership, which are currently at the lowest level since the 1940s.

A program such as the California Dream for All Program could help address both these issues, by making it easier for lower and middle-income Californians to purchase their first home and begin the process of building wealth. Accomplishing both of these goals will require the state to develop and implement a program that can provide the kinds of financial assistance described above, and to devote sufficient financial resources to the effort.

Staff Recommendation: Hold Open and direct staff to continue to work with the Assembly and the Administration on refining the California Dream For All program to be included in the final Budget Act of 2022.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 10: Division of State Financial Assistance Budget Adjustments

Governor's Budget. The Governor's budget proposes to reappropriate $22 million from the Greenhouse Gas Reduction Fund to help meet the State's goals on building affordable and sustainable housing.

Background. The AHSC program created in 2014 provides funding for land-use, housing, transportation, and land preservation projects to support infill and compact development that reduces greenhouse gas (GHG) emissions through the reduction of vehicle miles traveled and land conversion, minimizing GHG emissions by protecting land from further development. Funding for the AHSC program is provided from the Greenhouse Gas Reduction Fund (GGRF), established to receive cap-and-trade auction proceeds. HCD implements the AHSC under policy direction from the Strategic Growth Council (SGC). Funds are appropriated to SGC, and subsequently assigned to HCD to administer the program. Only the first year of AHSC funds were appropriated through the budget in 2014. Beginning with the 2015-16 fiscal year, SB 862 continuously appropriates twenty percent of cap-and-trade auction proceeds to the Strategic Growth Council AHSC program. HCD has administered over $1.6 billion under the continuous appropriation. In recent years, the annual awards for the program have exceeded $400 million. HCD has awarded five rounds of funding, with the sixth round of awards scheduled for the first quarter of 2022.

Staff Comments. The 2014 Budget Act appropriated $129,201,000 for first year loans and grants, as well as support funding, with an encumbrance and liquidation deadline of June 30, 2017. The liquidation date has been extended until June 30, 2022 through the 2018 Budget Act (Ch. 29, Statutes of 2018). For Round 1, the SGC approved $122,000,000 and 30 projects funded by the 2014 Budget Act appropriation. The uncommitted balance of the 2014 appropriation is $16,577,952 due to cancelled projects and savings in the support budget. To ensure continued availability of these funds for housing, HCD requests an extension of the encumbering period in order to award these funds to new projects. In addition, HCD needs an extension of the liquidation period to ensure that eight projects that are nearing completion will be able to fully disburse since current schedules of the projects indicate they will be disbursing during the six months prior to the liquidation date of June 30, 2022, estimated at about $6 million.

Staff notes that the extension of liquidation deadline extension from 6/30/22 to 6/30/24, according to HCD is for four projects. Those projects include the following:

- 14-AHSC-10474 Broadway Family Apartments
- 14-AHSC-10475 Broadway Family Apartments
- 14-AHSC-10463 Anchor Village
- 14-AHSC-10469 Civic Center 14

Reappropriating the remaining balance of the 2014 appropriation will allow HCD to complete the work for which those funds were originally encumbered, while extending the encumbrance date will allow grantees to complete projects that are currently in-progress.

Staff Recommendation: Approve as budgeted for the continuous appropriation and approve the extension of liquidation for the four projects outlined above.

Issue 11: 2018 Community Development Block Grant Mitigation Program

Governor's Budget. The budget includes $56,056,000 (Federal Trust Fund) and four positions in 2022-23, and $885,000 in 2023-24, and ongoing to manage and oversee the distribution of Community Development Block Grant - Mitigation program (CDBG-MIT). This federal funding was allocated to California to increase resilience to disasters and reduce or eliminate the long-term risk of loss of life, injury, damage to and loss of property, and suffering and hardship from the 2017 and 2018 wildfires.

Background. The Community Development Block Grant - Mitigation (CDBG-MIT) provides resources to impacted communities that experience a federally declared disaster. HCD is the responsible agency for administering both the Community Development Block Grant - Disaster Recovery (CDBG-DR) and CDBG-MIT funds allocated to the state. Funding under the CDBG-DR program provides resources to disaster impacted areas related to housing, infrastructure, economy, and agricultural needs. The CDBG-MIT program takes the next step to fund mitigation efforts to prevent further impact from a disaster or prevent future disasters from occurring in that area.

The 2020 Budget Act included an original CDBG-MIT allocation totaling $88 million. On August 31, 2021, HUD entered into a new CDBG-MIT grant agreement with the state, augmenting that original allocation with an additional $64.9 million. HUD released a Federal Register Notice (FRN) on Wednesday, January 6, 2021 outlining requirements for this new allocation. The purpose of these funds is for mitigation activities that increase resilience to disasters and reduce or eliminate the long-term risk of loss of life, injury, damage to and loss of property, and suffering and hardship by lessening the impact of future disasters.

Staff Comments. HCD must expend 50 percent by September 23, 2027, and expend 100 percent by September 23, 2033. This federal grant has no payment requirements, if implemented within FRN requirements. The state in turn grants those funds to entities in the impacted areas eligible for that funding. Below is an outline of the $64.9 million CDBG-MIT grant:

- $55,172,000 in 2022-23 for Local Assistance
- $165,000 in 2022-23 and ongoing for Consulting Contracts
- $720,000 in 2022-23 and ongoing for 4 Positions

Since 2020, HCD has initiated the implementation of CDBG-MIT, which is a brand-new program for HUD and for California. As such, HCD made initial assumptions that mitigation projects were essentially infrastructure projects. HCD planned to absorb the workload of the implementation of these funds within its existing disaster recovery infrastructure work. This action also assumed that local jurisdictions had planned for and were ready to implement mitigation projects awaiting HCD funds. However, as HCD collected information from local jurisdictions' priority projects, it became evident that many lacked either the capacity to develop mitigation projects or lacked understanding of the mitigation needs of vulnerable populations and disadvantaged communities in their jurisdiction. With this new information, HCD substantially reconfigured the two mitigation programs to better address community needs and address equity, causing delays in awards. The necessary reconfiguration of both CDBG-MIT programs made it impossible to fully absorb mitigation funds into the CDBG-DR infrastructure program. To date, HCD is unable to commit any of the mitigation funds to programs or projects due to a lack of HCD staff to provide support for program design and implementation. Some higher capacity jurisdictions have been able to move forward in developing projects and executing contracts to begin construction; however, HCD's lack of staffing for the CDBG-MIT program has resulted in delays for getting funding into smaller jurisdictions and communities that lack capacity to do so. In November 2021, HCD had to delay issuance of NOFA to March or April of 2022 due to lack of staffing. Without additional staffing, HCD will not be able to implement the program, which impacts smaller jurisdictions.

Staff Recommendation: Approve as Budgeted.

Issue 12: HOME Investment Partnership Program – American Rescue Plan

Governor's Budget. $157,886,000 (Federal Trust Fund) and 15 positions in 2022-23 and $2,883,000 in 2023- 24 and ongoing to plan, develop, and administer the new federally funded HOME Investment Partnerships (HOME) - American Rescue Plan (ARP) Program. HCD also requests statutory language to authorize HCD to utilize a guideline process for the HOME program and the Emergency Solutions Grant program implementation.

Background. The ARP Act, passed as House of Representatives (H.R.)1319 — 117th Congress (2021- 2022), provides $5 billion to assist individuals or households who are homeless, at risk of homelessness, and other vulnerable populations, by providing housing, rental assistance, supportive services, and non-congregate shelter, to reduce homelessness and increase housing stability across the country. These grant funds will be administered through the Federal Department of Housing and Urban Development (HUD)'s HOME program.

On September 24, 2021, HCD entered a grant agreement with HUD to receive $155,003,000 in federal HOME-ARP funding. The grant agreement requires HCD to expend all HOME-ARP funds by September 30, 2030. HOME-ARP funds can be used for five eligible activities:

- Production or preservation of affordable housing.
- Tenant-Based Rental Assistance (TBRA).
- Supportive services, homeless prevention services, and housing counseling.
- Purchase and development of non-congregate shelters.
- Non-profit operating and capacity building assistance.

The Emergency Solutions Grants (ESG) program provides grant funding to (1) engage homeless individuals and families living on the street, (2) rapidly re-house homeless individuals and families, (3) help operate and provide essential services in emergency shelters for homeless individuals and families, and (4) prevent individuals and families from becoming homeless.

Staff Comments. HUD has consulted directly with HCD in the federal government's efforts to model the HOME-ARP program after California's Homekey program. As the federal government has rolled out HOME-ARP, California has been featured in outreach and presentations to share best practices of the Homekey program with HOME-ARP grant administrators. As such, the department should be well-suited to implement the new federal funding.

The requested trailer bill language would exempt both the HOME-ARP program and the ESG program from the Administrative Procedures Act, as well as making other minor administrative changes. The Administrative Procedures Act allows the public to participate in the adoption of state regulations in order to ensure that regulations are clear, necessary and legally valid. HCD has indicated that the time required to go through the APA process is inconsistent with the requirements of the HOME-ARP program, and that many other HCD programs have received exemptions. However, it is unclear if one-off exemptions are an appropriate approach, or if a larger approach to HCD's program administration and public processes is necessary.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, May 18, 2022
1:30 p.m.
1021 O Street – Room 2100

Consultants: James Hacker, Anita Lee, Elisa Wynne, Yong Salas

Issues for Discussion

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Issues for Discussion

TAXES AND ECONOMIC DEVELOPMENT

Tax Rebate Proposals:

May Revision Broad-Based Relief Proposals. A centerpiece of the May Revision is a suite of proposals totaling $18.1 billion spread across various areas that are intended to provide economic relief for Californians. This item focuses on the tax rebate proposal:

- $11.5 billion in one-time General Fund for rebates per household based on registered vehicles.
  - $400 per vehicle rebate, capped at two per registered vehicle owner.
  - Excludes fleets and corporate-owned vehicles, and excludes vehicles over a certain value.
  - Relies on registration data from the Department of Motor Vehicles.
  - Creates the Tax Relief fund and transfers $11.5 Billion one-time General Fund to the fund.

The May Revision also includes $750 million for three months of free transit service, and a one-year pause on an increase in state diesel taxes.

Legislative Leaders' Alternate Proposal "Better For Families Tax Rebate". Legislative leaders have proposed an alternate relief package of $8 billion for the "Better For Families Rebate" program to mitigate impacts of high energy costs and other goods, as well as the economic impacts of the pandemic. The tax rebate would provide:

- $200 per taxpayer plus $200 for dependents, up to $125,000/$250,000 income (Single/Joint filers).
- Supplemental one-time monthly grant for CalWORKs families and SSI/SSP recipients, to ensure Californians struggling the most benefit.
- Grant program for other low-income Californians who are not income tax filers.

Legislative Analyst Office Comments:

In their recently released report, *The 2022-23 Budget Fuel Price and Other Fiscal Relief Options,* the Legislative Analyst's Office, provides the following comments to help determine a potential relief package:

- ***Which Groups of Californians to Prioritize in Providing Relief?*** The Legislature will want to clearly define which groups it wants to prioritize in developing a relief package. For example, categories of focus could include (1) those experiencing higher fuel prices, (2) those experiencing the greatest financial hardship, or (3) state residents who are more broadly affected by higher prices.

- ***Which Potential Policies Best Align with the Legislature's Relief Priorities?*** The Legislature's approach could include approving certain proposals from the Governor (such as providing refunds to vehicle owners), modifying those proposals (such as further reducing existing fuel excise tax rates beyond what the Governor proposed), or adopting alternatives (such as providing targeted relief to households with lower incomes). The Legislature could also choose to develop a package that contains a mixture of proposals in order to provide relief to several different groups. For instance, the Legislature could provide relief to those experiencing higher fuel prices and those experiencing financial hardship by both reducing fuel taxes and distributing tax refunds to lower-income

- ***Which Potential Policies Could Be Implemented Quickly and Efficiently?*** If one of the Legislature's goals is to provide timely relief to Californians, it also will want to consider which policies can be implemented quickly and efficiently. The speed at which each policy option could be implemented will vary based on factors such as whether it would be implemented through a new or existing program. For instance, tax refunds—both broad and income-based—could be issued relatively quickly and efficiently given that the state has experience providing such payments through the Golden State Stimulus Program and annual refunds to taxpayers. Similarly, providing income-based relief by augmenting established state assistance programs—such as California Work Opportunity and Responsibility to Kids (CalWORKs)—would be relatively straightforward.

  In comparison, providing tax refunds to vehicle owners would require several additional steps that could delay payments and increase administrative costs. Such steps would include collecting the necessary data from the Department of Motor Vehicles and selecting an entity to distribute payments.

Staff Comments: Staff notes that all California families are experiencing the impacts of higher gas prices, whether or not they own vehicles. These high fuel costs are passed along in higher prices for goods and services as well. Limiting a relief program to car owners, not tied to income, means that relief will be inconsistently provided across California's families. And those who do not own vehicles, may or may not take advantage of free public transit, but will not receive any rebate funding that they would be able to use for their greatest needs.

The LAO notes that if the Legislature's goal is to provide relief to those experiencing the greatest financial hardship, proposals should look beyond those linked to fuel taxes and vehicle ownership. For example, non-vehicle owners—who also are facing high overall costs—represent 7 percent of households in the state and tend to be lower income. These families who may need help the most, may be most likely to miss out under the Governor's proposal, but would most likely benefit under the "Better For Families" Rebate.

Finally, staff notes that the "Better For Families" Rebates includes a shared goal of reaching additional Californians, who did not benefit from the Golden State Stimulus payments.

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

- **CalCompetes Tax Credit Expansion and Grant Program.** CalCompetes is administered by GO-Biz, which currently allocates $180 million per year in tax credits to incentivize businesses to locate or stay and grow in California and is scheduled to sunset after the 2022-23 fiscal year. The May Revision includes an extension of the CalCompetes Tax Credit program through the 2027-28 fiscal year at the current level of $180 million per year. In addition, the May Revision includes $120 million one-time General Fund to fund a second year of the CalCompetes Grant Program for businesses that meet one or more of the following criteria: establish at least 500 net new jobs; make a significant infrastructure investment; or, commit to a high-need, high-opportunity area of the state. Both programs shall provide additional consideration for companies that relocate from states that have anti-LGBTQ+ and reproductive rights laws.

- **California Small Business Hard-Hit Industries Grant Program.** The May Revision includes $500 million in one-time General Fund in 2022-23 to provide additional relief to small businesses in the industries hardest-hit by the pandemic. Eligible small businesses and non-profits could receive grants from $10,000 to $50,000 depending on their annual gross revenue. The ten hardest hit industries were determined by each industry's proportion of job losses based on national data industries, and are identified by their North American Industry Classification System (NAICS) code. Below are the ten industries (with their respective NAICS code) that would be eligible in descending order of total percentage job loss: Arts, Entertainment, and Recreation (71); Accommodation and Food Service (72); Other Services (81); Information (51); Educational Services (61); Administrative and Waste Management (56); Manufacturing (31); Retail Trade (44); Construction (23); and Real Estate (53).The grant program would be administered by the California Office of the Small Business Advocate (CalOSBA) within the Governor's Office of Business and Economic Development (GO-Biz).

- **California Small Agricultural Business Drought Relief Grant Program.** The May Revision includes $75 million one-time General Fund to provide direct assistance to eligible agriculture-related businesses that have been affected by severe drought conditions. Grant awards range from $30,000 to $50,000, depending on annual gross revenue decline, and will be prioritized first to businesses located in regions hardest hit by drought impacts. Of the total program funds, 25 percent will be allocated to small farms and socially disadvantaged farmers, including 5 percent of total program funds for technical assistance for these groups. The grant program would be administered by the California Office of the Small Business Advocate (CalOSBA) within GO-Biz, in consultation with the California Department of Food and Agriculture.

- **Federal Economic Development Administration Grant Awards.** California Business Investment Services (CalBIS), within GO-Biz, was recently awarded two federal grants from the Economic Development Administration (EDA) for a total of $2,350,000. The first is a competitive grant for $1,350,000 from the EDA's Public Works and Economic

Adjustment Assistance (Public Works) program, which supports activities that provide economically distressed communities and regions with flexible resources to address a wide variety of economic needs. The second is a block grant for $1 million from the EDA's Statewide Planning, Research, and Network program, which promotes rebuilding regional economies by supporting statewide planning, research, and networks. The May Revision includes $1,175,000 Federal Trust Fund Authority in 2022-23 and $1,175,000 Federal Trust Fund Authority in 2023-24 to have the requisite budgetary authority to accept the funds from EDA.

- **Re-appropriation of Small Business Relief Grant Programs.** The May Revision includes the reappropriation for four grant programs aimed at supporting small businesses and small nonprofits, including venues, microbusinesses, cultural institutions, and performing arts entities within CalOSBA. In addition, statutory changes are requested where necessary to amend and broaden program eligibility and extend timelines for getting grants out.

- **IBank Venture Capital Program.** The May Revision provides 2 positions be added to oversee the IBank venture capital program that is being created with federal State Small Business Credit Initiative funds. In addition, it is requested that statutory changes be made to establish the venture capital program, including a Director to oversee the program.

- **Transmission and Clean Energy Financing.** The May Revision provides $250 million one-time General Fund for a financing program at IBank dedicated to supporting the development of clean energy projects and for collaborative financings with the United States Department of Energy's Loan Program Office. In addition, the May Revision includes statutory changes be made to create a new Transmission and Energy Financing sector at IBank.

7730 FRANCHISE TAX BOARD (FTB)

- **Paycheck Protection Program (PPP) Conformity.** The May Revision includes statutory changes to update conformity of state tax law to the federal PPP grant period. Previous conformity actions excluded an extension of the federal PPP grant program by two months in spring of 2021. This proposed action allows for all federal PPP grants to be excluded from the definition of income for the purposes of state taxation. The May Revision includes a $450 million revenue reduction over five years, starting in 2021-22, to reflect this change.

- **CalCompetes Tax Credit.** The May Revision includes an extension of the CalCompetes Tax Credit program through the 2027-28 fiscal year at $180 million per year, as noted under GoBiz.

- **Volunteer Income Tax Assistance Expansion and Earned Income Tax Credit Grant Funding.** The May Revision provides $1.2 million General Fund and 5.0 positions in 2023-

24 and ongoing for FTB to expand its Volunteer Income Tax Assistance (VITA) services and to reimburse costs incurred by the Department of Community Services Development (CSD) for administering the California Earned Income Tax Credit (CalEITC) grants. The resources will allow FTB to expand its VITA services to support the ongoing grant funding appropriated to increase free tax preparation and to expand marketing and outreach of CalEITC, the Young Child Tax Credit, and Individual Taxpayer Identification Number (ITIN) tax status eligibility. Additionally, the May Revision provides $10 million in 2023-24 and ongoing for the continuation of CalEITC grants to support education and outreach of the CalEITC program and free tax preparation services.

- **California Earned Income Tax Credit-Outreach.** The May Revision provides $1.8 million General Fund and 11.5 positions in 2022-23; $4.86 million General Fund and 24.3 positions in 2023-24; $4 million General Fund and 19.3 positions in 2024-25; $3.85 million General Fund and 18.3 positions in 2025-26 and ongoing to the FTB to conduct targeted outreach initiatives to promote awareness of the California Earned Income Tax Credit (CalEITC). On an annual basis, FTB will reach out to taxpayers that appear eligible for the CalEITC but didn't claim it on their filed return or didn't file a return and provide information on how to file an amended return or connect non-filers to free filing services.

- **Young Child Tax Credit Expansion and Foster Youth Tax Credit Implementation.** The May Revision provides $4,342,000 General Fund and 14.5 positions in 2022-23; $1,281,000 General Fund and 11.5 positions in 2023-24; $1,140,000 General Fund and 10.5 positions in 2024-25 and ongoing for the FTB to implement the expansion of Young Child Tax Credit (YCTC) to households that have no earned income, but who otherwise meet the criteria for qualifying for California Earned Income Tax Credit (CalEITC). In addition, the May Revision provides $2.9 million General Fund and 4.5 positions in 2022-23; $280,000 General Fund and 2.0 positions in 2023-24 and ongoing to the FTB to implement the new Foster Youth Tax Credit (FYTC) program.

- **FTB Central Office Campus Data Center Upgrades.** The May Revision provides $26.6 million General Fund for the construction phase of the FTB Central Office Campus Data Center in 2022-23. The project will consolidate the existing data centers and update HVAC systems and controls, the entire electrical infrastructure, fire protection, and the telecommunication and mechanical system to achieve mandated energy efficiency requirements.

- **Increasing Litigation Costs.** The May Revision provides an augmentation of $2 million General Fund in each fiscal year 2022-23, 2023-24, and 2024-25 to contract with the Attorney General's (AG) Office to defend against ligation matters pending before Sacramento Superior Court in the matter of [Hyatt vs. FTB].

- **Taxpayer Flexibility Payment Program.** The May Revision provides $19.5 million in fiscal year 2022-23 for 106.0 limited-term positions, 53.0 permanent-intermittent positions, and a vendor contract solution; $9.1 million in fiscal year 2023-24 for 61.0 limited-term positions, 1.0 permanent-intermittent position, transitional position funding, and a vendor contract solution; $2.8 million in fiscal year 2024-25 for 8.0 limited-term positions, 1.0 permanent-intermittent position, transitional funding, and minor operating costs; $646,000 in fiscal year 2025-26 for transitional position funding and operating costs; and $376,000 in fiscal year 2026-27 for ongoing operating costs for FTB to provide a tax payment flexibility program for low and moderate-income filers and non-filers.

7600 California Department of Tax and Fee Administration (CDTFA)

- **Used Motor Vehicle Sales Tax Gap.** The May Revision includes $4.1 million General Fund in fiscal year 2022-23 and $3.9 million General Fund in 2023-24 and ongoing for CDTFA to reimburse the Department of Motor Vehicles (DMV) for costs associated with the collection of sales tax on retail sales of used motor vehicles. Of the $4.1 million, $2.2 million is for costs associated with the design of the IT solution and $1.9 million is for DMV's transactional cost to administer the program for phased-in used motor vehicle dealers.

AFFORDABLE HOUSING AND HOMELESSNESS

0515 Business, Consumer Services, and Housing Agency

- **Homeless Housing, Assistance, and Prevention Program (HHAPP).** As part of the 2021 Budget Act, $1 billion was made available for HHAP in 2022-23. The Administration has indicated that they are committed to extending HHAP at current levels for additional years beyond 2022-23, pending further discussion with the Legislature to meaningfully increase outcomes and accountability on local HHAP spending to focus on highest priority needs, such as encampment resolution, Homekey operating sustainability, and CARE Court housing supports.

2240 Department of Housing and Community Development

- **Homeless Housing on State-Owned Land.** The May Revision includes $500 million over two years to house unsheltered individuals on state-owned land through grants to local governments for interim housing and site preparation. Interim housing placements will provide bridge housing for unsheltered individuals who can be transitioned into long-term housing placements.

- **Additional Homekey Funding.** The May Revision proposes an additional $150 million in funding for Project Homekey, for a total of $2.9 billion in Homekey funding over two years.

- **Additional Adaptive Reuse Funding.** The May Revision proposes an additional $500 million in one-time General Fund over 2023-24 and 2024-25 for the proposed Adaptive

Reuse program that was included in the Governor's January budget. This program is intended to remove barriers to build more downtown-oriented and affordable housing through funding adaptive reuse—namely, converting existing infrastructure, underutilized retail space, and commercial buildings into residential uses. This brings total funding for the newly-proposed program to $600 million over three years.

- **Technical Adjustments at the Department of Housing and Community Development.** The May Revision includes 161 positions at HCD to provide permanent position authority for administratively established positions associated with funding authorized in the 2021 Budget Act and various federal programs. Additionally, the May Revision includes and increase in Federal Trust Fund authority by $107.4 million in 2022-23 and $108.1 million in 2023-24 and ongoing to align authority with estimated federal funds.

- **Various Trailer Bill Proposals.** The May Revision includes proposed trailer bill language related to the following issues:

    - Foreclosure Prevention and Housing Preservation Program. The proposed trailer bill language would increase the amount of funding available for program administration, add capitalized operating subsidies as an allowable use, and set parameters for the use of third-party fund managers in the implementation of the program.

    - Building Homes and Jobs Trust Fund. The proposed trailer bill language makes technical changes to clarify the administration of certain continuously-appropriated funds.

    - Housing. The proposed trailer bill language would require certain housing programs to allocate funding in a way that streamlines application processes, increase equitable transportation options, and prevents displacement, among other requirements. It also requires the Governor's Office of Planning and Research, in consultation with other departments, to gather data to determine how best to comply with these requirements.

- **Emergency Rental Assistance.** The May Revision includes $2.7 billion one-time General Fund in the current year for cashflow loans for rental assistance through state and local programs established during the height of the pandemic. Amendments to the 2021 Budget Act (SB 115) authorized a General Fund cashflow loan to continue to make payments to individuals in the federal Emergency Rental Assistance Program while the federal government processes reallocations of unused rental assistance funding from other states. The state continues to seek federal reallocation funding, but the timing and amounts of such reallocations are still unknown.

1700 Department of Fair Employment and Housing

- **Commission on the State of Hate (AB 1126).** The May Revision includes 2 positions, $1,800,000 General Fund annually through 2025-26, and $900,000 General Fund in 2026-

27 for the Commission on the State of Hate to study hate in California and develop anti-hate resources for law enforcement and others, consistent with the provisions of Chapter 712, Statutes of 2021 (AB 1126).

- **Community Conflict Resolution and Conciliation.** The May Revision includes 889,000 General Fund in 2022-23 and $883,000 General Fund in 2023-24 and 2024-25 to provide resources and training to communities facing hate incidents or other conflict over discriminatory practices.

- **Department of Fair Employment and Housing Name Change.** The May Revision includes trailer bill language to change the DFEH's name to the Civil Rights Department and to change the name of the Fair Employment and Housing Council to the Civil Rights Council.

GENERAL GOVERNMENT AND STATE ADMINISTRATION

0559 GOVERNMENT OPERATIONS AGENCY

- **Office of Data and Digital Innovation a Standalone Department.** The May Revision includes $4.8 million ongoing General Fund and six positions, and $20 million one-time General Fund, in 2022-23 for the Digital Innovation Services Revolving Fund to consolidate the Office of Digital Innovation, the Government Excellence and Transformation Center (proposed in the Governor's Budget), and the CalData Program into the Office of Data and Innovation, as a department under the Government Operations Agency.

  The Office of Data and Innovation will be established as a standalone department in 2023-24, to facilitate more efficient state operations and support one-time projects targeted at improving user experiences through the Digital Innovation Services Revolving Fund.

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

- **California College Corps Program.** The May Revision includes $73.1 million General Fund in 2024-25 and ongoing to maintain the investment into the Californians For All College Corps program.

- **CEQANet 2.0 System Maintenance and Redesign.** The May Revision includes $1,254,000 General Fund and 1.0 position in 2022-23, and $48,000 in 2023-24 and ongoing to host and maintain the current California Environmental Quality Act document online processing system, and provide planning resources for a system redesign.

0950 STATE TREASURER'S OFFICE

- **AB 1177 Commission Operations and Market Analysis.** The May Revision provides $2,709,000 in fiscal year 2022-23, $709,000 in 2023-24, and $609,000 in 2024-25 to provide limited term funding for 3 positions and operational costs to implement legislation—The California Public Banking Option Act, Chapter 451, Statutes of 2021 (AB 1177). The legislation requires the Treasurer's Office to convene the CalAccount Blue Ribbon Commission and produce a market analysis to determine the feasibility of the CalAccount Program. The intent of AB 1177 is to produce a study on how best to create a no-fee, no-penalty debit card account called CalAccount that all Californians can access.

- **Enterprise Risk and Compliance Officer.** The May Revision provides $73,000 General Fund and $119,000 reimbursements ongoing, and $36,000 reimbursements ongoing, to fund a requested officer position. The position will assist the Treasurer's Office and the Boards, Commissions, and Authorities (BCAs) under its purview, in the evaluation of enterprise risk, development of risk mitigation plans, compliance tracking of regulations and laws, coordination of all externally performed audits, and helping to address areas with control deficiencies.

- **Jesse Unruh Building Relocation Costs**. The May Revision provides $226,000 one-time to support relocation costs for Treasurer's Office staff and building contents necessary to facilitate renovation of the Jesse Unruh building.

0954 ScholarShare Investment Board

- **CalKids Implementation.** The May Revision provides $299,000 and 1 position ongoing to support administrative needs, including participant notification and call center operations, necessary for the implementation of the California Kids Investment and Development Savings (CalKIDS) program.

1111 Department of Consumer Affairs

- **Business Modernization Cohort 2.** The May Revision proposes $4.3 million one-time Special Funds for the Department of Consumer Affairs to continue business modernization efforts for five more boards and bureaus (the Structural Pest Control Board, the California Architects Board, the Landscape Architects Technical Committee, the Cemetery and Funeral Bureau, and the Bureau of Household Goods and Services) The Business Modernization Cohort 2 is moving into project development activities and will begin implementing their selected software consistent with the Department's overall Business Modernization Plan.

- **Bureau for Private Postsecondary Education.** The May Revision proposes $24 million General Fund over three years to provide support to the Bureau with funding while the Bureau develops an improved fee model for its licensees. The Administration notes that they are committed to working in partnership with the Legislature on statutory reforms to enhance the state's oversight of private colleges and to protect consumers.

The current funding structure of the Bureau comes mostly from annual fees that are based on institutions' own revenue from their California-based physical locations. This structure is not sustainable in an increasingly online marketplace, especially when exclusively online institutions are eliminating California locations by moving across state lines. The Bureau received support from a Control Section 14.00 loan in the amount of $12 million from the Bureau of Automotive Repair in December 2021. The requested funding will also allow the Bureau to repay its outstanding loan to the Bureau of Automotive Repair, limit the amount of interest the Bureau would otherwise need to pay, and provide the Bureau and policy makers time to better determine the level of oversight and regulation that is needed in California.

1750 Horse Racing Board

- **Horse Racing Board Support.** The May Revision proposes $3 million ongoing to support annual agreements between the Federal Horseracing Integrity and Safety Authority and the California Horse Racing Board to enforce safety components of the Horseracing Integrity and Safety Act. The May Revision also proposes that statutory changes be added to allow the agreements to be funded through the collection of state occupational license fees, penalties, and fines, and to authorize the Board to enforce the standards established by the Act.

7502 Department of Technology

- **Technology Modernization.** The May Revision proposes $55.7 million one-time General Fund in 2022-23, and $711,000 ongoing General Fund and four positions to support the modernization of critical state infrastructure. This investment augments the $25 million one-time General Fund provided to the CDT in the 2021 Budget Act for Technology Modernization Funding.

- **Broadband Middle-Mile Initiative.** The May Revision proposes $600 million one-time General Fund in 2023-24 and $500 million one-time General Fund in 2024-25 to CDT to support the completion of the Broadband Middle-Mile Initiative. The 2021 Budget Act provided $3.25 billion to CDT for the purpose of building an open-access middle-mile broadband network. Revised estimates produced by CDT indicate a need for this additional funding to complete the Broadband Middle-Mile Initiative due to increased costs of labor and supplies.

7760 Department of General Services

- **Office of Sustainability and Water Conservation Grant Program.** As a part of the larger Drought Resilience and Response package, the May Revision proposes $26 million one-time General Fund, available for three years, to facilitate a water conservation grant program implementing water conservation projects at state facilities and aid in statewide emergency response efforts.

- **COVID-19 Direct Response Expenditures.** The May Revision proposes $8.3 million one-time California Emergency Relief Fund to provide the DGS resources for COVID-19 Direct Response related expenditures.

- **Increase Diversity and Inclusiveness.** The May Revision proposes $3.9 million one-time General Fund, available for three years, to support DGS Procurement Division's efforts to increase outreach to Small Businesses and Disabled Veteran Business Enterprises, aimed at increasing diversity in state contracting.

- **Capital Outlay Projects.** The May Revision proposes cost increases and fund adjustments to various capital outlay projects in Sacramento, including the Jesse Unruh Building Renovation project, Resources Building Renovation project, State Office Building, and the Capital Annex Project.

8940 CALIFORNIA MILITARY DEPARTMENT

- **California Cadet Corps Restoration.** The May Revision proposes $3 million and 5 positions in 2022-23 and $4.3 million and 10 positions in 2023-24ongoing to expand the CMD's California Cadet Corps program. This request will increase program participation from 90 schools and 6,000 students to 135 schools and 9,095 students by 2026-27.

- **Drug Interdiction Efforts Update.** The Governor's budget included $20 million for CMD's drug interdiction efforts. The May Revise provides an additional $10 million for this purpose.

- **Lease Revenue Debt Service Adjustment, Consolidated Headquarters Project.** The Governor's budget proposed shifting project funds from bonds to General Fund. The May Revision proposes to eliminate item 8940-003-0001 to represent a decrease of $9.6 million, as planned lease-revenue debt service authority is no longer necessary due to the removal of the Consolidated Headquarters Project from future lease-revenue bond sales.

8955 DEPARTMENT OF VETERANS AFFAIRS

- **California Veteran Health Initiative.** The May Revise proposes $40 million one-time for the California Veteran Health Initiative to support veteran mental health and suicide awareness, treatment, and research. Funding shall be used for competitive grants to existing service providers for education and outreach about veteran mental health and to establish a multidisciplinary team of professionals and stakeholders to identify, collect, analyze, and assess veteran mental health and suicide.

- **Settlement Cost.** The May Revise proposes $51 million one-time to pay for settlement costs at the Veterans Home of California, Yountville related to the 2018 shooting.

- **Veterans Home of California, Yountville: Steam Distribution System Renovation.** The May Revision proposes $39.2 million for working drawings and construction for the Steam

Distribution System Renovation project at Yountville. This project received construction bids in 2021 that were significantly higher than the state's initial estimate, largely due to the volatility in the construction market.

CANNABIS

1115 DEPARTMENT OF CANNABIS CONTROL

- **Cannabis Tax Reform.** The May Revision proposes statutory changes to reform cannabis taxes. These changes include:

    - Setting the cultivation tax rate at zero beginning July 1, 2022.

    - Shifting the point of collection and remittance for excise tax from distribution to retail on January 1, 2023.

    - Increasing the excise tax to 19 percent, beginning on January 1, 2024, but allows the Department of Tax and Fee Administration, in consultation with the Department of Finance, to reduce the excise tax depending on the revenues received in the Cannabis Tax Fund and General Fund availability.

    - Setting aside $150 million one-time General Fund, available until 2025-26, to backfill Allocation 3 funding, and setting Allocation 3 funding for youth education/intervention/treatment, environmental restoration, and state and local law enforcement programs at a baseline of $670 million annually for three years.

    - Enforcement policies to increase tax compliance and collection, as well as labor standards.

- **Cannabis Local Jurisdiction Retail Access Grant Program.** The May Revision includes $20.5 million one-time General Fund to establish a cannabis local jurisdiction retail access grant program. This program is intended to aid localities with the development and implementation of local retail licensing programs and to support consumers in gaining access to legal, regulated products.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Sydney Kamlager
Senator Jim Nielsen

Wednesday, February 2, 2022
1:30 p.m.
State Capitol - Room 2040

Consultant: Elisa Wynne

OUTCOMES:
Issues 1 and 3-11: 3:0
Issue 2: 2-1 (Nielsen)

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS FOR VOTE ONLY

0870 OFFICE OF TAX APPEALS

Issue 1: Additional Staffing Resources

Request. The Governor's budget requests $2,796,000 ongoing General Fund and permanent position authority for the following 15 additional positions: Three Administrative Law Judge III, one Attorney V, one Tax Counsel IV, one Tax Counsel III, one Program Specialist III, one Business Taxes Specialist III, two Associate Governmental Program Analyst, two Staff Services Analysts, one Office Technician (General), one Information Technology Associate, and one Audio-Visual Specialist (Technical) at the Office of Tax Appeals (OTA).

Background. The OTA is responsible for hearing and deciding tax appeals arising from taxpayer disputes of actions taken by the Franchise Tax Board (FTB) and the California Department of Tax and Fee Administration (CDTFA). Since it was established, OTA has experienced an increase in appeals, most recently an approximately 40 percent increase in new Franchise and Income Tax (FIT) appeal filings, due in part to collaborative efforts of FTB and OTA to simplify the appeals process for taxpayers. Among several changes driving the increase, FTB this year began mailing out OTA appeal forms and instructions to FIT taxpayers when it sends out its decisions on cases that may be appealed to OTA.

Several positions from the Legal and Case Management divisions were redirected to staff-up the Administration Division when OTA's 2020-21 BCP was denied due to state fiscal constraints resulting from COVID-19. Due to this redirection and additional workload, current staffing levels in these divisions are not sufficient to address ongoing responsibilities. With internal processes more fully developed and workload data more defined, it is apparent that to adequately address its statutory requirements, OTA requires additional resources for the 2022-23 budget year. The requested resources will allow OTA to fulfill its mission of providing an objective and expert forum for tax appeals.

Staff Recommendation. Approve as requested.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 2: Centralized Revenue Opportunity System (CROS) Maintenance and Operations

Request. The Governor's budget requests $14.4 million in 2022-23 from a variety of fund sources for the Centralized Revenue Opportunity System (CROS) at CDTFA. Of this, $10.6 million is for maintenance and operations, $2.6 million is for final release of revenue-based compensation, and $1.2 million is for operating expenses and equipment.

Background. The CDTFA administers California's sales and use, fuel, tobacco, alcohol, and cannabis taxes, as well as a variety of other taxes and fees that fund specific state programs.

The CROS Project (Feasibility Study Report Project 0860-094) is an information technology modernization effort that has enabled 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.

CROS 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. On August 30, 2016, the CDTFA completed the CROS Project's Procurement Phase and signed an agreement with FAST Enterprises Inc. (FAST) to implement its commercial off-the-shelf software solution, GenTax, as the CROS Solution. GenTax 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 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 included all remaining the CDTFA tax programs and was implemented on November 9, 2020.

The CDTFA requests $14.4 million for OE&E. This includes $13.2 million for FAST compensation as follows:

- $10.6 million for maintenance and operations costs (funds the 2022-23 costs of the maintenance and operations contract and the software licensing contract)
- $2.6 million release of withhold, which is the final 3 percent of the 10 percent withhold (the withhold is revenue-based compensation)

The CDTFA also requests $1.2 million for hardware, software, and training resources needed to support CROS operations. Training resources are needed to provide technical training for staff to ensure they gain key skills in new technologies to support CROS.

Staff Recommendation. Approve as requested.

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 3: Debt Collection - Identity Theft Workload (AB 430)

Request. The Governor's budget requests an increase in expenditure authority of $596,000 Financial Protection Fund in fiscal year 2022-23 and $558,000 in 2023-24 and ongoing, and 3.0 permanent positions for the Department of Financial Protection and Innovation to implement the provisions of Chapter 265, Statutes of 2021 (AB 430).

Background. Debt collection practices and abuses in California are covered under Chapter 157, Statutes of 2020 (AB 1864), the California Consumer Financial Protection Law (CCFPL), and Chapter 163, Statutes of 2020 (SB 908), the Debt Collection Licensing Act (DCLA). The DCLA provides for the licensure, regulation, and oversight of California debt collectors by the Department. Both measures passed and were signed into law in 2020. The CCFPL took effect on January 1, 2021, but the DCLA did not take effect until January 1, 2022. The DCLA allows debt collectors to apply for a license before January 1, 2022, and to operate pending the Commissioner's approval or denial of the application. The Department began accepting applications on September 1, 2021.

Prior to collecting the debt, a debt collector must review the alleged fraudulent debt and determine if the debt is fraudulent or if the debtor has submitted a false identity theft claim. AB 430 modifies the identity theft documentation a consumer can provide to a debt collector under the Rosenthal Fair Debt Collection Practices Act, the identity theft law, and the Penal Code, to allow a copy of the Federal Trade Commission (FTC) identity theft report signed under penalty of perjury to be accepted in place of the police report required under current law.

The Department anticipates that AB 430 will:

- Expand the current debt collector examination to include the requirements of AB 430 and cause an increase in the hours needed to complete examinations,
- Drive an increase in complaints to the Department's Consumer Services Office, and
- Drive an increase in complaints by consumers claiming identity theft, which will lead to investigations, enforcement actions, penalties, and suspension or revocation of licenses.

Staff Recommendation. Approve as requested.

Issue 4: Financial Abuse of Elders or Dependent Adults Workload

Request. The Governor's budget requests two positions and an increase in expenditure authority of $531,000 Financial Protection Fund in fiscal year 2022-23, and $470,000 in 2023-24 and ongoing, for the Department of Financial Protection and Innovation to address increased workload related to mandatory reports of known or suspected financial abuse of elders or dependent adults.

Background. The Department's Broker-Dealer/Investment Adviser (BDIA) Program licenses and regulates broker-dealers (BD), broker-dealer agents, investment advisers (IA), and investment adviser representatives, pursuant to the Corporate Securities Law of 1968. Regulatory oversight makes certain the investing public is protected from unethical and fraudulent activities and California's financial market is secure, fair, and transparent. Regulatory oversight is achieved by performing detailed licensing reviews, conducting regulatory examinations of the licensee population, and reviewing complaints and reports filed with the Department.

As the financial industry has evolved over time, the BDIA Program has faced increased workload to identify and address misconduct and unprecedented challenges to protect investors. Protecting seniors, dependent adults, and investors from financial exploitation is a primary focus of the Department. As the number of complaints and reports of suspected financial abuse have increased, additional staff are needed to work on these mandatory reports and to protect and advocate for investors in California.

Two pieces of legislation recently signed into law have driven these workload increases: Chapter 272, Statutes of 2019 (SB 496), which outlines the responsibilities of the Department in the handling of mandatory reports of known or suspected financial elder abuse, and Chapter 621, Statutes of 2021 (AB 636), which outlines additional steps that the Department must take to share information and collaborate with outside agencies**.** The Department notes that workload associated with these law changes has been significantly more than originally expected.

Staff Recommendation. Approve as requested.

Issue 5: Mortgage Lender Originator Licensing Workload

Request. The Governor's budget requests 9.0 positions and $1,947,000 Financial Protection Fund in 2022-23, and $1,847,000 in 2023-24, to manage the significant workload increase in the processing of mortgage license applications for the Department of Financial Protection and Innovation so Californians can begin working in the mortgage industry within 30 days of the Department's receipt of application.

Background. The Department is responsible for protecting California's mortgage borrowers by securing the safety and soundness of mortgage loan origination. Any person who provides services as a mortgage loan originator (MLO) in California under the California Finance Law (CFL) or the California Residential Mortgage Lending Act (CRMLA) must apply for and receive a MLO license from the Department. The MLO licensing unit is responsible for confirming that each MLO licensee demonstrates and maintains financial responsibility, character, and general fitness such as to command the confidence of the community and to warrant a determination that the MLO will operate honestly, fairly, and efficiently. MLO licensees must update their record when any changes occur affecting initial application information and must renew their license annually as required by CRMLA and the Federal Secure and Fair Enforcement Mortgage License Act (SAFE Act).

The mortgage origination industry has experienced continued growth over the past few years. It continues to benefit from low interest rates and a stable residential market in California. As a result, the Department received an extraordinarily high number of new applications and licensees during 2020 and in the first half of calendar year 2021. The number of new applications doubled from 10,203 in 2019 to 21,860 in 2020, and is on track to triple in 2021, from 10,203 in 2019 to approximately 32,000 in 2021. The volume of work has become too large for the current MLO licensing unit.

Staff Recommendation. Approve as requested.

Issue 6: Securities Transactions (AB 511 Workload)

Request. The Governor's budget requests 2.0 permanent positions and an increase in expenditure authority of $758,000 Financial Protection Fund in fiscal year 2022-23, and $658,000 ongoing, for the Department of Financial Protection and Innovation to implement the provisions of Chapter 617, Statutes of 2021 (AB 511).

Background. California has proactively protected investors since 1913 under an expansive regulatory regime, now known as the Corporate Securities Law (CSL) and accompanying regulations. The CSL requires companies to qualify securities or submit exemption notices with the Department before their offer commences in California. The Legal Division's Securities Regulation Unit reviews and analyzes applications confirming the offerings are fair, just, and equitable to Californians. It also reviews complaints and negotiates consent orders for non-compliance or refers violations involving egregious harm to the Enforcement Division. The Enforcement Division investigates compliance with the CSL and litigates administrative and civil actions against companies that fail to provide investors with material information needed to make an informed investment decision and those who engage in securities fraud. The Enforcement Division is empowered to seek ancillary relief, including, but not limited to rescission, restitution, and disgorgement on behalf of injured investors.

AB 511 created a new intrastate crowdfunding exemption for securities offerings. California's exemption allows issuers to raise more capital in reliance upon unaudited financials than the federal exemption allows. Issuers previously relying on the federal crowdfunding exemption are therefore expected to rely on California's more favorable exemption. The exemption allows issuers to raise capital from unsophisticated, unaccredited investors on the internet. The exemption has important investor safeguards in place, borrowed from the federal exemption. The Department is tasked with administering compliance with these requirements, through limiting the amount unaccredited investors may invest (a requirement for all transactions that take place through an SEC-registered intermediary), verifying filing requirements, and disqualifying bad actors.

The Legal Division is requesting 1.0 Attorney III to enable the Securities Regulation Unit to effectively enforce the provisions of the CSL that regulate and address fraud in connection with the offer and sale of securities and to meet increased workload demands anticipated from implementing AB 511. The Enforcement Division is requesting 1.0 Attorney V position to enable the Enforcement Division to effectively enforce the provisions of the CSL that regulate and address fraud in connection with the offer and sale of securities and to meet the increased workload demands of AB 511.

Staff Recommendation. Approve as requested.

7730 FRANCHISE TAX BOARD

Issue 7: Enterprise Storage and Fiber Channel Switch Refresh

Budget. The Governor's budget requests $6.7 million General Fund and $4,000 special funds for the Franchise Tax Board to refresh aging equipment and software approaching end-of-life (EOL) within the enterprise storage system and storage area network (SAN) fiber channel switches.

Background. The SAN is a specialized, high-speed network that provides network access to storage utilizing fiber channel switches for data transportation. It provides secure data transportation between servers and enterprise storage systems. SAN is composed of switches, storage elements, and storage devices that are interconnected. These environments support FTB's mission critical applications. One of the main components within the SAN, is the fiber channel switch. It plays an important role in interconnecting multiple storage ports and servers. FTB's current fiber channel switches and software were installed in 2015 and must be replaced as they are reaching EOL. The switches will not have standard manufacturer support after July 2022. However, the manufacturer will support the EOL switches during the migration and installation process for the new switches which will maximize return on investment and prevent the need for a long-term support contract. FTB seeks funding to replace the aging fiber channel switches and software to reduce the risk of failure which would negatively impact FTB's operations. FTB will also update the storage port and servers in this project. The proposed timeline is as follows:

- June 2022 – Department of Finance notifies FTB of approval for project resources
- July 2022 – Bid and award procurement contract including gap coverage for product support through project implementation
- August 2022 – October 2022: Prep work: includes power, wiring, and other data center requirements. Review Logical configuration and verify new topology
- November 2022 – February 2023: Configure, install, and cutover, Includes verification and stabilization
- March - April 2023 – Final verification, begin M&O, and project closure

Staff Recommendation. Approve as requested.

Issue 8: FI$CAL Staffing

Budget. The Governor's budget requests $856,000 General Fund and $32,000 special funds for 6 three-year limited-term positions and funding for 5 classification upgrades in 2022-23; $819,000 General Fund and $32,000 special funds in 2023-24 and 2024-25; and $67,000 General Fund and $2,000 special funds in 2025-26 and ongoing for the Franchise Tax Board. These resources will conduct accounting, procurement, and budgeting and resource management functions as the department continues to work in the Financial Information System for California (FI$Cal) to comply with statewide accounting, procurement, and budgeting policies.

Background. In July 2018, FTB implemented FI$Cal, California's statewide accounting, budget, cash management and procurement system. FI$Cal is the technology solution that provides a single, transparent, and unified financial management system, and is intended for use by most state entities. It implemented revised processes and deployed new required structures and rules that necessitate the collection and categorization of more data. This information is essential to the success of FI$Cal for statewide financial reporting. FTB's Accounting Section, Procurement Bureau, and Department Resource Oversight and Financial Performance Section have the most prominent role in FI$Cal at FTB and deliver key components of FTB's business operations including accounting, purchasing, budget development and management, financial statements, and departmental and state-level reporting. FTB is fully committed to supporting FI$Cal requirements and proactively worked with FI$Cal and Department of Finance (DOF) to plan, design, and test new processes, procedures, workflows, information hand-offs, and reports. Due to the required FI$Cal workload changes in complexity, timing, and required reviews, FTB staffing was temporarily and permanently augmented in 2019-20. FTB honed its skill with FI$Cal processes and timing and discovered additional complexity to FTB's already complex processes. Mindful of this, FTB has proceeded to address and modify our processes to tailor with FI$Cal. At this time, FTB continues to experience delays, bottlenecks, and backlogs within FI$Cal processes.

FTB needs additional resources to carry out its fiduciary responsibilities within mandated timeframes, thus FTB proposes to increase staffing by six three-year limited-term positions and funding to upgrade five Associate Operations Specialists to Staff Operations Specialists. While FTB did receive some permanent and temporary resources in 2019-20, which greatly assisted with the FI$Cal workload, the temporary resources have now expired and workload demands continue to increase in workload tasks and review levels. FI$Cal is fully implemented at FTB and FTB has worked diligently to address the deficiencies caused by the FI$Cal implementation. FTB staff are now experienced and beyond the learning phase, thus these resource gaps cannot be overcome with additional experience or training. The remaining needs and demands are permanent and meeting them is unsustainable without additional staffing.

Staff Recommendation. Approve as requested.

Issue 9: Identity Proofing and Online Fraud Detection

Budget. The Governor's budget requests $3.53 million ($3.45 million in General Fund and $88,000 in Special Fund) 17 permanent positions and 1 limited-term position in FY 2022-23; $3.07 million ($2.99 million in General Fund and $78,000 in Special Fund) 17 permanent positions in FY 2023-24 and ongoing at the Franchise Tax Board to accommodate both new workloads and growth within the critical functions of policy, security, and disclosures that are a part of FTB's business processes utilizing a new identity verification tool for fraudulent calls and a threat behavior analytics tool.

Background. The Privacy, Security, and Disclosure Bureau (PSDB) develops and enforces security policies and procedures for the safety of FTB's employees and California citizens, and to ensure the security, confidentiality, integrity, and availability of FTB's information and information systems. These departmental policies and procedures guide staff in the analysis and assessment of security measures for the protection of FTB's facilities and information. They also detect, verify, and prevent unauthorized access to information technology systems, networks, and data.

FTB's Chief Security Officer (CSO) is responsible for the oversight and management of all aspects of information security. The CSO also promotes awareness of privacy and security issues among management and staff and ensures sound security principles are reflected throughout the organization's vision and goals. Subject matter experts within the PSDB provide technical security expertise to the department.

FTB has redirected resources to address online fraud as feasible, as well as utilized two positions requested and received via a 2018-19 BCP, to begin addressing this emerging avenue for fraudulent activity.

FTB cannot continue to redirect resources to this workload without ongoing impacts to other critical security areas. Currently, FTB does not have the resources or robust tools to appropriately identify and address all the alerts that are triggered and the alerts are prioritized as High, Medium, and Low. On some days, staff can only timely review a portion of the alerts categorized as 'High'. The additional tools and positions will aid in refining current alert criteria to remove false positives and create automated processes to replace the current manual review processes. These resources and new software tools will ensure FTB, and the State, are well positioned to address significant risks associated with insufficient security protocols and staffing levels.

Staff Recommendation. Approve as requested.

Issue 10: Microsoft Licensing Agreement (MELA)

Budget. The Governor's budget requests $1.44 million General Fund and $60,000 special funds in 2022-23, $1.64 million General Fund and $68,000 special funds in 2023-24, $2.0 million General Fund and $83,000 special funds in 2024-25, and ongoing for the Franchise Tax Board to establish a fully-funded, permanent baseline budget for FTB's implementation of the state master agreement Microsoft 365 Government Community Cloud (M365 GCC) and enterprise agreements for Microsoft server, development tools, and support (the combined package is hereafter referred to as M365 GCC+).

Background. The common tool set FTB offers staff based on work assignments, includes a computer operating system with security features and software applications that enable word processing, note taking, spreadsheets, presentation creation, surveying, diagraming, project management, software development, and communications, such as e-mail, instant messaging, voice conferencing, and team video collaboration. To carry out their revenue generating workloads and provide taxpayer assistance, FTB staff rely on these tools to work as a team, share and mange content, quickly find and connect information, and seamlessly collaborate across FTB. To offer these functions to staff, behind the scenes FTB uses on-premises server software, cloud services, and support tools for implementation, deployment, and trouble shooting. This is FTB's base architecture for productivity software. FTB licenses to support our nearly 6,900 permanent and temporary employees. FTB maintains another 800 licenses for contractors working on projects and to provide licensing to comply with FTB security policy, which requires retention of former employee and contractor data for a period of a minimum of five years. FTB has discovered and progressed to the best licensing model available in terms of cost and features.

In June 2014, FTB transitioned from purchasing software bundles and individual products to its first subscription Microsoft Enterprise License Agreement (MELA) with add-ons, which provided additional products such as server software, developer tools, and specialized productivity tools (i.e., Visio and Project).

In June 2019, FTB renewed the subscription and acquired the latest subscription, Microsoft 365 Government E3, with the same add-ons and an upgraded support contract. In early 2021, the California Department of Technology (CDT) reached out to FTB about the feasibility of joining the statewide M365 E5 GCC subscription. After determining business opportunities and costs associated with doing so, key benefits would present for FTB to do this and in June 2021, FTB leveraged the new purchasing model M365 E5 GCC offered through CDT and entered into a new subscription term prior to the existing subscription expiration. Renewing one year early allowed FTB to take advantage of previous subscription credits, leverage the aggregate buying power of the new M365 E5 GCC, and move to a 5-year renewal cycle instead of a 3-year cycle. This state master enrollment (M365 E5 GCC), along with the server, developer, and support tools, is collectively referred to as M365 GCC+ in this document. The decision to move to this new agreement was both financially strategic and feature rich, as this state master enrollment offered significant initial savings and additional feature opportunities, particularly for security tools. FTB was able to transition to the top-tier enrollment (Federal Risk and Authorization Management

Program (FedRAMP) certified) to leverage the added security and privacy features, top-tier support, deployment services, and simplified administration. FTB also enhanced its video conferencing and data analytics tools. FTB's current M365 GCC+ architecture includes base productivity tools, server tools, developer tools, and support. It provides a dependable and adaptable base productivity software architecture, cloud computing, and access to the most current versions of Microsoft software. This flexibility enables FTB to upgrade at a pace that aligns with FTB's business needs, such as the increased demand for licenses due to FTB security retention policy and emergency implementations of collaboration tools such as was needed with COVID-19.

For the various purchases comprising the 2014, 2019, and 2021 subscriptions, generally FTB was able to fund these subscription contracts primarily utilizing funds previously used to buy the individual products that were being offered in the MELA bundle, and carry that forward as the baseline. While FTB was able to fund the first year costs for this new subscription, annual costs continue to increase and FTB's baseline budget for this subscription is insufficient to cover future year costs.

Staff Recommendation. Approve as requested.

Issue 11: Network Infrastructure Refresh

Budget. The Governor's budget requests $1.0 million General Fund and $42,000 special funds in 2022-23, $3.21 million General Fund and $133,000 special funds in 2023-24, and $4.71 million General Fund and $198,000 special funds in 2024-25 for the Franchise Tax Board (FTB) to refresh, by way of replacement, a portion of FTB's network infrastructure. Some components of the network are reaching end of life (EOL) beginning May 2023 and some have capacity constraints.

Background. FTB's current network infrastructure was put in place by the E-Commerce Portal Infrastructure (EPI) Feasibility Study Report (FSR), as approved by the California Technology Agency (currently California Department of Technology) on January 10, 2007. That effort provided up-to-date network designs, infrastructure, and tools to effectively and efficiently manage, maintain, and enable growth of FTB's network infrastructure, which allowed FTB to increase its internet presence and internal services. Due to EOL announcements and end of capacity equipment, FTB received approval to refresh the network infrastructure in FY 2016-17, and implemented the network refresh in phases (via approved FSR FTB 15-01 and BCP 7730-002-BCP-BR-2016-GB; PIER completed 2/14/2020), which has kept the network healthy. Generally, the network infrastructure refresh is performed in phases every 5-years. Some components of FTB's network infrastructure are again reaching EOL and capacity constraints exist as all physical port connections are in use. When equipment reaches EOL, manufacturers will no longer provide emergency or non-emergency technical support, technical and security patches, software and firmware upgrades, parts, or whole replacements of equipment. The following components are at or approaching EOL or at capacity and proposed for refresh:

1. Firewall appliances – EOL May 31, 2023.
2. Network (Production, Internet, and Core) Switches – EOL March 31, 2024.
3. Edge Switches – EOL March 31, 2024.
4. Load Balancers – EOL April 1, 2025.
5. Next Generation Firewalls (NGFWs) – EOL August 31, 2025.
6. Routers – Maximum port-capacity reached.

Through this network refresh, FTB will replace EOL and at-capacity components of FTB's network infrastructure and will meet expected workload increases and demand for online services through June 2030.

Staff Recommendation. Approve as requested.

ITEMS FOR DISCUSSION

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 12: Hope Act: California Electronic Cigarette Excise Taxb

Request. The Governor's Budget requests $1.4 million E-Cig Fund for 5.5 positions and 9,253.5 hours in 2022-23, $1.2 million for 3.8 positions and 12,026.5 hours in 2023-24, and $1.4 million for 3.5 positions and 15,253 hours in 2024-25 for mandated workload associated with SB 395, the Healthy Outcomes and Prevention Education (HOPE) Act.

Background.

Beginning July 1, 2022, the California Electronic Cigarette Excise Tax (E-Cig Tax) (Chapter 489 of the Statutes of 2021(SB 395)) imposes a new 12.5 percent tax upon purchasers on the sales price of electronic cigarettes for use in California. Retailers are required to collect the E-Cig Tax from the purchaser at the time of the retail sale of an electronic cigarette. Additionally, SB 395 authorized a General Fund loan of $3 million to be deposited into the California Electronic Cigarette Excise Tax Fund (E-Cig Fund) in fiscal year 2021-22 for the purpose of implementing the E-Cig Tax.

Implementation costs in 2021-22 include $2.5 million in contract services for reprograming CDTFA’s Centralized Revenue Opportunity System (CROS). The new tax requires the CROS functional areas be built by July 1, 2022 and adding this function is currently underway. Additional 2021-22 costs included 0.8 positions in Audit Support, and 2,629.5 overtime hours in various units to implement updates, notify taxpayers, and respond to inquiries from the public

The requested resources in 2022-23 and ongoing will allow CDTFA to address the workload associated with implementing and administering the E-Cig Tax under the Fee Collection Procedures Law. Consistent with other tax programs, the funding for the additional hours allows existing CDTFA team members to work on this program.

Additional workload related to the administration of the E-Cig Tax falls under the following categories:

- **Compliance.** To ensure compliance with the E-Cig Tax legislation, CDTFA is mandated to perform registration and licensing, return processing, and collection functions. Every Cigarette Tobacco Product Tax Law (CTPTL) licensed retailer making sales of electronic cigarettes is required to report and pay the tax on these products, including out-of state retailers with direct sales to California consumers. Team members will process returns, reports, schedules, payments, interest and penalty relief requests, review overpayments, issue refunds, and provide customer service for this new tax program.

- **Audit.** Team members are required to verify and audit registered retailers that sell electronic cigarette products to ensure the correct amount of tax was imposed, collected, and paid on the sale of electronic cigarette products. CDTFA strives to audit 3 percent of the taxpayer base on a three-year cycle.

- **Collections, Refunds, and Appeals.** As with any other tax program, a certain percentage of returns will be delinquent. Taxpayers who file non-remittance, partial remittance, or late returns, will incur CDTFA billings and be subject to collection actions. It is also estimated that 1.3 percent of the taxpayer base will file a claim for refund and a portion of the audit assessments of the new tax will result in petitions for redetermination. Team members will engage in active collection activities, handle refunds and process requests for relief from interest and penalty, and handle all aspects of the appeals process.

- **Return Processing**. CDTFA will design and develop new tax returns for the E-Cig Tax program. System programming changes are required to allow payments and proper fund allocation to the new fund. Team members are responsible for critical tax return and payment processing, reports, account maintenance, account billing adjustments, and desk review activities.

- **Administration, Implementation, and Administrative Support**. The E-Cig fund requires numerous analyses for maintenance, reconciliation, producing interim statements and preparation of special reports, and monitoring critical cash flow by the Accounting Branch. In addition, CDTFA must develop new online returns (electronic filing only), create new online instructions, and update forms, publications, letters, and webpages. Numerous outreach materials will be distributed and published. Team members will train and provide technical advice to other CDTFA team members and the public.

Staff Recommendation. Hold open.

0959 California Debt Limit Allocation Committee

Issue 13: Bond Allocation Program Workload

Request. The Governor's budget requests $1,036,000 for six permanent positions: 5 AGPAs and 1 SSM I Specialist for FY 2022-23 and ongoing to accommodate workload for the California Debt Limit Allocation Committee (CDLAC) and its support areas.

Background.

CDLAC was established by Chapter 943, Statutes of 1987, in response to the Federal Tax Reform Act of 1986, which placed a cap on the volume of tax-exempt private activity bonds that could be issued within a state in a calendar year. CDLAC is the sole entity responsible to calculate the volume cap pursuant to IRS guidelines and allocate tax-exempt private activity volume cap for the State of California through a variety of programs including multifamily housing, single-family housing, tax-exempt facilities, and industrial development bonds.

Tax credits attract private investment in affordable housing by offering a dollar-for-dollar credit against an investor’s state or federal taxes owed. The 2019, 2020, and 2021 Budget Acts each authorized $500 million in one-time resources for low-income housing tax credits. In each year, these resources were split between both typical affordable housing projects ($300 million) and mixed-income projects ($200 million). These funds have supported what is known as the federal four percent tax credit, which historically have not been competitive - every project that sought a four-percent credit received one. Recent changes in statute have made these credits more popular. However, as currently structured, these credits must be paired with federally-limited tax-exempt bonds, which are allocated by the California Debt Limit Allocation Committee. The four percent tax credits are therefore limited by a project’s ability to secure tax exempt bonds. Increasing demand for four percent credits has led to an oversubscription of tax
exempt bonds.

The oversubscription of tax-exempt federal bonds required CDLAC to develop and implement a competitive system to provide equitable distribution of Bond Allocation throughout California. To maximize the allocation of tax credits, the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee adopted regulations aimed at increasing affordable housing production, containing costs, and maximizing public subsidy and benefit of the credits. The review time needed for this new competitive process more than doubled the staff hours it takes to process requests.

Staff Recommendation. Hold Open

0968 CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Issue 14: Development and Compliance Sections Workload Increase

Request. The Governor's budget requests an increase for the California Tax Credit Allocation Committee (CTCAC) of $1,423,000 for fiscal year 2022-23 and ongoing to hire eight new staff members; six Associate Governmental Program Analyst (AGPA) positions, one Research Data Specialist I (RDS) position, and one Staff Services Manager (SSM I) (Supervisor) position to accommodate workload increases.

Background. The CTCAC's tax credits support/affect several State agencies. Bond allocation is required for applicants to receive tax credits. The California Debt Limit Allocation Committee (CDLAC) is the issuer of tax-exempt bond allocation, therefore affected by CTCAC. Tax Credits are a source of equity that is part of the capital stack for projects financed within the Housing Community Development (HCD) and California Housing Finance Agency (CalHFA).

CTCAC is responsible for administering the allocation of federal and state low-income housing tax credits (LIHTCs) for the development of low-income housing. Each year the amount of federal 9 percent LIHTCs allocated by the IRS is based on the product of a per capita factor and the state's population. An annual increase in federal LIHTCs available results in a higher volume of applications reviewed and thus a larger workload requirement. CTCAC is required by federal law to conduct at least three reviews of the applications during the housing development process. Due to the increase in the volume and complexity of the applications, workload has increased at each stage of review and staff have consistently been unable to complete the second of the three reviews in a timely manner. With the increase in applications beginning in 2020 and continuing, without additional staff, CTCAC staff will fall further behind in meeting its mandatory requirements resulting in delays to the project. In addition, the CTCAC's responsibilities for compliance (over a 55 year period) grow with each additional project.

In 2020-21, CTCAC had 70 authorized positions and of these 51 were filled. CTCAC notes that their ability to fill positions has been compromised by the pandemic and the need to recruit for positions that include significant travel.

Staff Recommendation. Hold Open

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 15: California Public Banking Option Act (AB 1177)

Request. The Governor's budget requests an increase in expenditure authority of $283,000 Financial Protection Fund in fiscal year 2022-23, $273,000 in 2023-24, and 1.0 Attorney III position, for the Department of Financial Protection and Innovation to implement the provisions of Chapter 451, Statutes of 2021 (AB 1177).

Background. The purpose of AB 1177, the California Public Banking Option Act, is to increase access to no-cost banking for underbanked and unbanked populations. AB 1177 established the CalAccount Blue Ribbon Commission (Commission) to contract with a vendor to conduct a study of a CalAccount Program (Program) to offer unbanked and underbanked Californians free federally insured transaction accounts. The new law requires the State Treasurer to convene the Commission on or before September 1, 2022, composed of nine individuals, including the DFPI Commissioner or their designee.
The Commission is required to:

- Contract with vendors to conduct the market analysis.
- Conduct at least one public hearing to gather input within a year of entering into a contract for the market analysis.
- Hold a public hearing to review the completed market analysis.
- Determine whether the Program can be implemented as described in the bill, and if not, what modifications can be made to implement it successfully.
- Determine whether the Program revenue is enough to pay for costs within six years of implementation, and if not, recommend whether the Program should be implemented, nonetheless.

AB 1177 requires the Commission to deliver the market analysis to the Chair of the Senate Committee on Banking and Financial Institutions and the Chair of the Assembly Committee on Banking and Finance by July 1, 2024. The California Public Banking Option Act only becomes operative upon appropriation by the Legislature, and the Program will only get implemented if the Legislature approves it after seeing the results of the market analysis.

While AB 1177 does not have a direct impact on DFPI's operations, the DFPI Commissioner, or that person's designee, will need to spend considerable time on the Commission, at board meetings, gathering and consolidating information from Department and stakeholder experts, and reviewing and analyzing market analysis data and results. DFPI requests 1.0 Attorney III to act as the Commissioner's aid and, if needed, designee.

Staff Recommendation. Hold Open.

7730 FRANCHISE TAX BOARD

Issue 16: Enterprise Data to Revenue Project 2

Budget. The Governor's budget requests $151.1 million General Fund and 17.0 permanent positions, 23.5 full time equivalent limited-term positions, and 21.0 permanent-intermittent positions to begin second-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan at the Franchise Tax Board. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

Background.

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

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

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

The EDR2 project is vital to FTB's operations. The technology currently supporting two of FTB's major legacy systems - Accounts Receivable Collection System (ARCS) and professional Audit Screening and Support System (PASS) - , which annually allow FTB to collect over $4 billion in compliance revenue, are nearing end-of-life and will no longer be supported after December 31, 2025. Implementing the EDR2 project at this time is critical. Replacing these systems before they reach end-of-life will ensure FTB business operations generating significant compliance revenue for the state will not experience any critical failures. Additionally, the EDR2 project will improve efficiency and provide a better taxpayer experience while increasing revenue.

The following table shows the systems FTB plans to replace with EDR2 and their original implementation dates and ages.

System	Date Implemented	System Age in Years (as of 2021)
ARCS	1999	22
INC	2001	20
PASS	1997	24

The EDR2 project follows the California Department of Technology's (CDT's) Project Approval Lifecycle (PAL) Process. The most recent document approved for the EDR2 project was the Stage 4 Project Readiness and Approval (S4PRA). The S4PRA was approved on April 1, 2021 and included the EDR2 vendor selection and project approval.

The EDR2 project's Request for Proposal (RFP) was released on April 30, 2019 on the Cal e-Procure website. In May 2020, FTB received the final proposals with proposed solutions from the bidders. Contract Award to the contractor was made in June 2021. The EDR2 project start date is July 1, 2021.

The EDR2 project plans to achieve the following objectives in 2022-23:

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

FTB notes that this request is funding for the 2022-23 fiscal year and that a BCP will be submitted each year to cover the costs of the project. According to the FTB, the total cost of EDR2 is estimated to be just over $750 million and will ensure continued collection of over $4 billion in annual revenues. After full implementation, the project is projected to bring in additional new revenues of $300 million annually.

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

Staff Recommendation. Hold Open.

Issue 17: Section 41 Workload

Budget. The Governor's budget requests $657,000 General Fund and 4 permanent positions in 2022-23; $610,000 General Fund in 2023-24; $760,000 General Fund and one permanent position in 2024-25; and $749,000 General Fund in 2025-26 and ongoing for the Franchise Tax Board. This will allow the Economical and Statistical Research Bureau (ESRB) to manage the increasing workload due to the volume of bills with a Revenue and Taxation Code (R&TC) Section 41 reporting requirement

Background. In 2014, SB 1335 introduced Section 41 into the Revenue and Taxation Code (R&TC). This legislation required any bill, introduced on or after January 1, 2015, that would authorize a personal income or corporation tax credit, to include specific goals, purposes, objectives, and performance measures to allow the Legislature to evaluate the effectiveness of the credit.

In 2019, AB 263 expanded Section 41 reporting requirements to include all tax expenditures. A tax expenditure is defined as a credit, deduction, exclusion, exemption, or any other tax benefit as provided for by the state. As a result of AB 263, beginning on January 1, 2020, data must be collected on any new tax expenditure bills in order to provide a standard method for the Legislature to periodically evaluate whether tax expenditures are providing the intended benefit to the State and its taxpayers.

As the department which receives tax information, most new bills now direct the FTB to provide relevant data to a designated entity, such as the Legislative Analyst's Office, to evaluate the benefits of the tax expenditure and complete the Section 41 report. Additionally, FTB could be the responsible entity to evaluate the tax expenditure as to its stated goal and issue a Section 41 report. Section 41 reports include analysis of data and baseline measurements to be collected and remitted in each year the tax expenditure is in effect. This allows the Legislature to measure the change in performance indicators which ultimately shows the goals, purpose, and objectives of the tax expenditure are being met.

R&TC Section 41 is a new mandatory workload that ESRB does not have the resources to address. When Section 41 was initially enacted, reporting requirements were limited to tax credits. However, recent legislation has expanded the requirement to include all tax expenditures. Tax credit data is easier to collect as it is generally reported as a line item on the tax return, and the data is captured by FTB during return processing. Data for other tax expenditures, such as deductions, is more difficult to collect. Individual deductions are rolled up into other line items and not reported on its own because that level of calculation is not necessary for return processing. In these instances, ESRB must build a data capture interface and related databases to store the data. The data is then manually keyed in order to generate reports.

FTB notes that the department had no departmental costs associated with AB 263 when it passed as the bill adds requirements for future bills. However, now that approximately 10 tax expenditures have been enacted that require some form of data collection, analysis, distribution to subject matter delegates or the drafting of a report, FTB notes that these mandated activities support the need for additional resources. Currently FTB is re-directing staff to absorb several hundred hours of staff time annually to complete the one or two reports required to meet Section 41 requirements.

This request is based on FTB estimates that with each session the Legislature will pass at least four new tax expenditure bills encompassing R&TC Section 41 requirements that will require FTB to collect and distribute data to a delegate responsible to draft the Section 41 report or FTB will be required to draft a report

The FTB requests an IT Supervisor and an Administrator that would allow ESRB to address its span of control issues and support the workload metrics over time. Additional Data Specialists and IT Specialist are requested to allow FTB to code and capture information or to analyze the data and produce the reports FTB is responsible for on the performance measures and specific outcomes of the tax expenditure legislation.

Staff Recommendation. Hold Open.

Issue 18: Earned Income Tax Credit Foster Youth Expansion

Budget. The Governor's budget includes a new refundable credit for young adults who have been in the foster care program. This proposal provides an additional $1,000 credit for individuals who have been in the foster care system at some point at age 13 or older and who are now at least 18 but 25 or younger, and who otherwise qualify for the CalEITC. This proposal is expected to cost roughly $20 million ongoing General Fund. As in prior years, the budget package also includes $10 million for education and outreach to expand awareness of the EITC.

Background. The California EITC is a state personal income tax provision that benefits individuals and families who earn less than $30,000. The amount of the credit depends on taxpayers "earned income" (which primarily includes wages and self-employment income), filing status, and the number of qualifying dependent children. The amount of the EITC initially rises with earnings, such that the greater the filer's earnings, the larger the credit. The credit peaks at a certain income and then gradually phases out for higher levels of earnings. The tax credit is fully refundable. This means that if the amount of a taxpayer's EITC is greater than his or her liability before applying the credit, then the state pays the taxpayer that difference. The Franchise Tax Board (FTB) annually adjusts the income thresholds and credit amounts for inflation, similar to the adjustment made at the federal level (although the state uses a California-specific inflation index).

In 2015, when California created the state EITC, it was designed to supplement the federal EITC for those working individuals and families whose incomes were relatively low. As the state EITC is based on the federal EITC, it also shares certain restrictions on eligibility. Specifically, eligible filers must be a U.S. citizen or resident alien. In addition, if they do not have a qualifying child, eligible filers must be at least age 25 and younger than age 65.

2021 CalEITC Credit

Number of qualifying children	California maximum income	CalEITC (up to)	IRS EITC (up to)
None	$30,000	$255	$1,502
1	$30,000	$1,698	$3,618
2	$30,000	$2,809	$5,980
3 or more	$30,000	$3,160	$6,728

Source: Franchise Tax Board

California adopted the CalEITC in 2015 to build upon and amplify the impact of similar federal tax credits and increased benefits and access over multiple years as follows:

2015 Budget Act. The budget included a state EITC for the first time, which provided a refundable tax credit for wage income for households with incomes of less than $6,580 if there are no dependents, and up to $13,870 if there are three or more dependents. For tax year 2015, the program matched 85 percent of the federal credits, up to half of the federal phase-in range, and then begin to taper off relative to these maximum wage amounts. The credit was expected to benefit an estimated 825,000 families and two million individuals. The estimated average (mean) household benefit was $460 per year, with a maximum credit for a household with three or more dependents of over $2,600. The FTB was tasked with administering the EITC program. Budget bill language was adopted to allow for the 85 percent to be adjusted depending upon the state fiscal position.

2017 Budget Act. The budget expands the EITC to support more working families, including self-employed parents, in line with the federal EITC and expanded income ranges to help families working up to full-time at the newly increased minimum wage benefit from the program.

2018 Budget Act. The budget expanded the EITC to working individuals who are aged 18 to 24 or over age 65. In addition, the budget adjusts the qualifying income range for the credit so that employees working up to fulltime at the 2019 minimum wage of $12 per hour would qualify for the credit.

2019 Budget Act. The budget more than doubled the EITC by investing $1 billion in a new expanded EITC (up from $400 million). Specifically, the EITC was expanded by raising the annual income recomputation floor from 3.1 percent to 3.5 percent, revising the calculation factors to increase the credit amount for certain taxpayers, raising the maximum income to $30,000, and providing a refundable young child tax credit not to exceed $1,000 per qualified taxpayer per taxable year. These changes increase the estimated cost of the state EITC from approximately $400 million to approximately $1 billion. In 2019, California spent $1.1 billion on the state’s two largest tax credits targeted to Californians with low incomes — the California Earned Income Tax Credit (CalEITC) and the Young Child Tax Credit (YCTC)

2020 Budget Act. The budget included trailer bill language to extend the EITC and Young Child Tax Credit (YCTC) eligibility to Individual Tax Identification Number (ITIN) filers. An estimated 200,000 or more families with ITINs qualify for this state EITC expansion.

According to the most recent data from the Franchise Tax Board, as of November 27, 2021, for the 2020 tax year, 4.2 million claims were filed, for a total credit amount of $1.25 Billion ($863 million in EITC and $391 million in YCTC)

Staff Comments. At the time this agenda was published, trailer bill language on this proposal was not yet available. However, the Administration notes that this credit will be available for youth who were in the foster care system at some point. It is limited to those who already qualify for the EITC. The Administration anticipates that up to 20,000 individuals may apply for the credit.

Staff Recommendation. Hold Open

Issue 19: Young Child Tax Credit Changes

Budget. The Governor's budget includes a proposal to expand the Young Child Tax Credit (YCTC) to families that file returns without income, but otherwise quality for this credit, and proposes to index the credit to inflation starting in the 2022 tax year, which will prevent the erosion of its value. This expansion of the YCTC is expected to cost about $55 million ongoing General Fund. The cost of indexing will depend on the level of inflation and will compound over time, for the 2022 tax year, the cost of indexing is estimated at $19 million.

Background. The California YCTC was expanded in the 2019 Budget Act to include a refundable young child tax credit not to exceed $1,000 per qualified taxpayer per taxable year. In the 2020 Budget Act, ITIN filers became eligible for this credit.

Currently, in order to claim the YCTC, a taxpayer must claim at least $1 of earned income. The YCTC is a refundable credit, this means that if the amount of a taxpayer's EITC is greater than his or her liability before applying the credit, then the state pays the taxpayer that difference.

The state's EITC has been indexed for inflation since its inception, and the Franchise Tax Board (FTB) annually adjusts the income thresholds and credit amounts for inflation, similar to the adjustment made for the federal EITC, although the state uses a California-specific inflation index. The YCTC has not been indexed for inflation and under current law loses value each year as a result. Estimates from the California Budget and Policy Center note that absent any changes, the credit would buy approximately 35 percent less than it did when introduced in 2019.

Staff Comments. At the time this agenda was published, trailer bill language on this proposal was not yet available. Allowing the credit to be claimed by taxpayers with no income reflects an acknowledgement that the funds are intended to support families in raising children, regardless of their work circumstances of their parents. This differs from the view of the EITC as a credit that supports working adults.

Staff Recommendation. Hold Open

Issue 20: SB 1409 Report

SB 1409 (Caballero), Chapter 114, Statutes of 2020 required the Franchise Tax Board (FTB) to report by January 1, 2022, to the Legislature, an analysis and plan, to increase the number of claims of the California Earned Income Tax Credit (CalEITC) allowed pursuant to Section 17052 of the Revenue and Taxation Code, and the federal Earned Income Tax Credit (EITC), including alternative filing systems.

Background.
In SB 80 (Committee on Budget and Fiscal Review, Chapter 21, Statutes of 2015), the Legislature created the EITC, a state refundable tax credit for wage income that is intended to benefit very low-income households. Specifically, the program builds off the federal EITC and established a refundable credit for tax years beginning on or after January 1, 2015. The credit is applied to personal income tax liabilities associated with earned wage income. The program provides for a credit amount during a phase-in range of earned wage income according to specified percentages based on the number of qualifying children. Subsequent budget actions described in Issue 18 of this agenda increased the value of and access to the credit in recent years.

Many community-based organizations and other state and local government agencies (such as school districts and county social services offices) engage in efforts to raise awareness about the state and federal EITC. In 2016 and 2017, the state awarded $2 million in grants to these groups to help expand these education and outreach efforts. These efforts include advertising and media outreach, distribution of printed materials, and canvassing—direct contact with individuals in targeted residential neighborhoods. In 2018, the state increased the amount of grants it awarded to $10 million and allowed grant recipients to fund tax filing assistance. In addition, FTB receives $900,000 annually for additional EITC outreach activities and to fund the grant making process. State EITC grants are currently administered through an interagency agreement with the Department of Community Services and Development (CSD).

The state has continued to set aside $10 million for state outreach grants to promote the California EITC and free tax preparation (included in the Governor's budget proposal for 2022-23). Grantees will carry out statewide and local outreach efforts aimed at reaching eligible families. Despite the availability of these resources, the California EITC is not being claimed at the legislature's desired and anticipated rate. In some cases, low-income individuals are not required to file a return because they do not need the minimum return filing income thresholds. Thus, many California household do not receive the credits for which they are eligible, limiting the effectiveness of the EITC program. In addition, the Governor's budget has proposed to additional changes to the EITC and YCTC that may necessitate additional outreach efforts to ensure the targeted individuals are aware of and able to claim the credits. Finally, additional outreach related to the CalEITC may also assist individuals in drawing down federal assistance through the federal EITC.

Report Summary. In preparation for the report, to effectively understand the issues or barriers that may impact or prevent taxpayers from claiming the federal EITC or CalEITC, FTB reached out to community based organizations, interested parties, peer state agencies, and reviewed prior comments raised during previous legislative hearings. FTB identified barriers for taxpayers in accessing the EITC and operational barriers that exist within FTB systems. Finally, FTB identified a variety of concepts and the pros, cons, and additional work needed for each one. The following table is an excerpt from the report and displays a snapshot of the concepts, each discussed in additional detail within the report.

Concept A - Develop a simplified filing portal	FTB's CalFile already allows for this service for state tax filing.
Concept B - Pre-populate state income tax returns	Significant data gaps (timing, accuracy, completeness) to credibly determine eligibility exist; data-sharing among agencies could violate federal law.
Concept C-1 - Simplify the tax filing process: Modify Form 3514	Could ease filing burdens for CalEITC, increase awareness of the credit and the number of filers claiming the credit; however, there is an increased risk of fraud.
Concept C-2 - Simplify the tax filing process: State staff assistance with filing or VITA referrals	IRS rules and procedures and federal law could hinder this concept from being implemented. Potentially significant legal barriers could exist, particularly related to whether state employees would be considered 'paid tax preparers.' Additionally, insufficient VITA volunteers impact success and VITA services are not year round.
Concept D-1 – Expand education and outreach to potentially eligible CalEITC taxpayers: Outreach opportunities by state staff administering public assistance programs	Current data sharing laws may not be sufficient to address the needs of this concept; data-sharing among agencies could violate federal law.
Concept D-2 – Expand education and outreach to potentially eligible CalEITC taxpayers: Outreach opportunities by FTB	Current data sharing laws may not be sufficient to address the needs of this concept; data-sharing among agencies could violate federal law.
Concept E-1 – Tax Identification Number: Create a provisional California unique identifier	The process FTB would need to set up may not differ significantly from the existing federal process and introducing a new identifier creates an enhanced opportunity for fraud to occur.
Concept E-2 – Tax Identification Number: Use state agency workforce to provide free assistance in completing and filing forms for individuals needing an ITIN	IRS rules and procedures based on federal law could hinder this concept from being implemented.
Concept E, Alternative #1 – Tax Identification Number: Amend CalEITC statute to allow taxpayers until October 15th to apply for an ITIN (instead of being issued one)	Current statutory language may need to be updating to implement this concept.

Concept F – Create tax forms in multiple languages	Would require significant vendor support and depending on volume and languages chosen, may be difficult to timely publish all tax forms supporting filing. May also require software companies to provide filing tools in multiple languages to be effective.
Concept G – Increase grant funding for community organizations to engage in outreach and free tax preparation services	Able to implement quickly and some resources needed. Ongoing budget authority would be necessary.
Concept H – Provide ongoing grant funding so outreach and filing assistance can be conducted year-round	Able to implement quickly and some resources needed. Ongoing budget authority would be necessary.

Source: Franchise Tax Board, *Report On the Study to Increase the Number of Claims for the California and Federal EITC.*

Staff Recommendation. Information Only

Issue 21: Tax Payment Flexibility for Low- and Moderate-Income Households

Budget. The Governor's budget provides additional flexibility for certain taxpayers in meeting tax obligations, specifically, for tax years 2019, 2020, and 2021, families with less than $150,000 in adjusted gross income ($75,000 for individuals) will be given until September 30, 2023 to pay any personal income tax liability for those years and will be relieved of any penalties and interest related to delayed filing or delayed payment. Participating taxpayers would be allowed to make installment payments. Late penalties and interest would again apply to outstanding amounts, if any, at the end of the program.

Background. FTB currently has authority to enter into an installment agreement (IA) with any taxpayer upon either a determination of an inability to pay a liability in full or a determination of financial hardship. For those with the inability to pay in full, the current IA statute requires FTB to enter into IAs with taxpayers that meet specified criteria, including that they have personal income tax liabilities of $10,000 or less and have indicated an inability to pay the debt in full and meet other criteria such as having filed prior year returns and committing to remain in compliance in the future for the terms of the agreement. All of these criteria are shown as being met with the filing of an installment application which serves as the taxpayer's self-attestation that they have met the criteria. FTB also has the discretion to enter into an IA for liabilities in excess of $10,000. FTB generally enters into an IA for up to five years with the taxpayer's self-attestation of a financial hardship if the liability is less than $25,000. For liabilities of $25,000 or more, FTB asks for documentation to support a financial hardship.

Staff Comments. At the time this agenda was published, trailer bill language on this proposal was not yet available. Staff notes that the Legislature may wish to examine this proposal in the context of the need for a broader tax abatement policy to ensure that FTB is able to effectively work with taxpayers who struggle to meet their obligations, both during and after the COVID-19 pandemic.

Staff Recommendation. Hold Open.

Issue 22: Innovation Headquarters Credit

Budget. The Governor's budget includes a proposal for a new Innovation Headquarters Tax Credit to provide an additional $250 million per year for three years for qualified companies headquartered in California that are investing in research to mitigate climate change.

Background. According to the Governor's Budget Summary, the new credit is for companies investing in activities and technologies that mitigate climate change and are headquartered in California. The Innovation Headquarters Credit is proposed to be administered by the Franchise Tax Board, and would be in place from 2022 through 2024, and is designed to target a revenue loss of roughly $250 million per year for three years.

Staff Comments. At the time this agenda was published, trailer bill language on this proposal was not yet available.

Staff Recommendation. Hold Open.

0860 BOARD OF EQUALIZATION

7330 FRANCHISE TAX BOARD

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION

Issue 23: Removal of Provision 1 – Position Control

Request. The Governor's budget includes the elimination of provisional language from the budget act items from the Board of Equalization, the Franchise Tax Board, and the Department of Tax and Fee Administration that required notification to the Joint Legislative Budget Committee if specified positions were redirected from their intended purposes.

Background.

Provision 1 of the state operations for the Franchise Tax Board (7730-001-0001), Board of Equalization (0860-002-0001), and the Department of Tax and Fee Administration (7660-001-0001) provides that funds appropriated for each entity to support revenue generating activities shall be used for the purposes intended when authorized in the budget. In order to make changes, the department would need "prior approval of the Director of Finance and the director shall not approve any such reduction or redirection sooner than 30 days after providing notification to the Joint Legislative Budget Committee".

Provision 1 was added to the Franchise Tax Board and the Board of Equalization support items in the late 1990's in response to concerns by the Legislature that positions were being redirected away from revenue-producing workload to other workloads, thus potentially impacting General Fund revenues. It was subsequently included in the California Department of Tax and Fee Administration's budget when the department was created in 2017 as part of the Board of Equalization's restructure.

According to the Department of Finance, the removal of the provision is due to concerns that Provision 1 is out of alignment with current technology and business operations, and that it hinders the ability of the Departments to address new workloads and other emerging issues. Additionally, DOF notes that they do not have an example of when this provision has been used.

The tax boards state that the Provision impacts their ability to assign personnel and other resources in a way that best meets their operational needs. For example, on several occasions the tax boards have noted difficulty with absorbing new workload within existing resources because of Provision 1. This limited flexibility drives the need for new funding and new positions to perform new tasks, or can result in the new tasks being unnecessarily delayed.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, March 2, 2022
1:30 p.m.
State Capitol - Room 2040

Consultants: Anita Lee, Joe Stephenshaw, and Elisa Wynne

Vote Outcomes
Issues 1, 6-13, 15-19, 22-32: 4-0
Issues 3-5, 14, 20, 21: 3-1 (Nielsen - No)
Issue 2: 3-0 (Nielsen - Abstain)

Vote Only Items

Discussion Items

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS FOR VOTE ONLY

0855 GAMBLING CONTROL COMMISSION

Issue 1: Support Staffing

Request. The Governor's budget includes $494,000 ($217,000 Indian Gaming Special Distribution Fund and $277,000 Gambling Control Fund) and four positions in 2022-23, and $486,000 in 2023-24 and ongoing for the Gambling Control Commission to support implementation of recommendations by the California State Auditor and to address an increase in workload within the Licensing, Information Technology and Support, and Legislative and Regulatory Affairs Units.

The four positions are as follows: one Information Technology (IT) Specialist I in the IT Support Unit, one Staff Management Auditor in the Administration Division, one Staff Services Manager (SSM) in the Licensing Division, and one SSM in the Legislative and Regulatory Affairs Division.

Background. The Information Technology Support Unit under the Administration Division of the Commission has three permanent full-time employees (Chief Information Officer, Network Engineer and Application Developer), and is also temporarily supported by three Retired Annuitant positions to meet increasing needs. The Administration notes that workload for the unit has continued to increase from a PY equivalent of 3.6 in 2018-19 to 3.2 in 2020-21; additionally processing times for IT ticket requests have increased from 20 minutes to 30 minutes. The Administration notes that the increased time spent on IT requests have increased due to additional business systems that have been deployed (mobile devise management systems, web workload), increased telework support, increased complexity of telework infrastructure, increased number of IT devices and systems. In order to create a permanent solution and to reduce the reliance on Retired Annuitant positions moving forward, the Administration requests position authority and funding for an Information Technology Specialist I and Staff Management Auditor.

The Governor also requests an additional Staff Management Auditor who will report to the Deputy Director of the Administration Division and will supervise the existing Associate Management Auditor and will directly address the needs identified in the 2018 State Auditor report. The California State Auditor recommended that the Commission implement procedures to track the number of license application, conduct cost analysis of activities supported by the Gambling Control Fund, and adjust regulatory fees to reflect cost of activities. The Commission notes that it will conduct the cost workload analysis on an annual basis and analyze its fee structure every two years. Additionally, the Commission intends to ensure that all policies and procedures are reviewed on a three-year cycle. However, the Administration notes that due to lack of resources, auditing is mostly performed by high-level staff at the Deputy Director and Executive Director Levels. The Administration notes that the Commission requires a dedicated position to ensure sufficient auditing in performed with consistency.

The Governor also requests position authority for one Staff Services Manager (SSM) I in the Licensing Division. Currently, the Division has one SSM that manages the daily operations and supervises six AGPAs, and a Deputy Director overseeing all workload for Commission Licensing Meetings and oversight over the Division. Prior to the Governor's 2013 Reorganization, the division had three SSM positions. The Administration notes that current structure has resulted in unintended silos, limiting in-depth reviews, created inefficiencies and shifted the supervisory responsibility to crisis management. Additionally, the current structure does not provide emergency backup for the SSM and does not allow for succession planning. The Administration notes that an additional SSM will increase program oversight, performance, management, mentoring and delegation.

Lastly, the Administration requests one SSM in the Legislative and Regulatory Affairs Division. The Commission is the primary regulatory body over gambling establishments, and they anticipate increased needs to promulgate or update regulations due to recent legislation. The Administration notes this position is needed to update regulations and statutory analysis in a timely manner.

Staff Recommendation. Approve as budgeted.

0981 CALIFORNIA ACHIEVING A BETTER LIFE EXPERIENCE ACT BOARD

Issue 2: CalABLE Marketing and Outreach

Request. The Governor's budget includes $197,000 for the addition of one Associate Governmental Program Analyst (AGPA) level position and funding to support the development of a marketing, outreach, and public education program to successfully implement and grow the California Achieving a Better Life Experience ("CalABLE") Program.

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

The Budget Act of 2016 authorized the Board to receive up to $1.5 million as a General fund loan to support startup and administrative costs, including three permanent positions (Executive Director, 1 Staff Services Manager I, and an Associate Governmental Program Analyst), as well as funding for external consulting/contract services, development of regulations and program operations. The Board received an initial appropriation of $850,000 for 2016-17 and $650,000 for 2017-18. CalABLE has operated with GF loans, totaling $4.8 million since its inception. In the Budget Act of 2021, CalABLE was provided $1.2 million General Fund for program administrative operations. CalABLE's staffing level has remained the same since 2016.

The Program launched for public enrollment in December 2018. The latest report (3rd quarter of 2021) report shows 6,473 active accounts with over $60 million in assets under management. CalABLE has recently completed a marketing plan under its current budget with contractor, with the goal to achieve 17,000 accounts by 2023. Under current growth and budget assumptions, CalABLE is expected to reach self-sustainability (revenue exceeds operating expenditures) when it reaches approximately 20,500 accounts.

CalABLE does not have sufficient staffing to provide outreach and education to the disability population of the state to reach our aggressive growth targets, especially as it relates to the Spanish speaking population of the state. To continue the programs growth and reach its goal of self-sufficiency the CalABLE Board requests:

- One position at the AGPA level to allow for a Field Representative to support a broad outreach and public education campaign to target specific California and national audiences: eligible individuals with disabilities, their family members, and organizations and agencies providing disability advocacy, services, and public benefit programs, estimated at $197,000.

Staff Recommendation. Approve as Budgeted.

0890 SECRETARY OF STATE (SOS)

Issue 3: California New Motor Voter Program Task Force (AB 796)

Governor's Budget. The Governor's budget includes $481,000 General Fund in 2022-23 ($466,000 ongoing) to fund three positions to implement and administer the provisions of AB 796 (Berman), Chapter 314, Statutes of 2021.

Background. AB 796 codified into state law voter registration information transmittal requirements in the federal National Vote Registration Act of 1993, as specified, and various provisions from a legal settlement regarding the transmission of voter registration information, as specified. The bill also required the SOS to establish a taskforce to evaluate the California New Motor Voter Program.

Staff Comments. Requested resources are consistent with the legislative bill analysis.

Staff Recommendation: Approve as Budgeted.

Issue 4: Campaign Disclosures – Limited Liability Companies (SB 686)

Governor's Budget. The Governor's budget includes $566,000 General Fund in 2022-23 ($125,000 ongoing) to support one position and to incorporate the changes and new filing type to the California Automated Lobbyist and Campaign Contribution and Expenditure Search System (CAL-ACCESS) Replacement System(CARS) required by SB 686 (Glazer), Chapter 321, Statutes of 2021.

Background. SB 686 amended the Political Reform Act to require Limited Liability Companies that qualify as a political committee to file a disclosure statement with the SOS.

Staff Comments. Requested resources are consistent with the legislative bill analysis.

Staff Recommendation: Approve as Budgeted.

Issue 5: Electioneering Regulations (SB 35)

Governor's Budget. The Governor's budget includes $50,000 General Fund in 2022-23 for temporary help to assist in the promulgation of regulations related to electioneering as required by SB 35 (Umberg), Chapter 318, Statutes of 2021.

Background. SB 35 made changes to the distance within which electioneering and specified political activities near a voting site are prohibited, as specified. The bill also extended an existing deadline for a candidate for Governor to submit tax returns to the SOS in order to have the candidate's name printed on the direct primary election ballot, and makes changes to the process for submitting those documents, as specified.

SB 35 requires the SOS to promulgate regulations specifying the manner in which notice regarding prohibitions on electioneering and activity related to corruption of the voting process will be provided to the public.

Staff Comments. Given the additional requirements imposed on the SOS by SB 35, this request is reasonable.

Staff Recommendation: Approve as Budgeted.

Issue 6: Ensure Safe at Home Applications and Materials are Available in Additional Languages (AB 277)

Governor's Budget. The Governor's budget includes $44,000 General Fund in 2022-23 ($9,000 ongoing) to meet requirements of AB 277 (Valladares), Chapter 457, Statutes of 2021.

Background. AB 277 requires the SOS to provide application forms, notices, and explanatory materials related to the Safe at Home program in at least five languages and requires information about the Safe at Home program to be included on Judicial Council forms relating to domestic violence.

Staff Comments. Requested resources are consistent with the legislative bill analysis.

Staff Recommendation: Approve as Budgeted.

Issue 7: Systems Unit FI$Cal Augmentation

Governor's Budget. The Governor's budget includes $136,000 ($95,000 Business Fees Fund and $41,000 General Fund) in 2022-23 and $131,000 ($93,000 Business Fees Fund and $38,000 General Fund) annually thereafter to fund one existing, currently unfunded, position to ensure that SOS has the necessary resources to transact effectively and successfully in the Financial Information System of California (FI$Cal).

Background. In May of 2021, the SOS brought in a retired annuitant to assess the current Management Services Division staffing and architecture of FI$Cal support staff. One of the recommendations posed by the consultant was to move the Systems Unit functions from Budgets to Accounting and request permanent funding for one Associate Accounting Analyst in efforts to mitigate the issue of key person dependencies and establish a team of critical resources to ensure business continuity.

Staff Comments. State agencies and departments must have adequate resources to successfully transact within FI$Cal to ensure timely completion and submission of year-end financial statements. This request supports the SOS in these efforts.

Staff Recommendation: Approve as Budgeted.

1111 Department of Consumer Affairs

Issue 8: Board of Pharmacy – Site Licensing Staff Augmentation

Request. The Governor's budget requests an increase of two Associate Government Program Analyst (AGPA) positions and $314,000 in fiscal year 2022-23 and $298,000 ongoing. These resources enable the Board's Licensing Unit to address an increase in temporary license applications received and increased workload from the expansion of Board authority related to management and control of site licenses. As a result of the increase in licensing workload, the Board is exceeding its current mandated licensing timeframes established by the Board via regulations.

Background. Under various provisions of Pharmacy Law, entities may seek a temporary license while also seeking permanent licensure to operate a pharmacy. Business and Professions Code (BPC) section 4110 provides that the Board may, at its discretion, issue a temporary permit for a period not to exceed 180 days. The provisions for temporary licensure were initially limited to changes in ownership or changes in location; however, in 2018 the provisions were expanded to allow for any applicant to seek temporary licensure. The Board is required to evaluate applications and supporting documents, including funding, assessment of ownership, management and control, and other operational issues, as well as assess and review ownership structures and positions to identify issues of management and control that may compromise consumer protections.

As a result of the expansion of temporary license, the Board has experienced a 78 percent increase in the number of Limited Liability Corporations involved in various layers of ownership, and about 50 percent of site applications have more than one level of ownership. The Board anticipates a 50 percent increase in the number of temporary license applications it receives on average over the next three fiscal years based on historical figures. Under regulations, the Board is required to process pharmacy applications in 30 days, however current processing time is 60 days to process the initial application. The current processing time to review responses to deficiencies is 79 days. Similarly, the Board's processing time for initial sterile compounding pharmacy applications is 64 days and an additional 87 days to review responses received to mitigate deficiencies identified.

The Board requests two AGPA positions to address the increase of temporary license applications and to reduce processing times of temporary and site license applications. One AGPA will conduct an enforcement background check at the time of initial application and before the issuance of the site license. The AGPA will conduct a thorough enforcement investigation on all tiers of ownership of the facility applying for a license. The other AGPA will conduct and expedite abbreviated and meticulous analysis of documentation submitted for each temporary license application and authorize the issuance of temporary licenses. With the addition of these two staff, processing times will be significantly reduced, addressing the barrier to licensure created by extended processing times.

Processing times for incomplete pharmacy and incomplete nonresident pharmacy applications are projected in 2021-22 to be 129-201 days. With the additional staff, the Board anticipates a reduction in the overall processing time for these applications to 100-140 days by the end of 2022-23, 60-90 days by the end of 2023-24, and 45-60 days by the end of 2024-25 and ongoing.

Staff Recommendation. Approve as budgeted.

Issue 9: Board of Registered Nursing - Permanent Funding for Licensing and Call Center Positions

Request. The Board of Registered Nursing (BRN) requests $1.88 million in fiscal year 2022-23 and ongoing to support 22 positions provided in 2019-20 with limited-term funding. Funding is requested to continue supporting 22 existing positions in the following programmatic areas:

- Public Information Unit (PIU) – Consumer Assistance Call Center and Correspondence: 14.0 positions
- Licensing Division - Fingerprint Unit: 3.0 positions
- Licensing Division - United States Licensing Evaluation: 5.0 positions

This request also includes a reduction of nine positions previously assigned to the Call Center that were authorized in 2019-20. Due to various efficiencies, these positions will no longer be required to address ongoing workload.

Background. The 2019-20 Budget Act provided BRN 67 positions, of which 31 positions were three-year limited-term. These additional resources, combined with organizational integration of streamlined procedures, and fully leveraging the functionality of the Board's BreEZe IT system, has allowed the BRN to improve its average licensing processing timeframes from 12-20 weeks to as low as 8-12 weeks for the initial review.

Currently, licensing processing times are within the 10-12 weeks for initial review. The Board's goal is to complete the initial assessment within 4-6 weeks. By completing the initial review within the 4-6 week target, applicants will be granted an authorization to test (ATT) and application deficiencies will be identified, and applicants will be notified quicker. The pass rates of applicants taking the National Council Licensure Examination (NCLEX) immediately following graduation are higher. The quicker an applicant is approved, the sooner they can take the examination. Additionally, the sooner applicants are notified of application deficiencies, they can submit the required documentation to clear the deficiencies. The 4-6-week target for the initial application review is paramount to serve our stakeholders and the public.

During 2019-20 and 2020-21, nursing license applications and fingerprint submissions increased over 20 percent. Due to this increase in applications, the BRN requests ongoing and permanent funding for 22 of the 31 positions that were previously approved with limited-term funding. These resources will continue to address and create further efficiencies in managing the increased workload in the Administration and Public Information Unit and the Licensing Division.

ADMINISTRATION AND PUBLIC INFORMATION UNIT	
Call Center & Correspondence	**Positions**
Supervising Program Technician II	1.0
Program Technician III	1.0
Program Technician II	9.0
Staff Services Analyst	1.0
Office Technician	1.0
Staff Services Manager I	1.0
LICENSING DIVISION	
Fingerprint Unit	**Positions**
Program Technician II	2.0
Staff Services Analyst	1.0
United States Licensing Evaluations	
Program Technician II	5.0
Total Request	**22.0**

BRN anticipates the existing fund condition of the BRN Fund, which is funding through application fees, license fees and penalty fees associated with practice of registered nursing, is sufficient to support the proposal ongoing. Based on budgetary projections of the BRNs current and future fund condition, the Administration notes that the current fees are sufficient to support the proposal.

Staff Recommendation. Approve as budgeted.

Issue 10: Dental Board – Permanent Resources for Chapter 929, Statutes of 2018 (SB 501)

Request. The Dental Board of California (DBC) requests $586,000 and four positions (one Staff Services Manager I, two Associate Governmental Program Analysts, and one Staff Services Analyst) and an additional $20,000 for IT support and software licensing in 2022-23 and ongoing to allow the continued implementation of the provisions outlined in Senate Bill 501 (Glazer), Chapter 929, Statutes of 2018.

Additionally, the Board is requesting two-year limited-term funding of $182,000 in fiscal year 2022-23 and $272,000 in 2023-24 to support required modifications to the Board's BreEZe Licensing IT system for costs associated with the implementation of SB 501.

Total Request by Fiscal year

- FY 2022- 23 - $788,000
- FY 2023-24 - $878,000
- FY 2024-25 ongoing - $606,000

Background. SB 501 established new requirements and minimal standards for the use of sedation and anesthesia in pediatric dental procedure, as well as create processes for DBC to issue various permits, conduct inspection or evaluations prior to issuance of sedation permits. The 2019 Budget provided $547,000 and four positions in 2019-20 and $465,000 in 2020-21 and 2021-22 to implement the provisions of SB 501. The Administration requests that these positions be made permanent.

Staff notes that DBC has about a 23 percent vacancy rate, with 20 of 88 positions vacant. The Board notes in the last year, while some positions were filled, others were vacant due to retirements, promotions, or other employment opportunities. The Board notes that three positions are expected to bill filled at the end of February, three are in the hiring process, 11 are in active recruitment, and three are being discussed with Office of Human Resources for possible reclassification. DBC notes that they cannot redirect existing resources to support this proposal, and that most of the savings that the Board generates each year is associated with vacant positions.

DBC's Anesthesia Unit ensures that applicants meet the eligibility requirements for an anesthesia and sedation permit, checks for compliance with continuing education requirements, and reviews anesthesia and sedation processes and procedures in accordance with the Dental Practice Act.

The requested two AGPA positions will responsible for data regarding any adverse events related to delivery of anesthesia and sedation of a dental patient, review results of on-site inspection and evaluations for permit holders, and will review and analyze data for implementation or changes as relates to SB 501. The requested Staff Services Analyst (SSA) will be responsible for process applications related to anesthesia and sedation and reviewing eligibility requirements. The SSA will also prepare correspondence with applicants regarding application status and deficiencies. The requested Staff Services Manager SSM will supervise the unit staff and direct operations and oversee program leadership and prepares reports and responses to the Governor and legislative correspondence.

Lastly, the Administration projects IT costs of approximately $20,000 in 2022-23 and on-going for general IT support (e.g., web, telecom, service desk, etc.) and software licensing. Additionally, $182,000 in 2022-23 and $272,000 in 2023-24 are required for IT contractor work. Existing maintenance resources at the Department cannot be redirected for this level of effort as it involves creating two new license types, retiring one existing license type, numerous and complex related modifications, and updating approximately eight fees.

Staff Recommendation. Approve as budgeted.

Issue 11: Dental Hygiene Board - Continuing Education Audit Analyst

Request. The Dental Hygiene Board of California (DHBC) requests $129,000 in fiscal year 2022-23 and $121,000 in 2023-24 and ongoing, and 1.0 Staff Services Analyst position to increase annual continuing education (CE) audits for license renewal compliance.

Background. In 2019, the DHBC was established under DCA and has authority regarding all aspects of the licensing of the dental hygiene profession, enforcement and investigation of its licensees, and the approval of educational programs that provide the prerequisite education to become a licensed dental hygienist. Part of its oversight authority, DHBC is required to conduct ongoing continuing education audits to verify the licensees completed the required number of hours to renew their license. The Board is required to audit at least five percent of the licensee population each year. Through the mandated five percent audit rate, the board found that approximately 40 percent of audited dental hygiene licensees were non-compliant at the time of their last renewal. The Board believes that increasing its current audit rate to 10 percent is necessary to increase CE compliance to ensure licensees are taking the mandated CE courses.

In order to meet the Board’s goal to increase CE audits to 10 percent each year, the Board notes it will need additional SSA to conduct these reviews. The Board renews roughly 10,900 dental hygiene licenses each year on average, so by conducting a 10 percent audit each year once the BCP is approved, about 1,090 licensees would be selected for a random CE audit beginning in 2022-23 and ongoing.

In July 2021, the Board approved a fee increase to increase its license renewal fee for Registered Dental Hygienists to $300 to be effective July 1, 2022. The Administration notes that this fee increase will sustain the Board’s fund for the foreseeable future.

Staff Recommendation. Approve as budgeted.

Issue 12: Bureau of Household Goods and Services Enforcement Staff Augmentation

Request. The Bureau of Household Goods and Services requests four Special Investigator positions and an increase in expenditure authority of $620,000, Household Movers Fund, Professions and Vocations Fund, in fiscal year 2022-23 and $588,000 in 2023-24 and ongoing to actively target household movers operating without a valid permit in violation of the Household Movers Act.

Background. Effective 2018 the Household Movers fund and jurisdiction over household movers transferred from the California Public Utilities Commission to the Bureau. Existing law specifies that a household mover shall not engage, advertise, solicit, or enter into an agreement to engage in the business of transporting used household goods and personal effects by motor vehicle over any public highway unless they have a valid permit issued by the Bureau. In order to obtain a permit, the household mover must submit fingerprints for a criminal background clearance, pass an examination showing financial responsibility, and obtain workers' compensation, cargo liability, public liability, and property damage insurances. Existing law also requires the Bureau to implement a process to conduct appropriate and timely enforcement against illegally operating household movers.

Since the authority over household movers was transferred to the Bureau, the number of complaints received that require an investigation has risen by 40 percent. In 2018-19 the Bureau opened a total of 199 investigations based on complaints received. In 2020-21, the Bureau opened 332 investigations. Out of the 332 investigations opened as of April 2021, 309 complaints were against unpermitted movers. Unpermitted movers account for over 90 percent of the complaints received by the Bureau annually. The Bureau prioritize investigation hold hostage cases, where movers will not release the consumers property while demanding higher payment an agreed upon by the consumer. The Bureau has only been able to close 14 hold hostage cases out of the 83 hold hostage complaints received. In total, the Bureau has closed 73 complaints out of the 365 complaints received in 2020-21. The rest of the complaints are pending further action.

Of the Bureaus 11 authorized positions, five positions are for enforcement - one Supervising Special Investigator (SI) position and four SI positions to perform field investigations. The Administration requests four additional SI positions in order to prioritize timely processing of consumer complaints and implement a process for appropriate and timely enforcement against illegally operating household movers, as well as conduct sting operations. The additional positions will also help the Bureau maintain relationships with, and implement outreach and education programs to, local law enforcement, district attorneys, and airports, and coordinate with law enforcement agencies. The Bureau anticipates an improvement of nearly 55 percent case closure and/or action taken by 2025-26, increasing from the current 34 percent closure rate.

Staff Recommendation. Approve as budgeted.

Issue 13: Department of Consumer Affairs Office of Human Resources - Legislative and Regulatory Consultant

Request. The Department of Consumer Affairs (DCA), Office of Human Resources (OHR) requests $175,000 in fiscal year 2022-23, $167,000 in 2023-24 and ongoing, and one Staff Services Manager I (SSM I) specialist to address workload increases related to legislative and regulatory changes impacting employment law and coordinate the application and interpretation of directives for DCA. The Administration notes that OHR does not have a position designated to this responsibility.

Background. OHR provides a wide range of administrative and personnel support services 36 boards and bureaus. These personnel services include, but are not limited to:

- Examination, Hiring, and Recruiting.
- Payroll and Benefits.
- Health and Safety-Related Benefits.
- Labor Relations.
- Employee Discipline.
- Training, Policy Interpretation and Dissemination, and Position Control.

Nearly every action OHR takes is prompted by a requirement of a law, employee bargaining unit contract, or control agency guideline. For example, OHR is responsible for reviewing approving requests for reviewing and approving requests for Family and Medical Leave Act (FMLA), California Family Rights Act (CFRA), reasonable accommodations, and workers' compensation.

The Administration notes that while existing management and staff maintain the daily operations of examinations, hiring, recruiting, payroll, benefits, labor negotiations, employee discipline and the ongoing interpretation of control agency directives, OHR does not have sufficient resources to provide the same level of service when new laws and regulations become effective. OHR requires an additional resource to make sure the department is up-to-date and in compliance with new laws and regulations that impact employees department-wide.

The SSM I specialist would be responsible for keeping abreast of any new legislative and regulatory changes, as well as control agency directives that impact employment law and the health and safety of DCA employees. The position will:

- Interpret statutes, regulations, and/or control agency directives.
- Formulate recommendations on how to internally and externally implement the statute, regulation and/or control agency directive.
- Communicate those changes to boards, bureaus, DCA leadership, and OHR staff.

Once the policy changes are reviewed and adopted by OHR upper management, the SSM I specialist will be responsible for working with the various OHR units to develop procedures to implement the new requirements of the law, regulation, and/or control agency directive. The approval of this proposal will benefit DCA employees and reduce the risk of liability to the department.

Staff Recommendation. Approve as budgeted.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Issue 14: Business Modernization and Responsible Beverage Service

Request. ABC requests four positions and an increase in expenditure authority of $2.8 million, Alcohol Beverage Control Fund in 2022-23 and 2023-24, $2.3 million in 2024-25, and $1.8 million ongoing, for support costs following the completion of the Business Modernization and Responsible Beverage Service (BizMod/RBS) Project and to continue the initiative to modernize the department's operations and services to the public.

Background. Prior to its modernization efforts, ABC licensees did not have the option to renew licenses online, pay fees electronically, apply for licensure online, or other administrative actions that can be generally completed online in this modern time. Additionally, AB 1221 (Gonzalez Fletcher), Chapter 487, Statutes of 2017 required that alcohol servicers receive training on responsible beverage service within 60 days of their employment date beginning July 1, 2021.

The 2019 Budget provided the first phase of funding to build a system to support the implementation of the Responsible Beverage Service (RBS) Training Program Act, which was deployed in March 2021. The 2020 and 2021 Budgets provided additional funding to ABC to implement public services including electronic payment, electronic notifications, license renewal, and online application origination options to provide licensees the ability to interact with ABC in a more efficient and customer-centric manner. The third phase of the funding in 2021-22 was for the first year after the project's completion date of June 30, 2021 and to continue to address modernization of ABC's public services. The 2020 Budget Act also shifted the effective date of the AB 1221 requirement that all servers be trained by July 1, 2022.

This proposal will continue to provide the resources to expand the online service offerings included in the BizMod/RBS Project while also providing production support to those services already made available to the public, including the RBS system, which will experience its greatest level of utilization during the summer of 2022, when the RBS training mandate becomes effective. The resources will expand functionality of electronic payment processing to support new online services, increase public facing services, expand electronic payments to all transactions, while also conducting normal maintenance and operations among others.

Staff Recommendation. Approve as budgeted.

Issue 15: San Jose, San Diego, and Stockton District Office Relocations – Vote only

Request. ABC requests an increase in expenditure authority of $254,000 Alcohol Beverage Control Fund in 2022-23, $439,000 in 2023-24, and incremental adjustments thereafter for increased rent costs for the San Jose, San Diego, and Stockton district offices. These three offices are required to move to private buildings because the state buildings within which they currently reside have been moved into the surplus process by the Department of General Services.

Background. The ABC San Jose District Office is responsible for the licensing, enforcement, and administrative duties for all licensed locations in Santa Clara and San Mateo Counties. Currently there are 6,471 active licenses within this office's jurisdiction, which includes on-sale retail, off-sale retail, and non-retail licenses.

The ABC San Diego District Office is responsible for the licensing, enforcement, and administrative duties for all licensed locations in southern San Diego County. Currently there are 5,906 active licenses within this office's jurisdiction.

The ABC San Diego District Office is responsible for the licensing, enforcement, and administrative duties for all licensed locations in southern San Diego County. Currently there are 5,906 active licenses within this office's jurisdiction.

DGS has operated and ABC has occupied state buildings in San Jose, San Diego, and Stockton for many years. DGS has deemed all of these office buildings as too costly to renovate, identifying them as surplus property to be sold, and will be relocating all building tenants to privately-owned space. DGS plans to find alternative office space in the greater San Jose, San Diego, and Stockton areas resulting in higher rental rates, which necessitates this request. DGS proposes to relocate the ABC office in San Jose by December 31, 2022, the office in San Diego by October 1, 2022, and the Stockton office by December 31, 2022. ABC has already submitted the paperwork to begin the planning process for accommodating ABC's needs in the new buildings.

Staff Recommendation. Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 16: Facilities Management Division Special Repair Workload Transfer

Governor's Budget. The Governor's budget includes position authority for 10.0 permanent positions in 2022-23 to transition workload associated with deferred maintenance, special repair projects, and ongoing technology maintenance from a private contractor to state personnel.

Background. In response to an audit conducted by State Auditor which identified opportunities for DGS to improve management of its facility deferred maintenance program, Facilities Management Division (FMD) was created as a separate division to be responsible for the safety and security of buildings under the jurisdiction of DGS as well as providing building management, maintenance, trades, engineering, custodial, landscaping, and minor construction services. FMD contracted with Kitchell to assist with the development of a building maintenance program including program and project management to assist FMD with improving standards, systems, and processes for the maintenance of buildings under the jurisdiction of DGS. This contract included enhancement of an automated maintenance system (Maximo) and a comprehensive dashboard tracking system in conjunction with a new internal governance process to identify, prioritize, track, and monitor the status of ongoing maintenance projects.

The consultant contract is ending in September of 2022, and workload will be transitioned to the civil service classifications included in this request. The requested positions are necessary to continue the pace of special repairs that DGS is making and maintain the software platform that enables all workload to be properly tracked and billed.

Staff Recommendation: Approve as Budgeted.

Issue 17: Position Authority for Facilities Grant Program

Governor's Budget. The Governor's budget includes position authority for 5.0 permanent positions in 2022-23 for workload related to the recently expanded California Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facilities Grant Program.

Background. The Full-Day Kindergarten Facilities Grant Program was established through the 2018- 19 Education Omnibus Trailer Bill using $100 million one-time General Fund. The program is administered by the State Allocation Board to provide grants to school districts that lack facilities to provide full-day kindergarten. Priority for grants is given to those districts that meet the requirements of financial hardship and for districts that are located in underserved communities. The bill allowed administrative costs of up to 2.5 percent for DGS/Office of Public School Construction (OPSC) to be charged to the program.

Chapter 44, Statutes of 2021 (Assembly Bill 130), the 2021-20 Education Omnibus Trailer Bill provides an additional $490 million one-time General Fund to expand the program. The program's scope is changed from solely full-day kindergarten facilities to also include transitional kindergarten and California state preschool facilities. The expanded program is now known as the California Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facilities Grant Program. The bill allows for administrative costs of up to 2.5 percent for DGS/OPSC to be charged to the program.

Staff Recommendation: Approve as Budgeted.

Issue 18: Statewide Insurance Services Program Workload Adjustment

Governor's Budget. The Governor's budget includes $153,000 from the Service Revolving Fund in 2022-23, ongoing, and one position to provide the necessary support to sustain the Equipment Management Maintenance Insurance Program (EMMP).

Background. In 2010, DGS, which is responsible for the procurement of insurance for state agencies, piloted the EMMP to replace expensive equipment maintenance service contracts. The EMMP replaces an organization's multiple service contracts with a comprehensive program that consolidates the cost of equipment maintenance and repair. Once the existing warranty expires, the equipment is eligible for enrollment in the EMMP. The insurance broker's standard practice is to quote an ongoing savings of 25 percent from the current coverage cost for new participants from the insurance premium paid by an organization. The EMMP also maintains a centralized online data portal, which provides departments with enhanced visibility of their equipment portfolio and creates administrative efficiencies for participating departments.

The pilot proved to be successful by initially generating savings of $260,000 from a small number of DGS offices. Over the past five years, the program has expanded substantially to include over 50 state departments with more than 46,000 pieces of equipment covered, achieving cumulative savings of over $34 million through fiscal year 2020-21. However, with this significant growth, the program has had the same level of staff, two positions, since the 2013-14 fiscal year.

Staff Recommendation: Approve as Budgeted.

8260 California Arts Council

Issue 19: California Poet Laureate and Youth Poet Laureate

Request. The California Arts Council requests $173,000 ongoing General Fund and one AGPA to support the California Poet Laureate and California Youth Poet Laureate, and also to enable the Arts Council to provide outreach and technical assistance to all 58 counties on literary arts programs, including the Poet Laureate, Youth Poet Laureate, and the Poetry Out Loud programs.

Background. Existing law establishes the position of the California Poet Laureate and California Youth Poet Laureate, who are appointed by the Governor from a list of three nominees provided by the Arts Council established through a selection process, for one two-year term. The California Poet Laureate is also confirmed by the Senate.

Existing law authorizes the Arts council to provide a stipend for the California Poet Laureate and the Youth Poet Laureate, and must provide payment of the travel; expenses incurred in fulfilling their responsibilities' as established in statute and by the council. Statute authorizes the Arts Council upon appropriation by the Legislature to provide an annual stipend of $10,000 for the Youth Poet Laureate. The Arts Council notes that, when feasible, it has provided a $5,000 stipend annually to the Poet Laureate. The Arts Council provided this stipend and $2,500 travel expenses in 2018-19, 2017-18 and 2016-17 to the Poet Laureate.

The Arts Council budget request will provide a $25,000 annual stipend to the Poet Laureate and a $10,000 annual stipend will be provided to the Youth Poet Laureate. Both Poet Laureate roles are to publicize the art of poetry and encourage literacy arts participation and learning throughout the state. Additionally, they will provide a minimum of six public readings in urban and rural settings. They will also undertake a significant cultural project during the term that includes the goal of bringing the poetic arts to students who might otherwise have little or no opportunity to be exposed to poetry.

Additionally, $138,000 of this request will support one AGPA to facilitate the Poet Laureate search and application process and manage and support the program. Currently, the Arts Council contracts with a consultant to administer the application process, but the Poet Laureates have not been supported in their role due to lack of staff at the Arts Council. The additional AGPA will help work and conduct outreach for statewide literary arts programs, create an online web presence for the program, provide technical assistance, and create a supportive structure both Poet Laureates.

The Administration notes that statewide outreach to recruit the Poet Laureate and Youth Poet Laureate will result in a diverse cadre of candidates and allows access to these appointments to individuals that have been traditionally excluded from the opportunity due to barriers and lack of resources.

Staff Recommendation. Approve as budgeted.

8620 FAIR POLITICAL PRACTICES COMMISSION

Issue 20: Campaign Disclosure: Limited Liability Companies – SB 686 (Glazer), Chapter 321, Statutes of 2021

Request. The Fair Political Practices Commission (FPPC) requests one Special Investigator position and $131,000 General Fund in 2022-23 and $124,000 annually thereafter to implement the provisions SB 686 (Glazer), Chapter 321, Statutes of 2021.

Background. SB 686 requires a limited liability companies (LLCs) that qualifies as a campaign committee or a sponsor of a campaign committee under the Political Reform Act of 1974 to file a statement of members with the Secretary of State. The statement of members must include certain information about the LLC, including a list of all persons who have a membership interest in the

LLC of at least 10 percent or who made a cumulative capital contribution of at least $10,000 to the LLC after it qualified as a committee or sponsor of a committee, or within the 12 months before it qualified.

In the last few years, hundreds of LLCs qualified as committees. Because of the number of entities subject to this new reporting requirement, the FPPC anticipates an increase in the number of investigations on potential violations and in bringing appropriate enforcement actions against those in violation of the Act. This proposal would add one permanent position: 1 Special Investigator. This position is needed to conduct an effective investigation for each complaint in relation to the LLC.

Staff Recommendation. Approve as budgeted.

8820 California Commission on the Status of Women and Girls

Issue 21: Regional Outreach and Interdepartmental Coordination

Request. The Commission on the Status of Women and Girls requests $493,000 ongoing General Fund and three positions for additional outreach and coordination with state entities and regional women and girls commissions, and to bolster daily operations of the Commission.

Background. The Administration notes an increase in demands for the Commission with requests for information, speaking, and programmatic assistance from local commissions as well as other women service organizations, including nonprofits and foundations, working to meet the needs in strategic and informed ways. The Commission has been unable to fulfill the growing demand due to limited staff capacity.

Currently, the Commission has 10.2 authorized positions, and requests the following:

- Interagency Coordination—One Staff Services Manager I Specialist to act as an interagency coordinator on a variety of topics and coordinates with both internal and external stakeholders, conducts sensitive/confidential projects, analytical studies and surveys, formulates program alternatives, and makes recommendations for gender equity solutions to partners on behalf of the Commission.

- External Affairs & Outreach—Two Associate Governmental Program Analyst positions to perform duties related to external affairs involving outreach and coordination with regional women and girls' commissions and local community-based organizations to identify and research opportunities for collaboration to support women and girls, generating important communication feedback loops to inform statewide programmatic and policy efforts.

In addition, funds are requested to: (1) re-classify an existing permanent full time Staff Services Manager I Specialist to a Staff Services Manager II exceptionally allocated to fulfill the needs at the commission to perform at a level that require increased skillset and experience which will also support staff retention, (2) $15,000 help pay for operating expenses of the Commission, and (3) $10,000 to pay for travel costs of the new positions to conduct outreach.

The Administration notes that having dedicated staff for strategic outreach and collaborative efforts would improve the Commission's accessibility to local, diverse and underserved communities. Additionally, the Administration hopes to create stronger coordination with state agencies will bring increased awareness and education on gender equity issues for the purpose of impactful programming, resources and services for women and girls throughout the state. Additional resources for daily operations would allow the Commission to build more robust tools that support multicultural communications, event-based trainings for partners, research and delivery of content and reports on relevant issues from a statewide perspective.

Staff Recommendation. Approve as budgeted.

8940 Military Department

Issue 22: State Information Technology Network Phase 3

Request. The California Military Department requests 11 State Civil Service positions and $3.1 million General Fund in 2022-23, and $2.1 million General Fund annually thereafter, to continue the development, implementation, and maintenance of its State Information Technology Network.

Background. Prior to November 2019, all programs in the CMD relied on federal computer systems operating on a federal Department of Defense (DoD) network for all daily functions. In November 2019, the DoD introduced and implemented a nationwide modernization and convergence of the Federal network in order to improve the resiliency and security of all DoD networks. Consequently, state programs and access to state systems are no longer supported. This has resulted in a significant adverse impact to daily state operations which include web services, monthly and emergency pay processing, accounting, calculating utility usage costs, and other IT related services (i.e. voice, storage, email, and video conferences) used daily. CMD has stated that payroll, personnel, benefits, and other business functions have been negatively impacted and delayed.

The CMD State Network is required to conduct daily operations for over 1,000 state employees in the CMD that support state specific functions for disaster preparation and planning, youth programs, facilities maintenance, accounting, and personnel management. The State Network will enable CMD to integrate with other state systems to streamline business processes, allow CMD to support state interdepartmental efforts, among others. At present, the CMD is conducting these functions on a degrading federal DoD network with a few departments operating on the nascent State Network initiated with funds and positions provided in the 2020 Budget Act and 2021 Budget Act. The 2020-21 Budget Act provided nine permanent positions and $3.9 million one-time General Fund and $2.8 million ongoing as the first phase of this project. The 2021-22 budget act provided an additional 11 positions and $2.7 million in General Fund ($2.1 million ongoing and $0.6 million one-time).

The 2020 Budget Act and 2021 Budget Act authorized approximately one-half of the staffing and funding for the CMD State Network. For continued funding and position authority, the CMD is submitting this proposal (Phase 3) to improve and maintain the efficiency of the network for the long-term. Permanent (long-term) funding for the personnel and equipment is essential to the long-term success of the CMD state centric network, as this network will remain in place as a permanent solution to meet the requirements of the CMD state personnel.

The Governor requests 11 positions as follows:

1. One Information Technology Supervisor II
2. One Information Technology Supervisor I
3. Three Information Technology Specialist I
4. Three Information Technology Associates
5. Three Staff Services Analysts

Staff Recommendation. Approve as budgeted.

Issue 23: State Personnel Staffing

Request. The California Military Department requests four positions and $479,000 General Fund in 2022-23, and $475,000 General Fund annually thereafter, to address increased administrative requirements and demands on State Personnel.

Background. The administrative demand on the CMD's State Personnel has increased over the last six years commensurate with the dramatic expansion of CMD's existing programs, such as Youth Programs, and the development of newer programs such as Work for Warriors, Cyber, Fire Guard and the establishment of a new Information Technology section to create and manage a state network. The CMD's State Personnel staff is also challenged with incorporating the steady increase in California Department of Human Resources (CalHR) driven administrative requirements across a broad scope of Human Resource and administrative functions. Largely, these actions fall into five categories: Classification and Pay, Payroll and Benefits, Workers Compensation and Training, Labor Relations and Performance Management, and Audit and Investigations.

The CMD manages both State Active Duty Service Members and State Civil Service employees, each with their own rules and regulations. Civil Service adjustments are automatically completed by the State Controller's Office (SCO), while Active Duty pay rate changes require manual annual adjustments for each Service Members' pay and allowances which are driven by rank, time in service, and duty location. Inadequate staffing and an increase in administrative actions has also led to a growing number of errors, which results in additional Accounts Receivables and creates a larger backlog of pay, benefits and leave issues.

Staff Recommendation. Approve as budgeted.

8955 California Department of Veterans Affairs (CalVet)

Issue 24: Administrative Support

Request. The California Department of Veterans Affairs requests 10 positions and $1,562,000 ($1,508,000 General Fund and $54,000 Farm and Home Building Fund of 1943) in 2022-23, and $1,505,000 ($1,454,000 General Fund and $51,000 Farm and Home Building Fund of 1943) annually thereafter, for administrative support in the Homes, Legal Affairs, Administration, and Communications Divisions.

Background. CalVet employs more than 3,500 staff located throughout the state at eight Veterans Homes of California (Homes), three satellite Veteran Services Division (VSD) District Offices, three state cemeteries, the Farm and Home Loan Program, and headquarters in Sacramento.

CalVet requests additional funding and position authority for one Standards Compliance Coordinator. Six of the eight Homes have Standards Compliance Coordinator (SCC), which play a vital role in maintaining compliance with state and federal regulatory standards. SCCs engage in clinical and non-clinical compliance reviews, identify deficiencies, and resolve them before they result in negative findings or pose a risk to resident welfare. CalVet currently lacks a statewide SCC. This impacts CalVet's ability to support and oversee compliance in the Homes, to backfill vacancies as they arise, and to coordinate SCC efforts as a system.

CalVet requests full one Registered Dieticians (RD) to be located in Los Angeles. RDs are highly specialized, recruitment can be challenging when the Homes have vacancies, and CalVet has struggled to identify temporary backfills. CalVet lacks a headquarters-based RD position to provide oversight and act as a liaison for the dietary operations at its eight Homes. These dietary services and staff are integral to the operations of long-term care facilities and the health and wellbeing of their residents. CalVet struggles to support Homes-wide compliance due to the lack of an RD position. The RD position will also have the ability to backfill current RD shortages.

CalVet requests a Career Executive Assignment position to serve as the Chief Financial Officer for the Homes. The Homes are projected to collect $135.6 million in revenue and reimbursements during fiscal year 2021-22. The primary sources of revenue are USDVA per diem and Aid and Attendance allowances, member fees, Medicare, Medi-Cal, and other health insurance. Revenue collected is returned to the General Fund to offset the Homes' budgetary footprint. The CFO would be responsible for oversight of revenue collection. Without a CFO, CalVet struggles to maintain full oversight of reimbursement streams and related compliance.

CalVet requests three positions for the Legal Affairs Division. Existing staff resources are insufficient to represent CalVet adequately in the work currently assigned to the Legal Affairs Division. CalVet is currently a defendant in 16 cases currently pending in Superior Courts throughout California. These cases are complex tort, contract, real property, and employment law matters, and require experienced attorneys with trial experience. CalVet is currently filling this need by the use of a retired annuitant Attorney IV funded through salary savings from vacant positions. CalVet is also contracting out representation in 4 of the 16 cases to the Attorney

General's Office and private counsel, due to the large number of active matters and the insufficient CalVet resources presently available. During the 2020-21 fiscal year, the total amount spent on Attorney General legal billing was $836,085 and $367,569 on legal services from Department of Human Resources, for a total outside legal expense of $1,203,654. Due to the insufficient resources available to resolve matters expeditiously, the Legal Affairs Division currently has 1,261 open and unresolved matters pending resolution.

CalVet requests a reclassification of an AGPA position to a Staff Services Manager 1 position for the Small Business (SB) and Disabled Veterans Business Enterprise (DVBE) Advocate (Advocate). The Advocate provides technical assistance on how to do business with CalVet and conducts outreach to the community. The Advocate needs to be at a level to handle issues independently. Since 2018, the responsibility of the Advocate has increased, and is required to submit three annual reports to the GFS, process quarterly and annual reports to stakeholders and among others.

CalVet requests two AGPA positions to in the Office of Procurement and Contracts due to a substantial increase in contracting-related responsibilities. OPC has to work overtime to complete many executed contracts by their official start date and over the past few years has worked hundreds of overtime/compensating time off hours. Although working the extra hours to accomplish as much work as possible, OPC still averages more than 100 contracts not executed on time. The two AGPA positions will be responsible for processing and developing non-IT service contracts for the eight Homes. The positions will also be responsible for any changes or revisions to those contracts and service orders.

CalVet requests one graphic designer position. CalVet notes that the division is no longer sufficient to meet the graphic design, digital media, Americans with Disabilities Act (ADA) compliance requirement, event management, emergency response, and report production needs of CalVet. Without adequate staffing, the Communications Department risks being out of compliance with ADA requirements, may fail to produce annual required reports to the Legislature, and may be unable to meet the continued demand for digital media, event management, and emergency response.

Staff Recommendation. Approve as budgeted.

Issue 25: CalVet Electronic Health Record Project Phase 3 Continued

Request. CalVet requests a one-time augmentation of $433,000 General Fund in 2022-23 for the third year of implementation of a new long-term care electronic health record system in the Veterans Homes of California and Headquarters.

Background. 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. The 2021-22 budget provided $10 million General Fund for the second year of implementation, and was used to enhance the system at the initial four Homes, and implementing the system at the remaining Homes in Fresno, Redding, West Los Angeles, and Yountville. At the time, the project was scheduled to be completed in December 2021.

However, due to the COVID-19 pandemic, subject matter experts were not available for the project for extended periods, leading to project delays. This triggered a Special Project Report to the CDT. While the scope of the project did not change, adjustments were made to project timelines and order of implementation, as well as applications. The project timeline expanded by 20 months, and will be completed by 2023-24. This delay increased total project cost by $6.2 million, however because the 2021 budget provided funding authority, the Administration requests $433,000 in 2022-23 to complete phase of the project.

Completing Phase 3 of the Electronic Health Record Project will provide CalVet with a modern EHR and enable the Homes to maintain all health records and PHI within the EHR. Additionally, finishing Phase 3 will eliminate the need for paper records. Furthermore, the digitization of all active health records will provide CalVet with the ability to track and report, have complete and comprehensive audit logs, and maximize the technical safeguards as they pertain to HIPAA compliance, which boosts confidence in information security.

Activity	Start Date	End Date
Phase 3 – Remaining Homes Implementation + Enhancements		
Chula Vista	11/29/2022	1/12/2023
Barstow	1/14/2023	3/29/2023
Yountville	3/29/2023	5/11/2023
Redding	5/3/2023	6/15/2023
Fresno	6/27/2023	8/9/2023
Project Completion		9/13/2023

Staff Recommendation. Approve as budgeted.

Issue 26: CalVet Timekeeping Tool

Request. CalVet requests $120,000 ($116,000 General Fund and $4,000 Farm & Home Building Fund of 1943) in 2022-23 and $270,000 ($262,000 General Fund and $8,000 Farm & Home Building Fund of 1943) annually thereafter for planning, procurement, implementation, and ongoing maintenance of a CalVet timekeeping tool. This automated timekeeping tool will replace the current paper process and will be used by all employees in the Veterans Homes of California, district offices, cemeteries, and headquarters.

Background. Currently, CalVet utilizes a manual paper process of timekeeping for employees. State laws, rules, regulations, and collective bargaining agreements set forth the mandatory deadlines for processing timesheets by the state, which includes processing leave balance usage, mandatory leaves, appointments, separations, and overtime in the State Controllers' Office (SCO) payroll system and other control agency system. In the October 31, 2019, Compliance Review report, the State Personnel Board (SPB) found CalVet to be in serious violation of a timekeeping documentation process. Additionally, CalVet is currently going through another SPB audit and in review of this audit, CalVet will be in violation in the timekeeping documentation process, due to the inability to conduct a second monthly in-house leave usage audit required by the California Department of Human Resources policy.

This request will support CalVet in the planning, procurement, implementation, and ongoing maintenance of automated timekeeping Software as a Service tool. This will improve accessibility and enable employees to submit their timesheets without printing or manually signing a paper timesheet. In addition, as the timekeeping tool is automated, it will feed into the SCO without manually keying in every timesheet.

Staff Recommendation. Approve as budgeted.

Issue 27: Cemetery Operations

Request. CalVet requests five positions and $492,000 General Fund in 2022-23, and $483,000 General Fund annually thereafter, to support operational, custodian, and security requirements at the Northern California Veterans Cemetery (NCVC) and California Central Coast Veterans Cemetery (CCCVC).

Background. CalVet operates three veterans cemeteries: the NCVC, CCCVC, and Yountville Memorial Grove Veterans Cemetery (YMGVC). These state veteran cemeteries are operated by state employees who provide burial services and maintain the grounds.

The NCVC, located in Igo, was dedicated on November 11, 2005, with the first interment occurring on December 21, 2005. Over 7,300 veterans and their eligible dependents are interred in burial sites at the cemetery. The State of California is responsible for the operation and perpetual maintenance of the cemetery and is required to meet the United States Department of Veterans Affairs (VA) National Cemetery Administration (NCA) standards. The NCVC staff is also the most experienced staff among the three cemeteries and as such, they are used to provide initial and ongoing training for staff at the other two cemeteries and will be looked upon for the training of all future state veteran cemeteries.

The janitorial and security services are performed by independent contractors at the NCVC and the CCCVC. The NCVC has been without a janitorial contract since June 2020 because CalVet did not receive a responsible bidder within the budget for the contract. Therefore, the duties are being performed by NCVC staff including the SSM II, OT, AGPA, Supervising Groundskeeper II, and Groundskeepers. Currently, the cemeteries use contracted janitorial services for cleaning the offices and restrooms. The NCVC has attempted other means of providing janitorial services including using services through Department of General Services (DGS) and other local agencies and has been unsuccessful. The NCVC also went through a lengthy issue with a janitorial contractor who was failing to properly complete their required duties.

CalVet requests five positions and $492,000 General Fund in 2022-23, and $483,000 General Fund annually thereafter, to support operational, custodian, and security requirements at the NCVC and

CCCVC. The five positions are: one AGPA, four 0.5 full-time equivalent Custodian Is, and four 0.5 full-time equivalent Security Guards.

Staff Recommendation. Approve as budgeted.

Issue 28: Facilities Planning and Management

Request. CalVet requests three positions and $515,000 General Fund in 2022-23, and $498,000 General Fund annually thereafter, to address the increased workload in facilities planning and construction management. The increased workload resulting from five recently operationalized Veterans Homes has increased beyond existing staff's ability to coordinate and manage.

Background. CalVet's Architectural and Engineering (A&E) Regulations, approved by the Office of Administrative Law in 2015, allow CalVet to pursue design work independently from the Department of General Services (DGS). The A&E regulations allow CalVet to independently pursue design and/or specifications to address public work responsibilities at the Veterans Homes or cemeteries. Currently, CalVet operates eight Veterans Homes and three cemeteries. Annual licensing inspections of the Veterans Homes are conducted by state and federal authorities and must demonstrate that they are being maintained in a manner that ensures a safe environment for the residents. When licensing inspectors find facilities-related deficiencies, the Veterans Home is required to take immediate action to correct those deficiencies. Projects associated with these corrective actions often exceed the technical abilities of current staff.

CalVet currently has only two staff positions with the technical competencies needed to plan and oversee large maintenance and repair projects that are required to ensure the long-term viability of the Veterans Homes which are all licensed care facilities. A Departmental Construction and Maintenance Supervisor currently manages a group of three analytical staff who oversee the agency's infrastructure and capital outlay program, deferred maintenance tracking and reporting, and sustainability programs. In addition, a Senior Architect serves as an advisor to CalVet's executive leadership by providing insight and guidance regarding matters related to architectural, engineering, and facilities planning.

As the newer facilities begin to age and their building systems reach the end of their expected useful life, the current staff will not be able to identify and manage the types of projects that will be required to effectively maintain these facilities.

CalVet requests three positions and $515,000 General Fund in 2022-23, and $498,000 General Fund annually thereafter, to address the increased workload in facilities planning and construction management. The request is for two Associate Construction Analysts and one Office Technician (Typing) to assist with the increased workload related to facilities planning and construction management.

The Administration notes that the requested positions are a more cost effective and efficient use of state resources than the use of DGS design services. Without these positions, CalVet will be obligated to pursue the services through DGS. The Administration notes that if CalVet was required to pursue this work through the DGS public works process, CalVet would not be able to meet its plan of correction due to costs and lengthy timeline.

Staff Recommendation. Approve as budgeted.

Issue 29: Health Informatics Support

Request. CalVet requests four positions and $657,000 General Fund in 2022-23, and $635,000 General Fund annually thereafter, to improve core operations, effectiveness, and to address the staffing needs of the Information Services Division (ISD).

Two positions are for the CalVet Health Informatics Program unit (also known as Health Informatics) and two positions are for the Application & Development Services (ADS) unit. The positions are necessary to provide support for CalVet infrastructure, applications, websites, SharePoint sites, data analytics, healthcare system management, and maintenance of various environments.

Background. The CalVet ISD supports the programs through services provided by application and web support, infrastructure and operation support, information technology (IT) security, project management, IT administration, and policy and procurement. ISD is supported by various units, but the ADS and Health Informatics units work closely together on various systems and applications. The ADS and Health Informatics units work on system and software application support, data analytics, testing, configuration, data validation, and support to system or application updates and routine releases. In addition, the units work with the subject matter experts (SMEs) to create and develop system reports or updates to features.

After system testing is completed, the Health Informatics unit is responsible for updating training materials and creating communication documents to inform end-users about new system functions or options. Staff in this unit travel to provide system training and support. Additionally, Health Informatics also helps maintains the IT systems. The 24 to 48-hour turnaround has now become 2 to 3 weeks for testing or maintenance before placement of updates into production environments. As business needs grow within IT and healthcare, the system updates have become more frequent and in-demand with urgency to keep the systems functioning and running smoothly.

The ADS unit supports the application support and automation needs for all CalVet lines of business. Additionally, ADS provides configuration management and helpdesk support of the electronic medical record suite of applications used to provide care for residents the Veterans Homes. Over the last few years, ADS was tasked with providing more services to veterans and identifying and implementing productivity and collaboration opportunities for CalVet staff in support of California's veterans. New tools and custom applications were implemented requiring expertise and specialized technology skills to support. Unfortunately, the addition of these services outpaced CalVet's ability to appropriately support and expand the technology solutions that provide information and services to veterans and staff.

CalVet's ISD requests 4 positions for additional support for the ADS and Health Informatics units: 1 Information Technology Specialist II and 3 Information Technology Specialist Is. The request to increase staffing in the ADS and Health Informatics units is to test, maintain systems/website/ applications, and perform data analytics, especially with growing business needs and evolving information technology advances in healthcare.

Staff Recommendation. Approve as budgeted.

Issue 30: Information Services Division Information Technology Refresh

Request. CalVet requests $1,356,000 ongoing General Fund for information technology refresh to accommodate the increase in the number and complexity of the CalVet information technology hardware and software assets. Refresh includes:

- Replacing current desktop computing devices (computers, printers, monitors, etc.)
- Replacing core network infrastructure.
- Replacing medical IT equipment.

Background. The 2007 Budget Act included $715,000 to cover the ongoing IT refresh costs for CalVet headquarters and the three Homes that existed at that time located in Yountville, Barstow, and Chula Vista. Since then, there has been an ever-growing demand for long-term care services for veterans and their spouses, leading CalVet to more than double the number of Homes from 5 to 12. In addition, the CalVet's business environment has significantly evolved over the last decade not only by increasing the number of supported facilities but also by adding new business services through IT projects (EHR, Medication Dispensing, etc.), and expanding technology into new areas such as heating, ventilation and air conditioning systems, dental systems, and nurse call systems.

For staff resources to achieve CalVet's mission and objectives, CalVet provides employees with the IT tools they need to perform their business functions. These IT tools, collectively referred to as the IT infrastructure, include:

- Workstation hardware and software
- Network components
- Servers and software
- Printers
- Other peripheral devices
- All the interconnecting cabling and devices

CalVet's IT Hardware portfolio has a value of approximately $12.6 million. For CalVet to refresh on its established schedule, CalVet needs a total of $2.1 million annually. In 2007-08, CalVet received $715,000 in annual refresh funding which addresses only 29 percent of the amount needed annually. This leads to hardware systems that fail beyond repair and for software systems to become increasingly outdated and therefore incompatible with systems external to CalVet. Over 32 percent of CalVet's devices are currently beyond their industry-recommended refresh date. Aging technology presents many risks, including security risks, diminished productivity, impact on resident care, and increased cost of repairing aging equipment.

In the absence of adequate funding, CalVet took numerous steps to minimize the impact and ensure continued functioning. These steps included: reduction of hardware infrastructure through the utilization of statewide cloud services, replacing multiple specialty solutions with a combined enterprise solution (e.g., reducing four backup solutions with a single solution), and researching cost-saving measures for printing through managed print services.

CalVet is requesting $1.4 million in additional funds per year to address this hardware refresh deficiency.

Staff Recommendation. Approve as budgeted.

Issue 31: Information Technology Security Operations

Request. CalVet requests two positions and $365,000 ($354,000 General Fund and $11,000 Farm & Home Building Fund of 1943) in 2022-23, and $354,000 ($343,000 General Fund and $11,000 Farm & Home Building Fund of 1943) annually thereafter, to improve the information technology security operations. The requested resources will improve the overall information security program, including implementing new security solutions and mitigating security risks and incidents.

Background. CalVet has numerous systems that are mission-critical. These critical systems include Supervisory Control and Data Acquisition for the Yountville Rector Reservoir water treatment plant, pharmacy dispensing for resident medications, and wander elopement that tracks memory care residents. In addition, CalVet operates other systems including electronic health record, medical asset management system, pharmacy management system, dietary management system and resident wireless.

Over the past four years, CalVet has completed mandatory information security assessments and audits to highlight gaps and deficiencies. While CalVet has resolved many of these security gaps, there are still many that still need to be addressed. The remaining gaps and deficiencies require additional funding for staff.

Currently, CalVet does not have any full-time staff dedicated to technical security operations activities. The Information Security Office consists of three positions that work on policy, procedure, and technology recovery planning. By not having staff dedicated to security operations, CalVet is unable to adequately protect the existing IT solutions.

CalVet requests one Application Security Architect and one Information Security Risk Management Lead position and $365,000 ($354,000 General Fund and $11,000 Farm & Home Building Fund of 1943) in 2022-23, and $354,000 ($343,000 General Fund and $11,000 Farm & Home Building Fund of 1943) annually thereafter, to improve IT security operations. The requested resources will improve the overall information security program, including implementing new security solutions and mitigating security risks and incidents. This request will assist CalVet in establishing security operations controls as required by State Administrative Manual (SAM) section 5305.

The requested resources will significantly improve CalVet security posture by: 1. Implementing policies and procedures that improve compliance with established frameworks. 2. Establishing an information security risk management program. 3. Continuously scanning for vulnerabilities and remediating in a rapid manner. 4. Establishing a security data management program to ensure the protection of Personal Health Information (PHI) and Personal identifiable information (PII).

Staff Recommendation. Approve as budgeted.

Issue 32: Northern California Veterans Cemetery, Igo: Columbaria Expansion

Request. CalVet requests $2,154,000 for the construction phase of the columbarium expansion project at the Northern California Veterans Cemetery (NCVC) in Igo, California. The scope includes the construction of 10 new columbaria, each consisting 100 niches on each side totaling 2,000 additional niches; new walk-ways, ramps, curb and gutters; landscaping; and irrigation. CalVet's preapplication for federal grant funds were accepted by the United States Department of Veterans Affairs (USDVA) Veterans Cemeteries Grants Program in July 2018, and when funded will provide 100 percent reimbursement of allowable costs.

Background. 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 June 17, 2021, only 216 columbaria niches remain and with the current interment rate, the columbaria will be exhausted by August 2022. 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 preapplication 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.

The 2021 Budget provided $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. At the time, the construction costs were estimated to be $1.55 million.

The construction amount includes $1,822,000 for the construction contract, $91,000 for contingency, $162,000 for architectural and engineering services, and $79,000 for other project costs. The current project schedule estimates preliminary plans complete in April 2022. Working drawings to begin in May 2022 and to be completed in September 2022. Construction to begin in November 2022 and will be completed in April 2023.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

0511 GOVERNMENT OPERATIONS AGENCY

The Government Operations Agency is responsible for coordinating and overseeing state operations, including procurement, information technology, and human resources. The mission of the Government Operations Agency is to improve management and accountability of government programs, increase efficiency, and promote better and more coordinated operational decisions.

The Government Operations Agency oversees the Office of Administrative Law, California Public Employees' Retirement System, California State Teachers' Retirement System, State Personnel Board, Victim Compensation Board, Department of General Services, Department of Technology, Department of Human Resources, Franchise Tax Board, and Department of Tax and Fee Administration. In addition, the Government Operations Agency administers the California Complete Count-Census 2020 Office, Office of Digital Innovation, Cradle-to-Career Data System, and Racial Equity Advisory Council.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
0250	Office of the Secretary of Government Operations	22.4	32.0	38.0	$316,780	$98,989	$8,264
0255	State Planning and Policy Development	9.7	-	-	12,120	2,242	-
0256	Digital Innovation	10.7	50.0	50.0	12,025	25,382	15,214
0257	Cradle to Career	-	12.0	16.0	-	16,314	9,614
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**42.8**	**94.0**	**104.0**	**$340,925**	**$142,927**	**$33,092**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$335,948	$124,308	$24,643
0995	Reimbursements	4,977	8,447	8,449
9753	Digital Innovation Services Revolving Fund	-	10,172	-
TOTALS, EXPENDITURES, ALL FUNDS		**$340,925**	**$142,927**	**$33,092**

Issue 33: Government Excellence and Transformation Center Staffing

Request. The Governor's budget includes four positions (Career Executive Assignment A, Staff Services Manager I, Research Data Specialist I, and Associated Governmental Program Analyst) and $665,000 General Fund in 2022-23 and ongoing to staff the Government Excellence and Transformation (GET) Center.

The GET Center seeks to accelerate the modernization of state operations by state departments to conduct pilots that could be scaled across state government for broad adoption. Additionally, the GET Center will establish a repository of best practices and case studies of successful operational innovations that measurably improve the state's operational effectiveness.

GovOps has used existing staff to establish the GET Center. Specifically, they used two Deputy Secretaries, a Staff Services Manager and an Executive Fellow to varying degrees to develop strategy and design general framework for the Center. GovOps developed the Center's goals, selection criteria for pilots and conducted several beta projects to determine what capacity will be needed to support the administrations goals. However, the Administration notes that GovOps can no longer support this worker with internal redirections.

The Administration notes that ongoing funding is needed to conduct outreach to state agencies and select departments, establish new business models, provide and analyze data to prioritize pilots and projects, design and implement projects and pilots (with two or three new projects quarterly), establish communication through various means including newsletter and podcasts, and collaborate efforts with state agencies and departments, and potentially with new contracts or public private partnerships.

The Administration expects that once fully staffed, the GET Center will implement five scalable projects annually, issue three case studies highlighting lessons learned, and establish a website by 2023.

Staff Recommendation. Hold Open.

Issue 34: Workload Adjustments

Request. The Governor's budget includes two positions and $435,000 ($170,000 General Fund and $265,000 reimbursements) in 2022-23 and ongoing to fund and manage existing workload associated with oversight and management of state government operations. The two positions are Statewide Privacy Officer and Assistant Secretary.

The Administration notes that due to the COVID-19 pandemic and wildfire emergencies, GovOps has had to internally redirect staff to manage workload associated with their emergency services. GovOps notes that the frequency and severity of emergency events has limited their ability to monitor and assist the Department of General Services and other departments, and can no longer manage their normal workload.

GovOps notes that there is a need for an individual that is dedicated within GovOps to coordinate emergency response activities amongst their control agency departments, track response efforts, report on fiscal impacts, and assisting with other department plans such as the Cradle-to-Career Data System and Office of Digital innovation.

GovOps also requests the establishment of a Statewide Privacy Officer to coordinate and oversee GovOps compliance with state and federal privacy laws, work with GovOps control agency departments to promote privacy of data, perform assessment and inventory of operations, and participate in special projects on an as-needed basis.

Staff Recommendation. Hold Open.

Issue 35: Chief Equity Officer

Request. The Governor’s budget includes trailer bill language to establish a Chief Equity Officer that is to be appointed by the Governor and to report to the Secretary of GovOps.

Background. The Governor’s 2021-22 budget requested funding and trailer bill language to establish and appoint a Chief Equity Officer. The 2021-22 Budget provided $540,000 to support the Chief Equity Officer and two positions ongoing, but deferred trailer bill language as a part of discussions around Senate Bill 17 (Pan).

SB 17 (Pan), pending in Assembly Appropriations Committee, seeks to establish the Office of Racial Equity, an independent public entity, governed by a Racial Equity and Advisory Committee to develop a statewide Racial Equity Framework outlining the state’s visions and goals to address structural racism and racial inequities with a focus on the work of state government. The bill requires state agencies to develop and submit Racial Equity Plans to the Office for review and approval, among other responsibilities. The bill also establishes a Chief Equity Officer at GovOps, and directs the Officer to work with the Office of Racial Equity.

The Governor’s proposed trailer bill language specifies that it is the duty of the Chief Equity Officer to improve equity in state government operations and authorizes the Chief Equity Officer to engage with state entities to improve equity and inclusion practices. The language also authorizes the Chief Equity Officer to create, in consultation with the appropriate control agencies, standards and procedures on equity and inclusion for state entities in the state administration manual, human resources manual, or state contracting manual.

Staff Recommendation. Hold Open.

0890 SECRETARY OF STATE (SOS)

The SOS, a constitutionally established office, is the chief elections officer of the state and is responsible for the administration and enforcement of election laws. The Office also is responsible for administering and enforcing laws pertaining to filing documents associated with corporations, limited liability companies, partnerships, limited partnerships, unincorporated associations and pertaining to filing bonds and perfecting security agreements. In addition, the Office is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, administering a state records management program and preserving documents and records having historical significance. The SOS is the filing officer for lobbying and campaign registration and disclosure documents filed under the Political Reform Act. The SOS also operates the Safe at Home program, maintains the Domestic Partners and Advance Health Care Directives registries, provides support functions for the Voting Modernization Board, and is home to the California Museum.

Below is the Governor's budget display of positions and expenditures for the SOS. In the 2022-23 fiscal year, the Governor's budget proposes a total of $146.8 million in expenditures ($97.6 million from the General Fund) and 560.5 positions.

		Positions			Expenditures		
		2020-21	**2021-22**	**2022-23**	**2020-21***	**2021-22***	**2022-23***
0700	Filings and Registrations	319.5	322.5	322.5	$75,003	$78,075	$75,591
0705	Elections	62.5	64.5	67.5	160,217	113,978	55,534
0710	Archives	31.3	33.3	35.3	8,990	13,872	14,798
0715	DOJ Legal Services	-	-	-	765	852	852
9900100	Administration	114.2	128.2	135.2	30,317	43,072	46,854
9900200	Administration - Distributed	-	-	-	-30,317	-43,072	-46,854
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**527.5**	**548.5**	**560.5**	**$244,975**	**$206,777**	**$146,775**

Issue 36: Fee Relief for New Businesses

Governor's Budget. The Governor's budget includes $39.8 million General Fund on a one-time basis to waive document filing fees for all new businesses registering with the SOS during the 2022-23 fiscal year.

Background. Despite the negative impacts of the COVID-19 Pandemic, over the past few years the number of California filings for corporations, limited liability corporations (LLCs) and limited partnerships (LPs) has continued to rise as new businesses have been created, formed, and relocated. In 2018, the total number of filings was 289,879, in 2019, the number of filings was 301,614, in 2020, the number of filings was 343,877, and in 2021 (through November 30), the number of filings was already 396,290. Various documents are required to be filed with the SOS when forming a business in California, and the necessary document filings are accompanied by filing fees of $100 for a corporation and $70 for a LLC or LP.

This request allocates $39.8 million one-time General Fund for the SOS to waive filing fees on a onetime basis for all new businesses registering with the SOS from July 1, 2022 through June 30, 2023, to continue to encourage business growth in California. This amount of funding in this proposal is the estimated amount needed to backfill all revenues related to waiving first-time SOS filing fees for new businesses including corporations, LLCs and LPs.

In addition, it is requested that budget bill language be added that will: (1) allow the amount available for transfer to be increased, if necessary, by an amount sufficient to backfill revenues lost as a result of the fee waivers, (2) require the SOS to report to the Department of Finance, by January 1, 2024, on the revenues related to waiving the first-time SOS filing fees, and (3) allow the funds to be available for transfer through September 30, 2023.

Legislative Analyst's Office (LAO). The LAO had the following findings in relation to this proposal:

Waiving Fee Likely Would Do Little to Stimulate Business Growth. Businesses likely consider the filing fees an unwelcome cost. However, the proposed one-time fee waiver would provide limited financial assistance to new businesses relative to the overall cost of starting a new business. These costs—such as equipment, construction costs, employee salaries, and rent— often sum to tens of thousands of dollars, or considerably more. Paying a $100 or $70 fee likely is not a barrier to the formation of new business entities in California. Further, the request indicates that the number of filings has grown considerably over the past few years—from 289,879 in 2018 to 343,877 in 2020 and—through November 30— 396,290 in 2021. This growth in new business entity formations has been occurring under the existing fee structure. Although new businesses may appreciate the one-time filing fee relief, we doubt that the Administration's proposal would do much, if anything, to stimulate meaningful business growth.

Business Filing Fee and Reserve Structure Needs Attention. The Business Fees Fund consistently has a fund balance in excess of $1 million at the end of the fiscal year. This has resulted in significant sums of money being transferred from the Business Fees Fund to the General Fund. For example, between 2011-12 and 2020-21, the General Fund received $179 million from the special fund. The amount transferred to the General Fund has varied significantly year to year, ranging from $5 million in 2011-12 to $36 million in 2017-18. As a percentage of revenues, the transfer to the General Fund has varied from 9 percent of fee revenues in 2019-20 to 41 percent of fee revenues in 2017-18. The consistent and large transfers to the General Fund suggest that business entities have been paying higher fees than are necessary to support the program. The fee structure should be designed so that businesses pay fees that are at a level that is reasonable for the support of the program. That being said, lowering fees creates risk that the special fund might not have sufficient resources in a particular year. This is demonstrated by the volatility in revenues to the fund. For example, between 2011-12 and 2020-21, year-over-year growth in revenues ranged from a 40 percent increase in revenues between 2013-14 and 2014-15 (from $50.7 million to $71.1 million) and a 5 percent decrease between 2017-18 and 2018-19 (from $87.8 million to $83.3 million). The current reserve limit of $1 million makes it difficult for SOS to charge businesses a lower fee while still fulfilling the requirements of Section 12176 that the fund be self-sufficient. A higher reserve limit for the fund would allow a lower fee for all businesses while still providing that the fund is self-sufficient.

California Business Connect (CBC) Should Change SOS Operations. The CBC project is automating the business filing processes at SOS. While many processes already have been automated under the project, filings related to business entities is the last module to be rolled out. This module is scheduled to be completed by April 2022. The project is scheduled to be through maintenance and operations by April 2023. Once fully operational, CBC will fundamentally change SOS operations. This could lead to changes in revenues and resource needs for the program.

Budget Bill Language Could Be Clearer. The administration proposes budget bill language to implement its plan to waive filing fees for new business entities. Specifically, provision one of the language states that the $39.8 million General Fund appropriation "shall be limited to backfilling revenues related to waiving first-time Secretary of State filing fees for businesses (corporations, limited liability companies and limited partnerships)." If the Legislature is interested in adopting this fee waiver, this language could be clearer as to which fees are waived for 2022-23.

Reject Proposal. Because we do not view the business filing fees to be a barrier for new businesses, we recommend that the Legislature reject the proposal. Instead, we recommend that the Legislature use the proposed $39.8 million in a more targeted manner that achieves legislative priorities—whether that be encouraging business growth in California or supporting other legislative priorities supported by the General Fund.

If Adopting Proposal, Modify Budget Bill Language. If the Legislature chooses to waive fees paid by new LPs, LLCs, and corporations, we recommend that the Legislature modify the proposed budget bill language to clarify legislative intent.

Direct Administration to Evaluate Fund Structure. Regardless of whether or not the Legislature approves the proposal, we think that the Business Fees Fund requires attention. The appropriate structure of the fund will not be known until the operational needs become clearer in a year or two after CBC is fully operational. We recommend that the Legislature direct the administration to include, with any future proposals related to the business filing division, a justification for existing fee levels and how those levels align with services provided by the SOS. After the full implementation of CBC, the Legislature could consider requiring SOS to report on options that align the fees for the Business Fees Fund with desired service levels. The report should include an analysis of (1) the fee levels, (2) service costs, (3) reserve levels, and (4) mechanisms for annual fee adjustments based on reserves.

Staff Comments. Providing support that California businesses need to sustain, reopen, or form as we continue to deal with the impacts of the COVID pandemic should continue to be a priority. As we deliberate the 2022-23 budget over the next couple of months, this proposal should be considered as part of a larger effort to provide such support.

Staff Recommendation: Hold open.

1111 DEPARTMENT OF CONSUMER AFFAIRS

The Department of Consumer Affairs (DCA) helps promote good business practices and make sure California's consumers receive quality services by establishing minimal competency standards for approximately 250 professions and occupations involving more than three million professionals. In general, fs Boards and Bureaus provide exams and licensing, enforcement, complaint resolution, and education for consumers.

DCAs staff investigate complaints against licensees; develop valid examinations for applicants for licensure; monitor and advocate for legislation; provide consumer education and outreach; provide legal and audit services; and provide general administrative support involving personnel, budgeting, accounting, purchasing, and space management.

There are currently 26 boards, one committee, and one commission under the broad authority of DCA, and seven bureaus and one certification program under the direct oversight of DCA.

Issue 37: BreEZe System Maintenance and Credit Card Funding and Business Modernization Cohort 1 Maintenance and Operations

Request. DCAs Consumer and Client Services Division (CCSD) requests appropriation authority of $8.5 million in 2022-23 and ongoing for the continued support 37 positions that conduct BreEZe maintenance and operation. This request also includes $4.2 million in funding for 2022-23 and ongoing for programs to fund credit card processing fees on behalf of users of credit card payments.

DCA also requests $1.7 million in fiscal year 2022-23 to fund software licensing, project management, maintenance, credit card services, technical knowledge transfer, and three existing positions for the Business Modernization Cohort 1. These are boards and bureaus that are not on BreEZe.

Background on BreEZe. BreEZe is the system of record for 18 of the departments 36 boards and bureaus, and specifically supports DCA's applicant tracking, licensing, renewal, enforcement, monitoring, cashiering, and data management requirements. When first initiated, the BreEZe project was proposed to be an integrated, web-enabled enforcement and licensing system that would replace various systems that have been in place at all of the boards and bureaus within DCA. It was proposed to be completed in three phases (or “releases”), with roughly half of the boards and bureaus in the third release.

In November 2009, the BreEZe project was approved with a budget of $28 million and an expected completion date of June 2014. DCA selected Accenture as the vendor for the project in September 2011. The first release was launched in October 2013, but experienced various implementation challenges. Notably, according to a report by the California State Auditor, executive officers for most of the Release 1 boards and bureaus reported that BreEZe decreased their regulatory entity’s operational efficiency. In January 2015, the Administration informed the Legislature of its intent to cancel the contract with Accenture after Release 2 due in large part to rising project costs, which had grown to $96 million for Releases 1 and 2 alone. The Legislature concurred with the Administration's proposed approach in March 2015, but expressed a desire for closer oversight over the project and for a plan for development of IT systems for Release 3 boards and bureaus. In January 2016, DCA launched Release 2 and has since reported that the second release has proceeded successfully.

The 2020 Budget provided $11.5 million special funds in 2020-21 and $10.6 million 2021-22, a total of a two-year period, for the continued support of BreEZe Maintenance and Operations.

The Department requests $8.5 million ongoing to continue to fund 37 existing positions to support the core maintenance and operations services of business requirement analysis, configuration, development, testing, and software release management. This is the same level of staffing that has been supporting BreEZe maintenance and operations since July 2019.

This proposal also requests ongoing funding of $4.2 ongoing million for payment of credit card processing fees on behalf of users of credit card payments. BreEZe interfaces with third party payment processors which provide DCA the ability to accept electronic payments while meeting compliance with Payment Card Industry Security Standards. This request also incorporates funding for four programs not currently on BreEZe that have implemented an interim online payment solution in advance of their business modernization efforts.

Background on Business Modernization Cohort 1. The 16 boards and bureaus not currently on the BreEZe system are proceeding individually through a structured business modernization initiative to identify and implement business and technology improvements. In January 2020, three boards and one bureau completed the PAL process and began project implementation activities. These boards and bureaus include the Board for Professional Engineers, Land Surveyors, and Geologists (BPELSG), the Bureau for Private Postsecondary Education (BPPE), the California Acupuncture Board (CAB), and the Board of Chiropractic Examiners (BCE). Collectively, they are known as Business Modernization Cohort 1.

The 2021 Budget Act provided $1.8 million one-time for Cohort 1 maintenance activities associated with software licensing, project management, maintenance, credit card services, technical knowledge transfer and 3.5 existing positions.

The Governor requests $1.7 million in 2022-23 to fund software licensing, project management, maintenance, credit card services, technical knowledge transfer, and three existing positions.
Below is a summary table of the request, broken down by board or bureau:

Acupuncture Board	$272,000
Board of Chiropractic Examiners	$113,000
Bureau for Private Postsecondary Education	$263,000
Board for Professional Engineers, Land Surveyors, and Geologists	$694,000

DCA Admin - Distributed (Office of Information Services) *Costs included in the above boards/bureau authority*	$511,000
Total	$1,342,000

For each board or bureau, the project has already delivered functionality to production that includes online application submissions, back office streamlined workflows, online consumer complaint submissions, and real-time application status updates with the applicant via email and text messages. To date, the project is within its baseline budget and will complete its project phase in Spring 2022.

With upgrading current systems to allow for a more substantial online presence, the Department and some of its boards and bureaus are integrating functionality to allow applicants and licensees to pay fees using credit card payments. Cohort 1 is funding credit card processing fees on behalf of users of credit card payments.

The budget proposal also includes $353,000 in 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 estimated revenue will be collected via online payments and assumes an average convenience fee of two percent per transaction in the second year of the project's implementation.

Legislative Analyst's Office Comments. The LAO does not have concerns with the above proposals. However, the special funds that would support the proposals each have a structural imbalance and are projected to become insolvent within the next three years. Specifically:

- ***State Board of Chiropractic Examiners Fund.*** The Governor proposes $181,000 onetime to support various costs associated with the Business Modernization IT project for the Board of Chiropractic Examiners, including funds for software licensing and project management.

- ***Board of Podiatric Medicine Fund.*** The Governor proposes $40,000 ongoing to support maintenance and operation costs of the BreEZe IT system for the Podiatric Medical Board.

- ***Private Postsecondary Education Administration Fund.*** The Governor proposes $1.5 million ongoing to provide permanent support for the operations of the Office of Student Assistance and Relief and the Student Tuition Recovery Fund Unit. The Governor also proposes $921,000 onetime for various costs associated with the Business Modernization IT project for the Bureau for Private Postsecondary Education, including funds for software licensing and project management.

- ***Respiratory Care Fund.*** The Governor proposes $120,000 ongoing to support maintenance and operations costs of the BreEZe IT system for the Respiratory Care Board.

- ***Electronics and Appliance Repair Fund.*** The Governor proposes $130,000 in 2022-23 and $122,000 ongoing to implement Chapter 452 of 2021 (AB 1221, Flora) that expanded the definition of services covered under the regulatory purview of the Bureau of Household Goods and Services.

- ***Contingent Fund of the Medical Board.*** The Governor proposes $1.9 million ongoing to support maintenance and operation costs of the BreEZe IT system for the Medical Board of California. The Governor also proposes $603,000 in 2022-23 and $377,000 in 2023-24 and ongoing to review applications and respond to applicants and consumers as part of the board's implementation of Chapter 649 of 2021 (SB 806, Roth), which changed the training and licensing requirements for medical doctors.

- ***Occupational Therapy Fund.*** The Governor proposes $112,000 ongoing to support maintenance and operation costs of the BreEZe IT system for the California Board of Occupational Therapy

Moreover, the Administration reports that the fees that support these funds are at the maximum level authorized in statute. The figure below shows the administration's projected year-end fund balance for each fund from 2021-22 through 2024-25—assuming the level of expenditures proposed in the Governor's budget and no changes impacting the amount of revenue going into each fund. As the figure shows, the Administration forecasts that three of the funds will become insolvent in 2023-24 and the other five will become insolvent in 2024-25.

Fee-Supported Business Regulation Funds With Structural Imbalances and Proposed Expenditure Increases

(In Thousands)

		Projected End-of-Year Fund Balance			
Administering Entity	**Fund**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Department of Real Estate	Real Estate Fund	$25,281	$1,398	$2,721	-$8,165
Board of Chiropractic Examiners	State Board of Chiropractice Examiners Fund	1,714	976	84	-951
Podiatric Medical Board of California	Board of Podiatric Medicine Fund	423	326	18	-19
Bureau for Private Postsecondary Education	Private Postsecondary Education Administration Fund	7,321	1,975	-16,066	-22,615
Respiratory Care Board	Respiratory Care Fund	944	561	53	-576
Bureau of Household Goods and Services	Electronics and Appliance Repair Fund	1,853	999	48	-1,003
Medical Board of California	Contingent Fund of the Medical Board	10,582[a]	75	-30,904	-45,801
California Board of Occupational Therapy	Occupational Therapy Fund	798	283	-336	-1,058

[a] The 2021-22 ending fund balance assumes the administration makes a loan to the fund of $18 million in order to maintain solvency of the account.

According to the Administration, it will seek to increase the fees for (1) the Board of Chiropractic Examiners Fund, (2) the Private Postsecondary Education Fund, and (3) the Contingent Fund of the Medical Board this year through the legislative policy process. While increasing fees through the policy process is a common practice, the Administration's approach could result in increased expenditures being approved from the funds without fee revenue being correspondingly increased to support the expenditures. This would occur if the Governor's proposals to increase expenditures were approved through the budget process and the necessary fee increases were not approved in the policy process.

To the extent that the Legislature approves the Governor's expenditure proposals, the LAO recommends adopting provisional budget bill language to ensure that there is sufficient revenue in the respective funds to support the additional expenditures. Specifically, for each approved expenditure, the LAO recommends specifying that the associated funding is only available for expenditure if legislation is enacted in the current legislative session to increase fees at a level to fully support the expenditure.

Staff Recommendation. Hold Open.

1703 California Privacy Protection Agency

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

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

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
1600	Administration of the California Privacy Protection Act	-	-	34.0	$4,043	$10,000	$10,000
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**-**	**-**	**34.0**	**$4,043**	**$10,000**	**$10,000**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$4,043	$10,000	$10,000
TOTALS, EXPENDITURES, ALL FUNDS		**$4,043**	**$10,000**	**$10,000**

Issue 38: Consumer Privacy Implementation and Enforcement

Request. The California Privacy Protection Agency (CPPA) requests 34 positions in fiscal year 2022-23 and ongoing to provide the initial staff resources to allow the Agency to start up and fulfill its immediate statutory responsibilities.

Background. In November of 2020, voters approved Proposition 24, the California Privacy Rights Act of 2020 (CPRA), which provides consumers various rights to limit and control businesses' collection and sharing of personal information and imposes on businesses various disclosure, security, and other responsibilities. For example, the law grants consumers rights to opt out from certain business uses of personal information, to delete or correct personal information held by businesses, to correct inaccuracies in or delete personal information held by businesses, and limit businesses' use of "sensitive personal information" such as precise geolocation, race, ethnicity, and health information. The CPRA affects all California consumers and a wide swath of California businesses: it applies to any business that has $25 million in gross revenues, or sells or shares the personal information of 100,000 or more California consumers, or derives 50 percent or more of its annual revenue from selling or sharing consumers' personal information.

The Agency's responsibilities include (but are not limited to) engaging in rulemaking, investigating violations, assessing penalties, cooperating with other jurisdictions, and promoting public awareness including providing guidance to consumers and businesses on complex matters relating to online privacy, cybersecurity, and automated decision making. The Agency and the Office of the Attorney General will share enforcement powers.

The Agency's Board was appointed in March 2021. CPRA appropriated $5 million for 2020-21 and $10 million per fiscal year thereafter, for expenditure to support the operations of the CPPA. The Agency established an Architectural Revolving Fund account from the initial $5 million appropriation in 2020-21 with the expectation that it will explore physical offices at the conclusion of the COVID-19 Pandemic. The Agency also entered into, or is in the process of entering into, Interagency Agreements (IAAs) with the Department of General Services (DGS) and the Department of Consumer Affairs (DCA) for human resources, finance and budget, and information technology services. The Business, Consumer Services, and Housing Agency (BSCH) has also provided extensive support. In September 2021, The California Office of the Attorney General (OAG) began to provide legal services and some limited administrative services on a fee-for-service basis. The Administration notes that these are short-term solutions, and insufficient to meet the Agency's ongoing responsibilities.

As directed by the CPRA, the Board hired an Executive Director in October 2021. The agency currently has two employees in addition to the Executive Director, a Deputy Director of Administration who was hired December 2021 and a retired annuitant serving half-time as an Attorney IV.

CPPA requires position authority to hire permanent staff to establish its administrative functions and fulfill its statutory obligations. Its first rulemaking package is due on July 1, 2022, with enforcement to follow in July 1, 2023. The CPRA directs the Agency immediately to begin rulemaking on more than twenty complex topics, involving, inter alia, consumer opt-out preference signals, the treatment of consumer personal information and sensitive personal information, cybersecurity auditing, geolocation, and automated decision-making.

The Administration requests the following 34 positions in six divisions (Executive Function, Legal Division, Enforcement Division, Policy/ Legislative Affairs Division, Public Affairs Division, and the Administrative Division) as follows:

1. One Executive Director
2. One Office Technician
3. Four Staff Services Manager I
4. Three Staff Services Manager II
5. Nine Associate Governmental Program Analysts
6. One Information Officer II
7. One Attorney I
8. One Attorney IV
9. Two Attorney III
10. One Assistant Chief Counsel
11. Three Career Executive Assignment A

12. Five Career Executive Assignment B
13. Two Career Executive Assignment C

The Administration notes that these positions, including salaries, wages and benefits, would cost $5.6 million. Additionally, the operating expenses and equipment for the Agency is $408,000. Agency notes that the remaining funds not spent on personal services will be used to establish contracts as necessary to start up administrative functions, including implementation of regulations by July 1, 2022 and enforcement regulations beginning July 1, 2023. Staff notes that the Administration may be submitting additional requests for the establishment of the Agency.

Staff Recommendation. Hold Open.

2320 Department of Real Estate

The mission of the Department of Real Estate is to safeguard and promote the public interests in real estate matters through licensure, regulation, education, and enforcement.

Effective July 1, 2018, the California Bureau of Real Estate, under the Department of Consumer Affairs, became the Department of Real Estate, pursuant to Chapter 828, Statutes of 2017 (SB 173).

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
1700	Department of Real Estate	346.9	376.7	381.7	$51,167	$57,586	$58,408
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**346.9**	**376.7**	**381.7**	**$51,167**	**$57,586**	**$58,408**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0317	Real Estate Fund	$50,950	$56,951	$57,773
0995	Reimbursements	17	435	435
3295	Education and Research Account	200	200	200
TOTALS, EXPENDITURES, ALL FUNDS		**$51,167**	**$57,586**	**$58,408**

Issue 39: Various Proposals

Requests. The mission of the Department of Real Estate is to safeguard and promote the public interests in real estate matters through licensure, regulation, education, and enforcement. Effective July 1, 2018, the California Bureau of Real Estate, under the Department of Consumer Affairs, became the Department of Real Estate, pursuant to Chapter 828, Statutes of 2017 (SB 173).

The Department of Real Estate requests the following:

- **Information Technology Security:** $370,000 in 2022-23 and $354,000 in 2023-24 ongoing, from the Real Estate Fund, and two Information Technology Specialist II's to meet State of California mandated information technology security regulations and processes and to support DRE's Information Technology and Security Programs, providing compliance with statewide policies.

- **Internal Audit Workload:** $176,000 in 2022-2023, and $168,000 in 2023-2024 ongoing, from the Real Estate Fund, and one Senior Management Auditor in the newly formed Internal Audit Unit within the DRE's Audit Program.

- **Real estate applicants and licensees: education requirements:** $216,000 in 2022-23, and $200,000 in 2023-24 and ongoing, from the Real Estate Fund, and one Associate Governmental Program Analyst, and one Office Technician to meet the requirements of SB 263 (Rubio), Chapter 361, Statutes of 2021.

Background on IT Security. DRE's Information Security Office (ISO) consists of one full time staff managing and implementing the ISO program. The Information Security Officer has a full workload managing, implementing, measuring, and overseeing the program, which includes but is not limited to awareness training, drafting security policies, procedures and standards, reviewing access levels, reporting vulnerabilities, identifying, tracking and reporting risks, and performing required compliance and reporting activities.

A 2019 Independent Security Assessment performed by the California Military Department as well as an internal assessment conducted by DRE identified various IT security risks, deficiencies and areas of to improve privacy compliance at the DRE. The redirection of staff from other sections has already been explored and utilized. DRE notes that they cannot afford to transfer additional staff from other sections to the Information Security Office on a permanent basis because the workload in those programs would become backlogged, resulting in delays, and additional complaints to DRE, BCSH, and the Legislature. DRE requests additional two positions and funding ongoing to address IT security at the department.

Background on Internal Audit Workload. An Internal Audit Unit (IAU) was formed in July 2020 within DRE's existing Audit program, which performs external audits of real estate licensees. The purpose of the newly created IAU was to provide independent and objective guidance to mitigate risk and improve the operations of the Department. The IAU is responsible for performing internal audits, special management reviews, employee investigations, and other special requests by Executive Management. The IAU was started with existing resources from the Audit program. Currently, DRE has 1.5 positions dedicated to internal audits. Unfortunately, this leaves the department in a vulnerable position where it lacks the ability to conduct proactive audits initiated by Executive Management or those audits necessary in response to compliance reports received from other state entities and control agencies.

DRE relies on Executive Management to establish and maintain the internal controls with each of their program areas. Adequately staffing the IAU will assist Executive Management decision making by providing objective audits on DRE operations in a timely manner. With one additional position, the IAU will be able to address the internal audit workload demands and be able to assist Executive Management in establishing and maintaining internal controls. Audits and evaluations with meaningful action plans will be developed.

Background on Real Estate Applicants and Licenses. Existing law requires any person who wishes to engage in the real estate business must be licensed by the DRE. Additionally, the existing law specifies that real estate salesperson or broker applicant must successfully complete various college level courses. The broker and salesperson licenses are issued for a four-year period, and existing law outlines the renewal process, including the requirement to complete continuing education, as specified.

SB 263 (Rubio), Chapter 361, Statutes of 2021 provides that the statutorily required pre-license Real Estate Practice course must include a component on the topic of implicit bias. Additionally, SB 263 requires that the statutorily required prelicense Legal Aspects of Real Estate course include a component on state and federal fair housing laws as they apply to the practice of real estate. SB 263 also makes changes to the continuing education course requirements for salespersons and brokers, and establishes a two-hour continuing education course in implicit bias training.

DRE's Education Section is responsible for processing, reviewing, and approving all pre-license and continuing education course applications in which these courses are used to qualify for California real estate salesperson or broker examinations and license renewal requirements. DRE will need to review and approve course modifications and new courses associated with the implementation of SB 263, and be updated before January 1, 2023.

The request for one Associate Governmental Program Analyst (AGPA) position and one Office Technician (General) (OT) position is based on the high volume of additional work provided for in SB 263. Specifically, the AGPA will assist in establishing new course guidelines, inform providers and licensees of the new requirements, draft correspondence to colleges and universities, assist in revising policies and procedures, conduct course reviews for approval, overseeing the audit program, among others. The OT will complete intake duties, prepare course applications to have funds processed, enter information onto the DRE database, preparing and mailing certificates, among other duties.

Staff Comments. The LAO does not have concerns about the proposals. However, these proposals request ongoing support, and the Real Estate Fund is projected to be insolvent in 2024-25**.** According to the Administration, fees are at the statutory maximum and were last increased in 2009. The Administration notes that DRE is in the final stages of contracting out for a fee study to assess whether fee changes are necessary. DRE anticipates that the fee study will be completed sometime in August 2022. DRE will not pursue a fee increase this year, and will implement any necessary fee increases in future years.

Staff Recommendation. Hold Open.

7502 DEPARTMENT OF TECHNOLOGY

The Department of Technology (CDT) is the central information technology (IT) organization for the State of California. CDT is responsible for the approval and oversight of statewide IT projects, statewide IT professional development, and provides centralized IT services to state and local governments, as well as non-governmental entities. CDT promulgates statewide IT security policies and procedures, and has responsibility over telecommunication and IT procurement.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
6230	Department of Technology	790.3	887.0	1,017.6	$446,703	$3,774,429	$508,432
9900100	Administration	109.7	135.5	4.9	16,422	23,427	550
9900200	Administration - Distributed	-	-	-	-16,422	-23,427	-550
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**900.0**	**1,022.5**	**1,022.5**	**$446,703**	**$3,774,429**	**$508,432**

FUNDING		2020-21*	2021-22*	2022-23*
0001	General Fund	$6,916	$68,794	$95,976
0995	Reimbursements	-	10	10
8506	Coronavirus Fiscal Recovery Fund of 2021	-	3,250,000	-
9730	Technology Services Revolving Fund	436,306	451,653	408,242
9740	Central Service Cost Recovery Fund	3,481	3,972	4,204
TOTALS, EXPENDITURES, ALL FUNDS		**$446,703**	**$3,774,429**	**$508,432**

Issue 40: OTech Decrease in Services and Statewide Centralized Services General Fund Request

Request. CDT requests a conversion of $41.1 million from Technology Services Revolving Fund (TSRF) to the General Fund from 2022-23 through 2024-25 to support critical Statewide Services, Mandatory/Oversight Services, and CDT Internal Indirect and Administrative costs. Additionally, CDT requests a three-year augmentation of $3 million for the Statewide Strategic Initiatives positions.

CDT also requests $10.5 million in General Fund for three years beginning in 2022-23 through 2024-25 to supplement loss of revenue due to customers moving operations to cloud-based services. Over the three-year period, CDT will re-evaluate its State Data Center rates and services and then shift the requested funding back to cost recovery thereafter.

Background. CDT is the Administration's main IT entity with broad authority over most aspects of technology in state government. CDT is organized into several offices, including the Office of Technology Services (OTech). About 80 percent of CDT's proposed 2022-23 budget is funded through cost recovery—that is, billing for IT services it provides to state entities (and others) and using revenues from those services to cover most of its expenditures.

OTech provides IT services to state entities (and others) primarily through its State Data Center. OTech (and others) also manage statewide contracts for vendor-hosted subscription services (VHSS), IT services provided and primarily supported by private vendors, not CDT—to offer services to entities at a lower cost than they might be able to negotiate with vendors as individual entities. State entities, however, may enter into separate contracts with private vendors for IT services—even at a higher cost—because state entities generally are not required to use CDT's IT services.

CDT sets State Data Center IT service rates to recover the cost of services, both direct (such as hardware and software) and indirect (such as internal CDT administration). To calculate these rates, CDT generally divides the direct and indirect costs of a service by its projected demand. As the projected costs of and demand for services change, CDT re-calculates its service rates and submits them annually to the Department of Finance (DOF) for approval.

The Technology Services Revolving Fund (TSRF) is CDT's primary cost recovery fund. Revenues from the department's State Data Center IT services are deposited into the fund, and expenditures on direct and indirect service costs are made from the fund. As a cost recovery fund, the TSRF does not maintain a balance from one fiscal year to the next like, for example, a special revenue fund. Accordingly, there is no fund balance to provide a cushion for increased expenditures or revenue losses. CDT requests its expenditure authority from the fund through the budget process. CDT estimates its expenditure authority primarily based on projected demand for its services at the rates approved by DOF. If demand for services is higher than anticipated, CDT can request further expenditure authority from DOF through recurring provisional budget bill language. If demand for services is lower than anticipated, however, CDT absorbs the associated revenue losses until its service rates can be increased to account for lower demand or its service costs can be reduced.

Governor's Budget Proposals. The Governor's budget proposes $54.6 million General Fund each year for three fiscal years, starting in 2022-23, as follows:

- $41.1 million in expenditures and 205 positions shift from TSRF to General Fund to reduce State Data Center rates by an estimated 10 percent. CDT also requests an additional $3.1 million General Fund for external consulting costs and internal positions to work on statewide strategic initiatives, such as the development of a statewide IT Strategic Plan.

- $10.5 million General Fund to cover the short-term net revenue losses from state entities, such as the Department of Child Support Services and the Department of Motor Vehicles, migrating some of their business applications and IT services off the State Data Center and onto service offerings from private vendors.

CDT proposes that, over the next three fiscal years, it will undertake a "rate re-revaluation process" to assess (among other considerations) its current rate development processes and State Data Center service offerings. The Administration's intent for this re-evaluation is to make CDT's cost recovery model more sustainable to, for example, avoid additional short-term net revenue losses. Once a revamped cost recovery model and associated rate structure is in place, the administration would revert the expenditures and positions funded by General Fund in these proposals to cost recovery (in 2025-26).

Legislative Analyst's Office Comments. One of CDT's main responsibilities is to provide IT services to state entities. These proposals, however, raise questions about CDT's business model for providing IT services. This is because the proposals seek to address not only revenue losses, but also a declining customer base for CDT's State Data Center IT services. The chart below is a sample comparison provided by CDT of State Data Center and private vendor rates for three IT services. This comparison appears to suggest that at least some of CDT's State Data Center rates are not competitively priced. CDT acknowledges that some State Data Center services cannot be provided at comparable or lower rates than private vendors *even if rates are reduced to cover only direct costs*. In other words, despite the 10 percent reduction in fees, the department's proposal to temporarily cover some of its indirect administrative costs outside of the rate structure would not make some of the IT services it provides competitively priced.

Service[a]	CDT	Amazon	Microsoft	Google	IBM
Storage (per GB, per month)	$0.26[b]	$0.03	$0.02	$0.02	$0.02
Windows Virtual Private Server (per month)[c]	514.24	181.58	154.08	248.40	253.44
Linux Virtual Private Server (per month)[c]	540.40	185.76	185.76	159.12	181.44

[a]Features, levels of service, and other service options not available for comparison.

[b] Lowest end of the range, but can be as high as $1.38 per GB per month.

[c] Rates based on comparable virtual private server configurations.

CDT = California Department of Technology; IBM = International Business Machines Corporation; and GB = gigabyte.

Moreover, the lack of information available for state entities to make direct comparisons between private vendor rates and State Data Center rates makes state entities' decisions about the provision of IT services more difficult. The inability of state entities to directly compare the benefits and costs of private vendor and State Data Center IT services and the much higher State Data Center rates for at least some IT services suggest that additional work is needed not only to re-evaluate rates, but also to re-evaluate the department's business model for providing IT services.

The proposals as currently presented to the Legislature are missing key information about the anticipated rate re-evaluation process. For example, the proposals do not provide any details on the methodology for evaluating State Data Center IT services to reduce rates or on the time line for the process. Based on anecdotal information, some services may be eliminated, added or shifted. Some services may also be shifted from cost recovery fund to the General Fund. These results of the rate evaluation process suggest the need for a more active role for the Legislature in its oversight of the process.

The BCP requests funding based on forecasted revenues from and expenditures on the Data Center. However, CDT notes that they cannot accurately forecast either its revenues from or expenditures on services over a three-year period because demand can change significantly year over year. By approving the BCP over three years, the Legislature would limit its ability to conduct oversight and make appropriate adjustments based on changing fiscal conditions of the TSRF.

Multiyear funding of these proposals also would limit legislative involvement in the rate re-evaluation process. The Administration notes that they will provide updates at their quarterly legislative briefings, however LAO notes that these briefings will cover a wide range of topics and are unlikely to provide the Legislature with the requisite information and time to learn about and be involved in the rate re-evaluation process. Requests for funding on an annual basis would allow the Legislature to decide whether the administration's progress on the rate re-evaluation process warrants additional legislative involvement and/or oversight.

The LAO recommends approving only one year of funding for both proposals to ensure legislative oversight continues through the annual budget process. Annual funding for these proposals also would allow CDT to better forecast additional net revenue losses. Budget-year funding to shift some internal administrative costs to the General Fund also would allow the Legislature to evaluate whether the anticipated reduction in State Data Center rates changes state entities' demand for IT services from CDT.

The LAO also recommends establishing trailer bill language to allow for more Legislative direction and oversight of the rate re-evaluation process. Specifically, the trailer bill should at a minimum include at least objectives for the rate evaluation process, outcome metrics for the process, and an evaluation of the CDT's current business model for providing IT services.

Staff Recommendation. Hold Open.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

DGS, as an enterprise organization under the Government Operations Agency, provides centralized services to state agencies in the areas of: management of state-owned and leased real estate, including design and construction of state infrastructure projects; approval of architectural designs for local schools and other state-owned building; printing services; procurement of commodities, services, and equipment for state agencies; and management of the state's vehicle fleet. Furthermore, DGS employs practices that support initiatives to reduce energy consumption and help preserve California resources. The Director of DGS serves on several state boards and commissions.

Below is the Governor's budget display of positions and expenditures for DGS. In the 2022-23 fiscal year, the Governor's budget proposes a total of $1.3 billion in expenditures ($117.8 billion from the General Fund) and 4,144.3 positions.

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
6320	Building Regulation Services	369.8	400.8	400.8	$90,002	$102,205	$100,817
6324	Facilities Management Division	1,581.7	1,785.2	1,785.2	526,445	557,442	616,977
6325	Real Estate Services	384.7	391.7	398.7	89,503	100,235	90,417
6330	Statewide Support Services	904.5	1,000.4	1,010.4	542,913	589,474	539,270
6335	Program Overhead Allocations Interagency Support Division and RESD Executive	14.0	10.0	10.0	-	-	-
9900100	Administration	517.3	524.2	539.2	997,752	492,755	99,959
9900200	Administration - Distributed	-	-	-	-78,508	-89,034	-94,307
9900300	Distributed Services	-	-	-	-11,513	-11,513	-13,117
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**3,772.0**	**4,112.3**	**4,144.3**	**$2,156,594**	**$1,741,564**	**$1,340,016**

Issue 41: Facilities Management Division Deferred Maintenance

Governor's Budget. The Governor's budget $100.7 million General Fund on a one-time basis to address critical elevator and Direct Digital Control deficiencies in buildings owned and operated by DGS.

Background.

Elevator Projects

Industry standards dictate that elevator equipment should be modernized every 20-25 years; however, the actual life cycle can vary depending on the type of equipment installed, its age, the level of usage, and maintenance performed. There are three types of modernization that may be employed depending on the condition of the conveyance system: maintenance, repair, and replacement. Elevator maintenance includes a routine examination, lubrication, cleaning, and adjustment of parts, components, or subsystems for the purpose of ensuring performance in accordance with the applicable code requirements. Elevator repair refers to reconditioning or renewal of parts, components, or subsystems necessary to keep equipment in compliance with applicable code requirements. Replacement means the substitution of a device, component, or subsystem in its entirety, for ensuring performance in accordance with applicable code requirements. For example, a rewound hoist motor is a repair, a new hoist motor with the same characteristics is a replacement, and a new hoist motor with new controls, features or functions is a modernization.

The following chart lists the proposed elevator projects.

Location	Building Name	Age of Elevators	Number of Stories	Number of Cars	Estimated Project Cost
Los Angeles	Junipero Serra Building	24	10	7	$8,190,000
Sacramento	Attorney General Building	27	19	8	$8,184,000
San Francisco	Ronald M. George SOC (Hiram Johnson)	23	14	13	$15,210,000
Totals				**31**	**$31,584,000**

Junipero Serra Building: ($8,190,000) Equipment was installed in 1997 (24 years ago) and includes outdated, uncommon controls that prevent competitively-bid maintenance jobs for this building. These elevators are frequently down and have resulted in at least one injury due to cab misalignment. The requested funding will be used to modernize the existing elevator system.

Attorney General Building: ($8,184,000) Equipment was installed in 1994 (27 years ago). These elevators are now past the end of their useful life and the requested funding will be used for elevator modernization.

Ronald M. George Complex (Hiram Johnson Building): ($15,210,000). Thirteen elevator cars are located within the Hiram Johnson Building. Two of the elevators were originally installed in 1955 and subsequently modernized in 1998 when the remaining fourteen cars were installed; meaning all of the cars and equipment are at least 23 years old. Replacement of the elevator drives and access to technician support is limited due to the age of the equipment. The requested funding will be used for elevator modernization.

<u>**Direct Digital Control (DDC)**</u>

System Projects Advanced DDC systems (also known as building energy management systems or BEMS) can automate fault detection and diagnostics of newer Fire and Life Safety (FLS) systems to help reduce downtime and operation and maintenance costs, adding to the energy savings from simply optimizing equipment set points and setting timers.

In 2020-21 and 2021-22, FMD received one-time General Fund authority through an approved Budget Change Proposal to repair or replace FLS systems including fire alarm control panels, accessible pull stations, smoke detection systems, and accessible audio-visual announcement devices. Once the FLS projects began in 2020 DGS found that numerous DDC systems that interfaced with the FLS systems were obsolete and in need of upgrade or replacement—as they could no longer fully communicate with the myriad of additional sensor and enunciation devices (e.g. alarms, strobes, etc.) that now interface with the FLS systems. This communication is essential to minimizing the spread of fire and smoke during a fire event. When a sensor is activated, communication is sent to the DDC system to close dampers, reduce or stop certain airflows, or engage the stairwell pressurization system to provide positive air pressure in the exit stairwells that prevents smoke intrusion. The absence of this communication could allow a small fire to spread and/or risk the possibility of the exit stairwells filling with smoke. As smoke inhalation is the major cause of loss of life in a fire event, having a reliable communication path that ensures occupants can be protected from this hazard is essential.

The following chart lists the proposed DDC projects.

Location	Building Name	Square Feet	Cost/ ft²	Estimated Cost
Los Angeles	Junipero Serra	550,000	$15.00	$8,250,000
Los Angeles	Ronald Reagan	850,000	$15.00	$12,750,000
Riverside	Riverside Cal-Tower	162,000	$15.00	$2,430,000
Sacramento	Attorney General Building	560,661	$15.00	$8,409,915
Sacramento	East End Complex	1,492,501	$15.00	$22,387,515
Sacramento	Franchise Tax Board	514,616	$15.00	$7,719,240
San Francisco	Pat Brown (CPUC)	383,503	$15.00	$5,752,545
Santa Rosa	Santa Rosa	97,377	$15.00	$1,460,655
Totals				**$69,159,870**

Staff Recommendation: Hold open.

8260 California Arts Council

The California Arts Council (Council) consists of eleven members, nine appointed by the Governor and one each appointed by the President pro Tempore of the Senate and the Speaker of the Assembly. The Council establishes general policy and approves program allocations.

The Council recognizes that the Arts are essential for the cultural, educational, social and economic development of California. The Council seeks to further its mandates and services to the public through the development of partnerships with the public and private sectors and by providing support to the state's non-profit arts and cultural community, which are broad-based and extended across the state from its largest metropolitan areas to its most rural areas.

3-YEAR EXPENDITURES AND POSITIONS †

	Positions			Expenditures		
	2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
6540 Arts Council	23.4	23.4	24.4	$29,132	$192,719	$68,583
TOTALS, POSITIONS AND EXPENDITURES (All Programs)	**23.4**	**23.4**	**24.4**	**$29,132**	**$192,719**	**$68,583**

FUNDING	**2020-21***	**2021-22***	**2022-23***
0001 General Fund	$19,140	$177,587	$56,642
0078 Graphic Design License Plate Account	-	3,680	2,275
0890 Federal Trust Fund	1,992	2,755	1,219
0995 Reimbursements	8,000	8,197	8,197
8085 Keep Arts in Schools Fund	-	500	250
TOTALS, EXPENDITURES, ALL FUNDS	**$29,132**	**$192,719**	**$68,583**

Issue 42: Support for Cultural Districts

Request. The California Arts Council requests $30 million one-time General Fund, to be spent over three years, to support the existing 14 cultural districts and to expand the cultural districts program to serve traditionally underserved communities, represent a cohort that reflects the geographic and racial diversity of the state, and enable the California Arts Council sufficient capacity to provide technical assistance.

Background. AB 189 (Bloom), Chapter 396, Statutes of 2015, directed the Arts Council to create a cultural district program. It defined a state-designated cultural district as a certified geographical area with a concentration of cultural facilities, creative enterprises, or arts venues. AB 189 directed the Arts Council to create a competitive application system for certifying state-designated cultural districts, provide technical and promotional support for these districts, and collaborate with public agencies and private entities to maximize the benefits of these districts.

In 2015-16, the Arts Council began dedicating some of its operating funds to create a cultural district pilot program. In July 2017, the Arts Council designated 14 areas across the state as cultural districts. Starting in 2017-18, the Arts Council awarded each of these districts $5,000 stipends per year for three years as an incentive to participate in the pilot. To date, the Arts Council has spent roughly $300,000 to fund these stipends and has incurred costs related to program support, development, and evaluation.

Cultural District	City
Balboa Park Cultural District	San Diego
Barrio Logan Cultural District	San Diego
The BLVD Cultural District	Lancaster
Calle 24 Latino Cultural District	San Francisco
Rotten City - Emeryville Cultural Arts District	Emeryville
Eureka Cultural Arts District	Eureka
Grass Valley-Nevada City Cultural District	Grass Valley/Nevada City
Little Tokyo	Los Angeles
Oceanside Cultural District	Oceanside
Redding Cultural District	Redding
San Pedro Arts & Cultural District	San Pedro
Downtown San Rafael Arts Districts	San Rafael
SOMA Pilipinas - Filipino Cultural Heritage District	San Francisco
Truckee Cultural District	Truckee

In 2019, the Council contracted with third-party evaluators to review the pilot cohort's first two years. The evaluation suggested 12 recommendations to enhance future program effectiveness: 1) provide significantly greater financial support to the districts; 2) continue current program inputs (designation, stipend, marketing materials, State partner agencies, technical assistance, and peer-to-peer networking) and develop them in ways that will increase their impact; 3) develop a comprehensive technical assistance resource center to support capacity building for cultural districts; 4) develop inter-agency partnerships to support capacity building for cultural districts; 5) do a round of applications in 2020 to select a second cohort of cultural districts but then pause for three years; 6) defer decisions about program expansion beyond the initial two cohorts until the first five years of the program can be assessed; 7) increase program investment through a legislative request or allocation of CAC Program Funds; 8) conduct ongoing and annual evaluation; 9) document economic impact of the districts and the program; 10) increase CAC staffing of the program; 11) revisit and clarify the legislative language in AB 189; and 12) encourage cultural districts to consider applications to other CAC programs.

The evaluation identified an additional seven recommendations specific to equity:

1. Prioritize designation of African American/Black, Native American, and Chinese American cultural districts in the next cohort.
2. Prioritize designation of districts in areas of the state that are underfunded or not directly funded by the CAC.
3. Support the development of applications that promote equity.
4. Build inter-agency partnerships to identify and support diverse districts.
5. Provide technical assistance to communities considering an application and to applicants.
6. Revisit and refine the selection criteria for the program with an equity lens.
7. More strongly make the case for the importance of the state designation.

In 2020, the Governor's January budget proposed $9 million to provide stipends of $100,000 annually for three years for 30 cultural districts (14 existing districts and 16 new districts). However, due to the COVID-19 pandemic, this proposal was withdrawn in the Governor's May Revision.

Under the Governor's budget request of $30 million, the Arts Council notes that it will focus on the establishment of the following, based on the 2019 gap analysis evaluation:

- African American districts, or Black "umbrella" districts that encompass several culturally specific communities within it, who are absent from the current cultural district cohort.
- Districts that represent Chinese American and Native American communities, who are also absent from the current cohort.
- Districts that represent Latinx and Asian American communities, who are underrepresented in the current cultural district cohort.
- Districts in lower-income and rural counties.

In addition, the Arts Council reports that it would seek to achieve the following goals with the funding:

- Identify, support, and connect centers of arts and cultural activity statewide.
- Provide increased access to the arts and culture through the development and preservation of cultural centers statewide.
- Foster increased opportunities for artists, craftsmen, and other small businesses.
- Encourage the retention of local assets and actively work to mitigate displacement of such assets.
- Support improvements to the built environment.
- Contribute to increased public awareness of, and visits to, California's centers of cultural activity.

Staff Comments. The 2019 gap analysis found that half of the 14 cultural districts are located in counties whose residents live above the state's median household income and half are below. However, when comparing the median household income of each zip code where these districts are located (as reported by the United States Census Bureau), and to the poverty level threshold used for Medi-Cal applicants (138 percent of the federal poverty level, which is $35,535 in 2019), 13 out of the 14 cultural districts are located in zip codes where the median household income is above the poverty line. The evaluation notes that some of the cultural districts face challenges with gentrification and displacement of lower-income residents. The chart below is from the subcommittee's 2020 analysis on the Administration's cultural district proposal.

Cultural District	**Zip Code**	**Median Income***	**Poverty Level****
Balboa Park Cultural District	92101	$ 60,417	Above
Barrio Logan Cultural District	92113	$ 33,125	Below
The BLVD Cultural District	93534	$ 37,883	Above
Calle 24 Latino Cultural District	94110	$ 109,747	Above
Rotten City - Emeryville Cultural Arts District	94608	$ 68,352	Above
Eureka Cultural Arts District	95501	$ 40,629	Above
Grass Valley-Nevada City Cultural District	95945/95959	$ 53,609	Above
Little Tokyo	90012	$ 38,786	Above
Oceanside Cultural District	92054	$ 56,170	Above
Redding Cultural District	96001	$ 48,125	Above
San Pedro Arts & Cultural District	90731	$ 49,464	Above
Downtown San Rafael Arts Districts	94901	$ 85,889	Above
SOMA Pilipinas - Filipino Cultural Heritage District	94103	$ 49,052	Above
Truckee Cultural District	96161	$ 89,091	Above

* As reported by the U.S. Census.
** Poverty level is defined at $35,535.

Above	13
Below	1

Additionally, the evaluation notes that "the cultural districts are not often located in regions of the state that are underserved by the Arts Council, especially the northeastern, southeastern, and Central Valley counties of the state."

Legislative Analyst's Office Comments. ***Key Details Lacking.*** While the Governor's proposal is potentially promising in that it seeks to address some of the findings from the evaluation of the pilot, it is not possible to fully evaluate the proposal as key details are currently lacking. Specifically, the Arts Council has not provided information that would allow the following questions to be answered:

- How would funds be allocated between existing and new cultural districts?
- What would be the allowable uses of the funds?
- What criteria would be used to award grants?
- How will the goals and outcomes sought by the Arts Council be measured?

The Arts Council has indicated that more details on the proposal will be provided by this spring. Without such details, it is not possible to determine the extent to which the proposed funding would effectively address concerns about the lack of diversity of cultural districts and the extent to which the planned uses of the funds are appropriate for one-time funding. Accordingly, the LAO recommends that the Legislature withhold action on the Governor's proposal until the Arts Council is able to provide sufficient details about how the program would be implemented.

Staff Recommendation. Hold Open.

8940 MILITARY DEPARTMENT

The Military Department is responsible for the command, leadership and management of the California National Guard, Youth and Community Programs, State Guard and the Naval Militia. The California Military Department, under proper authority, organizes, resources, and trains forces with unique capabilities to serve the community, state, and nation. The purpose of the California National Guard is to provide mission ready forces to the federal government as directed by the President, emergency public safety support to civil authorities as directed by the Governor, and support to our member's families and to the community. With an authorized strength of approximately 19,000, the Army National Guard and Air National Guard are organized, manned, and funded in accordance with federal Departments of the Army and Air Force regulatory guidance.

The Military Department Youth and Community Program serves California communities and families by delivering national level, high quality educational support programs, in partnership with the educational community, within a military, academic structured environment.

3-YEAR EXPENDITURES AND POSITIONS †

		Positions			Expenditures		
		2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
6911	National Guard	572.8	614.8	644.8	$198,824	$181,751	$237,362
6912	Youth & Community Programs	117.0	201.0	309.0	36,674	40,571	40,820
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**689.8**	**815.8**	**953.8**	**$235,498**	**$222,322**	**$278,182**

FUNDING		**2020-21***	**2021-22***	**2022-23***
0001	General Fund	$75,318	$89,265	$144,513
0485	Armory Discretionary Improvement Account	-	136	136
0890	Federal Trust Fund	118,854	123,076	123,622
0995	Reimbursements	40,373	7,564	7,602
3085	Mental Health Services Fund	934	1,531	1,559
8078	California Military Department Support Fund	19	250	250
8504	Military Department Workers' Compensation fund	-	500	500
TOTALS, EXPENDITURES, ALL FUNDS		**$235,498**	**$222,322**	**$278,182**

Issue 43: Drug Interdiction Efforts

Request. The Military Department requests $20 million one-time General Fund in 2022-23 to expand the Military Department's existing drug interdiction efforts supporting law enforcement agencies within the four High Intensity Drug Trafficking Areas (HIDTA) in California. This will amplify the CMD's focus on drug-trafficking transnational criminal organizations (TCO) throughout the State. It is expected that 100 service members will be deployed for drug interdiction efforts to assist various Law Enforcement Agencies (LEAs).

Background. The Counterdrug Task Force is a federally funded, Title 32 program that has been part of California National Guard's (CNG) mission since 1986. This program, which currently receives $27 million annually in federal funds, provides support to local law enforcement agencies in areas known to have high levels of drug trafficking. The Administration indicates that requests for assistance from local law enforcement have far exceeded CMD's level of ongoing funding. Accordingly, the proposal would allow CMD to fulfill in 2022-23 more of the requests it receives from local law enforcement.

The CMD proposes to use the existing California National Guard (CNG) model to support law enforcement agencies as they target the illegal smuggling and distribution of fentanyl and other illegal drugs. The 100 service members will be managed by the CNG's current Counterdrug Task Force and be employed to support LEAs at the four HIDTA sites located in San Diego, Los Angeles, Central Valley (Sacramento) and Northern California (San Francisco). The Counterdrug Task Force processes requests from LEAs and responds using available resources.

The $20 million is expected to be expended in the following areas to enhance the existing Counterdrug Task Force:

- $17.1 million for service member salaries and benefits (including $1.5 million for per diem costs).
- $600,000 for vehicles and fuel.
- $2.3 million for other items of expense (travel, equipment, lodging, communications, etc.).

The existing Counterdrug Task Force model will be used to determine the proper allocation of the state resources for various drug interdiction efforts supporting LEAs throughout the four HIDTA. Enhancing the existing interdiction model with additional one-time state funding will likely lead to additional drug seizures.

In addition to the Counterdrug Task Force, the CMD has managed Task Force Vigilance which operated as a Title 32, federally funded, state-controlled task force from 2018 until 2020. Pursuant to the Governor's General Order #2019-01, Task Force Vigilance included 100 service members employed to assist LEAs in detecting and intercepting transnational crime and drugs coming into California from Mexico. During its two-year duration, Task Force Vigilance Task Force Vigilance assisted in the seizure of:

- $18.4 million in Fentanyl

- $9.7 million in Heroin
- $89.6 million in Methamphetamines
- $52.1 million in Cocaine
- $690 million in Marijuana
- 411 liters in Pesticides

Legislative Analyst's Office Comments. The Governor's proposal seeks additional resources to reduce opioid overdoses, as well as crimes and violence related to the smuggling and distribution of illegal drugs, by increasing CMD's capacity to respond to local law enforcement requests for support. However, according to the Administration, the vast majority of local law enforcement requests tend to involve targeting illegal cannabis cultivation and trafficking rather than illegal drugs linked to overdose deaths. Accordingly, as currently structured, the proposal is likely to have little effect on overdose deaths. Addressing illegal cannabis cultivation and trafficking is a reasonable statewide goal. However, if the state is interested in reducing overdose deaths, this proposal would likely not be an effective way to do so.

Staff Recommendation. Hold Open.

Issue 44: Enhancing and Expanding Fire Crews: Task Force Rattlesnake

Request. The California Military Department requests 15 State Active Duty positions and $39.9 million General Fund in 2022-23, and $41.3 million General Fund annually thereafter, to convert 13 Type I hand crews currently operating on temporary COVID-19 Federal Emergency Management Agency funding and seasonal reimbursement contracts with the California Department of Forestry and Fire Protection (CAL FIRE) into 14 Type I, year-round hand crews that conduct vegetation management, hazardous fuel reduction projects, and wildland fire suppression.

Background. CMD maintains a reciprocal cooperative agreement with the foresting agencies that defines the force packaging and procedures for CMD activations to a wildland fire. Before 2019, CMD would be called on to fill emergency resource gaps in the response phase only. CMD would mobilize the resource to fulfill the emergency requirement and then be released.

In 2019, CAL FIRE partnered with CMD to develop full-time year-round concept for hand crews, forming Joint Task Force Rattlesnake. Joint Task Force Rattlesnake originally consisted of five hand crews, formed by the Governor's General Order 2019-01, Executive Order N-05-19, to assist in the prevention of wildfires in the State of California and assist with the completion of 35 priority fuel reduction projects.

The Budget Act of 2020 provided CAL FIRE funding to support 10 CMD crews to operate for six months out of every year through an inter-agency agreement. This $4 million was designed to give CAL FIRE fuels mitigation assistance and temporary help Fire Captain and Firefighter positions to supervise and support those crews. Additionally, in April 2020, Joint Task Force Rattlesnake was augmented with FEMA Federal Mission Assignment (MA) funding to conduct its fuel reduction and fire suppression operations. These actions allowed CMD to temporarily expand to 13 CMD hand crews statewide. The current MA authorizing Title 32 forces is set to expire on

April 1, 2022. When the MA expires, CAL FIRE is left with permanent funding that will only support 10 crews for six months out of the year.

The CMD requests $39.9 million General Fund in 2022-23 and $41.3 million General Fund annually thereafter, to convert 13 Type I hand crews currently operating on temporary COVID-19 FEMA funding and seasonal reimbursement contracts with CAL FIRE into 14 Type I, year-round hand crews that conduct vegetation management, hazardous fuel reduction projects, and wildland fire suppression.

CMD also requests 15 permanent positions to support command and control administration functions of the task force: Task Force Commander (one position), Task Force Senior Enlisted Advisor (one position), Executive Officer (one position), Operations Section (five positions), Logistics Section (two positions), and Administration and Finance Section (five positions).

There are two components to the CMD crew staffing, the administrative support cell that consists of 15 personnel, and 308 service members and officers that staff the 14 crews. The minimum daily staffing per crew will be 13 service members and one Fire Captain (FC) and Fire Apparatus Engineer (FAE) from CAL FIRE.

Legislative Analyst's Office Comments. The proposed CMD hand crews (and associated support staff, as relevant) would provide a significant increase in the resources available to assist in responding to active wildfires, as well as conducting hazardous fuel removal projects at other times. The LAO expects that such an expansion would provide important value to the state. However, the additional CalFire staffing proposal (heard in Senate Budget Subcommittee No. 2) is anticipated to be required to oversee the proposed changes to the CMD crews. According to the Administration, this additional staffing is included in the staffing and operational enhancements proposal. Given this, it will be important for the Legislature to consider the proposals together. Therefore, the LAO recommends withholding action on the CMD proposal so that they may be considered together.

Staff Recommendation. Hold Open.

9201 LOCAL GOVERNMENT FINANCING

Issue 45: Insufficient Educational Revenue Augmentation Fund (ERAF) Backfills

Governor's Budget. The Governor's budget includes $96.2 million General Fund to reimburse San Mateo County and Alpine County for Vehicle License Fee (VLF) insufficiencies in 2020-21 driven by insufficient Educational Revenue Augmentation Fund (ERAF) revenues.

In addition, statutory amendments are proposed to provide a continuous appropriation and a process to claim funding for VLF insufficiencies driven by insufficient ERAF revenues in future years. Trailer bill language would also specify that excess ERAF within the county would be first applied to the VLF insufficiency, with General Fund backfilling the remainder.

Background.
The Motor Vehicle License Fee (VLF) is a tax on ownership of a registered vehicle. All revenue from vehicle license fees is distributed to counties and cities and used for general purposes and some specific, required health and human services-related purposes. In the mid 1990's the state lowered the VLF rate and reimbursed counties and cities for the reduced VLF revenue with state General Fund, known as the "VLF Backfill".

Also in response to a severe budget deficit in the 1990's, the state met its legal obligation to fund schools by diverting specified amounts of local property taxes into an "Education Revenue Augmentation Fund" or ERAF in each county. ERAF funds are then transferred to local K-14 school entities. Some school districts, known as "Basic Aid School Districts" do not receive any ERAF allocations as local property taxes for K-14 education, already cover the level of funding provided for K-14 education, therefore the school district was not receiving state General Fund that could be offset by ERAF.

In 2004, a new mechanism for backfilling the VLF was created and a portion of property taxes from schools (through ERAF or other K-14 property taxes if ERAF was insufficient) was provided to counties and cities to replace the VLF Backfill, known as the "VLF swap". Prior to 2004, the amount counties and cities received was based on their populations. Today, counties and cities' VLF swap amounts increase annually based on growth in the assessed value of property within their boundaries. After the adoption of the VLF swap, statewide growth in assessed valuation—and, as a result, VLF swap payments—has significantly exceeded growth in VLF revenues. Although the VLF swap reduced the amount of property tax revenue in ERAF available to fund schools, state law specified that the shift would not affect the calculation of excess ERAF.

Over the past several years, some counties, currently San Mateo and Alpine, have been unable to cover insufficiencies in their VLF funds with ERAF funding. When all or most school districts in the county are in basic aid status, the county is unable to direct enough K-14 property taxes or ERAF from school districts, as it will not generate a General Fund backfill. This shortfall has been relatively low in past years, but growing property tax revenue combined with declining enrollment has increased the shortfall and projections assume continued growth. State General Fund has been provided in prior budget acts to cover the shortfall, but it has been provided in arrears. The Governor's budget continues this practice by including $96.2 million General Fund to reimburse San Mateo County and Alpine County for insufficiencies in 2020-21. County projections show this amount growing and potentially creating insufficiencies in other counties, with Napa projecting basic aid status for school districts in the coming years. In response to concerns from counties that these larger insufficiencies would create immediate budget impacts and potential reductions in services while county applies for a backfill, the Governor's budget included a new process, for insufficient VLF Revenues amounts expected to occur in the 2023-24 fiscal year and for each fiscal year thereafter for which:

- Creates a continuous appropriation from the General Fund sufficient to pay any claims for Insufficient VLF Revenues.
- Creates a process by which the auditor of a county with insufficient VLF Revenues shall file with the State Controller's Office a claim for the amount of insufficient VLF Revenues

preceding the fiscal year in which such insufficient VLF Revenues is expected to occur. The Controller shall pay the auditor the approved amount of insufficient VLF Revenues claimed pursuant this section in the fiscal year after the claim is submitted. The Controller shall remit to the auditor fifty percent of the approved amount on or before December 31, and shall remit the other fifty percent to the auditor on or before April 30.

- The Controller shall perform reviews or audits of insufficient VLF Revenues claims at his or her discretion.
- Specifies that for the 2022-23 fiscal year and each fiscal year thereafter, funds allocated to a city, county, or a city and county as excess ERAF after K-14 obligations have been met, shall be counted by the auditor toward satisfying the city and county vehicle license fee adjustment amount.

Staff Comments. Counties with insufficient VLF currently (San Mateo and Alpine) and those anticipating this situation in the near future (Napa) note that they appreciate the mechanism for front-loading of the insufficient VLF backfill. This would serve to prevent reductions in planned budget expenditures. However, several counties and cities oppose the provision requiring excess ERAF revenues to first backfill the VLF insufficiency (in the past the entirety of the excess ERAF had been available for city and county expenditure).

The Department of Finance notes that the General Fund obligation will continue to grow in these counties with growing property taxes. Since 2012-13, the state has provided over $33 million for Insufficient ERAF backfills. Another $96 million is proposed for 2022-23. These backfills are not required by law. They also note that this practice has Proposition 98 implications. In a Test 1 year, the Proposition 98 Guarantee is calculated as a specific percentage of General Fund revenues and property taxes are added on. When the majority of school districts within a county are basic aid, the county may reduce K-14 property taxes in other school districts to fill the VLF insufficiency. Under Test One of Proposition 98, which has been operative since 2018-19, and which will be operative for the foreseeable future, the shifted property tax revenue is not backfilled by the state. It is a revenue loss for schools.

Staff Recommendation. Hold Open.

0954 ScholarShare Investment Board

Issue 46: CalKIDS Savings Accounts

Governor's Budget. The Governor's budget includes the following changes related to the California Kids Investment and Development Savings Program (CalKIDS):

- $238,000 ongoing General Fund to support 2 additional staff for CalKIDS.
- An increase of $4 million one-time General Fund in 2022-23 to notify participants in grades 1 through 12 of their CalKIDS accounts, as well as $400,000 ongoing General Fund beginning in 2023-24 to notify each incoming cohort of first graders.
- An increase of $1 million one-time General Fund in 2022-23 for a short-term marketing campaign to increase awareness of the CalKIDS program upon its launch.
- An increase of $5 million ongoing General Fund for financial literacy outreach efforts that will inform families of the long-term benefits of saving for college associated with CalKIDS.

Background.

The ScholarShare Investment Board (SIB) administers the Golden State ScholarShare College Savings Trust Program (ScholarShare 529), the California Memorial Scholarship Program (CMS), and the California Kids Investment and Development Savings Program (CalKIDS). The CalKIDS program funds college savings accounts targeted to low-income and underrepresented public school students, in addition to establishing college savings accounts for all newborns.

The 2021 Budget Act provided approximately $1.9 billion in one-time federal and state funds to establish college savings accounts for all current low-income public school students in grades 1-12 in 2021-22, as defined for purposes of the Local Control Funding Formula, with supplemental investments for foster youth and homeless students enrolled in a public school. Approximately $170 million ongoing General Fund is provided in 2022-23 and ongoing to establish college savings accounts for incoming first-grade cohorts of low-income public school students, as defined for purposes of the Local Control Funding Formula, with supplemental investments for foster youth and homeless students enrolled in a public school.

The SIB did not receive additional positions in the 2021-22 budget package for the expansion of CalKIDS, but did receive an increase of $700,000 General Fund ongoing that is being used for various administrative costs, including the program's IT platform. The SIB has one Staff Services Manager I (SSM I) partially dedicated to the program, that was intended to focus on the administration of the CalKIDS serving the newborn population, as well as other children's savings account (CSA) initiatives. The SIB is currently redirecting other staff to support program administration. The additional positions requested would have various responsibilities, including but not limited to compiling and analyzing participant data, conducting marketing and outreach, assisting with regulations, and communicating with stakeholders.

LAO Comments.

The LAO notes that given the ongoing workload associated with the considerable expansion of the CalKIDS program in the 2021-22 budget the staffing increase requested is justified.

The LAO also notes that in order for CalKIDS to meet the goals of expanding college access, particularly for low-income students, participants and their families need to know about their CalKIDS account and any deposits from the state, as well as how they can contribute their own funds toward saving for college. However, the Governor’s three outreach proposals have similar purposes. The participant notifications and marketing campaign are designed to make participants aware of their accounts, while the financial literacy outreach initiative is intended to inform participants of the benefits of those accounts (for example, by introducing participating families to the concept of compound interest). Incorporating these separate components into one initiative could provide a more coordinated message to students and their families simultaneously notifying them of their accounts and informing them of the associated benefits. A consolidated approach could also reduce duplication across initiatives, potentially leading to lower overall costs.

Finally, the LAO has concerns about the funding justifications for some proposed activities. In particular, limited justification has been provided for the financial literacy outreach funding. The Administration indicates this initiative would allow SIB to produce informational materials, translate those materials into various languages, update the program website, and provide other financial literacy activities to participants and their families. However, the proposed funding level is not linked with the cost of these activities. Instead, the Administration determined the proposed funding level based on the combined one-time cost of the other two initiatives (participant notifications and marketing campaign). In addition, while the proposed funding is ongoing, several of the proposed activities (including producing initial informational materials and updating the website) would be one time.

As a result of their review, the LAO recommends that the outreach proposals be modified. The LAO recommends creating one combined initiative, providing at least the proposed $4 million one-time and $400,000 ongoing for participant notification, as participants and their families need a basic level of awareness of their CalKIDS accounts for the program to have its intended effect. The LAO notes that the Legislature could also consider including the proposed $1 million one-time General Fund for a short-term marketing campaign to further increase program awareness. However, the LAO recommends withholding action on the proposed $5 million ongoing for financial literacy outreach and requesting the administration develop a more detailed proposal. Such a proposal would identify the specific financial literacy outreach activities that would occur, the estimated cost of those activities, the duration of those costs (one time vs. ongoing), and any opportunities to coordinate or consolidate these outreach activities with the related participant notification and marketing activities.

Staff Recommendation: Hold Open.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Thursday, April 28, 2022
Upon Adjournment of Session
O Street Building - Room 2100

Consultant: James Hacker

ITEMS FOR VOTE ONLY

ISSUES FOR DISCUSSION

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS FOR VOTE ONLY

0515 Business, Consumer Services, and Housing Agency

Issue 1: Workload Resources

Request. The budget includes $1.5 million and seven positions in 2022-23 and ongoing to address the current and anticipated ongoing workload stemming from an increase in oversight and strategic coordination required to support existing Agency programs along with significant growth in new program responsibilities, specifically in the housing and homelessness portfolio of programs. The requested positions include two Deputy Secretaries, one Senior Advisor, a Budget Manager, and several technical staff. Four of these positions are currently being redirected from other departments.

BCSH has one of the smaller staff sizes among the various statewide department, with 19 full time staff as compared to 26 at the Transportation Agency, 33 and Health and Human Services, and 43 at Labor and Workforce Development. Given the dramatic increase in budgets and programs under BCSH's purview, additional staff seems warranted. Doing so would also allow the redirected resources to return to the work for which they were originally budgeted. However, given the uncertainty of the Agency's future workload, limited term resources are more appropriate to permanent position authority.

Staff Recommendation. Approve the requested positions for three years.

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 2: California Learning Lab

Request. The budget includes ongoing funding of $3 million General Fund beginning in 2022-23 for the California Education Learning Lab. This includes $2 million to restore 2020 Budget Act reductions to Learning Lab's grant pool and $1 million to support the Individualized Adaptive Learning Open Educational Resources (IAL-OER) project, which aims to address equity gaps in chemistry while also working towards reducing equity gaps in other Science, Technology, Engineering, and Mathematics (STEM) fields.

The Learning Lab was reduced as part of the 2020 Budget due to anticipated fiscal pressures resulting from the Covid 19 pandemic. As the fiscal picture has improved it is reasonable to return the Lab's funding to previous levels.

Additionally, the state has prioritized efforts to improve STEM education across the state. The requested funding for the IAL-OER project furthers this goal. It is also consistent with the Learning Lab's statutory mission. Pursuant to Section 650592.2 of Government Code, Learning Lab's purpose is "to increase learning outcomes and to close equity and achievement gaps, using learning science (also known as the science of human learning) and adaptive learning technologies in online or hybrid college-level lower division courses in science, technology, engineering, and mathematics (STEM) and other disciplines."

This proposal was first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve the requested resources through the 2025/26 Fiscal Year.

Issue 3: California Volunteers: Neighbor to Neighbor

Request. The budget includes $10 million General Fund in 2022-23 and ongoing to support the mobilization and unification of California around service, volunteerism, and neighbor-to-neighbor outreach. The resources will expand California's existing volunteer infrastructure and bolster a statewide Neighbor-to-Neighbor initiative to recruit, train, equip and organize neighbors in response to community needs.

California Volunteers proposes to use the requested funding for the Neighbor-to-Neighbor program to build a statewide network of neighborhood leaders and train them to organize neighborhood activity in response to community needs. This proposal builds on and formalizes previous efforts begun during the Covid 19 pandemic.

This proposal was first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve the requested resources through the 2025/26 Fiscal Year.

Issue 4: California Volunteers: Foster Grandparents and Senior Companions

Request. $10 million General Fund one-time in 2022-23 to develop and implement the Foster Grandparent and the Senior Companion Programs to increase older adult volunteerism, help people age in place, reduce isolation, enhance intergenerational partnerships and relationships, and provide benefits to schools, libraries, local community sites, and more.

California's 10-year Master Plan for Aging provides a blueprint to prepare the state for the coming demographic changes and to continue California's leadership in aging, disability, and equity. According to the Master Plan for Aging, California's over-60 population will increase from 16 percent of the total in 2010 to 25 percent in 2030. Providing opportunities for older adults to share their talents, experience, and time will be key to meeting the state's growing needs. The Master Plan for Aging specifically addresses engagement.

The LAO has noted that the AmeriCorps Foster Grandparent and Senior Companion programs were established in 1973 and are evaluated on a three-year cycle. Recent studies show that these programs expand service opportunities to diverse group of participants. Participants reported fewer symptoms of depression and feeling less socially isolated. Further, expanding the number of FG and SC service opportunities likely would be consistent the state's Master Plan for Aging by increasing the number of opportunities to volunteer.

This proposal was first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve as budgeted.

Issue 5: Precision Medicine Proposals

Request. The budget includes several proposals related to the California Institute to Advance Precision Medicine (CIAPM). These include:

- $10 million General Fund one-time in 2022-23 to provide grants for projects focusing on depression, and that apply a precision medicine approach to using data in county behavioral health settings.

- $9.25 million General Fund one-time in 2022-23 to address health disparities and enhance equity by increasing participation by underrepresented minorities in biomedical research projects.

Especially as the state emerges from the COVID-19 pandemic and mental health challenges are at peak levels, new interventions could help to support the mental health and wellbeing of communities. Additionally, evidence shows that certain subpopulations are less likely to participate in biomedical research. These subpopulations include people with racially diverse backgrounds and older, LGBT, rural, youth, and/or physically or developmentally disabled people. Because members of these groups are underrepresented in research, advances in biomedical research might not be as effective for them or may even be harmful.

These proposals were first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve as budgeted.

Issue 6: Transfer of the Office of Tribal Affairs

Request. The Governor's budget includes a net-zero transfer of $115,000 Environmental License Plate Fund (ELPF) ongoing and $441,000 General Fund ongoing and 3 positions from the Native American Commission to establish the Office of Tribal Affairs within the Governor's Office, the net-zero transfer of $450,000 ELPF through FY 2024-25 to the Governor's Office of Planning and Research to support the California Truth & Healing Council.

This proposal is net-zero and predominantly administrative in nature.

This proposal was first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve as budgeted.

Issue 7: Legislative Staff Increase

Request. The budget includes $438,000 General Fund and two positions in 2022-23 and ongoing to support OPR's growing amount of legislative workload across OPRs budget programs including the Strategic Growth Council (SGC), California Volunteers (CV), and OPR's State Planning & Policy (SPPD) programs.

Past budgets have provided significant additional administrative resources for OPR, none of which have been focused on legislative work. Given the increase in legislation affecting OPR, additional resources are appropriate. However, given the uncertainty around future legislation, limited-term resources are more appropriate than permanent resources.

This proposal was first heard in Subcommittee 4 on February 9.

Staff Recommendation. Approve the requested positions through the 2025/26 Fiscal Year.

Issue 8: Legislative Proposals

Request. The budget includes several requests related to enacted legislation. These include:

- $374,000 General Fund and one position in 2022- 23 and $224,000 annually thereafter to modernize the California Environmental Quality Act (CEQA) process and filing of CEQA-related documents, and transfer the responsibilities of upgrading, hosting, and maintaining CEQANet to OPR pursuant to Chapter 97, Statutes of 2021 (AB 819).
- $574,000 Greenhouse Gas Reduction Fund (GGRF) and 1.0 position in 2022-23 and ongoing to support the California Air Resources Board to update GGRF grant guidelines and eligibility, and support grant applicants connecting with workforce development resources in their region pursuant to Chapter 746, Statutes of 2021(AB 680).
- $421,000 one-time General Fund in 2022-23 to contract with a third-party planning facilitator to support the newly created 16-member Associate Degree for Transfer Intersegmental Implementation Committee pursuant to Chapter 566, Statutes of 2021 (AB 928).

These proposals are in-line with earlier fiscal estimates and are consistent with legislative intent in drafting and passing the relevant bills.

Staff Recommendation. Approve as Budgeted.

Issue 9: Golden State Awards

Request. The budget includes $30 million one-time General Fund to establish the Golden State Awards grant program. The program will provide between 20 and 30 grants to innovative projects based at or associated with a California public college or university.

The Administration has indicated that the Golden State Awards initiative would support at least 20 awards to individuals or teams at, or associated with, the public higher education segments who have developed or are developing innovative practices. Unlike past innovation award programs, this initiative not only would aim to improve student outcomes but also could cover any activity deemed innovative and high impact, including but not limited to programs that improve student outcomes, research on climate change, and research on low-carbon industries. CELL would administer the grant program, with oversight from a 12-member grant selection committee, with 10 members appointed by the Governor, 1 member by the President pro Tempore of the Senate, and 1 member by the Speaker of the Assembly. CELL would have three years to award the funds, and would be required to report by January 1, 2026, on how the awards were allocated.

While there is merit in incentivizing and rewarding innovation and cutting-edge research and education, the lack of structure and oversight in this proposal is concerning. Funding should be paired with reporting language to ensure that the legislature has insight into how and why certain awards are made.

Staff Recommendation. Approve $30 million in one-time funding. Adopt provisional reporting language requiring OPR to report to the legislature on project selection and awards.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Issue 10: Administrative Resources

Request. The budget includes $1.3 million General Fund and 7 positions in 2022-23, and $836,000 General Fund and 7 positions in 2023-24 and ongoing, to provide additional resources to support DFEH's administrative workload, including appeals, public records requests, media outreach, contracts and procurement, and accounting processes, and help administer a Statewide Hate Crime Hotline.

This request was increased by 1 position ongoing to provide support for the implementation of a Statewide Hate Crime Hotline. The 2021 Budget Act included $10 million one-time available until June 30, 2025, for the Department of Fair Employment and Housing to administer and implement a Statewide Hate Crime Hotline, which will fund this position.

The requested positions are generally reasonable and consistent with the workload faced by the department.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 11: Community Partnerships and Strategic Communications

Governor's Budget. The Governor's budget includes $65 million General Fund in 2022-23 and ongoing to create and implement the Office of Community Partnerships and Strategic Communications (OCPSC) to manage the state's highest priority public awareness and community outreach campaigns.

Background. The state made significant communication and community outreach efforts in recent years, including communications around the 2020 Census (for which $187 million was appropriated over three years) as well as ongoing communications related to the COVID-19 pandemic and related public health issues.

Staff Comments. The Administration has indicated that a number of important lessons have been learned from the 2020 Census and COVID-19 communication campaigns, including the importance of data, the important of engaging communities directly, and the need for closer coordination between involved state entities. The Administration has indicated that these communication efforts were typically separate from one another, even if they were communicating with the same communities or organizations.

The Administration has indicated that this proposal is split into two components:

- Resources to stand up the new Office of Community Partnerships and Strategic Communications (OCPSC) to coordinate and manage statewide communications campaigns across state government.
- Contracting resources to establish and maintain a network of community-based organizations with which to partner on communications efforts in impacted communities across the state.

The LAO has noted that the Administration has identified a legitimate need for this kind of investment. The state has several disparate efforts to raise awareness of critical issues across state government. There is no single entity that coordinates or standardizes these activities. For this reason, there could be benefits from designating a single entity to focus on maintaining a statewide network of CBOs and other trusted messengers, managing communication grant programs, and coordinating interagency expertise and resources. However, the LAO has noted that this proposal is high-level, and it is unclear to what extent it will meet the identified need, or if it will be cost-effective in doing so.

As the Legislature considers making a significant, ongoing investment in community outreach and coordinated communications, it should consider the extent to which the Administration's proposal would address the issues identified above. As such, the committee may wish to ask the following questions:

- How will this proposal improve statewide communications efforts? How will the office coordinate efforts between state departments and agencies? Will it improve efforts, or just add another layer of administration?
- Is this the most cost-effective model for establishing a network of community-based organizations? For example, could contract administration be streamlined, or could OPR adopt innovative contracting models to accomplish the same goal at lower cost?

This proposal was first head in Subcommittee 4 on February 9^{th}.

Staff Recommendation: Hold Open.

Issue 12: California Climate Action Corps State Service Program

Governor's Budget. The Administration requests $3.86 million General Fund in 2024-25 and ongoing to support statewide cohorts of fellows dedicated to addressing climate change through direct service and community outreach in local communities across California.

Background. The California Climate Action Corps was established through executive action in 2020. The Climate Action Corps provides AmeriCorps service opportunities—such as urban greening and wildfire prevention home hardening—to respond to climate change. The 2021-22 budget package included $4.7 million one-time General Fund to expand the climate corps program and fund stipends and administrative costs through 2023-24. This provided 236 service opportunities in the summer of 2021 and 50 full-time service opportunities for the 2021-22 year. Climate Corps received 562 applicants for the summer program and 285 applicants for the full-time program.

Staff Comments. California Volunteers requests funding for the Climate Action Corps program in 2024-25 in this budget cycle so that it can demonstrate the state's funding commitment to this program when it applies for continued federal AmeriCorps funding in spring 2023. As this request is for out year funding, it has no impact on the 2022-23 budget.

LAO Comments. While ongoing funding for the Climate Action Corps program likely would strengthen their AmeriCorps application, it seems premature. Should the Legislature support the efforts of California Volunteers to enhance its AmeriCorps application for this program with a firm funding commitment, we would recommend instead providing another round of temporary funding (through 2026-27). The Legislature should plan to review the effectiveness of the Climate Action Corps program in several years, when more information is available.

Staff Recommendation: Hold Open.

0515 Business, Consumer Services, and Housing Agency

Issue 13: Encampment Remediation Grants

Governor's Budget. The budget includes $500 million one-time General Fund, and trailer bill language, to continue the Encampment Resolution Grant Program established in the 2021 budget.

This proposal was first heard in Subcommittee 4 on February 16.

Background. The 2021-22 budget included a $12 billion package of homelessness services and rehousing funds to expand strategies and interventions across the full continuum of homelessness services. The Cal Interagency Council on Homelessness (ICH, formerly the Homeless Coordinating and Financing Authority) received $50 million General Fund and staff resources for grants to aid in the resolution of encampments.

Staff Comments. ICH indicated that they received roughly $120 million in applications for the $50 million in funding provided as part of the 2021 budget. This suggests that there is additional demand for the program above and beyond the level budgeted in 2021. On February 24 ICH announced awards for the program, allocating the entire amount of funding made available in the 2021 budget.

As part of their analysis of the 2022 budget proposal, the LAO recommended that the Legislature focus on overseeing recent budget augmentations related to homelessness, consider the state's long-term vision for addressing the issue, and set clear expectations and metrics for any new funding.

Considering the recent awards, and the LAOs comments, the committee may want to ask the following:

- What types of projects were funded in the recent round of program funding?
- What outcomes does ICH expect to see from these projects?
- How does the Encampment Resolution Grant program fit into the state's broader strategy for addressing homelessness? What benefit does it provide that another program, such as the Homeless Housing, Assistance, and Prevention Program, does not?

Staff Recommendation. Hold open.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Issue 14: Information Technology Workload Support

Request. The budget includes $521,000 General Fund and 3 positions in 2022-23 and $517,000 General Fund in 2023-24 and ongoing to provide in-house support for the Information Technology Services Division (ITSD).

Background. DFEH receives, investigates, conciliates, mediates, and prosecutes complaints of alleged violations of the Fair Employment and Housing Act (FEHA), the Equal Pay Act, the Unruh Civil Rights Act, the Ralph Civil Rights Act, Civil Code section 51.9, the Disabled Persons Act, the California Trafficking Victims Protection Act, and other laws prohibiting discrimination. In 2018 DFEH received 27,840 complaints with 5,395 investigations opened; in 2019 DFEH received 28,739 complaints with 6,600 investigations opened; in 2020, DFEH received 28,897 complaints, with 7,235 open investigative cases.

The ITSD is integral to DFEH's mission as it supports all of the technological functions of the department, including information security, telecommunications (department-issued cell phones and the Virtual Contact Center for telephone customer service), the department's online case management system (CCRS), litigation support applications, external and internal websites, network and server integrity, social media accounts, Help Desk functions, project management resources, and telework-supportive applications.

Staff Comments. The department has grown in recent years. DFEH added 36.7 positions and funding for two additional locations in 2020-21, and 32 additional positions in 2021-22, representing a 29% growth rate. Multiple changes have since occurred, including the addition of the pay data reporting program and new requirements around information security

Chapter 363, Statutes of 2020 (SB 973)) requires that private employers of 100 or more employees (with at least one employee in California) must report certain pay and other data to DFEH by March 31, 2021, and annually thereafter to identify wage patterns and allow for targeted enforcement of equal pay or discrimination laws. As a result of the Pay Data program, DFEH has indicated that the number of service desk tickets has increased by 300% (5500 to 17000) from 2020 to 2022. Additionally, with the increase in litigation at DFEH, the department has purchased, and ITSD has needed to support, several new legal tools (Relativity, CaseMap, Legal Hold) to secure and track case-related documents. These new tools require constant support and updates by DFEH IT staff.

Given the increase in DFEH workload, additional resources are warranted. The requested positions are broadly reasonable and consistent with the needs of a growing department.

Staff Recommendation. Approve as Budgeted.

Issue 15: Enforcement Investigation and Conciliation Enhancements

Request. The budget includes $1.4 million General Fund in 2022-23, 2023-24, and 2024-25 to decrease the wait time between complaint intakes and investigative appointments, and to increase the number of complaints successfully conciliated and settled by investigators.

Background. To file a complaint with DFEH, a complainant must submit an intake form and schedule an intake interview with a DFEH investigator to discuss their allegations. The Enforcement Division's Employment Unit is responsible for investigating employment cases. The Enforcement Division's Housing Unit is responsible for investigating housing cases.

Historically the typical average wait time between when an intake form is submitted and when the intake interview is conducted is about three months. In 2021, DFEH experienced a surge in complaints and intakes that increased the wait time for the Enforcement Division's Employment Unit from three months to four months, and for the Enforcement Division's Housing Unit from three months to six months.

Staff Comments. DFEH has indicated that this surge was, in part, due to an increased number of employment complaints as the labor market rebounded, and due to a greater number of complaints received at the approach of various state, local and federal eviction moratorium deadlines designed to protect tenants during the COVID-19 pandemic. However, the department also has a roughly 15 percent vacancy rate – high relative to other departments, and particularly acute in technical and difficult-to-fill positions, such as Legal Attorneys and Enforcement Investigators.

DFEH's service level goal is to decrease the wait time for both the Employment and Housing Units to 1-month to fulfill its mission. Based on current workload estimates, the requested positions may be adequate to reach this goal. However, the high vacancy rate is a concern, and may create issues with reaching the target wait time if the department is unable to reduce it. As such, the committee may want to discuss the department's efforts to reduce this vacancy rate and identify additional opportunities to address the issue.

Staff Recommendation. Hold Open

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, May 4th, 2022
9:00 a.m.
1021 O Street - Room 2100

Consultant: Elisa Wynne

Votes:
Issues 1, 2, 3, and 8: 3-1(Nielsen)
Issues 4, 5, 6, 7, 9, 10, 11: 4-0

Vote Only Issues

Issues for Discussion

Public Comment Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS FOR VOTE ONLY

7600 Department of Tax and Fee Administration (CDTFA)

Issue 1: Hope Act: California Electronic Cigarette Excise Tax

Request. The Governor's budget requests $1.4 million E-Cig Fund for 5.5 positions and 9,253.5 for 3.5 positions and 15,253 hours in 2024-25 for mandated workload associated with SB 395, the Healthy Outcomes and Prevention Education (HOPE) Act. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

0509 Governor's Office of Business and Economic Development (GO-Biz)

Issue 2: Human Resources Staffing

Budget. The Governor's budget includes $110,000 (General Fund) in 2022-23 and ongoing to support one new permanent position to allow the Human Resources Unit to provide administrative support for Department's growing and new programs. This item was previously heard in subcommittee #4 on February 9, 2022.

Staff Recommendation. Approve as budgeted.

7730 Franchise Tax Board

Issue 3: Enterprise Data to Revenue Project 2

Budget. The Governor's budget requests $151.1 million General Fund and 17.0 permanent positions, 23.5 full time equivalent limited-term positions, and 21.0 permanent-intermittent positions to begin second-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan at the Franchise Tax Board. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

Issue 4: Section 41 Workload

Budget. The Governor's budget requests $657,000 General Fund and 4 permanent positions in 2022-23; $610,000 General Fund in 2023-24; $760,000 General Fund and one permanent position in 2024-25; and $749,000 General Fund in 2025-26 and ongoing for the Franchise Tax Board. This will allow the Economical and Statistical Research Bureau (ESRB) to manage the increasing workload due to the volume of bills with a Revenue and Taxation Code (R&TC) Section 41 reporting requirement. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

0860 BOARD OF EQUALIZATION

7330 FRANCHISE TAX BOARD

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION

Issue 5: Removal of Provision 1 – Position Control

Request. The Governor's budget includes the elimination of provisional language from the budget act items from the Board of Equalization, the Franchise Tax Board, and the Department of Tax and Fee Administration that required notification to the Joint Legislative Budget Committee if specified positions were redirected from their intended purposes. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Reject proposal. Staff continues to feel there is merit in keeping Provision 1 in place.

0959 CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Issue 6: Bond Allocation Program Workload

Request. The Governor's budget requests $1,036,000 for six permanent positions: 5 AGPAs and 1 SSM I Specialist for FY 2022-23 and ongoing to accommodate workload for the California Debt Limit Allocation Committee (CDLAC) and its support areas. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

0968 CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Issue 7: Development and Compliance Sections Workload Increase

Request. The Governor's budget requests an increase for the California Tax Credit Allocation Committee (CTCAC) of $1,423,000 for fiscal year 2022-23 and ongoing to hire eight new staff members; six Associate Governmental Program Analyst (AGPA) positions, one Research Data Specialist I (RDS) position, and one Staff Services Manager (SSM I) (Supervisor) position to accommodate workload increases. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

0971 California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA)

Issue 8: CA Hub for Energy Efficiency Financing Pilot Programs Administration

Budget Request. The California Alternative Energy & Advanced Transportation Financing Authority (CAEATFA) requests additional reimbursement and expenditure authority in the amount of $27.4 million for FY 2022-23 and available through FY 2026-27 to (1) continue to appropriately carry out its functions as the administrator of the California Hub for Energy Efficiency Financing (CHEEF) programs on behalf of the California Public Utilities Commission (CPUC), and (2) allow for the incorporation of non-ratepayer funds to expand the reach of the programs. To support the continued administration, scaling and expansion of the CHEEF programs, CAEATFA requests authority to hire five (5) new permanent staff positions: One (1) Staff Services Manager I, three (3) Associate Governmental Program Analysts (AGPAs), and one (1) Office Technician (OT).

Background:

The CHEEF financing pilot programs were established to "test new and innovative strategies to help leverage ratepayer and private financing to assist in achieving energy efficiency goals. The CHEEF programs focus on attracting and leveraging private capital, given the challenge in meeting the State's energy efficiency goals using traditional approaches of IOU rebates and incentives. The CHEEF creates a centralized platform serving as an open-market infrastructure to encourage additional private capital investment for energy efficiency and demand response measures. To the extent the funding source allows, the CHEEF programs support the state's decarbonization goals by facilitating the adoption of heat pump technology for air and water heating in existing buildings, while also lowering costs and expanding access to capital for Californians.

The CHEEF programs are currently supported with investor-owned utility (IOU) ratepayer funds that are approved and authorized by the CPUC. This request aligns CAEATFA's reimbursement and expenditure authority with the CPUC's August 5, 2021 Decision 20-08-022, which grants up to $75.2 million in additional ratepayer funding to support the CHEEF programs through FY 2026-27 and beyond, and allows for the incorporation of non-ratepayer funds. To support the expansion of the CHEEF to non-IOU customers or for energy saving projects not related to an IOU fuel, CAEATFA is pursuing other sources of funds

Over the five-year period, CAEATFA will continue transitioning the residential program from a "pilot" to a full "program;" improve operations for programs to support scale; create a seamless statewide program to support customer investments for decarbonization; attract new and different types of private capital; and integrate with other programs, platforms and efforts.

Staff Recommendation. Approve as budgeted

Issue 9: Expanded Staff Resources for Administration of the Sales Tax Exclusion Program

Budget Request. The California Alternative Energy & Advanced Transportation Financing Authority (CAEATFA) requests limited-term expenditure authority of $315,000 to support two positions (a Staff Services Manager I - Specialist (SSM1) and Office Technician (OT)) beginning in fiscal year (FY) 2022-23 to continue the administration of the Sales Tax Exclusion (STE) program.

Background: The Sales Tax Exclusion (STE) Program is intended to promote the creation of California-based manufacturing, California-based jobs, advanced manufacturing, the reduction of greenhouse gases, or reductions in air and water pollution or energy consumption. The STE attracts and retains companies and economic activities in California that might otherwise locate or relocate to other states.

In 2010, the Sales and Use Tax Exclusion Program was established and authorized CAEATFA to grant a sales and use tax exclusion to eligible businesses that purchase equipment to design, produce, manufacture, or assemble Advanced Transportation Technologies or Alternative Source products, components, or systems until January 1, 2021. Future legislation expanded the STE Program to include Advanced Manufacturers and projects that process or utilize Recycled feedstock. The program was extended to January 1, 2026 and the criteria by which CAEATFA must evaluate applications was expanded to include the extent to which the project will result in the loss of permanent, full-time jobs in California, including the average and minimum wage for each classification of full-time employees proposed to be hired or not retained.

According to the BCP, the continued expansion of the program has led to a doubling of the applications received and processed, as well as of the compliance workload. As the program's eligibility pathways have expanded, the number and types of applications have correspondingly increased. Programmatic changes have also increased workload over the past few years and the due to the competitive nature of the Program, CAEATFA has established a competitive process for determining the order of review of applications, which requires an initial review of all applications received.

Given the current Program authorization until January 1, 2026, there remain at least four more years of workload growth, which cannot be timely and effectively executed by the existing number of staff.

Staff Recommendation. Approve April Finance Letter.

8885 COMMISSION ON STATE MANDATES

Issue 10: Election Mandates

Budget Request. The Governor's finance letter requests an increase of $5.791 million (one-time) and $5.943 million ongoing General Fund to reimburse cities and counties for the workload costs associated with complying with Elections Code Section 3010.

Background: Election Code Section 3010 requires local election official to provide pre-paid postage on identification envelopes delivered to voters with their vote-by-mail ballots for specified elections. The Commission on State Mandates found Elections Code Section 3010, as amended by Chapter 120, Statutes of 2018 (AB 216), imposes a reimbursable state-mandated program.

Staff Recommendation. Approve Spring Finance Letter.

9201 LOCAL GOVERNMENT FINANCING

Issue 11: Wildfire Property Tax Backfill

Budget Request. The Governor's finance letter requests an increase of $3,783,000 General Fund on a one-time basis to backfill Plumas County and El Dorado County for estimated 2021-22 and 2022-23 property tax revenue losses incurred as a result of the 2021 wildfires.

To receive funds appropriated in this item, each county shall submit to the Department of Finance a countywide claim detailing the losses incurred by the county and the cities and special districts located therein due to property damage caused by the wildfires in 2021. DOF will review and forward claims to the State Controller's Office.

Staff Recommendation. Staff notes this proposal is consistent with similar wildfire-related backfills in past budgets. Approve Spring Finance Letter.

ISSUES FOR DISCUSSION

0984 CALSAVERS RETIREMENT SAVERS BOARD

Issue 12: Fullscale Implementation of the Calsavers Retirement Savings Program.

Budget Request. The Governor's budget includes a General Fund loan of $6 million from 2022-23 through approximately 2024-25 to provide resources for the Board and the CalSavers Retirement Savings Program to continue to operate, including funding for existing staff, employer compliance enforcement services through the Franchise Tax Board (FTB), external consultants, and marketing, administrative, and overhead costs.

Background: The CalSavers Retirement Savings Program (CalSavers or Program) is overseen by the CalSavers Retirement Savings Board (Board) and provides a retirement savings program for private-sector workers who lack access to an employer-sponsored retirement savings plan.

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

Loan Funding and Revenue. This proposal requests an additional $6 million in loan funding beyond the initial $16,900,000 that has been drawn to-date (as shown in the table below).

Loan History

Transfer Date	Loan Amount	Repayment Due
11/22/16	$1,900,000	6/30/2024
09/06/17	$804,000	6/30/2024
06/04/18	$14,196,000	6/30/2024
TOTAL	**$16,900,000**	

Approximately $8 million of loan funding has been spent through June 30, 2021, with approximately $9 million fund balance remaining at the beginning of 2021-22. Expenditures are expected to be just under $2.6 million in 2021-22 and $5.1 million in 2022-23. Based on projected revenue, the Board is expected to ask for a postponement of the loan repayment date beyond June 30, 2024 in the future, in addition to new loan funding to support the ongoing rollout and scaling-up of the Program through this BCP.

CalSavers is also requesting Budget Bill language to allow for reassessment in the future should Wave 3 registration numbers meet the projection, and CalSavers and Finance determine that additional staff are needed at that time. CalSavers may need up to three additional full-time equivalent positions based on Wave 3 projections. Due to the structure and mechanics of the Program, Program growth is driven largely by employer deadlines. Employees may not enroll and begin saving until their employer has (1) registered, (2) uploaded their roster thereby enabling the Program to conduct the enrollment period, and (3) started facilitating payroll deductions and remitting contributions to the Program. Since more than 90 percent of employer volume is subject to the third and final compliance deadline on June 30, 2022, dramatic growth of employer onboarding activity, employee enrollment activity, funded accounts, and assets is expected in the summer and fall of 2022, along with increased needs for customer service, outreach, and education.

Staff Recommendation. Hold Open.

0840 California State Controller's Office

Issue 13: Unclaimed Property Management System Replacement

Budget Request. The State Controller's Office (SCO) requests $323,000 in 2022-23, $1,183,000 in 2023-24, $1,647,000 in 2024-25, $1,685,000 in 2025-26, and $1,724,000 in 2026-27 and ongoing from the Unclaimed Property Fund (UPF) to support the replacement of the current Unclaimed Property System (UPS2000) with a new unclaimed property management system (UPMS) and significantly decrease the risk of system failure.

Background:

In 2008, the Unclaimed Property Division (UPD) implemented the UPS2000 as the system to manage the unclaimed property the state receives from businesses, safeguards for owners, and returns to claimants. The UPS2000 and its related programs and websites are critical to UPD operations; they record all of the unclaimed property received by the state including details of when the property was reported and by which business, who the owner or owners are, when they were last in contact with the business, and how they are related to the property. UPS2000 records property types and values, claims made against each property and whether they have been paid, denied, or are still outstanding. The system is the data hub for all unclaimed property that is listed on the Controller's website, where owners and heirs can initiate their claims. Further, the version of UPS2000 used by UPD and its related systems are unique to California due to the two-report process outlined in the Unclaimed Property Law (UPL) (Code of Civil Procedure [CCP] Section 1500 et. seq.)

The UPS2000, and by extension the Controller's unclaimed property program, are at risk of failure due to the system's outdated, static platform and the service provider's inability to commit ongoing development resources. UPS2000 is 13 years old and is obsolete. The outdated system architecture does not allow UPD to keep pace with current advancements in technology from the past 10 years. The system structure of UPS2000 has a unique, one-off functionality that prevents the development of modern solutions.

The requested funding would allow for replacement of the system and provide for the following:

- **Reduce risk of critical system failure, increase confidence, stability, and longevity in the UPMS and ongoing program activity.** This request would allow for a cloud-based UPMS software service, which reduces dependency on architectural platforms because the components are supported across different environments that can be integrated and updated.
- **Increase holder compliance and remittance of unclaimed property.** With the online reporting feature of the new UPMS, holders will be able to submit a report online and the system will identify any errors and notify the holders in real time, allowing holders to make corrections immediately without staff involvement.
- **Reduce processing times for holder reports and claims from owners and increase reunited property.** The new UPMS and its ability to receive and house documents related to unclaimed property reports and claims will result in increased processing efficiencies.
- **Increase efficiencies in workflow processes across the Division.** The new UPMS will automate many manual processes including the processing of unclaimed property reports, recording and reconciling stock properties with broker statements, recording of mail and

email correspondence with holders and owners, and the managing, assigning, and tracking of staff workload.

- **Improve financial integrity and accountability**. The new UPMS will not only automatically reconcile remitted securities with brokerage statements but will also automatically post receipts for transactions.
- **Increase user experience in claiming and reporting property**. The new UPMS will provide holders and claimants the ability to submit required forms and documents electronically rather than through paper, email, or physical media, thereby making it easier for holders to comply with mandated responsibilities, and for owners to claim property.
- **Implement an automated fraud prevention system.** The new UPMS, will analyze claimant data and digital trails via external data sources to identify bad actors and fraudulent activity.

The SCO provides the following outline for project planning and implementation:

Consulting and Professional Services: External – $135,000 in 2022-23, and $90,000 in 2023-24 for independent verification and validation services for project and implementation plans. $208,000 in 2023-24 to support vendor costs for claim scanning workload.

Office Equipment – $3,000 in 2023-24 for two small volume document scanners to digitize incoming claims.

Information Technology –$188,000 in 2022-23 and $563,000 in 2023-24 for the procurement and implementation of a new unclaimed property management system, and $319,000 in 2023-24, $1,647,000 in 2024-25, $1,685,000 in 2025-26, $1,724,000 in 2026-27 and ongoing for continued support of the new system.

Implementation Plan:

October 2021 to January 2022: Complete Stages 1 and 2 of the Project Approval Lifetime (PAL) process by identifying the problem, conducting market research, determining solution alternatives, and determining mid-level requirements.

February 2022 to December 2022: Complete Stage 3 of the PAL process by developing business requirements, developing solicitation, and planning implementation.

January 2023 to February 2023: Complete Stage 4 of the PAL process and procure new unclaimed property management system.

March 2023 to April 2024: Migrate data and implement new system, procure document scanners and imaging vendor contract, and scan document inventory.

May 2024: Go live with new system.

Suggested Questions:

- Is the project on track with the implementation timeline provided in the BCP, with the SCO completing Stage 3 of the PAL process by December of 2022?

- How will the new system change the Unclaimed Property process for consumers, businesses, and the SCO?

Staff Recommendation. Hold Open.

Issue 14: California State Employees Telework and Healthcare Stipends

Budget Request. The State Controller's Office (SCO) requests $495,000 [$297,000 General Fund (GF); $198,000 Central Service Cost Recovery Fund (CSCRF)] in 2022-23 and $194,000 [$116,000 GF; $78,000 CSCRF] in 2023- 24 and ongoing to support the disbursement of the California State Employees Telework and Improving Affordability and Access to Healthcare stipends.

Background:

Telework Stipend. During the COVID-19 global pandemic, the Administration directed all non-essential telework eligible staff to transition to telework as a protective measure to limit the spread of the virus. The state deployed an emergency telework program (ETP) based on guidance from the California Department of Human Resources (CalHR) in order to reduce the number of employees at state buildings. Since the initial ETP, the state conducted multiple studies related to staff telework eligibility, and benefits and savings attributed to teleworking such as reduced vehicle expenses, time saved due to decreased commute times, and other pertinent sources of information. In 2021-22, the state began implementing a mostly permanent teleworking workforce, with an additional requirement that every state department incorporate telecommuting as a work option.

CalHR informed state departments and SCO of agreements reached with specified bargaining units (BUs) for a telework stipend and the requirements departments must meet to ensure timely payment of the stipend upon full ratification. SCO anticipates the statewide telework stipend upon ratification and legislative approval, will be retroactive to October 1, 2021. As of March 2022, six BUs have negotiated consistent telework stipend side letters. All active state employees who have a telework agreement on file and meet criteria to telework shall receive either a $25 (if office-centered employee) or $50 (if remote centered employee) stipend for each eligible pay period. Based on the initial analysis of the telework stipend and the known population of state employees eligible to receive these payments, SCO anticipates issuing 200,000 direct deposit payments and 32,000 printed warrants in 2021-22 (1 retroactive payment and 3 payments for April, May and June) and 600,000 direct deposit payments and 96,000 printed warrants beginning in 2022-23.

Affordability and Access to Healthcare Pay Differential. In 2019, CalHR and SEIU Local 1000 ratified an MOU providing a healthcare stipend. Under this MOU, SEIU Local 1000 represented employees eligible to be enrolled in a CalPERS health plan receive a monthly cash payment of $260. This payment will be provided for 36 months commencing with the July 1, 2020 pay period, expiring the June 30, 2023 pay period. This letter was revised, effective, July 1, 2022, and provides that anyone enrolled in state sponsored health benefits will still be eligible to receive the $260 cash payment; anyone not enrolled in state sponsored health benefits will not be eligible to receive the $260. This population may be eligible to enroll in a flex cash program during a special open enrollment period. Further, Excluded and Exempt employees aligned with SEIU BUs are also receiving this monthly additional cash payment.

In 2020-21, SCO issued a monthly average of more than 109,000 new healthcare payments. While the update to the side letter will reduce the number of monthly payments related to the Healthcare payments for the final year of the program, SCO will continue to incur increased costs and therefore requires additional funding to process and disburse these payments.

The SCO notes that it does not have the resources to absorb increased costs related to the telework stipend and healthcare payments. Based on initial estimates, these workloads will result in SCO issuing an additional 1,786,000 (696,000 telework stipend and 1,090,000 healthcare payments) in 2022-23; and 696,000 telework stipend payments in 2023-24 ongoing. The estimated costs for this workload was calculated based on current eligible and actual telework percentages from DGS Telework Dashboard statistics as of February 2022. Proposed funding would cover direct deposit electronic funds transfer service fees, operating expenses, as well as printing and postage costs associated with printing and mailing warrants.

Staff Recommendation. Hold Open.

0509 Governor's Office of Business and Economic Development (GO-Biz) - IBank

0974 California Pollution Control Financing Authority

Issue 15: State Small Business Credit Initiative Update – Information Only

The IBank and the California Pollution Control Financing Authority will provide an update on the federal State Small Business Credit Initiative 2.0. According to the IBank and the California Pollution Control Financing Authority:

The American Rescue Plan Act of 2021 included $10 billion for the reauthorization of the State Small Business Credit Initiative (SSBCI 2.0). SSBCI was originally created through federal legislation, the Small Business Jobs Act of 2010 (SSBCI 1.0).

In 2010, SSBCI was funded with $1.5 billion to strengthen state programs that support financing of small businesses. California received $168 million of the $1.5 billion and the Infrastructure and Economic Development Bank (IBank) and the California Pollution Control Financing Authority (CPCFA) – an agency housed within the State Treasurer's Office (STO) split the funding equally between the two agencies. The allocation was utilized to assist small businesses gain access to capital and create jobs in California. More than 10,000 eligible small businesses in California received SSBCI fund support, which created or saved more than 90,000 jobs.

The $10 billion from the American Rescue Plan Act of 2021 was appropriated as follows:

- $5 billion available to states to be distributed by formula based on 2020 unemployment numbers (prorated funds)
- $1.5 billion for socially and economically disadvantaged businesses based on population residing in CDFI Investment Areas (SEDI funds)
- $1 billion incentive program to encourage investment in socially and economically disadvantaged businesses, to be allocated based on performance in tranches two and/or three (SEDI performance funds)
- $500 million for very small businesses (funds for small businesses with under 10 employees)
- $500 million for technical assistance such as legal, accounting, and financial advisory services for small businesses (technical assistance funds)
- $500 million for tribal governments (tribal funds)
- $1 billion to be retained by the U.S. Treasury for operations and to fill out other allocations as needed.

In November 2021, the U.S. Treasury released a state-by-state allocation of the $10 billion appropriated, except the technical assistance funds, and California was allocated $1.182 billion. California's allocations are as follows: $829 million pro-rated funds, $66 million very small businesses funds, $187 million SEDI funds, and $100 million SEDI performance funds, which will be received in three separate tranches as funds are utilized. The SEDI performance funds will be provided to states in tranches two and three and additional funds ($100 million nationally per tranche) may be available based on performance reaching the socially and economically disadvantaged individuals.

The technical assistance funds will be distributed in a separate application process, which is due March 31, 2022. CalOSBA and/or STO may be best positioned to apply for those funds. The tribal funds are being provided directly to the tribes that choose to participate.

Updated Funding: taff notes that in conversations with IBank, they are anticipating funding amounts for the program may be subject to further change. Congress has proposed cutting $2.3 billion from SSBCI 2.0: Reducing the main credit support allocation by $2.1 billion ($6.3 billion to $4.2 billion, effectively eliminating the third tranche and maybe some of the second) and reducing the technical assistance funds from $500 million to $300 million. This may lead to reductions and adjustments in the use of the funds as described below:

IBank and CPCFA have been meeting bi-weekly to prepare to put the new funding to work. The initial priority is to determine how much both IBank's and CPCFA's existing small business credit enhancement programs (Small Business Loan Guarantee Program, California Capital Access Program [CalCAP] for Small Business, and Collateral Support Program) need and can be utilized by California's small businesses. SSBCI 1.0 authorized two other programs (Venture Capital and Loan Participation) that California did not use the first time around. Both programs are currently under consideration for SSBCI 2.0 funds.

IBank and CPCFA have also been meeting with stakeholders to see what other needs may be addressed with the SSBCI funds. IBank and CPCFA have also participated in and requested feedback from many other events where SSBCI was publicized. IBank and CPCFA have each established dedicated SSBCI webpages and email addresses to keep the public informed and receive questions and comments. From the feedback received so far, some of the themes that have emerged are:

- Better target underserved markets
- Provide further enhancements to encourage growth in underserved markets.
- Increase loan capital for Community Development Financial Institutions (CDFIs)
- Increase capacity and reduce administrative burden of our existing programs (e.g., increase guarantee cap for the Small Business Loan Guarantee Program, remove recapture rules and increase the matching contributions for CalCAP loans)
- Provide less cashflow-intensive capital options for small business, like equity or revenue-based financing

To receive SSBCI funds, a state match is not required. However, there must be at least a dollar-for-dollar match from the private sector and there is a cumulative leverage requirement of 10-to-1 between all SSBCI programs (i.e., $10 private sector: $1 SSBCI) over the life of the program, which is the same as the original program. That will be achieved by creating additional financing programs that generate private sector participation.

The programs that IBank and the CPCFA are intending to fund are as follows:

Small Business Loan Guarantee Program. The Small Business Loan Guarantee program was established in 1968 and was a recipient of SSBCI 1.0 funds. The program increases access to capital for small businesses by providing guarantees (effectively insurance) to bank loans in cases where banks might not otherwise make a loan, or only at a higher interest rate.

California Capital Access Program for Small Business. The California Capital Access Program (CalCAP) for Small Business was established by legislation enacted in AB 253 (Chapter 1163, Statutes of 1994) and was created to be administered by CPCFA. CalCAP assists small businesses in obtaining loans through participating financial institutions (lenders). CalCAP is a loan loss reserve program that may provide up to 100% reimbursement on losses as a result of qualifying loan defaults. While each lender is entirely liable for its loan losses, those losses can be reimbursed from each lender’s loan loss reserve account. The loss reserve accounts are built through fees paid by the borrower and lender and contributions made by CPCFA.

California Collateral Support Program. The CalCAP Collateral Support Program (CalCAP CSP) is a credit enhancement program that pledges cash to cover the collateral shortfall of loans of $50,000 or more made by participating lending institutions. CalCAP CSP was designed to enable financing that might otherwise not occur due to a collateral shortfall for small businesses in California.

Venture Capital. With this new authorization of SSBCI, California plans to establish a Venture Capital program focused on:

1. Supporting demographically underrepresented venture capital managers
2. Investing in underrepresented and underserved entrepreneurs and business owners
3. Investing in geographic areas that are socio-economically disadvantaged or that receive very limited venture capital funding
4. Seeking to promote climate equity and climate justice

LAO Comments:

In their handout, the LAO notes the following key issues to consider:

Improving Access to Credit for Businesses That Would Otherwise Have Difficulty Could Conflict With Leverage Goals. Small business lending programs to specifically aid businesses that have difficulty borrowing money without insurance or public guarantees often have leverage ratios that are below the 10:1 goal of the SSBCI program. As the real or perceived risk of a borrower increases, the amount that must be obligated by the public agency increases. For example, the state COVID-19 disaster relief loan program requires SBFC to encumber $1 for every $2 loaned. The SSBCI programs may need to allocate funding to programs that have both high and low leverage ratios. However, programs with high leverage ratios may in some instances benefit businesses that might not require aid.

Expending Funding Quickly Could Conflict With Both SEDI and Leverage Goals. Programs with a relatively high leverage ratio, like CalCAP, may expend funds more slowly because, for a given amount of private investment, programs with a high leverage ratio require less public funding than programs with a low leverage ratio. Funds could be more quickly expended if they are used to support larger loans or venture capital investments. However, these types of programs may not serve SEDI-owned businesses as well as other programs. To meet the federal government's expectations that the state expends 80 percent of the first tranche of SSBCI funding as quickly as possible, the state may want to consider ways to expand support for both large and small loans simultaneously.

Consider Tolerance for Risk. The default rates in the existing state programs have historically been somewhat lower than for the SBA loan programs. However, as the influx of SSBCI funding will require these programs to expand, they likely will support lending to higher-risk borrowers who may default on their loans at higher rates. The Legislature will need to consider its tolerance for higher default rates. Ultimately, to the extent the expansion focuses on improving access to credit for borrowers who otherwise would have difficulty qualifying for a loan, somewhat higher default rates are likely unavoidable.

Legislative Oversight. The state lending assistance programs will be subject to U.S. Treasury oversight through 2030. The Legislature may want to consider how its oversight and policy guidance of these programs relates to federal oversight during that time. In addition, the Legislature may also want to look ahead to 2030 and how funds that are made available following the repayment of loans are redeployed and what level of ongoing General Fund support, if any, would be required.

Staff Recommendation. Information Only

0950 STATE TREASURERS OFFICE

Issue 16: Banking Operations Item Processing Software Upgrade

Budget Request: The State Treasurer's Office (STO) requests expenditure authority, and corresponding funding, for one-time costs of $625,000 to upgrade its check processing software; and ongoing costs of $217,000 for increased annual support costs for this software. On December 31, 2022, the software used by the STO will reach end of life; and accordingly, the vendor will end its support. Thus, it is critical that the STO upgrades to the current, supportable version to ensure that it can continue to perform its responsibilities of cash management without interruption.

Background:

On December 31, 2022, the software used by the STO will reach end of life; and accordingly, the vendor will end its support. Thus, it is critical that the STO upgrades to the current, supportable version to ensure that it can continue to perform its responsibilities of cash management, specifically item processing, for the State of California without interruption. On December 31, 2022, the software used by the STO will reach end of life; and accordingly, the vendor will end its support. Thus, it is critical that the STO upgrades to the current, supportable version to ensure that it can continue to perform its responsibilities of cash management without interruption.

The cost of this software upgrade and ongoing maintenance would be appropriately funded through the following sources: CTSMD manages the cash flow of all state funds, forecasts cash balances, revenue, expenditures, and the amounts available for daily investments, ensures accurate and timely agency deposits, administers and executes the wire transfer of funds, reconciles State accounts with depository banks and redeems all state items submitted by presenting banks for payments. CTSMD is also responsible for executing the clearance and income collection for state investments (excluding PERS and STRS) and securities pledged to the state, the clearance and settlement of securities pledged to the state for the Time, Demand, and other state agency programs, and for the safekeeping of securities and other personal property owned by or pledged to the state. CTSMD consists of the Division Administration, Securities and Banking Services, and Banking Operations. As part of Banking Operations, the Item Processing Section (IPS) is responsible for redeeming all items presented by banks for payment (about 94,000 items daily), for handling forgeries, and managing Stop Payments.

The STO performed analysis and conducted research to determine the best way to respond to the end-of-life for its item processing system software. As a part of that analysis, the STO released a Request for Information (RFI) in 2021. Two software solution providers responded to the RFI. One respondent provides the product that the STO is now using. The other respondent offered a competing product. Implementing the first respondent's offering would involve an upgrade of the software product that is now in use by the STO. Implementing the second respondent's offering would involve a project to migrate the functionally from the current software solution to a new one. It would also require the STO to reengineer any business process that are dependent upon the present software solution. According to the RFI responses, the first vendor would charge the STO $625,000 to upgrade the current version of the STO's existing package. The provider of the other solution estimated that it would charge the STO a $1.1 million startup cost. Although the estimated migration cost is already almost twice that of the cost to maintain the current vendor, that number does not include additional project costs that the STO would expend in migrating to the new product.

Staff Recommendation: Hold Open

Issue 17: Pooled Money Investment Account (PMIA) Operations

Budget Request: Through a spring finance letter, the STO requests one Associate Treasury Program Officer to support the workload associated with the increase in the amount of securities held in the PMIA. Funding would be $136,500 (Surplus Money Investment Fund) and $19,500 (General Fund).

Background: The Investment Division invests temporarily idle funds of the PMIA as part of the Centralized Treasury System. The PMIA is made up of commingled monies from the General Fund, Surplus Money Investment Fund (SMIF), and the Local Agency Investment Fund (LAIF). SMIF represents the available cash from state agencies that do not have investment authority of their own and from those that have independent investment authority but choose to participate in the program. As of June 30, 2021, there were more than a thousand special funds and accounts participating in SMIF with an available resource balance of $85.5 billion. LAIF was established to provide California cities, counties, and special districts with an investment alternative.

As of June 30, 2021, the LAIF balance was $37.1 billion with over 2,378 participating agencies. The PMIA also manages the Time Deposit Program (TDP) which provides money to community financial institutions at competitive rates. Eligible institutions are commercial banks, savings banks, and credit unions that are federally insured and licensed to accept time deposits in California. The TDP allows institutions that receive time deposit funds to use the money to expand economic opportunity and create jobs in their communities. As of June 30, 2021, there were 147 time deposits totaling $3.9 billion in 59 institutions.

The goal of the Investment Division is to prudently manage and safely invest the State’s idle or surplus monies to maximize the earnings and to meet the cash flow needs of the State. There is a high degree of visibility and sensitivity regarding the investment of public funds and the subsequent outcome of these investments. As of June 30, 2021, the PMIA totaled $193.3 billion with daily investment activity for the month averaging $3.584 billion.

Workload History

Workload Measure	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	% Increase (6/30/2017-6/30/2021)
Portfolio (PMIA) Balance	$77.6 billion	$88.8 billion	$105.7 billion	$101.0 billion	$193.3 billion	**149.25%**
	FY 2016/17	**FY 2017/18**	**FY 2018/19**	**FY 2019/20**	**FY 2020/21**	**(FY 2016/17 – 2020/21)**
Number of Security Transactions	7,321	8,201	8,364	8,687	10,653	**45.51%**

The PMIA currently consists of five positions: Treasury Program Manager II, Treasury Program Manager I, Associate Treasury Program Officer, Staff Services Analyst, and an Office Technician (OT).

Staff Recommendation: Hold Open

7730 FRANCHISE TAX BOARD

Issue 18: Legal Workload Growth

Budget. The Franchise Tax Board (FTB) requests $4.64 million (General Fund) for 16 permanent positions, 10 position upgrades, and unfunded needs for staff salaries in 2022-23; $4.49 million in 2023-24 and ongoing to address increased volume and complexity in tax appeal, protest, and litigation workloads.

Background:

FTB’s Legal Division is organized into four Subject Matter Bureaus: General Tax and Administration, Technical Resources, Multistate and Business Entity, and Litigation and Settlement. The Legal Division represents FTB in appeals before the Office of Tax Appeals (OTA) and administers FTB's Docketed Protest program. Taxpayers have statutory rights to file protests of proposed assessments issued by FTB's Audit Division and to file appeals of disputed determinations of taxes to the OTA. Appeals and protests are mandatory workloads for the Legal Division. Increased Workloads. Since OTA’s inception, FTB has received a more than 50 percent increase in the number of income tax appeals; this increase is expected to continue. In January of 2021, FTB, at OTA’s request, adopted a new procedure simplifying the filing of an appeal that has also increased FTB’s workloads resulting in insufficient staffing levels to manage the appeals inventory. To address the work associated with the increase in appeals in OTA, FTB requests:

Tax Administration and Procedure Bureau:

- Assistant Chief Counsel -One permanent position
- Tax Counsel IV - Two permanent position
- Tax Counsel III - Three permanent positions
- Tax Counsel -Three permanent positions
- Legal Analyst - One permanent position

General Tax Bureau:

- Tax Counsel III – Two permanent position

Enhanced Complexity. There is increasing complexity in matters pending before the OTA and matters in docketed protest. Additionally, novel constitutional arguments and class action lawsuits brought against the FTB in California Superior Court, Federal Court, and other-state courts, have caused additional complexities. As a result, the Legal Division needs higher level attorney positions to preserve taxpayers' rights to a timely appeal and to address developing and complex issues with appropriately experienced staff. FTB would note the following technical issues showing increased complexity:

Multistate Tax Bureau:

- Tax Counsel IV – One upgraded position
- Tax Counsel III – One upgraded position

Business Entity Tax Bureau:

- Tax Council IV – One upgraded position Litigation Bureau
- Tax Counsel IV – One upgraded position General Tax Bureau
- Tax Counsel IV – One upgraded position
- Tax Counsel III – One upgraded position

Technical Resources Bureau:

- Tax Counsel IV – One upgraded position

Tax Administration and Procedure Bureau:

- Tax Counsel IV – One upgraded position
- Tax Counsel III – Two upgraded positions

Insufficient Salary Funding. FTB's legal division is predominantly composed of staff who have a number of years of state service and are paid at the highest salary level for their classification. Over the last several years, to balance salary costs with the budget, the division has kept vacancies open longer than the three month hiring period to ensure all salaries for existing staff are covered within the existing budget. FTB reviewed the salaries paid to legal staff and compared this to the budgeted funds to cover these salaries. FTB found these positions are funded at first or mid step, but many of the staff in the positions are paid at the top step creating an ongoing unsustainable funding gap.

Staff Comments: The staffing request appears reasonable given the increased workload and need for additional position funding for higher steps.

Staff Recommendation: Hold Open.

Issue 19: Volunteer Income Tax Assistance Program

Budget Request. FTB requests a one-time augmentation of $1,217,000 million (General Fund) in 2022-23 to extend five limited term positions set to expire on June 30, 2022 and allow reimbursement of costs incurred by the Department of Community Services Development (CSD) for administering the California Earned Income Tax Credit (CalEITC) grants. The resources will allow FTB to administer the Voluntary Income Tax Assistance (VITA) program at expanded levels in order to support the 2022-23 grant funding appropriated to increase free tax preparation, and to expand marketing and outreach of CalEITC, the Young Child Tax Credit, and Individual Taxpayer Identification Number (ITIN) tax status eligibility.

Background:

The VITA volunteer program provides free assistance to individuals who need help in completing federal and state income tax returns. Since 2018-19, one-time grant funds have been appropriated to support the efforts of community-based organizations and nonprofits to maximize program participation for both the federal EITC and CalEITC claims. The grant funding also seeks to expand free tax preparation sites and services throughout California. As a result, FTB has enhanced the VITA program to support the additional volunteers and VITA sites funded by the grants. FTB has entered into an Interagency Agreement (IA) with the Department of Community Services and Development (CSD) to issue and manage the grants awarded to various nonprofit and community based organizations. The IA includes fees for administering the grants and FTB is responsible for reimbursing CSD for these costs. In 2021-22, FTB received funding for both of these costs – staff resources, and funding to cover administrative costs for CSD. In other years, FTB was able to redirect some resources to cover these costs but FTB is unable to continuing absorbing these costs without impacting other workloads.

The proposed budget for 2022-23 includes $10,000,000 in one time funds for grants to support CalEITC for education and outreach, free tax preparation services, and ITIN assistance. The extension of these five limited term positions and the funding to cover CSD's administrative costs will allow FTB to continue to support sites through additional trainings and technical support, consistent with the intent of the grant.

Suggested Questions:

- Does the January budget and this April letter include all funding needed for FTB to implement their workload related to EITC and YCTC changes?

Staff Recommendation: Hold Open

VARIOUS DEPARTMENTS

Issue 20: Putting Wealth to Work Tax Proposals – Information Only

Proposal:

The Senate Democrats "Putting Wealth to Work" Plan includes the following priority proposals related to tax programs, including:

- Updating the Earned Income Tax Credit Program (EITC) to provide a minimum credit of $255 per eligible individual taxpayer, estimated at $400 million ongoing General Fund and beginning in 2024, restrict the application of the state's debt intercept program to EITC recipients.

- Build upon the Governor's January proposals and provide an additional $20 million (for a total of $30 million ongoing) to increase CalEITC Outreach and Education, provide year round funding to support free tax preparation services and Volunteer Income Tax Assistance (VITA) program, and related administrative support.

- The plan also includes proposals to phase in expansions of the Young Child Tax Credit (YCTC) and the Renter's Tax Credit, increasing benefits to those eligible for these existing credits. Staff notes that the cost and phase-in period would be dependent on the structure of the final budget agreement.

- Amend the Governor's proposal to provide tax payment flexibility to low and moderate income taxpayers during COVID to ensure relief is available for those who are working with the FTB to settle debt or work out payment plans for late taxes during the COVID pandemic period, and to create an ongoing first-time abatement program for personal income tax filers.

Background:

EITC Changes:

The California EITC is a state personal income tax provision that benefits individuals and families who earn less than $30,000. The amount of the credit depends on taxpayers "earned income" (which primarily includes wages and self-employment income), filing status, and the number of qualifying dependent children.

According to the California Budget & Policy Center, about half of workers without children in the home receive a CalEITC of less than $100 with a minimum credit of $1, and the majority of these workers are excluded from the federal EITC. More than 100,000 families with children also receive a CalEITC of less than $100.

Establishing a minimum credit of at least $255 would provide a more meaningful credit to families and ensure workers without children receive a more equitable credit ($255 is the maximum credit for workers without dependents in tax year 2021, but only a small number of these workers will qualify for a credit this large.) A more significant credit could encourage more people to file their taxes, boosting CalEITC take up overall, regardless of how they prepare their taxes. It would also support outreach and enrollment efforts from community-based organizations and reduce the administrative burden in calculating the credit to allow for greater innovation in simplifying the filing process.

EITC Outreach and Free Tax Preparation

Currently, the EITC Outreach program funds grantees who provide Volunteer Income Tax Assistance (VITA) for only seven months out of the year. This creates major funding and programmatic challenges for the community based organizations (CBOs) who do this work, many of whom do not have gap funding available to keep staff and maintain service levels for low-income tax filers.

Providing year-round services matches the IRS cycle for federal VITA grants and will ensure trusted messengers at the local level are engaging in education and providing resources whenever they are needed. An annual grant cycle would also allow CBOs more time to better strategize around the upcoming tax season, properly recruit and retain volunteers, use data mindfully, retain year-round staff and maintain their connection to the community.

Young Child Tax Credit.

The California YCTC provides a refundable young child tax credit not to exceed $1,000 per qualified taxpayer per taxable year. The Senate's proposal would increase the amount of the renter's credit over time to $1,500 per qualified taxpayer per taxable year.

Renter's Credit.

The state's Personal Income Tax law allows eligible taxpayers who rent their principal residence to claim the Renter's Tax Credit on their Personal Income Tax Return. Specifically, because renters do not directly benefit from property tax reductions, the Legislature enacted the credit to provide a direct benefit to renters.

State law requires an annual inflation adjustment of the credit's AGI limitations, but does not annually increase the credit amount for inflation, which has remained at its current amount since 1979. The credit is nonrefundable, which means that the credit can reduce a taxpayer's tax liability to zero, but it cannot result in a refund.

For the 2021 taxable year, the credit is equal to:

- $60 for filers that are single or married filing separately with an adjusted gross income (AGI) of $43,533 or less; and
- $120 for filers that are married filing jointly, head of household, or a qualified widow(er) with an AGI of $87,066 or less.

The Senate's proposal would increase the amount of the renter's credit over time to $1,000 for spouses filing joint returns, head of household, and surviving spouse filers, and to $500 for all other tax filers, increase the amount of the renter's credit annually for inflation, and make the credit refundable.

Tax Payment Relief.

The Governor's budget provides additional flexibility for certain taxpayers in meeting tax obligations, specifically, for tax years 2019, 2020, and 2021, families with less than $150,000 in adjusted gross income ($75,000 for individuals) will be given until September 30, 2023 to pay any personal income tax liability for those years and will be relieved of any penalties and interest related to delayed filing or delayed payment. Participating taxpayers would be allowed to make installment payments. Late penalties and interest would again apply to outstanding amounts, if any, at the end of the program. The Subcommittee heard this proposal on February 2, 2022, however trailer bill language was not available at that time.

The Senate's proposal would amend the Governor's proposal to allow the FTB flexibility to provide relief through the collections process for low and moderate income tax filers who can demonstrate they were negatively impacted by COVID. In addition, an ongoing first time abatement program would be established for personal income taxpayers that pay their taxes late. Eligible taxpayers (those who have previously paid on time or are in a payment program) would receive a one-time abatement of the timeliness penalties.

Staff Recommendation: Information Only

Issue 21: Putting Wealth to Work – Supporting Children in Foster Care and Those Impacted by COVID.

Proposal:

The Senate Democrats "Putting Wealth to Work" Plan includes the following priority proposal to support children in long-term foster care and those who lost parents or caregivers due to COVID:

The HOPE Account Program would be established in and administered by the State Treasurer, to provide eligible children with a state funded trust account.

The program would provide a deposit into the trust account of $4,000 for children under 10 years of age and $8,000 for children 10 years of age or older.

The bill defines "eligible children" as a minor resident of California who is under the age of 18 and meets one either of the following:

- Their parent or guardian died and the cause of death for the parent or guardian is listed as COVID-19 on their death certificate or they die as a consequence of having long-term COVID-19 and the minor's family household income (considering the income prior to death of the parent) is at or below the income that would make the child eligible for Medi-Cal benefits or the state medium income for the previous year, whichever is more.

- Has been adjudged a dependent child of the juvenile court, pursuant to existing law under Welfare and Institutions Code, who has:
    - Been subject to a foster care order and;
    - has been in foster care for at least 12 months;
    - that the court has determined is not likely to be able to return to the home of their parent or legal guardian, and;
    - that the court has made an order for adoption, tribal customary adoption, legal guardianship, placement with a fit and willing relative, or another planned permanent living arrangement.

A HOPE Account Program enrollee would be able to withdraw or transfer funds from their HOPE trust account on or after their 18th birthday, or for non-minor dependents, on and after their 21st birthday or upon exit from foster care if prior to 21 years of age.

Staff Comments: This proposal would be a start to providing an opportunity for low-income children, with limited family support to achieve some additional financial stability as they age into adulthood. While the program could be expanded to a larger pool of low-income children in future years, the proposal is to take the first step focusing on children in the foster system and low-income children impacted by the loss of a parent due to the COVID-19 pandemic.

Staff Recommendation: Information Only

0509 Governor's Office of Business and Economic Development (GO-Biz)

Issue 22: Local Government Budget Sustainability Fund

Budget. The Governor's budget provides statutory changes to establish the Local Government Budget Sustainability Fund to provide short-term grants to local entities facing significant challenges to their near-term sustainability, but demonstrate a clear commitment to advancing a more climate-resilient local economy. This request also includes $100 million General Fund in 2023-24, $100 million in 2024-25, and $250 million in 2025-26 to support this program.

Background. According to the BCP, the overall policy goal for the Local Government Budget Sustainability Fund is to support targeted local county governments facing future and current threats to the sustainability of their local revenues and services, while empowering these counties to pursue economic diversification initiatives and projects that will provide long-term stability. These grants will inject funds into county-led projects that are aimed at process improvement, economic diversification, climate technologies, economic development, job mobility, and job creation. As these economies grapple with the impacts of COVID-19 and climate change, these grants will offer flexibility to the qualified counties enabling investment in opportunities for future economic resilience, without the need to reduce necessary allocations for vital services.

GO-Biz requests statutory changes to establish the Local Government Budget Sustainability Fund to provide grants to counties that both are facing sustainability challenges and are committed and willing to advancing a more climate-resilient local economy. GO-Biz also requests $100 million General Fund in 2023-24, $100 million in 2024-25, and $250 million in 2025-26 for this program. Counties will be selected based on Designated Geographic Areas (DGA) inclusive of High Poverty and High Unemployment counties from January 2022 California Competes Tax Credit list of High-Poverty and High Unemployment Areas listing and all subsequent changes to the DGAs under future CalCompetes application periods until funds have been exhausted.

This proposal was previously heard in subcommittee on February 9, 2022, however Trailer Bill Language for this proposal was not released until February 24, 2022. The trailer bill describes the grant as intended in the following way:

"This article is intended to focus on providing short-term support for county government services in areas of the state facing high unemployment or high poverty that demonstrate a commitment to advancing a more climate-resilient local economy and pursuing economic diversification initiatives and projects that will provide long-term budget stability. *Funds provided under this article are intended to enable county governments to pursue a range of projects that have the potential to diversify their industry presence and create high road jobs, while allowing for the unmitigated continuation of constituent services*."

The program would provide grants on a rolling basis to local entities. Go-Biz shall develop, in consultation with other state agencies and departments, as it sees fit, criteria for the selection of grant recipients, which shall include, but not be limited to, all of the following:

- Applicants shall be limited to county governments in high unemployment or high poverty areas. For purposes of this grant program, high unemployment and high poverty areas are defined as geographic areas with a poverty rate or geographic rate that is 150 percent of the California statewide poverty rate, per the most recently updated data available from the United States Census Bureau's American Community Survey 5-Year Estimates on or after January 1, 2022.

- Applicants shall explain current challenges to local revenue sustainability with the next four years, and specifically challenges that pose a risk to the ability of applicants to continue existing government services.

- Applicants shall explain how funding secured from this program will be used to support its ability to pursue projects that would advance one of the following three categories:

    - Process Improvement Projects

    - Economic Diversification and Stability Projects

    - Workforce Development Projects

Go-Biz shall report to the Legislature on an annual basis on the dollar amounts and number of grants provided to each local entity.

The office shall evaluate and prioritize grants, to the extent permissible under state and federal equal protection laws, in accordance with the following criteria:

- Assessment of proposal details
- Assessment of coalition-building capacity
- Other qualitative and quantitative measures determined by the specific project or grant application utilizing these funds for required match funding.

Eligible uses for grant funds shall include, but are not limited to:

- Staffing requirements, position classifications, and wages
- Projects Costs
- Match Funding

Legislative Analyst's Comments:

The 2021-22 Budget Act included $600 million one-time American Recovery Plan (ARP) Act fiscal relief funds to start a Community Economic Resilience Fund (CERF), a new grant program for regions to develop and implement regional plans to diversify their economies and develop sustainable industries, including zero-emission vehicle infrastructure, climate resilience, transit systems, biomass projects, offshore wind, and oil well capping and remediation. As of early February 2022, the Governor's Office of Planning and Research, the California Labor Workforce Development Agency, and GO-Biz still are developing the CERF. Proposed budget bill language in Control Section 11.96 would change the funding source for the CERF from federal ARP fiscal relief funds to General Fund.

The LAO notes that the Administration is still developing its statewide economic recovery and economic diversification framework, the Just Transition Roadmap, and the CERF. Once the Administration has more clearly articulated its economic recovery and economic diversification objectives, it may be able to better answer the following questions:

- <u>Would the Local Government Budget Sustainability Fund Complement Other State Economic Development Initiatives?</u> The proposal lacks many key details, such as what projects would be eligible and the award criteria. We cannot evaluate the merits of this proposal until we better understand the objectives of the CERF in the context of the statewide Just Transition framework.
- <u>What Amount of Funding Is Appropriate and Necessary?</u> The proposal does not provide a justification for the amount requested. The CERF was funded at $600 million. The proposed Local Government Budget Sustainability Fund, which is intended to fill gaps in the CERF, is a relatively large amount of money. With more information about the scope of the Administration's statewide economic diversification objectives, the Legislature will be able to better assess whether a total of $600 million, $1.05 billion, or some other amount is most appropriate.

Staff Comments:

Staff is concerned that the proposal provides broad discretion to Go-Biz to set project criteria and funding amount and the Legislature does not have a clear understanding of how projects would actually be selected, funded, and provided oversight. Staff is also concerned that the proposal does not seem to have a clear path to meeting the intent noted; while funds for projects may be needed, it is unclear that investment towards future economic improvements protect constituent services in the short term. Finally, Staff notes that funds are not appropriated until 2023-24, and given the need for additional clarity on the proposal, the Legislature may wish to ask for an updated proposal to be instead submitted in the next budget cycle.

Suggested Questions:

- Specifically, how does this proposal complement the CERF program?
- How did the Administration determine the amount of funding needed for this proposal? Why is the funding split - $100 m for the first two years and $250 million the last year?
- How much in grant funding would each local entity likely receive?
- How does the grant provide for the immediate needs of local governments in stabilizing revenue for local constituent services as noted in the intent language?
- What feedback has the Administration received from local government entities that may be eligible for these funds?
- Why did the Administration provide Go-Biz with broad discretion in setting grant criteria and funding amounts?
- What accountability measures are in place to ensure funds are used appropriately and projects are meeting their objectives?

Staff Recommendation: Hold Open

Issue 23: Combatting Organized Retail Theft

Budget Request. The Governor’s budget requests $20 million one-time General Fund in 2022-23 for GO-Biz to develop and distribute grants to small businesses that have been the victim of retail theft or that have suffered damage caused during retail theft incidents. The $20 million is part of a larger request on combating organized retail theft. This Subcommittee will focus on the GO-Biz funding. This proposal was heard on February 9, 2022, however at that time trailer bill language describing the program was not available. Trailer bill language was released on April 25, 2022 on the Department of Finance Website.

The Trailer Bill provides the following details on the proposal:

To be eligible for the program, a small business must be:

1) A small business as defined:

a. A sole proprietor, independent contractor, 1099 employee, C-corporation, S-corporation, cooperative, limited liability company, partnership, or limited partnership, with an annual gross revenue of no greater than five million dollars ($5,000,000), but greater than five thousand dollars ($5,000), in their most recent taxable year

b. A registered 501(c)(3), 501(c)(6), or 501(c)(19) nonprofit entity with an annual gross revenue of no greater than five million dollars ($5,000,000), but greater than five thousand dollars ($5,000), in their most recent taxable year.

2) Experienced retail theft at their commercial property on or after January 1, 2022

3) Is currently active or operating or has a plan to reopen when repairs have been made to the applicant's business

4) Provide documents including business permit, state tax return, copy of filing with Secretary of State

5) Acceptable form of government-issued photo identification.

Defines retail theft to mean a crime or crimes in California that meets the following:

1) Robbery, as defined in Section 211 of the Penal Code

2) Arson, as defined in Section 451 of the Penal Code.

3) Burglary, as defined in Penal Code Section 459.

4) Shoplifting, as defined in Section 459.5 of the Penal Code.

5) Larceny, as defined in Section 484 of the Penal Code.

6) Grand theft, as defined in Section 487 of the Penal Code.

7) Petty theft, as defined in Section 488 of the Penal Code.

8) Vandalism, as defined in Section 594 of the Penal Code.

9) Trespassing, as defined in Section 602 of the Penal Code .

Provides that the retail theft was reported to law enforcement agency that accepted the report and either the law enforcement agency concluded the business was a victim of retail theft or an insurance claim concluded the business was a victim of retail theft. Results in cumulative physical losses of over $5,000. These losses would not include those covered by insurance.

Grants will be awarded on a first come, first serve basis as follows:

1) $5,000 for applicants with an annual gross revenue greater than $5,000 and up to $100,000 in their most recent taxable year

2) $15,000 for applicants with an annual gross revenue greater than $100,000 and up to $1,000,000 in their most recent taxable year.

3) $25,000 for applicants with an annual gross revenue greater than $1,000,000 and up to $5,000,000.

Of the total fifteen percent would be used for Administrative costs. According to CalOSBA and GoBiz, this allocation allows for three percent for staffing within the state agency, and the remaining twelve percent to contract with a vendor to do the complex work of verifying documentation as noted above.

Staff Comments:

Funding under this program would likely reach only a fraction of businesses, and the proposal is broad in its definition of business and does not limit the applicants to retail businesses, which in January appeared to be the focus of the proposal. In addition, the first-come, first serve nature of the grants may result in less of the funds reaching smaller, or less established businesses who may need the additional funding the most. Staff has concerns that this proposal raises a variety of questions that may need additional review on a very short time frame given the delay in receipt of proposal details. Staff also notes that CalOSBA would be seeking to contract out this program to a third party vendor. Staff notes that with the administrative costs, there would be $17 million available for grants.

Given that the grants are not tied specifically to damages and that this one time program would not necessarily result in an equitable distribution of funds, staff notes that the Legislature may wish to consider providing funds to one of the existing small business grant programs established for pandemic relief and provide for an additional round of grants or an increased allocation to current grantees.

Suggested Questions:

- What data does the Administration have on the need for these grants? How many businesses are anticipated being served with the $17 million? What is the Administration's plan if the program is oversubscribed?

- How does this plan ensure that the small businesses with the greatest need for funds will receive fair access given the first-come first-serve nature of the grants and the paperwork required?

- Why is fifteen percent needed for Administrative costs?

- Why did the Administration design the program to provide grants based on gross revenues rather than actual damages related to incidents? Does this mean that a smaller business with greater damages could receive less than a larger business with small damages?

Staff Recommendation. Hold Open

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, May 11, 2022
9 a.m.
1020 O Street, Room 1200

Consultants: Anita Lee and Elisa Wynne

Part A

Outcomes: Issues 1-35, Approved 3-0

Issue 36 – Pulled from the Agenda

Vote Only Items

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, May 11, 2022
9am
O Street Building - Room 2100

Consultant: James Hacker

PART B

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.

ITEMS FOR VOTE ONLY

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 1: California Climate Action Corps State Service Program

Request. The Administration requests $3.86 million General Fund in 2024-25 and ongoing to support statewide cohorts of fellows dedicated to addressing climate change through direct service and community outreach in local communities across California.

California Volunteers requests funding for the Climate Action Corps program in 2024-25 in this budget cycle so that it can demonstrate the state's funding commitment to this program when it applies for continued federal AmeriCorps funding in spring 2023. As this request is for out year funding, it has no impact on the 2022-23 budget. While ongoing funding for the Climate Action Corps program likely would strengthen their AmeriCorps application, ongoing funding seems premature. While the Legislature supports the efforts of California Volunteers to enhance its AmeriCorps application for this program with a firm funding commitment, another round of temporary funding would allow the Legislature to review the effectiveness of the Climate Action Corps program in several years, when more information is available.

This proposal was heard in Subcommittee 4 on April 28.

Staff Recommendation. Approve the requested resources through 2025-26.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Issue 2: Enforcement Investigation and Conciliation Enhancements

Request. The budget includes $1.4 million General Fund in 2022-23, 2023-24, and 2024-25 to decrease the wait time between complaint intakes and investigative appointments, and to increase the number of complaints successfully conciliated and settled by investigators.

DFEH's service level goal is to decrease the wait time for both the Employment and Housing Units to 1-month to fulfill its mission. Based on current workload estimates, the requested positions may be adequate to reach this goal. However, the high vacancy rate is a concern, and may create issues with reaching the target wait time if the department is unable to fill existing vacancies. While this is not a reason to deny the requested positions, it highlights an area in which the Legislature may want to provide closer oversight.

This proposal was heard in Subcommittee 4 on April 28.

Staff Recommendation. Approve as budgeted.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 3: Codes Field Operations Staffing Increase

Request. The budget includes an augmentation of $393,000 in state operations from the Mobilehome-Special Occupancy Park Revolving Fund (Fund 0245) to support 3.0 positions in 2022-23 and ongoing.

Codes is currently budgeted for 48 full-time positions statewide. This has not increased since 2015-16. These 48 field inspectors are responsible for monitoring the health and safety of approximately 6,251 mobilehome parks, special occupancy parks, and 399,518 park lots throughout California. Additionally, a 2019-20 audit by the California State Auditor noted that HCD has no record of entering and inspecting 10 percent of mobilehome parks within the last decade. The Administration has indicated that additional staff will help address this.

This proposal was first heard in subcommittee 4 on February 16.

Staff Recommendation. Approve as budgeted.

Issue 4: Consolidated Housing Accountability Application Procurement Project

Request. The budget includes $6,713,000 in state operations from the General Fund in 2022-23 to improve its monitoring and management of loans and grants business programs through the procurement and implementation of a new enterprise Information Technology (IT) solution.

A 2018 audit by the State Auditor states that despite concerns raised in prior audits, HCD has not fulfilled its obligation to monitor its recipients' use of housing bond funds. Audit report also stated that, even though HCD had implemented the Consolidated Automated Program Enterprise System (CAPES) database, CAPES does not have the necessary functionality to accurately monitor HCD's housing bond programs. Due to the limitations inherent in the legacy systems, staff have developed and use manual data collection workarounds such as Microsoft (MS) Excel spreadsheets and MS Word documents, often maintained in desktop environment or shared files with limited access. In effect, the Department has several decentralized shadow databases, which lack a database audit trail, create multiple conflicting versions of program data, and lack necessary controls to prevent common data-keying errors from being introduced to the systems.

The requested funding would allow HCD to procure software to address these issues. While the requested funding is reasonable and necessary, it does not include potential out year costs. The Legislature may want to ensure that it provides oversight of this and other planned IT projects.

This proposal was first heard in Subcommittee 4 on February 16.

Staff Recommendation. Approve as budgeted.

Issue 5: Workload Resources (Various Legislation)

Request. The budget includes a General Fund augmentation of $2,269,000 for 11.8 positions in 2022-23, $1,969,000 for 11.8 positions in 2023-24, and $1,678,000 for 10.3 positions in 2024-25 and ongoing, to implement and support various legislation. Additionally, HCD requests a Federal Trust Fund authority increase of $1,800,000 for 7.0 positions in 2022-23, and $1,187,000 ongoing for 7.0 positions to support and implement Chapter 396 Statutes of 2021 (AB 816).

Specifically, the budget includes funding for the following legislation:

- $186,000 in General Fund resources for 1.0 position in 2022-23 and ongoing for Chapter 341, Statutes of 2021 (AB 68), which requires the Statewide Housing Plan to include an estimate of the number of affordable units needed to meet the State’s housing needs.
- $75,000 in General Fund resources for 0.3 attorney positions in 2022-23 and ongoing to implement Chapter 342, Statutes of 2021 (AB 215), which adds, among other things, five new areas of state housing law to HCD’s existing accountability and enforcement authority under AB 72.
- $680,000 in General Fund resources for two positions, and a $300,000 consulting contract in 2022-23, $380,000 for two positions in 2023-24, and $190,000 for a one position in 2024-25 and ongoing to implement the provisions of Chapter 347, Statutes of 2021 (AB 602), which requires local jurisdictions to conduct a nexus study with prescribed standards before implementing any fee that impacts development.
- $186,000 in General Fund resources for one position in 2022-23 and ongoing to implement Chapter 350, Statues of 2021 (AB 787), which allows cities and counties to receive credit towards their regional housing need for the conversion of above moderate-income units to moderate-income units through reporting these conversions on the APR that is submitted to HCD each year.
- A Federal Trust Fund authority increase of $1,800,000 in 2022-23 and $1,187,000 ongoing for 7.0 positions to implement increased federal funding for the National Housing Trust Fund (NHTF) program.
- $101,000 in General Fund resources for 0.5 two-year limited term positions in 2022-23 and 2023-24 to research, develop, and implement new homeownership funding policy in the Affordable Housing and Sustainable Communities (AHSC) program per Chapter 355, Statutes of 2021 (AB 1095), which clarifies that the AHSC program can grant awards to

projects that create owner-occupied housing and authorizes the program to include criteria in its guidelines for projects that provide owner-occupied housing.

- $186,000 in General Fund resources for one position in 2022-23 and ongoing to implement Chapter 382, Statutes of 2021 (SB 63), which requires HCD, in coordination with the State Fire Marshal, to propose wildfire resilient building standards to be adopted by the California Building Standards Commission's (BSC) triannual code cycle.
- $70,000 in General Fund resources for 0.5 positions in 2022-23 and ongoing to implement Chapter 363, Statutes of 2021 (SB 478), which increases HCD's enforcement authority to prohibit a local agency from imposing specified standards to housing development projects consisting of three to 10 residential units.
- $89,000 in General Fund resources for 0.5 positions in 2022-23 and ongoing to respond to requests for technical assistance, enforce accountability, and update guidance documents related to State Density Bonus Law (SDBL) per Chapter 365, Statues of 2021 (SB 728).
- $695,000 in General Fund resources for 5.0 administrative positions in 2022-23 and ongoing to support ongoing business needs due to the passage of various enacted bills.

HCD has been the subject of numerous enacted bills in recent year, many of which have increased the department's workload. The requested positions are reasonable and necessary to implement the enacted legislation.

Staff Recommendation: Approve as Budgeted.

Issue 6: Workload Resources (Various Legislation)

Request. The budget includes $1,570,000 in state operations from the (General Fund) for 25 positions in 2022-23, and ongoing to support the Governor's priority of our various housing and homelessness programs. Specifically, the request includes:

1. Accounting Branch - 2.0 positions - To address the increasing workload in the general ledger and accounts payable units and support ongoing financial compliance with federal and state guidelines.
2. Business and Contract Services Branch (Contract Services) - 3.0 positions - To support HCD's ongoing purchasing, and service and local assistance contracting needs in relation to programmatic expansion and growth.
3. Financial Management Branch (FMB) - 6.0 positions – To effectively centralize financial management of HCD's loan portfolio, forecasting, and ongoing reconciliation of programmatic financial data to align with reporting to the federal government and the accounting book of record (FI$Cal).
4. Human Resources Branch (HRB) - 2.0 positions - To support HCD's ongoing human capital business needs due to programmatic expansion and growth.

5. Information Technology Branch (ITB) – 9.0 positions – To support the expansion and growth of HCD's programs through the development of technological support and solutions, the maintenance of IT infrastructures, and addressing security concerns while mitigating against the risk of cyber security threats.
6. Internal Audits - 2.0 positions - To provide independent review and analysis of HCD's state, bond, and federal funds to ensure fiscal and programmatic compliance.
7. Organizational Development (OD) - 1.0 position – To support HCD's expansion and growth by developing its capacity for change and reinforce strategies to achieve operational efficiencies and promote transparency.

HCD's program budgets have grown considerably in the last several years. The requested positions would increase HCD's administrative and support staffing to allow the department to better implement the workload for which it has been budgeted.

Staff Recommendation: Approve as Budgeted.

Issue 7: California Surplus Land Unit

Request. The budget includes $2,358,000 (General Fund) and 12 positions in 2022-23 and ongoing to establish the California Surplus Land Unit pursuant implement SB 791 (Chapter 366, Statutes of 2021), to facilitate agreements between local agencies and developers on surplus properties, collect and compile data on housing production on local surplus land, collaborate with state housing finance agencies, provide technical assistance, consultative and technical service to developers and local agencies, and prepare an annual report of its activities.

SB 791 creates the Unit within HCD upon appropriation of funds to establish the Unit. The primary purpose of the Unit will be to facilitate the development and construction of residential housing on land declared surplus under the SLA and land disposed of by the governing boards of local school districts. The requested funds are reasonable and necessary to implement the provisions of SB 791.

Staff Recommendation: Approve as Budgeted.

ITEMS FOR DISCUSSION

0515 Business, Consumer Services, and Housing Agency
0950 State Treasurer's Office
2240 Department of Housing and Community Development

Issue 8: Housing and Homelessness Proposals

Governor's Budget. The Budget proposes $2 billion in General Fund resources over two years to accelerate the development of affordable housing. This includes:

- $500 million one-time General Fund ($225 million in 2022-23, and $275 million in 2023-24) for the Infill Infrastructure Grant program.
- $300 million one-time General Fund ($75 million in 2022-23, and $225 million in 2023-24) for the Affordable Housing and Sustainable Communities program.
- $100 million one-time General Fund ($25 million in 2022-23, and $75 million in 2023-24) to expand affordable housing development and adaptive reuse opportunities on state excess land sites.
- $100 million one-time General Fund ($50 million in 2022-23, and $50 million in 2023-24) for adaptive reuse incentive grants.
- $500 million in additional Low Income Housing Tax Credits
- $200 million one-time General Fund ($50 million in 2022-23, and $150 million in 2023-24) for the California Housing Finance Agency Mixed Income Program.
- $200 million one-time General Fund ($50 million in 2022-23, and $150 million in 2023-24) for the Portfolio Reinvestment Program.
- $100 million one-time General Fund ($25 million in 2022-23, and $75 million in 2023-24) for HCD's Mobilehome Park Rehabilitation and Resident Ownership Program.

The Administration has also proposed $500 million for the Encampment Resolution Grant program, which was initially funded with $50 million in the 2021-22 budget. The 2022 budget also includes baseline funding of $1 billion for the Homeless Housing, Assistance, and Prevention Program (HHAPP) and $1.3 billion for Project Homekey. This funding was agreed to as part of a two-year homelessness package in the 2021-22 budget.

Background. The 2021-22 budget included nearly $5 billion for a variety of housing programs. These investments are summarized below (dollars in millions).

Housing Program	**2021-22**
Affordable Housing Backlog	$ 1,750.0
Affordable Housing Preservation	$ 300.0
Foreclosure Intervention Housing Program	$ 500.0
Farmworker Housing	$ 130.0
Regional Early Action Program of 2021	$ 600.0
LIHTC	$ 500.0
Infill Infrastructure Grant Program - ARPA Allocation	$ 250.0
Infill Infrastructure Grant Program - Prop 1 Funding	$ 284.0
ADU Financing	$ 81.0
1st-Time Homebuyer Downpayment Assistance	$ 100.0
Housing Total	**$ 4,495.0**

The Administration's proposed budget would continue the state's recent track record of investing significantly in affordable housing. Specifically, the proposed two-year housing package consists of a mix of existing and new programs.

Additionally, the 2021-22 budget included a two-year package of investments in combating homelessness. This included $1 billion per year for two years for HHAPP and $2.7 billion over two years for Project Homekey. The 2022 baseline budget includes $1 billion for HHAPP and $1.3 billion for Project Homekey.

Staff Comments. As discussed in Subcommittee 4 on February 16th, the proposed budget for housing and homelessness includes $2 billion over two years for a variety of new and existing programs. The Administration's proposal includes funding for the preservation of existing affordable housing, the development of additional affordable housing in a way that reduces greenhouse gas emissions, expanding adaptive reuse of existing properties, and reforming the way the state supports and regulates mobile homes.

The Administration's proposals are broadly reasonable, and will likely help in the production of new affordable housing. However, the proposed budget raises several issues. Specifically:

- As currently structured, the package focuses heavily on the production and preservation of affordable multifamily housing. While this is a laudable area of investment, it neglects investments in boosting affordable homeownership opportunities. Such investments could help address the state's housing affordability crisis while helping lower and middle-income families build wealth.

- The focus on affordable multifamily housing is reasonable, but it does not extend important investments made in the 2021 budget. Specifically, the Housing Accelerator program was created to replace financing typically provided by low-income housing tax credits and public activity bonds, which have a significant backlog. Absent additional funding for the Housing Accelerator program, new multifamily housing projects will most likely simply sit in the backlog until they are able to acquire tax credits and private activity bonds, reducing the number of units that will be built in the near term.

- Most significantly, the state's improving fiscal condition suggests that the state could increase its investment in affordable housing, increasing the proposed funding while also allocating funding to purposes not included in the administration's proposal, such as homeownership.

Additionally, the baseline budget provides significant funding for homelessness. However, the state's fiscal position allows the state to make additional investments in combating this critical issue. Additional funding could allow the state to expand the over-subscribed Project Homekey, and increase the amount of funding provided to local governments for local efforts to combat homelessness, while also funding the Administration's encampment resolution grant program.

To this end, the Senate majority has proposed significant additional funding for affordable housing and homelessness. This package of additional funding includes:

- $500 million for the Multifamily Housing Program.
- $500 million for the Housing Accelerator Program.
- $100 million for the Joe Serna Farmworker Housing Program.
- $350 million for the CalHOME Program.
- $200 million for the Downpayment Assistance Program.
- $50 million for ADU Financing Assistance, to help spur increase in housing supply through ADUs.
- $1 billion for the California Dream For All Program, a new revolving fund program for first time homebuyers to partner with the state and purchase homes with low to no downpayment and 20% reduced cost. This proposal will be discussed in detail in a later item.

Additionally, the proposal includes significant additional funding for homelessness. This includes $3 billion, over three years, to build on last year's two-year investment with:

- Additional funding for Project Homekey.
- Funding for Encampment Resolution Funding Program.
- Increased funding for HHAPP, to continue the state's support of efforts in cities, counties, and Continuums of Care to reduce and eliminate homelessness.

These proposed investments will allow the state to use its robust fiscal position to expand and continue its investments in addressing two of the most pressing issues facing the state - housing affordability and homelessness.

Staff Recommendation: Hold Open.

0950 STATE TREASURER'S OFFICE

Issue 9: California Dream for All First Time Homebuyer's Program

Background. The wealth gap – particularly among racial minorities – is a growing problem throughout the country and here in California. Generation after generation, those with wealth have gotten wealthier, and those without have fallen further behind. As has been the case so often throughout the nation's history, this has been made worse by racial barriers, such as redlining, constructed to hold communities back.

Thriving in the middle class and building generational wealth – the California dream – starts with homeownership. But with rising housing costs, this has become further and further out of reach for too many families.

Housing prices in California have risen dramatically in all parts of the state in the past decade, with annual price increases of 8-10%. Households who do not have large down payments, to offset the higher prices, are increasingly locked out of homeownership. This disproportionately prevents first time, and first-generation homebuyers, as well as households of color from becoming homeowners.

The 2021 budget included $3 million one-time General Fund for the State Treasurer to investigate and plan a state-funded first-time homebuyer's program. AB 140 (Committee on Budget), Chapter 111, Statutes of 2021, directed the State Treasurer's Office, in consultation with other relevant stakeholders, to develop and present to the Legislature a state-funded California Dream for All First Time Homebuyer's Program, with the goal of assisting low- and middle-income Californians achieve homeownership. The State Treasurer's office subsequently contracted with CAForward for the study, who assembled a team of experts to complete the report. This report was to be completed by April 2022, with funding for the program considered as part of the 2022 budget.

Report Findings. There were 555,858 home sales in California in 2021. Of these, 35.5 percent were purchased by first time homebuyers. The average price paid by a first-time home buyer in California was $712,040 in 2021; the median home price was $590,000. These home prices are out of reach for most Californians. Statewide, only 26 percent of households can afford to purchase a median-priced home. The issue is particularly acute for minority homebuyers, with only 17 percent of Latino and black households able to afford the median priced first-time home.

The report funded by the 2021 budget was intended to inform the development of a program that provides down payment assistance and lower monthly mortgage payments to address the affordability crisis by meaningfully expand access to homeownership in California. The program is intended to eventually:

1. Provide large down payment assistance and lower monthly mortgage payments to meaningfully expand access to homeownership.
2. Support wealth accumulation for households that purchase a home.

3. Maximize the number of households assisted over time with the public funding available.
4. Ensure efficient use of state resources.

The report noted that there are several options for first time homebuyers to finance a home but they are currently small scale, which still leaves homeownership out of reach for many homebuyers. These include forgivable downpayment assistance, fixed rate downpayment assistance, and shared appreciation models, in which homebuyers are offered loans with no monthly payment and due at exit based on a percentage share of home price appreciation / depreciation.

A brief outline of the California Dream for All program presented in the report is as follows:

- $1 billion in state funds per year for 10 years to establish a revolving shared appreciation first time homebuyer program.
    - Funds could come from the General Fund, internal borrowing from state resources, or revenue bonds.
    - This level of funding would support over 8,000 first time homebuyers per year – enough to benefit a significant number of homebuyers, but not so much that it would skew home prices further up.
- The program would typically provide the homebuyer with 17% toward the purchase prices, or roughly $100,000 toward the median priced home of $590,000.
    - This benefits homebuyers in one of two ways:
        - Saves $100,000 of what would be needed to provide a 20 percent down payment (something that is generally out of reach for most first-time homebuyers); or
        - Reduces monthly mortgage payments by about 1/3 since the homebuyer would have a smaller loan and no costly mortgage insurance if the homebuyer purchases the home through a 3% FHA loan (a more typical way first time homebuyers purchase homes). This would likely save the homebuyer over $1,000 per month and over $12,000 per year.
- Homebuyers would receive extensive mortgage counseling to ensure participating in this program is the best financial decision for them.
- Once the homebuyer refinances or sells the home, the state would be reimbursed for the 17% share of the home value.
- The received funds would then be used to help new first-time homebuyers purchase a home and begin developing wealth.

The “Putting Wealth to Work” Budget plan released by the Senate majority at the end of April included $1 billion from the General Fund for the California Dream for All program for 2022-23, along with ongoing funding for program administration costs. The budget plan envisioned internal borrowing in future years to provide the $1 billion per year for the full 10-year period. After that time, the revolving nature of the program will enable the program to continue without additional state resources – other than administration costs.

Staff Comments. California is facing a severe housing affordability crisis which is hampering the ability of Californians to find homes to live in and limiting wealth-building opportunities. Historically, the first step to reaching the California dream of thriving in the middle class and building family wealth starts with homeownership. But taking that first step is even more challenging as the cost of California homes has grown higher and higher. This is reflected in declining levels of homeownership, which are currently at the lowest level since the 1940s.

A program such as the California Dream for All Program could help address both these issues, by making it easier for lower and middle-income Californians to purchase their first home and begin the process of building wealth. Accomplishing both of these goals will require the state to develop and implement a program that can provide the kinds of financial assistance described above, and to devote sufficient financial resources to the effort.

Staff Recommendation: Hold Open and direct staff to continue to work with the Assembly and the Administration on refining the California Dream For All program to be included in the final Budget Act of 2022.

2240 Department of Housing and Community Development

Issue 10: Division of State Financial Assistance Budget Adjustments

Governor's Budget. The Governor's budget proposes to reappropriate $22 million from the Greenhouse Gas Reduction Fund to help meet the State's goals on building affordable and sustainable housing.

Background. The AHSC program created in 2014 provides funding for land-use, housing, transportation, and land preservation projects to support infill and compact development that reduces greenhouse gas (GHG) emissions through the reduction of vehicle miles traveled and land conversion, minimizing GHG emissions by protecting land from further development. Funding for the AHSC program is provided from the Greenhouse Gas Reduction Fund (GGRF), established to receive cap-and-trade auction proceeds. HCD implements the AHSC under policy direction from the Strategic Growth Council (SGC). Funds are appropriated to SGC, and subsequently assigned to HCD to administer the program. Only the first year of AHSC funds were appropriated through the budget in 2014. Beginning with the 2015-16 fiscal year, SB 862 continuously appropriates twenty percent of cap-and-trade auction proceeds to the Strategic Growth Council AHSC program. HCD has administered over $1.6 billion under the continuous appropriation. In recent years, the annual awards for the program have exceeded $400 million. HCD has awarded five rounds of funding, with the sixth round of awards scheduled for the first quarter of 2022.

Staff Comments. The 2014 Budget Act appropriated $129,201,000 for first year loans and grants, as well as support funding, with an encumbrance and liquidation deadline of June 30, 2017. The liquidation date has been extended until June 30, 2022 through the 2018 Budget Act (Ch. 29, Statutes of 2018). For Round 1, the SGC approved $122,000,000 and 30 projects funded by the 2014 Budget Act appropriation. The uncommitted balance of the 2014 appropriation is $16,577,952 due to cancelled projects and savings in the support budget. To ensure continued availability of these funds for housing, HCD requests an extension of the encumbering period in order to award these funds to new projects. In addition, HCD needs an extension of the liquidation period to ensure that eight projects that are nearing completion will be able to fully disburse since current schedules of the projects indicate they will be disbursing during the six months prior to the liquidation date of June 30, 2022, estimated at about $6 million.

Staff notes that the extension of liquidation deadline extension from 6/30/22 to 6/30/24, according to HCD is for four projects. Those projects include the following:

- 14-AHSC-10474 Broadway Family Apartments
- 14-AHSC-10475 Broadway Family Apartments
- 14-AHSC-10463 Anchor Village
- 14-AHSC-10469 Civic Center 14

Reappropriating the remaining balance of the 2014 appropriation will allow HCD to complete the work for which those funds were originally encumbered, while extending the encumbrance date will allow grantees to complete projects that are currently in-progress.

Staff Recommendation: Approve as budgeted for the continuous appropriation and approve the extension of liquidation for the four projects outlined above.

Issue 11: 2018 Community Development Block Grant Mitigation Program

Governor's Budget. The budget includes $56,056,000 (Federal Trust Fund) and four positions in 2022-23, and $885,000 in 2023-24, and ongoing to manage and oversee the distribution of Community Development Block Grant - Mitigation program (CDBG-MIT). This federal funding was allocated to California to increase resilience to disasters and reduce or eliminate the long-term risk of loss of life, injury, damage to and loss of property, and suffering and hardship from the 2017 and 2018 wildfires.

Background. The Community Development Block Grant - Mitigation (CDBG-MIT) provides resources to impacted communities that experience a federally declared disaster. HCD is the responsible agency for administering both the Community Development Block Grant - Disaster Recovery (CDBG-DR) and CDBG-MIT funds allocated to the state. Funding under the CDBG-DR program provides resources to disaster impacted areas related to housing, infrastructure, economy, and agricultural needs. The CDBG-MIT program takes the next step to fund mitigation efforts to prevent further impact from a disaster or prevent future disasters from occurring in that area.

The 2020 Budget Act included an original CDBG-MIT allocation totaling $88 million. On August 31, 2021, HUD entered into a new CDBG-MIT grant agreement with the state, augmenting that original allocation with an additional $64.9 million. HUD released a Federal Register Notice (FRN) on Wednesday, January 6, 2021 outlining requirements for this new allocation. The purpose of these funds is for mitigation activities that increase resilience to disasters and reduce or eliminate the long-term risk of loss of life, injury, damage to and loss of property, and suffering and hardship by lessening the impact of future disasters.

Staff Comments. HCD must expend 50 percent by September 23, 2027, and expend 100 percent by September 23, 2033. This federal grant has no payment requirements, if implemented within FRN requirements. The state in turn grants those funds to entities in the impacted areas eligible for that funding. Below is an outline of the $64.9 million CDBG-MIT grant:

- $55,172,000 in 2022-23 for Local Assistance
- $165,000 in 2022-23 and ongoing for Consulting Contracts
- $720,000 in 2022-23 and ongoing for 4 Positions

Since 2020, HCD has initiated the implementation of CDBG-MIT, which is a brand-new program for HUD and for California. As such, HCD made initial assumptions that mitigation projects were essentially infrastructure projects. HCD planned to absorb the workload of the implementation of these funds within its existing disaster recovery infrastructure work. This action also assumed that local jurisdictions had planned for and were ready to implement mitigation projects awaiting HCD funds. However, as HCD collected information from local jurisdictions' priority projects, it became evident that many lacked either the capacity to develop mitigation projects or lacked understanding of the mitigation needs of vulnerable populations and disadvantaged communities in their jurisdiction. With this new information, HCD substantially reconfigured the two mitigation programs to better address community needs and address equity, causing delays in awards. The necessary reconfiguration of both CDBG-MIT programs made it impossible to fully absorb mitigation funds into the CDBG-DR infrastructure program. To date, HCD is unable to commit any of the mitigation funds to programs or projects due to a lack of HCD staff to provide support for program design and implementation. Some higher capacity jurisdictions have been able to move forward in developing projects and executing contracts to begin construction; however, HCD's lack of staffing for the CDBG-MIT program has resulted in delays for getting funding into smaller jurisdictions and communities that lack capacity to do so. In November 2021, HCD had to delay issuance of NOFA to March or April of 2022 due to lack of staffing. Without additional staffing, HCD will not be able to implement the program, which impacts smaller jurisdictions.

Staff Recommendation: Approve as Budgeted.

Issue 12: HOME Investment Partnership Program – American Rescue Plan

Governor's Budget. $157,886,000 (Federal Trust Fund) and 15 positions in 2022-23 and $2,883,000 in 2023- 24 and ongoing to plan, develop, and administer the new federally funded HOME Investment Partnerships (HOME) - American Rescue Plan (ARP) Program. HCD also requests statutory language to authorize HCD to utilize a guideline process for the HOME program and the Emergency Solutions Grant program implementation.

Background. The ARP Act, passed as House of Representatives (H.R.)1319 — 117th Congress (2021- 2022), provides $5 billion to assist individuals or households who are homeless, at risk of homelessness, and other vulnerable populations, by providing housing, rental assistance, supportive services, and non-congregate shelter, to reduce homelessness and increase housing stability across the country. These grant funds will be administered through the Federal Department of Housing and Urban Development (HUD)'s HOME program.

On September 24, 2021, HCD entered a grant agreement with HUD to receive $155,003,000 in federal HOME-ARP funding. The grant agreement requires HCD to expend all HOME-ARP funds by September 30, 2030. HOME-ARP funds can be used for five eligible activities:

- Production or preservation of affordable housing.
- Tenant-Based Rental Assistance (TBRA).
- Supportive services, homeless prevention services, and housing counseling.
- Purchase and development of non-congregate shelters.
- Non-profit operating and capacity building assistance.

The Emergency Solutions Grants (ESG) program provides grant funding to (1) engage homeless individuals and families living on the street, (2) rapidly re-house homeless individuals and families, (3) help operate and provide essential services in emergency shelters for homeless individuals and families, and (4) prevent individuals and families from becoming homeless.

Staff Comments. HUD has consulted directly with HCD in the federal government's efforts to model the HOME-ARP program after California's Homekey program. As the federal government has rolled out HOME-ARP, California has been featured in outreach and presentations to share best practices of the Homekey program with HOME-ARP grant administrators. As such, the department should be well-suited to implement the new federal funding.

The requested trailer bill language would exempt both the HOME-ARP program and the ESG program from the Administrative Procedures Act, as well as making other minor administrative changes. The Administrative Procedures Act allows the public to participate in the adoption of state regulations in order to ensure that regulations are clear, necessary and legally valid. HCD has indicated that the time required to go through the APA process is inconsistent with the requirements of the HOME-ARP program, and that many other HCD programs have received exemptions. However, it is unclear if one-off exemptions are an appropriate approach, or if a larger approach to HCD's program administration and public processes is necessary.

Staff Recommendation. Hold open.