Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Anna M. Caballero
Senator Roger W. Niello

Thursday, March 9, 2023
9:30 a.m. or upon adjournment of Session
State Capitol - Room 113

Consultant: Diego Emilio J. Lopez

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ITEMS FOR VOTE ONLY

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 1: California Residential Mortgage Lending Act Examination Workload

Request. The Governor's budget requests an increase in expenditure authority of $1,839,000 Financial Protection Fund in fiscal year 2023-24 and $1,753,000 in 2024-25 and ongoing and 8.0 positions for the Department of Financial Protection and Innovation (DFPI) to address increased workload related to growth in loan volume and licensee locations, pandemic anti-foreclosure efforts and changes to federal regulations associated with carrying out the California Residential Mortgage Lending Act (CRMLA).

Background. The Department's CRMLA Program is responsible for protecting California's mortgage borrowers by monitoring the safety and soundness of mortgage lenders and servicers through regulatory oversight and on-site examinations of licensees. The CRMLA program conducts examinations to identify improper business practices that could result in fee overcharges, unnecessary foreclosures practices and to verify that borrowers did not experience any consumer harm.

As stated in California Financial Code Section 50302 (a), the CRMLA requires the Department to examine each CRMLA licensee at least once every 48 months, or as the Commissioner deems necessary and appropriate. Licensees with a history of noncompliance with CRMLA may be examined more often as a special examination. To maintain DFPI accreditation with the Conference of State Bank Supervisors (CSBS), the CRMLA Program must maintain examination review of all licensees.

The mortgage origination industry has experienced continued growth over the past few years. In 2020, at the start of the pandemic, home prices increased which provided homeowners a significant amount of equity, while the lending rates were low. This caused a record high number of refinances in the California mortgage industry market.

Between 2017-18 and 2021-22, the number of CRMLA licensees increased by 6 percent between, from 409 to 432 and the total number of branch locations has increased by 25 percent over the same time period. This growth has not been accompanied with a corresponding increase in program resources to meet rising operational needs.

Staff Recommendation. Approve as budgeted.

Issue 2: Escrow Law Examination Workload

Request. The Governor's budget requests an increase in expenditure authority of $1,127,000 Financial Protection Fund in fiscal year 2023-24 and $1,072,000 in 2024-25 and ongoing, and 5.0 positions for the Department of Financial Protection and Innovation to address growth in licensee locations and consumer funds managed, expand internet escrow services, reduce examination backlog, and assist in carrying out the statutory requirements of the California Escrow Law.

Background. The Department's Escrow Law Program is responsible for administering the Escrow Law which is contained in Division 6 commencing with California Financial Code section 17000. The regulations are contained in Subchapter 9, Title 10, California Code of Regulations commencing with Section 1700 (10 C.C.R. § 1700, et seq.) The program administers the escrow law and regulations by licensing and examining escrow licensees which are the central hub for real estate or personal property transactions. The program also provides services to the public such as guidance for businesses seeking escrow licensure in California, educating the public about escrow processes, and assisting consumers in resolving complaints against escrow licensees.

The escrow industry has experienced steady growth over the past few years. Since the COVID-19 pandemic began, a variety of factors in the real estate market, such as low interest rates and limited housing supplies in California, have created growth in the escrow industry. In 2019, the consumer funds managed by the industry were approximately $23 billion. In 2020 and 2021, the funds grew to approximately $26 billion and $36.2 billion respectively, a 57 percent increase over the last two years.

During the first half of 2022, there were signs of market adjustments in real estate due to inflation and rising interest rates. However, there are currently no signs that housing supplies will outpace demands in the very near future in California. While the refinance boom is expected to subside due to increasing mortgage interest rates, the passing of the new California Accessory Dwelling Unit (ADU) law in 2021 is expected to stimulate the construction of ADUs and create opportunities for the escrow industry to service ADU escrow transactions.

Staff Recommendation. Approve as budgeted.

Issue 3: Information Technology System Development Workload

Request. The Governor's budget requests an increase in expenditure authority of $1.7 million in fiscal year 2023-24 and $1.6 million in 2024-25 and ongoing from a variety of fund sources and 9.0 positions to augment information technology (IT) staff to meet the department's increased system development workload and to align the Information Technology Office's (ITO) project methodology with the state's recommendations.

Background. The Department of Financial Protection and Innovation provides protection to consumers and services to businesses engaged in financial transactions in the State of California. The Department regulates a variety of financial services, products, and professionals consisting of over 400,000 licensees.

Between 2013-14 and 2022-23, along with a continually expanding role in regulating the state's financial sector, the Department's size increased from 582 employees to 804 employees, a 38% increase. This expansion started on July 1, 2013, as part of the Governor's Reorganization Plan 2 (GRP2), when the Department of Business Oversight (DBO) was created by merging two existing departments into a single entity. In 2020-21, due to AB 1864 (Limon), Chapter 157, Statutes of 2020, the California Consumer Financial Protection Law (CCFPL), the DBO became Department of Financial Protection and Innovation. The CCFPL, along with SB 908 (Wieckowski), Chapter 163, Statutes of 2020, the Debt Collection Act (DCA), further expanded the Department's mission to include a new Consumer Financial Protection division, with two new programs (Debt Collectors and New Covered Persons); a new Financial Technology Innovation Office; and new Market Monitoring, Consumer Research, Insight and Analytics Office.

As the Department's role has expanded, existing ITO resources have been unable to meet the demand for systems to support the Department's mission.

Staff Recommendation. Approve as budgeted.

7910 OFFICE OF ADMINISTRATIVE LAW

Issue 4: Early Intervention Assistance

Request. The Governor's budget requests $573,000 ($344,000 General Fund and $229,000 Central Service Cost Recovery Fund) in fiscal year 2023-24 and ongoing and 3.0 positions for the Office of Administrative Law to provide early intervention assistance for executive branch state agencies conducting rulemaking actions pursuant to the Administrative Procedure Act (APA) and to conduct trainings and outreach regarding legislation.

Background. The Office of Administrative Law (OAL) is responsible for reviewing administrative regulations proposed by over 200 state regulatory agencies for compliance with standards set forth in California's Administrative Procedure Act, transmitting these regulations to the Secretary of State, for publishing regulations in the California Code of Regulations, and posting links on its website to other state agency websites where the public may find regulations that have been recently filed with the Secretary of State, but have not yet gone into effect.

OAL currently has 23 positions – 12 reviewing attorney positions, 4 analyst positions, 4 support staff positions, and 3 management positions. OAL has one program, Regulatory Oversight, which is comprised of three main activities:

1. Review and approval/disapproval of proposed regulations promulgated by over 200 state agencies for compliance with the substantive and procedural requirements of the APA (Gov. Code, sec. 11340 et seq.).
2. Publication, maintenance, and posting on the Internet (to ensure free access to the public) and in hardcopy of the California Code of Regulations (CCR) and the weekly California Regulatory Notice Register (Notice Register) (Gov. Code, secs. 11344 and 11344.1).
3. Review of and determinations on petitions that allege a state agency is using an "underground regulation."

Early Intervention Assistance. For a completed regular rulemaking action, the OAL's thirty working day review period begins after a rulemaking agency has drafted the proposed regulatory text, prepared the complete rulemaking record in support of the proposed regulatory change, published a Notice of Proposed Action in the Notice Register, and conducted all applicable public comment periods.

As a result, any issues that are fatal to the success of the regulatory action are often not identified by OAL until the end of the rulemaking period. Depending upon the severity of the substantive or procedural deficiencies identified, disapproval of the regulatory action may be required, which often results in the delayed implementation of a program or set of regulations. Failure to identify these deficiencies prior to the publication of the Notice of Proposed Action may also mean rulemaking record documents that are not legally compliant are noticed to the public, potentially stifling meaningful public participation in the rulemaking process.

OAL has seen an increase in filings over the last several years. Delegating early intervention services to the requested 3.0 positions will allow the remainder of OAL's attorneys to concentrate

on the review of rulemaking files, underground regulations petitions, and other APA-related training opportunities.

OAL requests 2.0 Attorney III positions and 1.0 Associate Governmental Program Analyst position to provide early intervention assistance services to state agencies engaging in the rulemaking process and to conduct trainings and outreach regarding legislation.

Staff Recommendation. Approve as budgeted.

8620 FAIR POLITICAL PRACTICES COMMISSION

Issue 5: Advertisement Disclosures (SB 1360)

Request. The Governor's budget requests $170,000 General Fund in fiscal year 2023-24, and $163,000 in 2024-25 and ongoing, and 1.0 position for the Fair Political Practices Commission (FPPC) to implement, interpret, and enforce workload associated with the provisions of SB 1360 (Umberg), Chapter 887, Statutes of 2022.

Background. SB 1360 changes the text and formatting of required disclosures on petitions and electronic media and video campaign advertisements. This bill also requires disclosures on electronic media advertisements about top contributors funding the advertisement. SB 1360 changes existing rules and creates exacting standards for what is required for proper advertisement disclosures.

The FPPC anticipates an increased number of complaints and compliance activities to ensure campaign committees comply with political advertisement requirements in the legislation. This proposal would add one permanent Commission Counsel in the Enforcement Division to perform all functions necessary to review compliance of political advertisement obligations under this new state-mandate. These functions include, but are not limited to, processing complaints through the regular complaint system as well as the quick response system, FPPC ADWatch. Since 2017, the Enforcement Division has received 766 complaints regarding campaign advertisement rules and 279 through the FPPC ADWatch system. That workload is anticipated to rise with the new statutory requirements of SB 1360.

Staff Recommendation. Approve as budgeted.

Issue 6: Business Communications (SB 746)

Request. The Governor's budget requests $298,000 General Fund in fiscal year 2023-24, and $284,000 in 2024-25 and ongoing, and 2.0 positions for the Fair Political Practices Commission to implement, interpret, conduct outreach and education, and enforce the new law and the workload associated with the provisions of SB 746 (Skinner), Chapter 876, Statutes of 2022.

Background. SB 746 requires a business entity to submit a report to the Secretary of State following any calendar year in which the business entity uses its products or services to alter online search results to emphasize or deemphasize materials containing express advocacy or to target online advertisements without full and adequate consideration and for political purposes. The bill specifies the contents of the report and requires business entities subject to these requirements to maintain detailed accounts and records necessary to prepare the report. The bill specifies certain exceptions.

The FPPC anticipates an increased amount of advice inquiries, and education, training, and compliance activities to ensure new reporting information is provided by business entities in compliance with the requirements in the legislation. This proposal would add two permanent positions: one Political Reform Consultant in the Legal Division and one Commission Counsel in the Enforcement Division to perform all functions necessary to advise business entities on their obligations under this new state-mandate and enforce the new rules.

Staff Recommendation. Approve as budgeted.

Issue 7: Contributions to Local Agency Officers (SB 1439)

Request. The Governor's budget requests $468,000 General Fund in fiscal year 2023-24, and $447,000 in 2024-25 and ongoing, and 3.0 positions for the Fair Political Practices Commission (FPPC) to implement, interpret, educate, and enforce the increased workload associated with the provisions of SB 1439 (Glazer), Chapter 848, Statutes of 2022.

Background. Existing law under the Political Reform Act of 1974 (Act) prohibits an officer of an agency from accepting, soliciting, or directing a contribution of more than $250 from any party, participant, or a party or participant's agent, while a proceeding involving a license, permit, or other entitlement for use is pending before the agency and for three months following the date a final decision is rendered in the proceeding, if the officer knows or has reasons to know that the participant has financial interest, as defined. The Act also prohibits a party, participant, or participant's agent from making a contribution of more than $250 to an officer of the agency during the proceeding and three months following the date of the final decision. The Act exempts certain entities from these requirements, including local government agencies whose members are directly elected by the voters.

SB 1439 applies the existing campaign contribution prohibition for state and local agencies to local elected agencies, such as city councils and boards of supervisors, and expands the timeframe prohibiting specific contributions following an official's action from three months to 12 months. FPPC anticipates an increased amount of advice inquiries, and education, training, and compliance activities to ensure state and local agencies comply with requirements in the legislation.

This proposal would add 3.0 permanent positions—one Commission Counsel in the Legal Division, and one Commission Counsel and one Political Reform Consultant in the Enforcement Division—to perform all functions necessary to advise and educate the public and ensure compliance of campaign contribution obligations under the statutory requirements of SB 1439.

Staff Recommendation. Approve as budgeted.

Issue 8: Lobbying Transparency (SB 459)

Request. The Governor's budget requests $425,000 General Fund in fiscal year 2023-24, and $404,000 in 2024-25 and ongoing, and 3.0 positions for the Fair Political Practices Commission to implement, interpret, and perform outreach and education on workload associated with the provisions of SB 459 (Allen), Chapter 873, Statutes of 2022.

Background. SB 459, beginning one year after the SOS certifies for public use an online filing and disclosure system for lobbying information, or beginning January 1, 2023, whichever is later, requires lobbyists, lobbying firms, and lobbyist employers to include information in the periodic reports that identifies each bill or administrative action subject to lobbying activity during that period. For certain activities involving issue lobbying advertisements, the bill requires disclosure of the position on the bill or administrative action advocated by the advertisement. This bill requires a new report be filed and additional disclosures for lobbying activity during the 60-day period before the Legislature is scheduled to adjourn for interim recess or final recess and requires certain persons to file reports following a calendar quarter in which that person incurs cumulative costs equal to or exceeding $5,000 for issue lobbying advertisements. The bill authorizes entities filing related reports in paper with the SOS to verify those filings by electronic signature.

This proposal adds 3.0 positions: one Commission Counsel and one Political Reform Consultant in the Enforcement Division and one Political Reform Consultant position in the Legal Division to perform all functions necessary to advise local agencies on their obligations and provide enforcement per the statutory requirements of SB 459.

Staff Recommendation. Approve as budgeted.

Issue 9: Paper filings with SOS (AB 2172)

Request. The Governor's budget requests $127,000 General Fund in 2023-24, and $120,000 in 2024-25 and ongoing, and 1.0 position for the Fair Political Practices Commission to implement the provisions of AB 2172 (Cervantes), Chapter 328, Statutes of 2022.

Background. AB 2172 authorizes a person required to file a report or statement with the SOS in a paper format to file the report or statement by email or other digital means prescribed by the SOS instead, subject to specified requirements. This bill provides that a report or statement filed by email in accordance with these provisions is the original for audit and other legal purposes. The bill would eliminate the requirement that a person file a copy of the report or statement with the original when filing on paper.

The FPPC anticipates an increased amount of advice inquiries from statewide elected officials, elected members of specified entities, candidates for elective office, political committees, campaign treasurers, lobbying firms, lobbying coalitions, and individual lobbyists, among others, on changes of the new report and statement requirements. This proposal adds one permanent Political Reform Consultant position in the education and outreach unit to perform all functions necessary to advise filers on their obligations under the statutory requirements of AB 2172.

Staff Recommendation. Approve as budgeted.

0855 GAMBLING CONTROL COMMISSION

Issue 10: Tribal Vendor Reimbursements

Request. The Governor's budget requests a one-time transfer from the Gambling Control Fund (GCF) to the Indian Gaming Special Distribution Fund (SDF) of $6,005,000 to reimburse the SDF for the fees and deposits previously collected and deposited into the GCF from Gaming Resource Suppliers (Tribal Vendors). The Gambling Control Commission (Commission) also requests provisional language to authorize the one-time transfer from the GCF to the SDF.

Background. 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.

The Bureau of Gambling Control (Bureau), within the Department of Justice (DOJ) works cooperatively with the Commission to develop and implement a means of regulating the gambling industry in California. The primary functions of this regulation include the following:

- Conduct comprehensive investigations into the qualifications of individuals and business entities who apply to the Commission for state gambling licenses or findings of suitability.
- Conduct ongoing compliance inspections of gambling operations and establishments throughout the state.
- Review and approve the rules of games and gaming activities in all California cardrooms prior to them being offered for play.
- Register non-profit organizations and suppliers of gambling equipment and/or services to conduct charity fundraising events using controlled games.

The Governors Reorganization Plan No. 2 (GRP2) submitted to the Legislature on May 3, 2012, and effective on July 3, 2012, pursuant to Government Code section 12080.5, and substantively operative on July 1, 2013, eliminated duplicative administrative, investigative, and enforcement roles from the Commission and consolidated these activities to the Bureau within DOJ, Division of Law Enforcement. All licensing applications, fees, and deposits, are submitted to the Bureau for processing.

One of the fees that the Bureau collects is the background deposit fees related to Tribal Vendors with their applications for findings of suitability. The application fees paid by Tribal Vendor applicants are intended to reimburse the Bureau and Commission for the cost of processing their applications.

Prior to the GRP2, all fees related to Tribal Vendors were deposited the SDF which at the time served as the sole funding source for the Commissions' and the Bureau's legislative appropriations for the costs of their respective tribal workloads. Once the Bureau assumed responsibility for the

intake of all applications and fees in fiscal year 2013-14, the fees were then deposited into the GCF, which was/is administered by the Bureau. The Commission remained the administrator of the SDF.

Concurrently, there was a continued appropriation of funds from the SDF for the Commission and Bureau's cost of processing the Tribal Vendor applications while deposits were made to the GCF. Tribal Vendor fees total $5,436,090.47 from FY 2013-14 through FY 2021-22 and fee deposits for current fiscal year through November 30, 2022 are $525,075 along with the $43,424.03 in accrued interest. The total one-time transfer request is for all fees from FY 2013-14 through November 30, 2022 including interest to be deposited into the SDF. This request is intended to reestablish the alignment in funding and revenue deposits for the Tribal Vendor fees to the SDF.

Staff Recommendation. Approve as budgeted.

8955 DEPARTMENT OF VETERANS AFFAIRS

Issue 11: Administrative Support

Request. The Governor's budget requests $1,426,000 General Fund in fiscal year 2023-24, and $1,368,000 in 2024-25 and ongoing, and 10.0 positions for the Department of Veterans Affairs (CalVet) for purposes of administrative support in the areas of accounting, budgets, and human resources.

Background. CalVet's mission is to serve and honor all California veterans by connecting them and their families with their earned benefits through education, advocacy, and direct services. To carry out that mission, CalVet employs more than 3,500 staff located throughout the state at eight Veterans Homes of California (Homes), three satellite Veterans Services Division (VSD) District Offices (DOs), three cemeteries, and headquarters (HQ) in Sacramento.

These programs are supported by administrative staff within CalVet HQ in the Accounting, Budgets, Communications, Human Resources, Procurement, and Telework Offices. The growth of these programs has outpaced the growth of administrative staffing. Often, program staff have been added with no accompanying administrative support. The administrative team is unable to provide the necessary support to the programs. This causes long delays in: hiring and managing program staff; acquiring goods and services necessary for the program operations; processing invoices for both accounts payable and receivable; producing budgetary information; and threatens emergency communications and the reputation of the CalVet.

The Accounting Office requests one Senior Accounting Officer (Accounts Payable), one Associate Accounting Analyst (Cashiers/Travel), one Accounting Administrator I (Financial Accounting and System Support Unit), and one Associate Account Analyst I (General Ledger) to meet growth in transactions volume in FI$Cal and increased workload linked to the CalVet's Home Loan Program resulting from inclusion of new channels of financing.

The Budget Office requests one Staff Services Manager II and one Associate Budget Analyst to meet the workload needs of the California Central Coast Veterans Cemetery, the Redding and Fresno Veterans Homes of California, and additional Veterans Services Division programs.

The Human Resources Branch requests, one Associate Personnel Analyst (Payroll Unit), one Associate Personnel Analyst (Classification and Pay Unit), and two Associate Personnel Analysts (Exam Unit) to fulfill unmet workload needs in each unit.

Staff Recommendation. Approve as budgeted.

Issue 12: California Central Coast Veterans Cemetery Operations

Request. The Governor's budget requests $95,000 General Fund in fiscal year 2023-24 and $89,000 General Fund in 2024-25 and ongoing and 1.0 positions for the Department of Veterans Affairs (CalVet), to support operational requirements at the California Central Coast Veterans Cemetery (CCCVC).

Background. California's state veterans cemeteries support the Department's mission of providing veterans and their families with direct services. The cemeteries provide a final resting place of honor for veterans, their spouses, and eligible dependents. These cemeteries also provide a gathering place to commemorate, celebrate, and honor veterans on Memorial Day, Veterans Day, and other special events.

CCCVC is located in Seaside, California on a 78-acre site. Phase I of CCCVC was completed in October 2016 and opened for columbaria interments only. Phase II, completed in May 2021, provides two more interment options: in-ground urn burials and casket burials.

CalVet requests one Office Technician (OT) to support the operations of the CCCVC. The positions responsibilities will include:

- Process eligibility applications in a timely manner.
- Arrange, coordinate, and schedule services and interments within two hours of application receipt, if a death certificate is included in the application packet.
- Answer phone calls and return voicemails within two hours.
- Maintain a complete and complex paper and electronic filing system.
- Maintain a physical presence at CCCVC's reception desk to greet visitors, when the other OT is out of the office on vacation, sick leave, breaks, and lunches.
- Track inventory of office and industrial supplies.

Staff Recommendation. Approve as budgeted.

Issue 13: Clinical and Operational Workload

Request. The Governor's budget requests $3,030,000 General Fund in fiscal year 2023-24, and $2,953,000 in 2024-25 and ongoing, and 15.5 positions for the Department of Veterans Affairs (CalVet) to improve oversight and coordination of clinical and operational initiatives in the Veterans Homes of California.

Background. CalVet offers four levels of care for veteran residents and their spouses, including: Domiciliary, Residential Care Facility for the Elderly (RCFE), Intermediate Care Facility (ICF), and Skilled Nursing Facility (SNF). Today, the eight Homes provide long-term care for up to 2,319 veterans and their spouses. The facilities range in size from 60 beds on a 10-acre site to nearly 900 beds on 615 acres.

CalVet requests 2.0 Registered Nurses (RN) and 6.5 Supervising Registered Nurses (SRN) to address the uneven distribution of nighttime SRNs throughout the CalVet system. The Homes have a ranging number of licensed beds (which includes RCFE, ICF, and SNF) for which nighttime nursing services are required. However, nighttime SRNs staffing levels are disproportionate with bed counts and the size and complexity of each Home adds to the SRN workload. Nighttime SRNs can resolve personnel issues that would otherwise not be solved until morning, provide subject-matter expertise, and play critical roles in CalVet's emergency response that can happen during night shifts. The Lancaster and Ventura Homes are 60-bed RCFE facilities, with a single SRN serving as the director of nursing and overseeing the nursing program. An additional SRN does not align with the staffing structure at these two Homes, as it would conflict with the nursing director position. Therefore, CalVet requests 1.0 RN for the Lancaster Home and 1.0 RN for the Ventura Home to ensure clinical expertise is available overnight.

CalVet requests 3.0 RNs and 2.0 Staff Services Analyst (SSA) positions to reach a baseline of 1.0 RN for infection prevention for all Veterans Homes, with additional staffing as needed to reflect programmatic size and complexity. The RN positions would be distributed between four Homes, with 1.0 in VHC-Chula Vista, 1.0 in VHC-Fresno, 0.5 in VHC-Lancaster, and 0.5 in VHC-Ventura. The SSA positions at the West Los Angeles and Yountville Homes would provide clerical and analytical support in a variety of areas, including tracking individual staff compliance, managing resident care records, and preparing and submitting internal and external compliance reports.

CalVet requests 1 Direct Construction Supervisor (DCS) II and 1 DCS I to improve construction oversight and project management at the Yountville Home. The Yountville Home campus is aging. With each passing year, the facilities experience more challenges. The Yountville Home has an estimated $40 million in identified deferred maintenance needs. Many structures and equipment exceed their life expectancy, and the Depression-era and post-World War II utility infrastructure is stretched to its maximum. Regulatory requirements from control agencies steadily increase over time, adding further complexity to the Yountville Home's operations.

Staff Recommendation. Approve as budgeted.

Issue 14: Minority Veterans Unit Workload

Request. The Governor's budget requests $156,000 General Fund in fiscal year 2023-24 and $150,000 in 2024-25 and ongoing, and 1.0 position for the Department of Veterans Affairs to meet the unmet needs of the approximately 760,000 minority veterans and their family members in California.

Background. The Minority and Underrepresented Veterans Division (Division) was created in 2011. The Division advocates for approximately 47 percent of the total state veteran population who identify as ethnic minorities, and of that, over 136,000 identify as Lesbian, Gay, Bisexual, Transgender, Queer (LGBTQ) veterans. In the last 11 years, the Division was unable to carry out sufficient projects or programs that addressed the changing unique needs of minority veterans.

Minority veterans historically access their veteran benefits at a lower rate than their non-minority counterparts. Similarly, veterans of non-white ethnicities experience service-related challenges at disproportionately higher rates. For example, Native American and Alaskan Indian veterans have higher unemployment than any other ethnicity that served in the military, and yet, they serve at a higher percentage than any other ethnic group. They also make up a higher percentage of disabled veterans and often disproportionately lack health insurance.

CalVet requests one Staff Services Manager I (SSM I) to allow the Deputy Secretary to establish a readily available and updated set of reports and statistics regarding each identified minority and allow for further expanded research as new studies are conducted. Since its inception in 2011, the Division lacks the support of a manager-level staff position. The SSM I would manage the day-to-day functions of the Division as the Deputy Secretary attends outreach and networking events and meetings throughout the state and nation that further expand program policies and legislation that positively impacts the minority veteran community.

Staff Recommendation. Approve as budgeted.

Issue 15: Veterans Services Division District Office Support

Request. The Governor's budget requests $1,332,000 General Fund in fiscal year 2023-24, and $1,282,000 General Fund in 2024-25 and ongoing, and 9.0 positions for the Department of Veterans Affairs to provide for staffing at the Veterans Services Division three District Offices (DO).

Background. The Veterans Services Division (VSD) connects California veterans and their families with the benefits and services earned through their sacrifice and service to our country. To support this critical mission, the VSD provides advocacy, education, and service assistance to veterans as they attempt to access their state and federal benefits. The DOs assist veterans and their families by reviewing incoming claims submitted by County Veterans Services Offices, the filing of additional claims through avenues such as walk-ins and veteran who are incarcerated, providing decision review requests, the filing of appeals, and the representation of veterans and their survivors in front of the United States Department of Veterans Affairs (USDVA) Board of Veterans Appeals (BVA).

CalVet requests 9.0 positions for staffing at the Veterans Services Division (VSD) three District Offices (DO). The funding will help ensure that California's veterans and their families receive proper federal claims representation as well as receive their federal benefit awards in a timely manner. Additionally, the funding will enable the CalVet to provide increased oversight and accountability of the county veterans service officers (CVSO) throughout the state who receive state support through the County Subvention and Medi-Cal Cost Avoidance Programs.

The requested positions are:

- Oakland DO: 1 Staff Services Manager II (SSM II), 1 Staff Services Manager I (SSM I), and 1 Associate Government Program Analyst (AGPA)
- Los Angeles DO: 1 SSM I and 3 AGPAs
- San Diego DO: 1 SSM I and 1 AGPA

Staff Recommendation. Approve as budgeted.

Issue 16: Website Development to Enhance Digital Communications

Request. The Governor's budget requests one-time funding of $1 million General Fund in fiscal year 2023-24 for the Department of Veterans Affairs to procure contractor services to enhance digital communications in support of providing services and benefits to veterans of California through a content management system website.

Background. In 2014, CalVet implemented a new public website on the SharePoint platform that is primarily managed by the Information Systems Division (ISD). The website was custom-built to tailor to veterans' needs by providing services to veterans through a Content Management System (CMS). The CMS includes features such as a robust search and indexing capability, registration forms with log in functionality to see custom benefits, custom web parts, and development designed for automation and application integration.

Over time, the website has gone through multiple SharePoint platform upgrades, new state template designs, and a large increase of embedded applications and expanded functionality. However, the SharePoint platform has increasingly failed to meet the changing web-based needs of CalVet, resulting in an inability to meet program requests or easily maintain compliance with the state template, federal and state laws, regulations and best practices. Furthermore, the platform does not allow application development staff to implement changes easily or quickly, wasting staff time and resources.

The SharePoint platform is reaching its end of life support. As of September 1, 2024, mainstream support will end. This will result in support calls costing additional resources, incident reporting no longer being included in any licensing program, and there will be no ability to request non-security patches. Due to these factors, the public website is not sustainable on the current SharePoint platform and a new website is needed to better serve veterans and their families. For these reasons, CalVet requests funding for contractor services to architect, design, develop, deploy, and maintain a new CalVet.ca.gov website.

Staff Recommendation. Approve as budgeted.

Issue 17: Women Veterans Unit Workload

Request. The Governor's budget requests $156,000 General Fund in fiscal year 2023-24 and $150,000 in 2024-25 and ongoing and 1.0 position for the Department of Veterans Affairs to meet the unmet needs of the 163,000 women veterans, and approximately 30,000 servicewomen and their family members in California.

Background. In 2013, the Division for Women Veterans Affairs (Division) was staffed with 1 full-time Deputy Secretary, 1 full-time analyst, and 1 shared employee totaling 2.5 employees. The Division is currently staffed with 1 full-time Deputy Secretary, 2 full-time analysts, and 1 Staff Services Analyst. Given the low staffing level of the Division, CalVet is still not able to fully meet its strategic goals of ensuring equal and equitable access to benefits and services for military women, veterans, and their families through robust outreach, education, and awareness.

The Division requests one Staff Services Manager I to serve as the day-to supervisor of the Division and evaluate Division programs and data to make program and policy recommendations. The SSM I will develop new strategies and initiatives to meet the outreach needs of rural veterans and be responsible for the ongoing development of Division programs (online and in person), including but not limited to, Women Veterans Annual Reception, statewide webinars, rural military women veteran inclusion forums, and military sexual trauma/intimate partner violence training calendar. The SSM1 will also assist the Deputy Secretary with ensuring the strategic implementation of the organizational-wide strategy and road map to embed diversity, equity, inclusion, and belonging into every aspect of CalVet's mission, work, and culture. The SSM I will also establish a community outreach plan with internal and external stakeholders to raise awareness of the Deputy Secretary's initiatives.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

Issue 18: Franchise Application and Complaint Workload (AB 676)

Request. The Governor's budget requests an increase in expenditure authority of $1.3 million Financial Protection Fund in fiscal year 2023-24 and $1.2 million in 2024-25 and ongoing and 5.0 positions for the Department of Financial Protection and Innovation (DFPI) to implement the provisions of AB 676 (Holden), Chapter 728, Statutes of 2022.

Background. California was the first state to regulate franchises in 1971. It is the largest of the 14 states that require registration before a franchise is offered or sold. The Federal Trade Commission (FTC) has concurrent jurisdiction with the registration states but does not pre-empt them. The FTC Franchise Rule sets the minimum disclosure requirements and allows individual states to enact more investor protections.

Franchising is a method of conducting business that consists of a franchisor—who establishes a brand's trademark and business system—that is paid by a franchisee who does business under the franchisor's trademark using the system after entering into a franchise agreement. For example, a franchisor might establish a restaurant's trademark and business system (such as the menu and food preparation methods). After entering into a franchise agreement with the franchisor, a franchisee would pay the franchisor for the right to operate one or more such restaurants.

The state has enacted two major laws governing the franchisor-franchisee relationship. The Franchise Investment Law (FIL) provides ground rules for the marketing of franchise opportunities and the formation of the franchise relationship (offer and sale of a franchise). The Franchise Relations Act (FRA) governs the ongoing relationship between the franchisor and the franchisee to prevent unfair practices in the renewal, transfer, or termination of a franchise domiciled or operated in California.

Among other changes, AB 676:

- Closes a loophole that franchisors used to avoid requirements to register with DFPI.
- Prohibits franchisors from interfering with the sale of existing franchise businesses.
- Adds criteria upon which DFPI can issue a stop order or deny or revoke a registration, such as a franchise agreement that contains a provision that is contrary to state law.

The Enforcement Division requests 3.0 positions (Attorney IV, Senior Financial Institutions Examiner (Examiner), and Investigator) and the Franchise Unit requests 2.0 positions (Attorney III and Senior Legal Analyst) to meet the anticipated increase of franchise registrations, complaints, and investigations resulting from the implementation of AB 676.

Staff Recommendation. Hold Open.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Issue 19: Administrative Support for Evolving Program Operations

Request. The Governor's budget requests an increase in expenditure authority of $2.8 million Alcohol Beverage Control Fund in fiscal year 2023-24 and $3.2 million in 2024-25 and ongoing and 16.0 positions in 2023-24 – increasing to 19.0 positions in 2024-25 – for the Department of Alcoholic Beverage Control (ABC) to provide increased administrative support to its licensing, enforcement, and education programs as they undergo changes; most notably, operational modernization and shifting to a remote work environment.

The proposal also requests to transfer $48.5 million General Fund to the Alcoholic Beverage Control Fund (ABC Fund) over three years ($20.5 million in fiscal year 2023-24, $16 million in 2024-25, and $12 million in 2025-26), comprising the remaining balance of funds appropriated for the COVID-19 License Renewal Fee Waiver Program, which concluded in February 2023.

Background. The 19.0 positions requested by ABC to provide increased administrative support to its licensing, enforcement, and education programs are as follows:

- An Office of Equity with one Equity Officer to evaluate ABC laws, policies, and practices to identify and address any instances in which ABC's programs are creating disparate outcomes.
- One Deputy Director of Public Affairs to support external and internal communication, media and press relations, social media, the ABC website, public outreach, and education.
- One Senior Personnel Specialist to alleviate workload from existing staff and create capacity in ABC's Human Resources Branch.
- One Accountant Trainee to address increased workload from manager and server online registrations and new online payment options.
- Twelve information technology (IT) and information security personnel in 2023-24 (increasing to fifteen beginning in 2024-25). The IT personnel would provide IT support in areas where ABC has yet to modernize or has needs as a result of recent changes, including the introduction of telework, the modernization of public-facing services, and the proposed Office of Equity, among others. The information security personnel would address a variety of information security issues from ABC's introduction and expansion of its public-facing services and automation tools due to teleworking, among other things.

Currently, ABC has about 95,000 licensees across the state, including businesses such as winegrowers, liquor stores, and restaurants. ABC is supported primarily by its special fund, the ABC Fund, which receives revenue almost entirely from fees charged to these licensees. Licensing fees generally fall into two categories: (1) annual renewal fees (the most significant source of revenue) and (2) application fees for new licenses, license transfers, daily licenses for events, caterer's permits, and other miscellaneous fees.

The COVID-19 pandemic negatively impacted many ABC licensees and resulted in a decrease in licensing revenue. In order to provide licensees relief, the state temporarily waived license fees

through February 2023 for restaurants, bars, and other specified ABC licensees impacted by health and safety restrictions imposed in response to the pandemic. The state also backfilled the resulting loss in revenue to the ABC Fund. Specifically, the 2020-21 budget package made available up to $93 million from the General Fund through 2022-23 to backfill the ABC Fund.

The $93 million appropriation was provided based on the assumption that all eligible licensees would apply for the renewal waiver; however, a substantial number did not. ABC estimates that $48.5 million will remain unspent from the appropriation, which will revert to the General Fund at the end of the 2022-23 budget year under current law. The department surveyed a sample of licensees to inquire on why they did not apply for the waiver and they reported various reasons, including not being aware of the waiver, not wanting to take the extra step to self-certify that they were eligible, or that they did not need the relief because their businesses were doing well.

ABC Increased License Fees in 2023 and Plans Further Fee Increases in 2024. Under current law, ABC has the authority to administratively increase fees each year, up to the growth in the Consumer Price Index (CPI) occurring seventeen months prior to the effective date of the increase. Because ABC has already used its authority in the current year, the department will not be able to adjust fees further until next year, which ABC recently notified the Legislature of its intent to do. This adjustment will increase licensing fees by 7.5 percent, effective January 1, 2024, reflective of the CPI growth between August 2021 and August 2022.

LAO Comments and Recommendations.

Proposed Positions Have Merit, but Do Not Fill Critical Need and Exacerbate Potential ABC Fund Insolvency. The additional positions proposed by the Governor would support various activities that generally appear worthwhile to implement. However, the ABC Fund is currently structurally imbalanced—that is, the expenditures out of the fund exceed the revenues deposited into the fund. The Governor's proposed increase in expenditures would likely result in the ABC Fund being insolvent in 2023-24, as shown in the figure below. As such, increasing expenditures from the ABC Fund should be reserved for positions and activities that seek to fill a critical, immediate need at this time to maintain existing service and program levels. We find that the proposed positions do not meet this criteria.

Proposed Expenditures Would Exacerbate Potential ABC Fund Insolvency[a]

(In Millions)

	2022-23	2023-24	2024-25	2025-26
Total revenues and transfers	$91.0	$97.4	$104.3	$109.5
Total expenditures	97.3	104.5	107.6	105.4
Projected End-of-Year Balance	**$5.0**	**-$2.1**	**-$5.4**	**-$1.3**

[a]These are projections that include certain assumptions around revenue growth, including annual Consumer Price Index increases and employee compensation increases.

ABC = Department of Alcoholic Beverage Control.

Not Approving Proposed Positions and Transfer Might Still Result in ABC Fund Needing Some Assistance, but Remains Uncertain. Even if the Legislature does not approve additional positions, it is possible the fund will barely remain solvent over the next year. Specifically, assuming (1) existing service levels remain unchanged, including the reduced funding level of $1.5 million for the Alcohol Policing Partnership grant program; (2) licensing fee revenues continue to increase after the pandemic with CPI growth as planned by ABC; and (3) other expenses—in particular employee compensation—do not increase significantly, the ABC fund balance would be $2.3 million in 2023-24, which would represent 2.3 percent of the ABC Fund's projected annual expenditures. However, beginning in 2024-25, the fund could emerge from its structural imbalance as revenues would exceed expenditures under this scenario.

Reject Proposed Positions. The LAO recommends that the Legislature reject the proposed positions because they do not fill an immediate or critical need to maintain existing service or program levels. Doing so would keep expenditures from the ABC Fund lower as revenues recover and annual increases to licensing fees can potentially bring the fund into balance. To the extent the ABC Fund stabilizes in the future, as is currently projected, the department could submit a proposal for the additional positions to the Legislature at that time.

Reject Proposed General Fund Transfer. The LAO recommends that the Legislature reject the proposed General Fund transfer, given their above recommendation to reject the proposed positions. Moreover, given the state's budget problem, the proposed transfer would come at the expense of previously identified General Fund priorities.

Adopt Provisional Language Authorizing Loan to Keep Fund Solvent if Need Arises. As discussed by the LAO, under a certain set of assumptions, the ABC Fund remains solvent in 2023-24. However, if employee compensation increases are higher or if revenues are lower than projected, the ABC Fund could become insolvent. In recognition of this possibility, they recommend that the Legislature adopt provisional language that would allow the Department of Finance—with 30-day notification to the Joint Legislative Budget Committee—to authorize a loan up to a certain amount to keep the ABC Fund solvent if revenues are lower than projected or costs to maintain existing service and program levels exceed estimated amounts. The Legislature could direct ABC to report at budget hearings on its estimates for a loan size that would be sufficient to maintain its existing service levels in 2023-24 and cover any uncertainty in revenue or employee compensation increases. In the event that the ABC Fund continues to face insolvency in 2024-25, the administration can return to the Legislature with a proposal to address it that can be considered through the budget process next year.

Staff Comments. Staff notes the need to address the structural imbalances in the ABC Fund and the Governor's proposal represents one potential solution. The Legislature may wish to examine a variety of options to address the ABC Fund's structural imbalances in the 2023-24 fiscal year.

Staff Recommendation. Hold Open.

8620 FAIR POLITICAL PRACTICES COMMISSION

Issue 20: Political Reform Education Program (PREP)

Request. The Governor's budget requests $455,000 General Fund in fiscal year 2023-24, and $421,000 in 2024-25 and ongoing, and 3.0 positions for the Fair Political Practices Commission (FPPC) to continue to develop, administer and expand the new Political Reform Education Program (PREP).

Background. The Political Reform Act of 1974 (Act) provides for the comprehensive regulation of campaign financing, including requiring the reporting of campaign contributions and expenditures and imposing other reporting and recordkeeping requirements on campaign committees. Existing law makes a knowing or willful violation of the Political Reform Act of 1974 a misdemeanor and subject offenders to criminal penalties. Existing Regulation 18360.1., directs the FPPC to develop a program as soon as feasible, to allow for the education of a person who commits a minor violation of the act, as specified.

The Political Reform Education Program ("PREP") is the new pilot educational program created by the FPPC in response to the mandate in Regulation 18360.1. The purpose of the PREP is to allow for education of respondents who have little or no experience with the Act and commit minor violations, in lieu of monetary penalties.

The general requirements to be eligible to take this course are as follows:

- Violations committed by the respondent appear to be the result of low level of experience and sophistication of the party.
- Violations committed by the respondent resulted in minimal public harm.
- The respondent has not paid a penalty to the FPPC for the same type of violation occurring within the last five years.

Criteria for exclusion from the program includes:

- Any evidence of an intent to conceal or violate the Act or regulations relating to the Act.
- Presented the FPPC false or altered evidence.
- Made false statements to the FPPC regarding material facts.
- Evidence of intentional interference with a witness in the FPPC matter.
- Has other violations under review for prosecution that do not qualify for a streamline penalty.
- The same respondent does not qualify for a streamline penalty based on specific exclusions listed in Regulation 18360.1 or 18360.3.
- The same respondent completed PREP for the same type of violation occurring within the last five years.

The FPPC requests one Political Reform Consultant, one Staff Services Manager I, and one Staff Services Analyst to continue to develop, administer and expand the Political Reform Education Program (PREP).

Staff Recommendation. Approve as budgeted.

1703 PRIVACY PROTECTION AGENCY

Issue 21: Consumer Privacy Implementation

Request. The Governor's budget is requesting 7.0 positions in fiscal year 2023-24 and ongoing for the Privacy Protection Agency (Agency) to begin enforcement activities and continue to fulfill its statutory responsibilities. The Agency is responsible for the implementation and administrative enforcement of the nation's first comprehensive consumer privacy law. This proposal will utilize the agencies existing, ongoing $10 million General Fund appropriation.

Background. In November of 2020, voters approved Proposition 24, The California Privacy Rights Act of 2020 (CPRA). The CPRA extends the California Consumer Privacy Act of 2018 (CCPA), the first comprehensive consumer privacy law in the United States. The new law is intended to "protect consumers' rights, including the constitutional right of privacy." To this end, it gives consumers certain rights regarding their personal information and imposes on businesses subject to the law several responsibilities.

To implement the law, the CPRA established the Agency, governed by a five-member board (Board) (Civil Code, § 1798.199.10(a)), and overseen by an Executive Director. (Civil Code, § 1798.199.30.) The CPRA directly appropriated $5 million General Fund in 2020-21 and $10 million per fiscal year thereafter to support the operations of the Agency. (Civil Code, § 1798.199.95(a).)

The Agency is the first data protection authority in the United States. 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 under the law, (Civil Code, §§ 1798.199.45–90) beginning as early as July 1, 2023 (Civil Code, § 1798.185 (d)).

The Enforcement Division requests 5.0 positions for 2023 and ongoing (three Attorney IVs, one Attorney III, and one Attorney) to fulfill the division's responsibilities of handling the administrative actions associated with enforcing the provisions of California's consumer privacy laws that fall under the jurisdiction of the Agency.

The IT Division requests 2.0 positions (one Information Technology Specialist and one Information Technology Associate) to provide support to the Agency for complaints and expanded IT needs. The Agency does not currently have in-house IT staff.

Staff Recommendation. Approve as budgeted.

8955 DEPARTMENT OF VETERANS AFFAIRS

Issue 22: Yountville Roof Replacements

Request. The Governor's budget requests $15,857,000 General Fund in fiscal year 2023-24 for the Department of Veterans Affairs (CalVet) to replace five roofs at Veterans Home of California (VHC)-Yountville. The request includes construction costs and DGS project management costs and associated fees.

Background. CalVet offers four levels of care for veteran residents and their spouses, including: Domiciliary (Dom), Residential Care Facility for the Elderly, Intermediate Care Facility, and Skilled Nursing Facility. Today, the eight Veterans Homes provide long-term care for up to 2,319 veterans and their spouses. The facilities range in size across the state; while the smallest Veterans Home has 60 beds on a 10-acre site, VHC-Yountville hosts 876 budgeted beds on an expansive campus with more than 100 buildings.

The three oldest Veterans Homes are rapidly aging. With a 615-acre campus and at almost 140 years old, VHC-Yountville is the largest and oldest continuously operating Veterans Home in the country. Of the more than 100 buildings on the campus, few were built after the 1950s, and many critical structures date back to the 1920s and 1930s. As a result, VHC-Yountville has far more deferred maintenance needs than any of the other seven California Veterans Homes, and has experienced more frequent infrastructure issues, placing continued pressure on the facility's operating expenses and equipment budget.

Even with recent repairs and upgrades, significant needs remain at VHC-Yountville. Virtually every major structure on the campus was built prior to 1960, including many that originated in the Great Depression. In many respects, the basic infrastructure of these buildings has far exceeded its expected lifespan. In particular, the roofs on many of the buildings – including those housing residents – are failing, which could create a potential health and safety hazard while also potentially jeopardizing other structural components.

Staff Recommendation. Hold Open.

Issue 23: CalVet Electronic Health Record Project: Additional Activities and Scope Increase

Request. The Governor's budget requests one-time funding of $2,548,000 General Fund in fiscal year 2023-24 for the fourth year of implementation of a new long-term care electronic health record system in the Veterans Homes of California (Homes) 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 (EHR) 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. The 2022-23 budget provided for $433,000 General Fund for the third year of implementation. The project was then scheduled to be completed in September 2023.

Due to further project delays resulting from statutory requirements of implementing e-prescription functionality by January 2022, truncated financial requirements in contracts, and a need for additional testing time, a second Special Project Report (SPR #2) to the CDT was triggered. The schedule, cost, and scope impacts reported in SPR #2 expanded the project timeline by 13 months.

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	11/1/2023	12/19/2023
Barstow	1/1/2024	2/14/2024
Yountville	3/1/2024	4/12/2024
Redding	5/1/2024	6/17/2024
Fresno	7/1/2024	8/15/2024
Project Completion (completion of Delivery)	10/8/2024	

Staff Recommendation. Approve as budgeted.