
Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4

Agenda

Senator Anna Caballero, Chair

Senator Jim Nielsen

Senator Maria Elena Durazo



Thursday, May 21, 2020

1:30 PM

State Capitol - Room 4203

OUTCOMES

Part C – Other State Administration

Consultants:

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VOTE -ONLY CALENDAR FOR GOVERNOR'S BUDGET PROPOSALS FROM JANUARY – WITHDRAWN (ISSUES 1 – 45)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos.	Staff Comments	Staff Recommendation
1	0509	Governor's Office of Business and Economic Development (GO-Biz)	Legislative and Inter-governmental Affairs	-127,000	0	-1	Administrative savings.	Approve May Revision withdrawal of the proposal. 3-0
2	0509	Governor's Office of Business and Economic Development (GO-Biz)	Human Resources and Administrative Staffing	-72,000	0	-1	Administrative savings.	Approve May Revision withdrawal of the proposal. 3-0
3	0509	Governor's Office of Business and Economic Development (GO-Biz)	Climate Catalyst fund	-250,000,000	0	-1	Establish fund.	Approve May Revision withdrawal of the proposal. 3-0
4	0650	Office of Planning and Research	Legislative and Legal Staff Increase	-357,000	--	-2	The January budget included several positions related to the increase in legislative bills dealing with OPR, as well as for increasing related workload. This workload can be absorbed internally.	Approve May Revision withdrawal of the proposal. 3-0

5	0650	Office of Planning and Research	Withdraw Governor's Budget Proposal and Delay Transportation Plan Assessment (AB 285)	-349,000	--	-1	This proposal includes trailer bill language delaying the implementation of AB 285, which requires OPR to conduct a review of the State Transportation Plan, and withdraws the resources necessary to complete that work. This work remains a legislative priority.	Reject the withdrawal of these positions and the related trailer bill language. 2-1
6	0650	Office of Planning and Research	Withdraw Governor's Budget Proposal and Delay AmeriCorps Infrastructure Expansion	-1,742,000	--	-10.0	The January budget included programmatic staffing resources to develop infrastructure for expanded state volunteer programs. The Administration has withdrawn this request and replaced it with a larger proposal, discussed below.	Approve May Revision withdrawal of the proposal. 3-0
7	0840	State Controller's Office	Road Maintenance and Rehabilitation Program (RMRP) - Fund Shift	--	0	--	Conduct audits of the programs.	Approve May Revision withdrawal of the proposal. 3-0
8	0840	State Controller's Office	Local Government Oversight - Internal Control Reviews - Fund Shift	-486,000	486,000	--	Perform local agency audits/reviews.	Approve May Revision withdrawal of the proposal. 2-1
9	0840	State Controller's Office	Proposition 47 - Safe Neighborhoods and Schools Fund (SNSF) - Fund Shift	--	0	--	Perform audits of grants.	Approve May Revision withdrawal of the proposal. 3-0

10	0840	State Controller's Office	SCO Administrative Support Costs	-1,141,000	-931,000	--	Address increased admin costs.	Approve May Revision withdrawal of the proposal. 3-0
11	0845	Department of Insurance	Hearing Reporter Position	0	-177,000	-1.0		Approve May Revision withdrawal of the proposal. 3-0
12	0845	Department of Insurance	Disability Program Administration	0	-120,000	-1.0		Approve May Revision withdrawal of the proposal. 3-0
13	0845	Department of Insurance	FI\$Cal Resources	0	-1,014,000	-7.0		Approve May Revision withdrawal of the proposal. 3-0
14	0890	Secretary of State	Withdrawal of Voter Registration Related Mailings	-847,000	0	0.0		Adopt budget bill language and approve May Revision withdrawal of this proposal. 3-0
15	0890	Secretary of State	Withdrawal Staffing Increase for the Human Resources Bureau	-214,000	-577,000	-6.0		Approve May Revision withdrawal of the proposal. 3-0
16	0890	Secretary of State	Withdrawal IT Division Resources Workload Growth	-79,000	-214,000	-2.0		Approve May Revision withdrawal of the proposal. 3-0
17	1111	Department of Consumer Affairs	Cemetery and Funeral Bureau - Endowment Funds (AB 795)	0	-86,000	-0.5		Hold open.

18	1111	Department of Consumer Affairs	Chief Athletic Inspector and Assistant Chief Athletic Inspector (AB 1523)	0	-296,000	-2.0		Hold open.
19	1111	Department of Consumer Affairs	Information Technology Security	0	-2,004,000	-2.0		Approve May Revision withdrawal of the proposal. 3-0
20	1700	Department of Fair Employment and Housing	Source of Income Discrimination (SB 329)	-528,000		-4.0	The May Revision withdraws the January proposal for \$528,000 in General Funds for enacting SB 329 (Mitchell, Chapter 600, 2019), a bill protecting tenants from housing income discrimination.	Approve the May Revision withdrawal of the proposal. The department will absorb new workload into existing resources. 3-0
21	1700	Department of Fair Employment and Housing	Employment Discrimination (AB 9)	-315,000		-3.0	The May Revision withdraws the January proposal for \$315,000 in General Funds for enacting AB 9 (Mitchell, Chapter 600, 2019), a bill extending complaint filing deadline for employment discrimination.	Approve the May Revision withdrawal of the proposal. The department will absorb new workload into existing resources. 3-0
22	1701	Department of Business Oversight	Legal Division Rulemaking Workload	0	-406,000	-2	Address increased legal workload.	Approve May Revision withdrawal of the proposal. 3-0
23	1701	Department of Business Oversight	Information Technology Security Workload	0	-780,000	-3	Strengthen safeguards and protocols.	Approve May Revision withdrawal of the proposal. 3-0

24	2100	Department of Alcoholic Beverage Control	Implementation of Free Goods Exception (AB 1133)	0	-685,000	-4.0		Hold open.
25	2320	Department of Real Estate	Licensing Information Section - Call Workload	0	-663,000	-8.0		Approve May Revision withdrawal of the proposal. 3-0
26	7730	Franchise Tax Board	Mainframe Enterprise Server Refresh	-5,801,000	-259,000	--	Replacement of the enterprise server.	Approve May Revision withdrawal of the proposal. 3-0
27	7730	Franchise Tax Board	Enterprise Data to Revenue Project (EDR2) - Phase 2	-1,112,000	--	-10	Resources for beginning of EDR2 project	Approve May Revision withdrawal of the proposal. 3-0
28	7730	Franchise Tax Board	Vehicle Registration Collections (VRC)	--	-1,903,000	--	Replace Delinquent Vehicle Registration System	Approve May Revision withdrawal of the proposal. 3-0
29	7730	Franchise Tax Board	Earned Income Tax Credit (EITC) and Voluntary Income Tax Assistance (VITA) Support	-1,212,000	--	-5	Assist in Administering the Voluntary Income Tax Assistance Program	Approve May Revision withdrawal of the proposal. 3-0
30	7730	Franchise Tax Board	EITC and VITA Program Funding	-10,000,000	--	--	Funding provided for free tax services and program outreach.	Reject the \$10 million reduction and instead appropriate \$5 million. 2-1
31	7760	Department of General Services	Withdrawal of 0000952 - Sacramento Region: Gregory Bateson Building Renovation	0	-183,559,000			Approve May Revision withdrawal of the proposal. 3-0

32	7760	Department of General Services	Withdrawal of 0000955 - Sacramento Region: Jesse Unruh Building Renovation	0	-116,786,000			Approve May Revision withdrawal of the proposal. 3-0
33	7760	Department of General Services	Withdrawal of 0002632 - Sacramento Region: Resources Building Renovation	0	-421,335,000			Approve May Revision withdrawal of the proposal. 3-0
34	8260	California Arts Council	Arts Council Investments	-10,500,000	-	-		Adopt budget bill language and approve May Revision proposal. 2-0
35	8885	Commission on State Mandates	Withdrawal of Administrative and Budget Staffing	-206,000	--	--		Approve May Revision withdrawal of the proposal. 3-0
36	8940	Military Department	Reversion of Funding for Headquarters Relocation Move	-758,000	--	--		Approve May Revision withdrawal of the proposal. 3-0
37	8940	Military Department	Reversion of Emergency Preparedness and Response	-3,197,000	--	-21.0		Approve May Revision withdrawal of the proposal. 3-0
38	8940	Military Department	Eliminate Military Department from Wildfire Forecast and Threat Intelligence Integration Center (SB 209)	-827,000	--	-5.0		Approve May Revision withdrawal of the proposal. 3-0
39	8940	Military Department	Withdrawal of 0006734 - Fairfield: Sustainable Armory Renovation Program - COBCP - D, B	-3,874,000	-3,874,000			Approve May Revision withdrawal of the proposal. 3-0

40	8940	Military Department	Withdrawal of 0006735 - Modesto-Rouse: Sustainable Armory Renovation Program - COBCP - D, B	-2,218,000	-2,218,000			Approve May Revision withdrawal of the proposal. 3-0
41	8940	Military Department	Withdrawal of 0006736 - Santa Ana: Sustainable Armory Renovation Program - COBCP - D, B	-2,279,000	-2,279,000			Approve May Revision withdrawal of the proposal. 3-0
42	8940	Military Department	Withdrawal of 0000705 - Statewide: Advance Plans and Studies	-150,000	-150,000			Approve May Revision withdrawal of the proposal. 3-0
43	8940	Military Department	Withdrawal of Reappropriate Various Military Department Projects - COBCP/Reappropriation - B	-9,630,000	-9,630,000			Approve May Revision withdrawal of the proposal. 3-0
44	8955	Department of Veterans Affairs	Withdrawal of Facilities Planning and Construction Management Staff	-497,000	--	-3.0		Approve May Revision withdrawal of the proposal. 3-0
45	8955	Department of Veterans Affairs	Withdrawal of 0000690 - Southern California Veterans Cemetery - COBCP - S	0	-700,000			Approve May Revision withdrawal of the proposal. 3-0

VOTE -ONLY CALENDAR FOR GOVERNOR'S BUDGET PROPOSALS FROM JANUARY – SUSTAIN (ISSUES 46 – 121)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos.	Staff Comments	Staff Recommendation
46	0509	Governor's Office of Business and Economic Development (GO-Biz)	CalBIS Regional Specialists	758,000	0	4.0	Business development support for underserved regions.	Approve as budgeted. 2-1
47	0509	Governor's Office of Business and Economic Development (GO-Biz)	IBank Workload Increases	0	0	3.0	Accommodate workload increases.	Approve as Budgeted. 3-0
48	0509	Governor's Office of Business and Economic Development (GO-Biz)	California Film Commission Baseline Cost Increases	198,000	0	0.0	Increased operating costs.	Hold open.
49	0509	Governor's Office of Business and Economic Development (GO-Biz)	Film and Television Tax Credit TBL				Extend the carryforward period for the previous credit.	Approve as Budgeted. 2-1
50	0511	Government Operations Agency	Funding Realignment BCP	252,000	-252,000	-		Approve as budgeted. 2-1

51	0511	Government Operations Agency	Workload BCP	286,000	450,000	3.0		Approve as budgeted and adopt placeholder SRL and direct the LAO to work on language with consultants. 2-1
52	0650	Office of Planning and Research	Various Technical Adjustments	--	80,758,000	--	The January budget included a technical item to reappropriate carryovers from several past Greenhouse Gas Reduction Fund budget items.	Approve as budgeted. 2-1
53	0650	Office of Planning and Research	Cap and Trade Expenditure Plan: Climate Resilience Research, Regional Collaboration, and Implementation	--	18,000,000	--	The January budget included funding for several climate-related research programs housed at the Strategic Growth Council.	Reject this proposal without prejudice for inclusion in the June budget package and defer deliberation for a later date. 2-0
54	0840	State Controller	California State Payroll System (CSPS) Project	1,966,000	1,483,000	8.0	Support the project through continuation of CDT process.	Approve as Budgeted. 2-1
55	0840	State Controller	California Automated Travel Expense Reimbursement System (CalATERS)	1,764,000	1,332,000	14.5	Continuation of the project.	Approve as Budgeted. 2-1
56	0840	State Controller	Other Post-Employment Benefits (OPEB) Deduction Workload	512,000	386,000	7.0	Support employment history, payroll, other functions related to OPEB automation.	Approve as Budgeted. 2-1
57	0840	State Controller	Property Tax Postponement (PTP) Program - Continuing Positions and AB 133 Workload	--	540,000	4.0	Administration of the program.	Approve as Budgeted. 3-0

58	0845	Department of Insurance	Enhanced Fraud Investigation and Prevention (Fraud Data Analytics/eDiscovery)	840,000	--	--		Approve as budgeted. 3-0
59	0890	Secretary of State	HAVA Spending Plan	0	10,966,000	0.0		Approve as budgeted. 3-0
60	0890	Secretary of State	HAVA VoteCal	0	9,739,000	0.0		Approve as budgeted. 3-0
61	0890	Secretary of State	Domestic Partnerships (SB 30)	0	94,000	1.0		Approve as budgeted. 2-1
62	0890	Secretary of State	Vote Centers (SB 450)	0	464,000	0.0		Approve as budgeted. 2-1
63	0890	Secretary of State	Cannabis Filings and Trademark Workload	0	448,000	0.0		Approve as budgeted. 2-1
64	0950	State Treasurer's Office	Legislative Unit Staff Augmentation	--	148,000	1.0	Address increased workload.	Approve as Budgeted. 2-1
65	0959	California Debt Limit Allocation Committee	Staff Augmentation to Accommodate Growth in Workload	--	715,000	4.0	Address increased applications.	Approved as Budgeted. 2-1
66	0968	California Tax Credit Allocation Committee	Development and Compliance Section Augmentation	--	1,440,000	8.0	Administer the Low Income Housing Tax Credit.	Approved as Budgeted. 2-1
67	0968	California Tax Credit Allocation Committee	State Tax Credit Program Expansion	--	649,000	3.0	Extending limited-term positions.	Approved as Budgeted. 2-1

68	0971	California Alternative Energy and Advanced Transportation Financing Authority	Extension of the Sales and Use Tax Exclusion (STE) Program - AB 1583	--	263,000	1.0	Administer the Sales and Use Tax Exclusion Program.	Approved as Budgeted. 2-1
69	0981	California ABLE Act Board	Continued Administration of the California Achieving a Better Life Experience Program	--	1,190,000	3.0	Administration and continued operations.	Approved as Budgeted 3-0
70	1045	Cannabis Control Appeals Panel	Cannabis Control Appeals Panel	0	3,033,000	0.0		Approve as budgeted. 2-1
71	1045	Cannabis Control Appeals Panel	Technical Adjustment - Employee Compensation and Retirement Rate Adjustments Removal	0	-105,000	0.0		Approve as budgeted. 3-0
72	1045	Cannabis Control Appeals Panel	Technical Adjustment - Residual Appropriation Removal	0	-131,000	0.0		Approve as budgeted. 3-0
73	1111	Department of Consumer Affairs	Facilities Operations Funding Augmentation	0	3,592,000	0.0		Approve as budgeted. 3-0
74	1111	Department of Consumer Affairs	Legislative Workload	0	733,000	4.0		Approve as budgeted. 2-1
75	1111	Department of Consumer Affairs	BreEZe System Maintenance and Credit Card Funding	0	15,083,000	-6.0		Adopt proposal on a two-year limited term basis. 2-1
76	1111	Department of Consumer Affairs	Business Modernization Continued Implementation	0	5,231,000	0.0		Approve as budgeted. 2-1
77	1111	Department of Consumer Affairs	Equipment Adjustment	0	412,000	0.0		Approve as budgeted. 2-1

78	1111	Department of Consumer Affairs	Cannabis Residual Funding Back Out	0	-2,134,000	0.0		Approve as budgeted. 3-0
79	1111	Department of Consumer Affairs	Cannabis Control Fund BY & Ongoing Employee Comp and Retirement Backout	0	-2,533,000	0.0		Approve as budgeted. 3-0
80	1111	Department of Consumer Affairs	Information Technology Classification Consolidation Augmentation	0	525,000	0.0		Approve as budgeted. 3-0
81	1111	Department of Consumer Affairs	Attorney General Services Rate Increases	0	15,397,000	0.0		Approve as budgeted. 2-1
82	1111	Department of Consumer Affairs	Agency Contract Allocation Increase	0	88,000	0.0		Approve as budgeted. 2-1
83	1111	Department of Consumer Affairs	Distributed Prorata Allocation	0	387,000	0.0		Approve as budgeted. 3-0
84	1111	Department of Consumer Affairs	BAR Indirect Distributed Correction - Net Zero	0	0	0.0		Approve as budgeted. 3-0

85	1700	Department of Fair Employment and Housing	Enforcement and Administrative Resources	5780000	274,000	36.7	The May Revision sustains the January proposal for \$6.1 million in 2020-21 and \$6.4 million on going in General Funds and Fair Employment and Housing Enforcement and Litigation Funds. The proposal is to support the high increase in volume of administrative and enforcement workload experienced by the department.	Approve the Governor's proposal for \$6.1 million in General Fund and Fair Employment and Litigation Fund. 2-1
86	1701	Department of Business Oversight	Financial Empowerment Fund (SB 455)	0	0	1.0	Implement provisions of SB 455.	Approved as Budgeted 2-1
87	1701	Department of Business Oversight	Public Banking Startup (AB 857)	0	273,000	1.0	Implement provisions of AB 857.	Approved as Budgeted 2-1
88	1701	Department of Business Oversight	Administration Workload - FISCAL	0	281,000	2.0	Increased workload created by the transition.	Approved as Budgeted 2-1
89	1701	Department of Business Oversight	Technical adjustment to move expenditures to Fund 3363	0	0	0.0	Financial Protection Fund.	Hold open.
90	1701	Department of Business Oversight	Chapter 478, Statutes of 2019 (SB 455) Financial Empowerment Fund	0	1,345,000	0.0	Non-Budget Act item	Approve as budgeted. 2-1

91	2100	Department of Alcoholic Beverage Control	Business Modernization and Responsible Beverage Service	0	3,054,000	6.0	Trailer bill language extends the implementation of the Responsible Beverage Service Act to 2022.	Approve as budgeted and adopt trailer bill language. 2-1
92	2100	Department of Alcoholic Beverage Control	Facilities Rent Increases	0	576,000	--		Approve as budgeted. 3-0
93	2100	Department of Alcoholic Beverage Control	Attorney General Services Rate Increases	0	89,000	--		Approve as budgeted. 2-1
94	7502	Department of Technology	California Cybersecurity Integration Center	1,268,000	-	-		Defer this proposal. 2-0
95	7600	California Department of Tax and Fee Administration	Centralized Revenue Opportunity System (CROS) Project Implementation Phase - FY 2020-21	10,557,000	13,966,000	- 19.0	Continue implementation of the CROS Project.	Approve as Budgeted 2-1
96	7600	California Department of Tax and Fee Administration	California Health Care, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56)	-1,395,000	2,303,000	0.0	Address workload associated with cigarettes/tobacco products, including Prop 56 enforcement requirements.	Approve as Budgeted. 3-0
97	7600	California Department of Tax and Fee Administration	Cannabis Taxes Program	-666,000	7,766,000	29.8	Administration of the Cannabis Program.	Approve as Budgeted. 2-1

98	7600	California Department of Tax and Fee Administration	International Fuel Tax Agreement Workload Augmentation	--	1,376,000	7.0	Ensure compliance with the International Fuel Tax Agreement.	Approve as Budgeted. 3-0
99	7600	California Department of Tax and Fee Administration	Local Prepaid MTS Sunset Extension (SB 344)	--	513,000	3.2	Fulfill requirements of the Local Prepaid MTS Collection Act.	Approve as Budgeted. 3-0
100	7600	California Department of Tax and Fee Administration	E-Cigarette Tax Program Establishment	--	9,865,000	10.5	Administer proposed E-Cigarette Tax.	Hold open.
101	7600	California Department of Tax and Fee Administration	Sales Tax Extension for Diapers and Menstrual Products TBL				Extends exemptions to 2022-23.	Approve as Budgeted. 2-0
102	7730	Franchise Tax Board	California Competes	2,261,000	--	16.0	Convert 14 limited term positions to permanent positions and add two new permanent positions.	Approve as Budgeted 2-1
103	7760	Department of General Services	California Commission on Disability Access	700,000	-	2.0		Approve as budgeted. 2-1
104	7760	Department of General Services	Facilities Management Division Fire Alarm System Deferred Maintenance	23,600,000	-	-		Approve as budgeted. 3-0
105	7760	Department of General Services	Statewide Emergency Management Functions	-	295,000	2.0		Approve as budgeted. 2-1

106	7760	Department of General Services	Enterprise Technology Solutions Permanent Positions	-	-	9.0		Approve as budgeted. 2-1
107	7760	Department of General Services	California Pharmaceutical Collaborative Local Outreach	-	723,000	4.0		Approve as budgeted and adopt placeholder SRL and direct the LAO to work on language with consultants. 2-1
108	7760	Department of General Services	Contracted Fiscal Services Workload Increase	710,000	1,570,000	15.0		Approve as budgeted. 3-0
109	7760	Department of General Services	Shift Funding Source for School Facilities Program Administration	-	-	-		Approve as budgeted. 3-0
110	7910	Office of Administrative Law	Right-size Funding for Staff and Contracted Services	386,000	258,000	1.0		Approve as budgeted. 3-0
111	8620	Fair Political Practices Commission	Contribution Limits (AB 571)	932,000	-	6.0		Approve as budgeted. 2-1
112	8820	Commission on the Status of Women and Girls	New Office Space	288,000	--	--		Approve as budgeted. 2-1
113	8820	Commission on the Status of Women and Girls	Position Authority to Implement SB 24	--	--	4.0		Approve as budgeted. 2-1
114	8885	Commission on State Mandates	Mandate Reimbursements for U Visa 918 Form	3,300,000	--	--		Approve May Revision proposal. 2-0
115	8885	Commission on State Mandates	Mandate Reimbursements for Impasse Procedures II	1,009,000	--	--		Approve May Revision proposal. 2-0

116	8940	Military Department	California Cybersecurity Integration Center	1,231,000	--	8.0		Defer this proposal. 2-0
117	8940	Military Department	0000615 - Consolidated Headquarters Complex - Extension of Liquidation Project - COBCP - D	0	0			Approve May Revision proposal. 3-0
118	8955	Department of Veterans Affairs	CalVet Electronic Health Record Project	1,195,000	--	--		Approve as budgeted. 3-0
119	8955	Department of Veterans Affairs	Funding for the California Central Coast Veterans Cemetery Phase II	356,000	--	2.4		Approve as budgeted. 3-0
120	8955	Department of Veterans Affairs	Care Staffing and Operations	7,322,000	--	2.0		Approve as budgeted. 3-0
121	8955	Department of Veterans Affairs	Cemetery Staffing	127,000	--	1.0		Approve as budgeted. 3-0

VOTE -ONLY CALENDAR FOR MODIFICATIONS TO THE GOVERNOR'S BUDGET PROPOSALS FROM JANUARY (ISSUES 122 – 143)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos	General Fund	Other Funds	Pos	Staff Comments	Staff Recommendation
122	0890	Secretary of State	Records Management Coordinator (AB 469)	126,000		0.0	-63,000	0	0.0		Approve May Revision proposal. 2-1
123	0890	Secretary of State	Increasing Civic Engagement of California's Public Postsecondary Institutions (AB 963)	251,000		2.0	-125,000	0	0.0		Approve May Revision proposal. 2-1
124	0890	Secretary of State	Elections Printing Requirements and Ballot Design (AB 623)	50,000		0.0	-25,000	0	0.0		Approve May Revision proposal. 2-1
125	0890	Secretary of State	Voter Language Preference on Voter Notification Cards and Vote by Mail Applications (AB 1391)	300,000		0.0	-150,000	0	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
126	1111	Department of Consumer Affairs	Board and Bureau Workload		8,316,000	41.5	0	-1,400,000	-5.0		Hold open.

127	1111	Department of Consumer Affairs	Organizational Change Management Process Improvement		1,200,000	7.0	0	-297,000	-2.0		Approve for a three-year limited term. 2-1
128	1111	Department of Consumer Affairs	Increased Workload Related to Health Care Practitioners and Unprofessional Conduct - Medical Board (SB 425)		2,057,000	12.5	0	-1,233,000	-8.0		Approve May Revision proposal. 2-1
129	1111	Department of Consumer Affairs	Increased Workload Related to Health Care Practitioners and Unprofessional Conduct - Investigation and Enforcement Unit (SB 425)		613,000	3.0	0	-408,000	-2.0		Approve May Revision proposal. 2-1
130	1750	California Horse Racing Board	Horse Racing Safety Panel		1,334,000	12.0	0	-1,169,000	-2.5		Approve May Revision proposal. 3-0
131	7502	Department of Technology	Statewide Technology Procurement Level of Service	932,000		6.0	-	-460,000	-3.0		Approve May Revision proposal. 2-1

132	7502	Department of Technology	California Department of Technology Workload Increase	1,360,000		8.0	-458,000	-196,000	-4.0		Approve May Revision proposal. 2-1
133	7502	Department of Technology	Endpoint Protection Platform	5,069,000			-5,069,000	2,535,000	-		Approve May Revision proposal. 2-1
134	7502	Department of Technology	Security Operations Center and Audit Program Funding	15,099,000			-15,099,000	15,099,000	-		Approve May Revision proposal. 2-1
135	7760	Department of General Services	May Revision Facilities Management Division Elevator Deferred Maintenance	56,433,000			-14,196,000	-	-	Removes the costs related to renovations at Hiram Johnson building.	Approve May Revision proposal. 3-0
136	7760	Department of General Services	May Revision Electric Vehicle Service Equipment Assessments and Infrastructure	14,956,000	23,373,000	1.0	-14,956,000	-	-		Approve May Revision proposal. 2-1
137	7760	Department of General Services	May Revision Office of Administrative Hearings Special Education Division Workload Increase		1,232,000	10.0	-	-1,232,000	-		Approve May Revision proposal. 2-1

138	8940	Military Department	Modification of 0000615 - Consolidated Headquarters Complex Project - Extension of Liquidation - COBCP - Performance Criteria							Extends the liquidation period for the performance criteria phase.	Approve May Revision proposal. 3-0
139	8955	Department of Veterans Affairs	Adjustment to Legal Affairs and Investigation Division Staffing	901,000	159,000	7.0	-901,000	-159,000	-5.0		Approve May Revision proposal. 3-0
140	8955	Department of Veterans Affairs	Adjustment to Strategic Realignment and Mental Health Support	2,318,000	-	12.5	-1,191,000	--	-7.0	Changes reflect the Barstow home closure and a one year delay at Chula Vista and Yountville.	Approve May Revision proposal. 3-0
141	8955	Department of Veterans Affairs	Adjustment to FISCAL Workload	1,432,000	106,000	13.0	-398,000	-74,000	-4.0		Approve May Revision proposal. 3-0

142	8955	Department of Veterans Affairs	Modification of 0000626 - Veterans Home of California, Yountville: Steam Distribution System Renovation - COBCP - C	7,833,000	-	0.0	-7,833,000	7,833,000		Funding source changed from General Fund to lease revenue bond funding through the Public Buildings Construction Fund.	Approve May Revision proposal. 3-0
143	9860	Capital Outlay Planning and Studies Funding	0000668 - Modification of Statewide Planning and Studies	2,000,000			-2,000,000	0			Adopt budget bill language to revert \$1.5 million from 2019 Budget Act and approve May Revision proposal. 3-0

VOTE -ONLY CALENDAR FOR NEW ADMINISTRATION PROPOSALS INTRODUCED IN MAY (ISSUES 144-194)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos.	Staff Comments	Staff Recommendations
144	0110 / 0120 / 0130	Legislature	Legislature SAL Adjustment	-2,057,000	--	0.0	SAL adjustment to the Legislature's budget.	Approve May Revision proposal. 3-0
145	0650	Office of Planning and Research	Adjust Current Year Precision Medicine to Reflect Available General Fund Savings	--	--	--	This proposal would revert \$18.1 million in unencumbered funds for Precision Medicine and redirect the remaining \$9.8 million towards the Adverse Childhood Experiences program.	Hold open for future consideration.
146	0890	Secretary of State	California Business Connect Project	0	14,848,000	0.0		Adopt budget bill language and approve May Revision language. 2-1

147	0890	Secretary of State	CAL-ACCESS Replacement System Project	13,430,000	700,000	0.0		Approve \$14.1 million for the Cal-ACCESS Replacement System Project and adopt reporting language to require SOS to submit a report by December 1, 2020 that demonstrates whether they will be able to meet the February 2020 deadline. 2-1
148	0890	Secretary of State	Loan from Victims of Corporate Fraud Compensation (3042) to General Fund (0001) per Item 0890-011-3042, Budget Act of 2020	0	-11,500,000	0.0		Adopt budget bill language and approve May Revision language. 3-0
149	0959	California Debt Limit Allocation Committee	Loan from California Debt Limit Allocation Committee Fund (0169) to General Fund (0001) per Item 0959-011-0169, Budget Act of 2020	0	4,000,000	0.0	Special Fund loan.	Approve May Revision proposal. 3-0
150	0968	California Tax Credit Allocation Committee	Loan from Occupancy Compliance Monitoring Account (0448) to General Fund (0001) per Item 0968-011-0448, Budget Act of 2020	0	-60,000,000	0.0	Special Fund loan.	Approve May Revision proposal. 3-0
151	0968	California Tax Credit Allocation Committee	Loan from Tax Credit Allocation Fee Account (0457) to General Fund (0001) per Item 0968-	0	-60,000,000	0.0	Special Fund loan.	Approve May Revision proposal. 3-0

			011-0457, Budget Act of 2020					
152	0971	California Horse Racing Board	Equine Analytical Chemistry Laboratory Funding	0	1,344,000	0.0		Approve May Revision proposal. 2-1
153	0971	California Alternative Energy and Advanced Transportation Financing Authority	Administration of the CA Hub for Energy Efficiency Financing Pilot Program	0	2,503,000	0.0	Special Fund loan.	Approve May Revision proposal. 2-1
154	1111	Department of Consumer Affairs	Continued Implementation of Cannabis Licensing and Enforcement Activities	0	68,924,000	42.0		Adopt placeholder trailer bill language and budget bill language, and approve May Revision proposal. 2-1
155	1111	Department of Consumer Affairs	TBL for Various Fee Increases	0	TBD	0.0		Hold open.
156	1111	Department of Consumer Affairs	Amendments to CS 14.00 of the Budget Bill	0	0	0.0		Adopt May Revision proposal and approve budget control section language. 3-0
157	1111	Department of Consumer Affairs	CURES Expenditure Technical Adjustment for Chapter 677 Statutes of 2019 (AB 528)	0	34,000	0.0		Hold open.
158	1111	Department of Consumer Affairs	Fund Mergers	0	0	0.0		Approve May Revision proposal. 3-0

159	1111	Department of Consumer Affairs	Pro Rata Adjustment for May Revision Changes	0	0	0.0		Approve May Revision proposal. 3-0
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160	1111	Department of Consumer Affairs	Loan from the Barbering and Cosmetology Contingent Fund (0069) to the General Fund (0001) per Item 1111-011-0069, Budget Act of 2020	0	-25,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
161	1111	Department of Consumer Affairs	Loan from the Psychology Fund (0310) to the General Fund (0001) per Item 1111-011-0310, Budget Act of 2020	0	-900,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
162	1111	Department of Consumer Affairs	Loan from the Vehicle Inspection and Repair Fund (0421) to the General Fund (0001) per Item 1111-011-0421, Budget Act of 2020	0	-30,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
163	1111	Department of Consumer Affairs	Loan from the High Polluter Repair or Removal Account(0582) to the General Fund (0001) per Item 1111-011-0582, Budget Act of 2020	0	-60,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
164	1111	Department of Consumer Affairs	Loan from the Accountancy Fund (0704) to the General Fund (0001) per Item 1111-011-0704, Budget Act of 2020	0	-10,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1

165	1111	Department of Consumer Affairs	Loan from the State Dentistry Fund (0741) to the General Fund (0001) per Item 1111-011-0741, Budget Act of 2020	0	-5,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
166	1111	Department of Consumer Affairs	Loan from the Board of Registered Nursing Fund (0761) to the General Fund (0001) per Item 1111-011-0761, Budget Act of 2020	0	-30,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
167	1111	Department of Consumer Affairs	Loan from the Pharmacy Board Contingent Fund (0767) to the General Fund (0001) per Item 1111-011-0767, Budget Act of 2020	0	-2,400,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
168	1111	Department of Consumer Affairs	Loan from the Enhanced Fleet Modernization Subaccount, High Polluter Repair or Removal Account (3122) to the General Fund (0001) per Item 1111-011-3122, Budget Act of 2020	0	-3,400,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
169	1111	Department of Consumer Affairs	CURES Expenditure Adjustment via AB 528	0	1,567,000	0.0		Hold open.

170	1700	Department of Fair Employment and Housing	Facilities Operations Funding Augmentation	423,000	0	0.0	The May Revision augments the January budget proposal by \$423,000 in General Fund to lease office space with the help of Department of General Services in Riverside and East Bay Area to accommodate increased staff.	Approve the Governor's new proposal for \$423,000 in General Fund. 2-1
171	7600	Alcoholic Beverage Control Appeals Board	Align Resources with Programmatic Needs	0	129,000	0.0		Approve May Revision proposal. 3-0
172	7600	Department of Real Estate	Loan from the Real Estate Fund (0317) to the General Fund (0001) per Item 2320-011-0317, Budget Act of 2020	0	(5,000,000)	0.0		Approve May Revision proposal. 2-1
173	7600	California Department of Tax and Fee Administration	Tax and Fee Program Changes and Technical Adjustment	3,631,000	8,019,000	11.5	Resources to add the e-cigarette tax to automated system, address increased workload, and reappropriate funds associated with CROS.	1) Approve as budgeted the workload increase and reappropriation, and 2) hold open the resources related to the e-cigarette tax. 2-1
174	7600	California Department of Tax and Fee Administration	May Revision Appropriation Adjustment	-25,000,000	0	0.0	Current year position savings.	Approve May Revision proposal. 3-0

175	7730	Department of Real Estate	TBL to Eliminate Requirement to Reduce Fees Related to General Fund Loans	0	0	0.0		Approve May Revision proposal. 2-1
176	7730	Franchise Tax Board	Reappropriation for Item 7730-001-0001	8,000,000	0	0.0	--	Approve May Revision proposal. 2-1
177	7760	Department of General Services	Real Estate Services Division Implementation of SB 6 and AB 1255	-	-	-	This request will provide \$1.3 million General Fund and 5 positions to implement a database pursuant to SB 6 (2019) and AB 1255(2019), beginning in 2021-22. \$794,000 General Fund is three-year limited term funding.	Approve May Revision proposal. 2-1
178	7760	Department of General Services	Toxic Substances Control Account Appropriation for Government Claim Payment	-	25,000	0.0	\$25,000 to pay a government claim pursuant to Health and Safety Code Section 25372, which authorizes persons to submit claims related to the release of hazardous materials.	Approve May Revision proposal. 3-0
179	7760	Department of General Services	Funding for Unreimbursed Camp Fire Expenditures	-	-	-		Approve May Revision proposal. 3-0

180	7760	Department of General Services	Reduction for the R Street Parking Lot		-10,700,000			Hold open.
181	7760	Department of General Services	Loan from Disability Access Account (0006) to General Fund (0001) per Item 7760-011-0006, Budget Act 2020	-	-35,000,000	-		Approve May Revision proposal. 3-0
182	7760	Department of General Services	Loan from Public School Planning, Design and Construction Review Revolving Fund (0328) to General Fund (0001) per Item 7760-011-0328, Budget Act of 2020	-	-35,000,000	-		Approve May Revision proposal. 3-0
183	7760	Department of General Services	Loan from Building Standards Administration Special Revolving Fund (3144) to General Fund (0001) per Item 7760-011-3144, Budget Act of 2020	-	-7,400,000	-		Approve May Revision proposal. 3-0
184	7760	Department of General Services	Transfer from the State Project Infrastructure Fund (3292) to the General Fund	0	0			Hold open.
185	8260	California Arts Council	Reversion of Funding for the Korean American National Museum	-	-	-		Hold open.

186	8940	Military Department	CMD State Network	3,914,000	--	9.0	Establishes a state information technology network to allow state service members and employees to administer state functions independently of the federal computer network. The federal government has issued guidelines requiring state functions to be performed outside of the federal network.	Approve May Revision proposal. 3-0
187	8940	Military Department	State Active Duty Compensation Adjustment	81,000	27,000	--		Approve May Revision proposal. 3-0
188	8940	Military Department	Lathrop-Roth Training Complex: Utilities Connection	1,800,000	--	--		Approve May Revision proposal. 3-0
189	8940	Military Department	Reduction to Cadet Corps	-6,286,000	--	-10.0		Approve May Revision proposal. 3-0
190	8940	Military Department	0000981 - Los Alamitos: National Guard Readiness Center - COBCP/Reappropriation - C	26,852,000	0			Approve May Revision proposal. 3-0

191	8940	Military Department	Revert 2019 Authority for Three Sustainable Armory Renovation Program Projects - COBCP/Reversion - DB	0	0			Approve May Revision proposal. 3-0
192	8955	Department of Veterans Affairs	Reversion of Funding for the Veterans Career Pathways in the City of Los Angeles	0	--	0.0		Adopt budget bill language and approve May Revision proposal. 3-0
193	8955	Department of Veterans Affairs	0000706 - Veterans Home of Yountville: Skilled Nursing Facility - COBCP - DB	0	317,093,000	0.0	Lease revenue bond financing. VA has accepted California's application.	Approve May Revision proposal. 3-0
194	8955	Department of Veterans Affairs	0000690 - Reversion of Southern California Veterans Cemetery Master Development Fund	0	0	0.0	Transfers \$24.5 million to the General Fund.	Approve May Revision proposal. 3-0
195	9210	Local Government Financing	Revert Funds for Paradise Irrigation District	-7,374,000	--	--		Defer this proposal. 2-0

Items for Discussion

BU 0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 196: California Volunteers' Emergency Support Function-17 and AmeriCorps Funding Strategy

Request. The May Revision includes \$13 million General Fund and 18.0 ongoing staff positions in Fiscal Year (FY) 2020-21 and \$22.35 million General Fund ongoing in FY 2021-22 for the California Volunteers effort.

Background. The 2019 Budget Act provided \$20 million General Fund over two years to California Volunteers as the first step in expanding the AmeriCorps program to 10,000 members. California Volunteers has used this funding to add 471 new members and increased the education grant to \$10,000 for 1,913 new and existing members.

In 2006, Executive Order S-04-06 tasked California Volunteers, then the California Service Corps, with ensuring the coordination of volunteer activities related to disaster response and recovery. In 2008, S-04-06 was supplemented by S-02-08, which designated California Volunteers as the lead agency under the California Emergency Services Act for the coordination of volunteer activities, along with monetary and in-kind donations during times of disaster (Emergency Support Function 17). Therefore, in partnership with the California Office of Emergency Services (Cal OES), California Volunteers is tasked with connecting with volunteer and philanthropy stakeholders and establishing systems to support effective collaboration during all phases of emergency management.

Staff Comments. The administration has indicated that \$2.9 million will be directly tied to the COVID-19 response and supporting the administrative oversight of the ESF-17 volunteer engagement disaster/emergency strategy. Another \$10.1 million will primarily support existing AmeriCorps programs across California.

While there is clearly merit in expanding volunteer opportunities in California, the current fiscal situation may limit the ability of the state to invest new efforts.

Staff Recommendation. Hold open.

COVID-19: NEW AND AMENDED BUDGET CONTROL SECTIONS**Issue 197: Control Section 11.90**

Proposal. The May Revision proposes to add Control Section 11.90 to give the Department of Finance the authority to allocate Coronavirus Aid, Relief, and Economic Security (CARES) Act funds. Specifically, the proposed language would authorize allocations received from the Coronavirus Relief Fund for the state's COVID-19 response. These funds are available for specified purposes for costs incurred between March 1, 2020 and December 30, 2020.

Background. The CARES Act, adopted by Congress and signed into law on March 27, 2020, included \$2.2 trillion in federal stimulus for the nation. The CARES Act established the Coronavirus Relief Fund and appropriated \$150 billion to the Fund. According to the Department of Finance, California will receive \$9,525,564,744 for expenditures incurred by the state and local governments due to the COVID-19 public health emergency.

Staff Comment. Section 28.00 already provides for administrative approval of augmentations for the expenditure of federal funds and other non-state funds received after the Legislature has approved a budget. Section 28.00 authorizes the Director of Finance to augment any program with the amount available for the specified expenditure. In addition, it requires the Director to provide the chairperson of the Joint Legislative Budget Committee and the chairpersons of the appropriate budget subcommittees with a notification 30 days prior to any expenditure.

Staff Recommendation. Hold Open.

Issue 198: Control Section 11.95

Proposal. The May Revision proposes to add Control Section 11.95 to give the Department of Finance the authority to allocate funds authorized by federal legislation for the purpose of offsetting state expenditures incurred during the COVID-19 public health emergency and supporting the state's COVID-19 response. The proposed language would allow the Director to adjust any 2020-21 budget item to account for additional federal funding for COVID-19 response.

Staff Comment. The proposed control section grants broad authority to the Administration to adjust any item in the 2020-21 budget with future federal funds "to account for additional federal funding to support the COVID-19 response." Historically, augmentations of unanticipated federal funds and other non-state funds have been made through Section 28.00. As stated above, Section 28.00 authorizes the Director of Finance to augment any program with the amount available for the specified expenditure as long as the Director provides the chairperson of the Joint Legislative Budget Committee and the chairpersons of the appropriate budget subcommittees with a notification 30 days prior to any expenditure.

Staff Recommendation. Hold Open.

Issue 199: Control Section 36.00

Governor's Proposal. The May Revision proposes to include and amend Control Section 36.00 in the Budget Act of 2020-21.

Background. SB 89, which passed the Legislature on March 17, 2020 with bipartisan support, added Section 36.00 to the Budget Act of 2019-20 to address the Governor's March 4, 2020 COVID-19 Proclamation of Emergency. It included an appropriation of \$1 billion in General Fund to be utilized, upon the order of the Director of Finance and a 72-hour written notice to the Joint Legislative Budget Committee, for any purpose related to the March 4, 2020 Proclamation of Emergency. To date, the Director has made COVID-19-related augmentations in the amount of \$805 million. The May Revision proposes to extend the terms of Section 36.00 in the Budget Act of 2020-21 with an additional augmentation of \$2.86 billion.

Staff Comment. In March, the Legislature passed SB 89, with bipartisan support, which added Section 36.00 to the Budget Act of 2019-20. It gave the Administration broad authority to spend up to \$1 billion to support the state's emergency response to the COVID-19 crisis while the Legislature was in recess because of the statewide stay-at-home order. \$195 million of the \$1 billion remains available for urgent spending needs until June 30, 2020. Even though the Legislature is back in session, the Administration is seeking the same broad spending authority for an additional \$2.86 billion in the Budget Act of 2020-21.

Staff Recommendation. Hold Open.

Federal Fund Items for Discussion**BU 1701: DEPARTMENT OF BUSINESS OVERSIGHT (DBO)****Issue 200: Expanding DBO into Department of Consumer Financial Protection and Innovation**

The Governor’s Proposal. Retaining all powers, duties, responsibilities and functions of DBO, the Governor’s proposal seeks to expand DBO with new divisions and offices into the new Department of Financial Protection Innovation (DFPI). The May Revision maintains the January proposal and makes requested resources contingent upon the Legislature passing the necessary statutory changes needed for the new program. The DFPI request is for \$10.2 million and 44 positions in 2020-21 (increase of 9.4 percent in expenditure, 7.4 percent in staffing), \$14.8 million and 28 positions in 2021-22 (increase of 12 percent in expenditure, 4 percent in staffing), \$19.3 million and an additional 18 staff positions in 2022-23 (increase of 14 percent in expenditure, 3 percent in staffing), and ongoing funding. Upon full implementation the new DFPI department will total \$152.4 million in operational expenditure and be staffed with approximately 705 personnel, a total increase 44.3 million and 90 positions relative to current baseline.

Background. DBO was established in 2013 with the merger of regulatory activities of Department of Corporations (which regulated financial entities such as securities brokers and dealers, financial planners, and mortgage lenders unaffiliated with banks) with the Department of Financial Institutions (which had regulatory powers over state-chartered banks, credit unions, money transmitters, and savings and loan associations). As the state’s main financial marketplace regulator, DBO licenses and regulates financial services and providers, oversees and enforces safe and sound financial practices, and provides consumer services and education around financial services and products. At the beginning of 2018, DBO reported maintaining oversight of 23 financial service industries, and licensing and supervising more than 360,000 individuals and businesses. DBO carries out its responsibilities and functions with 615 staff positions and an operational budget totaling \$108 million. Current activities of DBO are funded with a combination of special funds from the State Corporations Fund, the Financial Institutions Fund, the Credit Union Fund and the Local Agency Deposit Security Fund. These funds are largely drawn from licensing fees, examination fees, penalty assessments, reimbursements, settlements or other monies charged by the department from financial service providers currently overseen by DBO.

Key Motivations. There are four key motivations for proposed expanded consumer protection:

Consumer financial protection has been weakened at the federal level. The federal agency singularly tasked to ensure banks, lenders, and other financial service companies treat consumers fairly is the Consumer Financial Protection Bureau (CFPB). Under the Trump Administration, the CFPB has seen severe drop in enforcement cases and actions, reductions in examination of military lending protection compliance and the dismantling of CFPB’s unit dedicated to students and young consumers in addition to various efforts to delay and in effectuate proposed consumer protection regulations.

There is high and increasing demand on DBO's existing infrastructure. At the end of 2019, the DBO was overseeing businesses with a cumulative total of over \$1.1 trillion in assets in the banked sector alone. In 2019, in its supervisory and enforcement capacity, DBO undertook more than 480 enforcement actions against financial service providers. The department's responsibility continues to expand as it has been entrusted to enact approximately 80 Chaptered Bills between 2015 and 2019. Currently, DBO is overtasked in one area as it spends 70 percent or more of its operational expenditure on licensing and supervising activities of banked businesses and transactions. It was in this spirit that Assembly Member Limón introduced legislation, AB 1048, seeking to enhance DBO's capacity for enforcement and investigation of potential for financial harm in 2019.

State Special Funds: (\$ in thousands)	Expenditure		Fund Condition		
	Actual 2018-19	Est. 2019-20	2018-19	2019-20	2020-21
State Corporations Fund	\$ 54,479	\$ 60,689	\$ 87,189	\$ 103,484	
Financial Institutions Fund	\$ 32,977	\$ 35,063	\$ 44,263	\$ 40,346	
Local Agency Deposit Security Fund	\$ 535	\$ 587	\$ 95	\$ 132	\$ 132
Credit Union Fund	\$ 10,898	\$ 11,450	\$ 980	\$ 577	\$ 577
Financial Protection Fund [new]					\$ 138,477
Financial Empowerment Fund [new]					\$ 5,353
Total	\$ 98,889	\$ 107,789	\$ 132,527	\$ 144,539	\$ 144,539

There is fragmented oversight over financial products and services. While many depositories and non-depositories are subject to DBO regulation and oversight, many other financial services and products are regulated by a fragmented set of financial laws and state and federal entities. For example, auto-financing is subject to consumer protections under the Rees-Levering Act, check cashers are regulated by the Department of Justice, consumer credit reporting agencies are regulated at the federal level, while pawn brokers are licensed at the local level. Other financial services and providers like debt collectors, lead generation, earned income access providers, franchise brokers and retail-sales financing are subject to certain financial laws but not regulated by any regulatory entity.

COVID-19 and economic downturn could worsen financial vulnerability of consumers. In a 2017 U.S. survey by the Federal Trade Commission, nearly 16 percent of consumers were victims of fraud like falsely being told that they owed money to the government or unauthorized billing by service providers. A majority of fraudulent activities were pushed through internet transactions and those who have recently experienced negative life events like severe illness or death of a loved one were shown to be 2.5 times more vulnerable. Given the unique impact of COVID-19 on both health and finances of consumers, and the rapid transition to online services due to the pandemic, it is likely that consumers will be at greater risk to financial victimization.

Proposed New Offices and Activities for DFPI. More than half of the proposed staffing increase is going to new roles and new units to establish the new DFPI. The following are key highlights:

- DFPI merges the traditionally separated Division of Financial Institutions and Division of Corporations under one division and a senior deputy commissioner.
- A new Division of Consumer Financial Protection will be created. This division will house Supervision and Registration Office for registering and supervising new classes of financial services and products, an Analytics office which will focus on financial market monitoring and research activities and a Targeted Consumer Education office designed to provide financial empowerment tools and information to students, seniors, military service members, new Californians.
- DFPI will have a new Financial Technology Office which is proposed to encourage innovation, enable fintech to operate nationwide, and research emerging and new innovative technologies.
- DFPI will also have a new Office of Ombudsperson which will have a single staff to act as an independent, impartial resource for stakeholders.
- The budget change proposal also seeks to revamp staffing in the existing Legal and Enforcement division.

Proposed Statutory Authority and New Powers for DFPI. The Governor’s accompanying trailer bill language seeks to expand DBO’s powers as follows:

Newly Covered Persons (NCPs) and Service Providers and Registration. The proposed trailer bill language defines a covered person as any person that engages in offering or providing a consumer financial product or service, and a service provider as any person that provides a material service to a covered person in connection with the offering of a consumer financial product or service (with additional clarifications). Since many existing DBO licensees fall under these definitions, the revised trailer bill language limits the DFPI to prescribe rules regarding registration fees and requirements only to NCPs and service providers, exempting current licensees and those licensed or registered by other state or federal agencies. DBO estimates 9000 NCPs to register annually.

Unfair, Deceptive, Abusive Acts and Practices (UDAAP). The proposed trailer bill gives DFPI authority to prescribe rules applicable to covered persons and service providers, identifying certain UDAAP as unlawful in connection with the offer or provision of a consumer financial product. The trailer bill also provides DFPI authority to bring enforcement actions against any covered person that engages, has previously engaged, or proposes to engage in UDAAP. Along with the CFPB, local district attorneys and the Attorney General, DBO already enjoys the authority to enforce “unfair” and “deceptive” practices provisions over most of its existing licensees under the California under Business and Professions Code Section 17200. The term “abusive” is defined in the trailer bill consistent with Dodd-Frank. The CFPB has recently issued a policy statement regarding the lack of certainty in scope and meaning of the abusiveness standard contained in Dodd-Frank. As a result, it has mostly appeared alongside unfairness or deceptive claims.

Enforcement Tools. Proposed trailer bill empowers DFPI with enforcement tools, including the ability to order rescission or reformation of contracts, refund of moneys or return of real property, restitution, disgorgement or compensation for unjust enrichment, and a range of civil and administrative monetary penalties based on violation.

Fund Reorganization. The trailer bill proposes to merge two of DBO's four existing funds (the Financial Institutions Fund and the State Corporations Fund) into a new Financial Protection and Innovation Fund to fund the transition from DBO to DFPI over the coming three years. However, DBO continues to maintain the other two funds as stand-alone.

LAO's May Revise Recommendation. Consistent with our February analysis, we recommend that the Legislature consider this proposal through the policy process. We recommend this approach due to the number of policy questions involved and the lack of time for Legislature to consider the proposal this year as part of the budget process. After policy decisions are made, we recommend providing funding at a level that is adjusted, as relevant, depending on policy changes that are adopted. To the extent funding is provided in the budget year, we recommend that the Legislature reject the funding requested for positions that are not needed in the budget year, and that the Legislature fund some activities on a limited-term, pilot basis, which is also consistent with our February analysis.

Staff Recommendation. Hold open.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)**Issue 201: Used Car Dealer Sales Tax and Private Party Vehicle Sales - Valuation**

Request. The May Revision includes the following two proposals that result in increased revenue:

- 1. Used Car Dealer Sales Tax.** The May Revision would require motor vehicle dealers, other than new motor vehicle dealers, as defined, to remit to the Department of Motor Vehicles (DMV) applicable sales tax, measured by the sales price of the vehicle with the registration fee. This requirement would be effective January 1, 2021 and generate \$12 million of revenue in 2020-21 and \$24 million in 2021-22.
- 2. Private Party Vehicle Sales – Valuation.** The May Revision would require the Department of Motor Vehicles (DMV) to collect use tax from purchasers in private-party sales, and would require the DMV to calculate use tax as the greater of the vehicle's sale price or the vehicle's standard presumptive value. This requirement would be effective January 1, 2021.

Background.

Used Car Dealer Sales Tax. Used motor vehicle dealers are required to register vehicles with the DMV and pay the registration fee when a used car is sold. Separately, the used vehicle dealers are required to report the sale and remit sales tax to CDTFA.

CDTFA receives data from the DMV on vehicle registrations quarterly and uses it to estimate the value of vehicles sold based on the DMV's registration fee schedules. CDTFA has used this data to determine that there is a significant gap between the amount of sales tax paid on used car sales and the amount that would be expected to be paid based on the DMV's registration data. CDTFA believes that this tax gap consists of both sales by dealers who do not have active seller's permits and by dealers' intentional underreporting sales value. For example, CDTFA knows of 46 separate dealers that have registered vehicles with DMV since 1996 but not reported sales tax, accounting for a total of \$280 million in unreported tax.

Private Party Vehicle Sales – Valuation. Under current law, the California Department of Tax and Fee Administration (CDTFA) contracts with DMV to collect use tax from vehicle purchasers on private party sales. Vehicle purchasers are required to pay this tax to the DMV when they register the vehicle. Use tax paid is based on the self-reported sales price of the vehicle, an amount that is difficult for CDTFA to verify. CDTFA believes this amount is frequently underreported, allowing the purchaser to avoid tax and fee liability on

the purchase. DMV data indicates that private party vehicle sales prices are 33 percent lower on average than similar cars sold through a dealer and that the sale amount is often zero.

This proposal would require that the sales price used to calculate use tax owed in a private party sale would equal the greater of:

- The amount paid or to be paid for the vehicle, or
- 80% of the vehicle's standard presumptive value, which is defined as the value as provided in the Kelley Blue Book or other similar motor vehicle guide as prescribed by the DMV.

If the value of the vehicle is lower than 80% of the car's presumptive value, the purchaser would be required to provide the DMV with a certified appraisal valuing the car at that lower amount within 20 days of the date of purchase.

Legislative Analyst's Office (LAO). According to the LAO, data provided by the administration suggest there are substantial use tax compliance problems for private party vehicle sales. The Governor's proposed solution, however, would place unreasonable burdens on taxpayers who already comply with the law. In particular, the proposal likely would require many compliant taxpayers either to overpay use tax or to incur the hassle and expense of obtaining a certified appraisal and submitting it to DMV. This problem would arise because the proposal does not adequately account for variation in legitimate sale prices. The estimates provided by standard vehicle guides depend crucially on information that DMV does not collect, such as the condition of the vehicle. Even if DMV collected more detailed information about vehicles, many legitimate sale prices still likely would fall below the 80 percent threshold. Research suggests that retail prices of identical goods tend to vary widely—even in the same geographic area and time period—with a substantial share falling below 80 percent of the average price.

Staff Recommendation. Hold open.

Issue 202: Vaping Tax

The Governor's Proposal. The Governor's January proposal introduced statutory trailer bill language to levy an additional, nicotine-based tax on vaping (e-cigarette) products. The May Revision maintains the January proposal. The proposed tax set to begin on January 1, 2021 will be \$2 per 40 milligrams of nicotine. The Administration intends to create a system of tax stamps analogous to the state's cigarette tax program. Revenue is proposed to be deposited into a new special fund to be used for administration of law, carrying out enforcement activities and for youth health programs. The Administration projects \$33 million in revenue from this proposal in 2020-21 and \$66 million ongoing.

Background. E-cigarettes (vaping products) refer to a diverse group of products that produce a heated aerosol containing nicotine which is inhaled by users via a mouthpiece. Common components of e-cigarette devices include a battery, heating coil, atomizer (transforms the e-liquid into an aerosol), cartridge containing e-liquid, and mouthpiece. Next generations of e-cigarettes are often odorless, rechargeable, designed in shapes that are easy to conceal, and come in various flavors like fruit and candy. As a result, these products are increasingly attractive to adolescents.

According to the 2019 National Youth Tobacco Survey conducted by the Centers for Disease Control (CDC) and the federal Food and Drug Administration (FDA), 27.5 percent of high school students and 10.5 percent of middle school students in the US use e-cigarettes or vape as compared to 5.8 percent of high school students and 2.3 percent of middle school students who use conventional combustible cigarettes. In addition to the various lung and heart health impacts of nicotine, exposure to nicotine in adolescents' brains can impact learning, memory, and attention, and increase risk for future addiction. A 2018 RAND study of California youth also demonstrated that adolescents who use vaping products are more likely to smoke cigarettes and increase their use of both products as they become adults. In addition to nicotine, e-cigarette e-liquids also contain and emit potentially toxic substances depending on use and device characteristics.

Although youth are overwhelmingly represented in vaping statistics, millions of American adults also use e-cigarettes albeit at a relatively lower rate than combustible cigarettes. A 2018 review by National Academy of Sciences (NAS) committee experts reports that while e-cigarette aerosols contain fewer and lower levels of toxicants than smoke from combustible tobacco cigarettes, the level of nicotine exposure can be similar. Although proponents argue that use of e-cigarettes aid the adult cessation of combustible tobacco, the NAS report concludes that there is limited existing evidence to support this claim. However, there is conclusive evidence that complete substitution of e-cigarettes from combustible tobacco has harm reduction benefits as it significantly reduces users' exposure to various toxicants and carcinogens present in combustible tobacco. Therefore, there is some need to balance the harm-reducing benefits of e-cigarettes relative to conventional tobacco use among adults with the harmful effects of growing e-cigarettes use among adolescents.

In 2016, in a move to reduce access to teen smokers, California raised the lawful age to buy tobacco products from 18 to 21. In 2017, after Proposition 56, California began imposing excise taxes on cigarettes and non-cigarette tobacco-containing products, including e-cigarettes. California currently levies a 59 percent excise tax on the wholesale price of e-cigarettes and revenues are deposited into a special fund going to various activities including administrative costs and Medi-Cal programs for low-income Californians.

Nationally, the CDC and the FDA have raised alarm around the eruption of severe cases of lung illnesses linked with vaping in many states last summer, and moved to enact bans on select flavors like mint and fruit in January 2020. In California, the Governor issued an executive order in September of 2019 directing CDTFA and the Department of Public Health to develop recommendations related to e-cigarettes. Localities like San Francisco City and Los Angeles County have already taken action and banned flavored e-cigarettes since 2018 and 2019 respectively. Currently in the state Legislature, SB 793 (Hill) seeks to enact a statewide ban on all flavored e-cigarettes including menthol which was exempted in the federal ban.

The current respiratory-system-impacting pandemic (COVID-19) introduces an additional factor to consider for policy makers. If passed, the Governor's nicotine-based tax would be the first in the country. The Governor's proposal seeks to employ a stamps-based system where distributors would purchase tax stamps from the state-approved vendor, then affix them to e-cigarette products before they sell to wholesalers or retailers. Distributors would round up the total amount of nicotine in their product to the next-highest multiple of 20 mg, and assess a \$1 tax per 20 mg. Revenues are proposed to be deposited into a new special fund to increase enforcement activities and to offset Medi-Cal costs. The proposal also includes \$13.9 million and 10.5 positions for the CDTFA to administer the proposed tax and \$7 million for the California Highway Patrol to establish a task force in collaboration with the Department of Justice dedicated to combating the underground market for vaping products.

LAO Comments. Following are some of the comments that the LAO had regarding this proposal.

Effects on Vaping and Smoking. Our review of available evidence suggests that the proposed tax likely would reduce both youth and adult e-cigarette use substantially. The tax also likely would increase adult cigarette smoking. The effects on youth cigarette smoking are unclear.

Tax Structure. If the Legislature wishes to enact a new tax on e-cigarettes, the proposed nicotine-based tax structure is reasonable. If the Legislature agrees with the Governor's focus on reducing youth e-cigarette use, we suggest it consider alternative nicotine-based taxes that place higher rates on products that tend to encourage or enable youth use.

Governor's Proposed Tax Rate. The administration estimates that its proposal would result in roughly the same state tax rate on nicotine intake, whether that intake comes from e-cigarettes or conventional cigarettes. The administration, however, has not presented a compelling argument for this rate. In particular, it has not made a case that e-cigarettes and cigarettes are equally harmful, nor that the current cigarette tax is set at the right rate. The administration's comparison also does not account for federal taxes.

Initial Tax Rate. As the Legislature considers what tax rate to set on e-cigarettes, it faces six key questions: How harmful are e-cigarettes? To what extent do vapers' choices account for these harms? How would the tax rate affect e-cigarette use? How would the tax rate affect other outcomes, such as cigarette smoking? How would the tax rate affect compliance with the tax? How would the tax interact with other state and federal policies?

Future Tax Rates. We recommend that the Legislature index the tax rate to inflation to keep its economic value steady over time. We also recommend that the Legislature revisit the rate frequently in the coming years.

Tax Stamps. The Governor proposes \$8 million in 2020-21 and ongoing for a stamp contract. In the cigarette tax program, stamps help distinguish tax-paid cigarettes from others. Stamps could have similar enforcement benefits for e-cigarettes, but they would need to be more complex. The administration does not appear to have considered this complexity carefully enough to justify the requested appropriation.

Staff Recommendation. Hold Open.

7730 FRANCHISE TAX BOARD**Issue 203: Net Operating Loss Suspension and Business Tax Credit Limitation**

Request. The May Revision includes the following two revenue proposals related to business and personal income taxes:

1. **Net Operating Loss Suspension.** The May Revise Budget proposes to temporarily suspend the use of net operating loss (NOL) deductions for taxpayers with business income in excess of \$1 million for 2020, 2021 and 2022. This suspension applies to both personal income tax and corporation tax taxpayers and is estimated to raise \$1.8 billion in 2020-21, \$1.3 billion in 2021-22, and about \$400 million in 2022-23.
2. **Business Tax Credit Limitation.** May Revise Budget proposes to temporarily limit the use of business incentive tax credits to offset no more than \$5 million in tax liability for 2020, 2021 and 2022. This suspension applies to both personal income tax and corporation tax taxpayers and is estimated to raise \$2 billion in 2020-21, \$1.5 billion in 2021-22, and \$900 million in 2022-23. In 2018, businesses reduced their corporate tax liability by over \$2.9 billion through the use of credits, with \$2.4 billion from the research and development tax credit. Business credits used on the personal income tax side are much smaller, but still significant.

Note: There is a revenue interaction effect between this proposal and the limitation of business incentive tax credits. Enacting both provisions would prevent taxpayers from using one provision in lieu of the other and affect the tax liabilities of these taxpayers because it would both increase their taxable income (through the NOL suspension) and reduce their ability to use tax credits to offset the pre-credit tax. The interaction revenue impact is estimated to be \$600 million in 2020-21, \$450 million in 2021-22, and \$200 million in 2022-23.

Background.

NOLs. Businesses incur NOLs for tax purposes if their allowable deductions and losses exceed their taxable income. Under current California law, taxpayers are allowed to use NOLs from prior years to offset up to 100 percent of current year income. Taxpayers are allowed to carry forward NOLs for 20 years from the year that loss was incurred.

The amount of NOLs used and the number of taxpayers claiming NOLs can vary from year to year. But from 2013 through 2018, the number of corporations claiming NOLs has averaged over 144,000 per year and the amount of NOLs claimed has averaged over \$29

billion. There are significant NOLs claimed on the personal income tax side, as well. Since the suspension is limited to taxpayers with income over \$1 million, it is expected that the majority of taxpayers will still be allowed the full extent of their current law NOL deductions, but the amount of deductions claimed is expected to drop significantly.

Taxpayers who have their NOLs suspended will be allowed to carry forward their NOLs for an additional 3 years beyond the 20-year carryover limit allowed under current law. It is expected that much of the suspended NOLs will eventually be used.

Business Tax Credit Limitation. This provision limits credit usage to \$5 million per year. Structured as a dollar limit, however, the Administration proposes that it would provide definite protection to small firms, for whom \$5 million in credits would be more than they would need in any one year. In general, a corporation would need to have income over \$56 million to be affected by this limitation and a personal income taxpayer would need to have an income over \$40 million to be affected.

In addition, this limitation only affects business incentive credits. As such, it would not limit taxpayer's ability to use other personal credits. Finally, to the extent that any credit affected by this provision has a limited carryover period, this trailer bill would grant that the carryover period for that credit be extended for the number of years that the credit was limited. As such, it is expected that much of the credits limited under this proposal will eventually be used.

Legislative Analyst's Office (LAO). The LAO has found that these May Revision proposals are worth consideration. They note that the state has suspended NOLs and limited business tax credits during prior recessions and find that these actions generally are considered somewhat less burdensome on taxpayers than other actions like increasing tax rates. This is because they largely would change only the timing of tax payments (causing payments to be made sooner than they otherwise would) but would not significantly increase the total amount of taxes businesses pay over the next several years. However, the LAO also notes some concerns. For example, the LAO finds that net income is an imperfect way to identify small businesses. In addition, the LAO questions whether these proposals will result in the amount of revenue that the Administration is projecting.

Staff Recommendation. Hold open.

Issue 204: Minimum Franchise Tax

Request. The May Revision maintains the Governor’s Budget proposal to expand the first-year exemption from the \$800 minimum franchise tax to Limited Liability Companies (LLCs), Limited Partnerships (LPs), and Limited Liability Partnerships (LLPs). The Governor’s budget assumes the expansion of the exemption will result in a reduction of \$50 million in General Fund revenues in 2020-21 and \$100 million in 2021-22 and out-years. The exemption would sunset on January 1, 2026. The Franchise Tax Board (FTB) also would be required to annually report the number of first-year businesses that are affected by the exemption.

Background. Corporations doing business in California must pay a state corporation tax (CT) on their net income. Many corporations have no net income in California, but are still required to pay an annual minimum franchise tax of \$800. Other types of non-corporate businesses are not subject to the CT, but many also are required to pay an annual minimum franchise tax of \$800. The most common non-corporate businesses subject to the minimum franchise tax include limited liability companies LLCs, limited partnerships LPs, and limited liability partnerships LLPs. We describe these in the nearby box.

Since 1998, newly formed corporations have been exempted from paying the \$800 minimum franchise tax in their first year of business. About 100,000 new corporations are formed each year. However, the FTB reports that only about three-quarters of new corporations claim the exemption because many new corporations do not understand their tax filing requirements. Overall, the exemption reduced state revenue by \$60 million in.

Legislative Analyst’s Office (LAO). The LAO made of number of findings regarding this proposal, including:

- **Current Exemption and Proposal Lack a Strong Policy Justification.** The stated Legislative intent of the current first-year minimum franchise tax exemption is to promote small businesses by reducing the burden of the minimum franchise tax. The Governor’s proposal to extend the exemption to new non-corporate businesses uses similar language. There are several reasons to think the exemption is an ineffective and poorly targeted means of promoting small business.
- **Difficult to Identify Small Businesses.** Small businesses are difficult to target in the tax code. In large part, this is because a “small business” is difficult to define and the definitions that currently are used can vary across different industries. In addition, definitions typically rely on simple thresholds, such as the number of employees or annual revenue, for practical reasons.

- **Exemption Poorly Targets Small Business.** The exemption attempts to avoid the challenge of defining which taxpayers are small businesses by instead targeting benefits at newly formed companies. This strategy poorly targets small business. Benefits from the exemption go to many companies that do not seem to meet any reasonable definition of a small business. For example, major companies routinely form new corporations to facilitate financial transactions, raise capital, and manage risk. About one-third of LLCs, LPs, and LLPs are owned by corporations or other companies and not by individuals. In addition, as discussed earlier, many new LLCs, LPs, and LLPs are formed to hold and manage real estate property and other investments. Many of these companies have significant assets, but generate comparatively little economic activity in the way of buying and selling goods or employing workers.
- **Provides Limited Relief to Businesses.** Many businesses undoubtedly consider the \$800 minimum franchise tax an unwelcome cost of doing business in California. In most cases, however, the one-time tax exemption provides a relatively limited amount of 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. The number of LLCs (which do not receive an exemption) has grown more quickly than the number of corporations (which do receive an exemption) in recent years. While not conclusive, this suggests that the lack of the first-year minimum franchise tax exemption has not significantly hindered the formation of new businesses.

Staff Recommendation. Hold open.

0509 GOVERNOR'S OFFICE OF BUSINESS DEVELOPMENT

Issue 205: Small Business Assistance

Request. The May Revision proposes \$50 million one-time General Fund for the California Infrastructure and Economic Development Bank, Small Business Finance Center to support its guarantee programs that provide financial assistance needed by small businesses and will contribute to the long-term recovery of California's economy. This allocation will be available to all of its guarantee programs, to allow the Small Business Finance Center to adjust to the rapidly evolving needs of its lender network and the constantly evolving small business lending environment. The IBank also requests similar flexibility on the original \$50 million one-time General Fund allocation issued on April 3, 2020 to ensure that it can respond to the evolving needs and ensure maximum leverage in its programs to address those needs.

Background. The Small Business Loan Guarantee Program (SBLGP) promotes statewide economic development by providing loan guarantees that serve as a credit enhancement and incentive to financial institutions. A loan guarantee is the incentive that gives a lender the comfort to fund loans to small businesses that otherwise would not qualify for a loan or line of credit. As a result, eligible small businesses are able to secure financing that allows growth and expansion of its business.

The SBLGP incentivizes Lenders to make loans to small businesses by offering guarantees up to 80 percent of eligible loan amounts. Small business borrowers can seek financing either through Financial Development Corporations (FDC) or a Lender. The Lender and FDC work together to find the best financing, technical assistance services, and solutions for businesses.

Today, California's priority is to get as many of its small businesses into federal forgivable loan programs as possible through Small Business Administration (SBA) stimulus programs such as the Payroll Protection Program (PPP) and the Economic Injury Disaster Loan Program (EIDL). These programs have been overwhelmed with applicants, some who cannot access the internet portals or receive miniscule amounts due to strict guidelines. Many who applied were left in limbo when the original funding was drained, being forced to wait for additional stimulus release. Once SBA PPP funds are exhausted, IBank's small business programs are expected to substantially increase in activity and funds will be fully depleted with anticipated demand.

IBank is requesting flexibility on the original \$50 million one-time General Fund allocation issued on April 3, 2020 to ensure that it can respond to the evolving needs and ensure maximum leverage to address those needs. The allocation was specific to those who did not qualify for federal funding, yet there are many businesses that qualify, yet remain underfunded or still do not have access to those funds.

Staff Comment. Staff notes that \$50 million was provided through the Section 36.00 process to provide loan guarantees to small businesses that are low-income businesses that have low credit scores and/or businesses that are unbanked or underbanked. According to the Administration at the time, these types of businesses did not qualify for the small business loans being offered through the federal stimulus package. The committee may wish to ask the following questions:

How has the originally \$50 million been deployed to this point?

How will the additional flexibility impact the ability of the businesses that were originally targeted, low-income or unbanked/underbanked, to access these loans?

Staff Recommendation. Hold open.

0890 SECRETARY OF STATE**Issue 205: Federal CARES Act Elections Funding**

May Revision Proposal. The Secretary of State requests \$65.5 million in federal fund authority to provide additional resources to protect the 2020 elections from the effects of COVID-19, and budget bill language that allows the Department of Finance to transfer federal funds for counties to state operations.

Background. The Coronavirus Aid, Relief, and Economic Security (CARES) Act included \$400 million in new Help America Vote Act (HAVA) funds, made available to states to prevent, prepare for, and respond to the Coronavirus for the 2020 federal election cycle. Among other things, the funding can be used to increase California's ability to vote-by-mail, expand early voting and online registration, and improve the safety of voting in-person by providing additional voting facilities, more polling place workers, and personal protective equipment.

The Governor's Budget included nearly \$11 million in federal HAVA funds (excluding HAVA funds used for the state's VoteCal project), of which \$6.8 million is for local assistance and \$4.2 million is for state operations. The \$36.3 million from the CARES Act would increase funding for local assistance to \$43.1 million. California has approximately 20.3 million voters.

On May 8, 2020, the Governor signed an executive order that allowed all voters to vote by mail, and set a deadline for May 30, 2020 to clarify requirements on in-person voting opportunities.

Staff Recommendation. Approve the federal fund authority, and adopt placeholder budget bill language that allows the Department of Finance, upon notification to the JLBC, to transfer funds from the 0890-101-0890 to 0890-001-0890.

8955 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS (CALVET)**Issue 206: Closure of Barstow Veterans Home**

May Proposal. The Administration proposes the closure of the Barstow Veterans Home, with a correlating \$400,000 in General Fund savings and a reduction of two positions. These cuts will be triggered off if federal funds are received, and plans to close the Barstow home will be canceled. The Administration estimates that General Fund savings will be \$14 million at full closure in 2022-23.

Background. The Veterans Home in Barstow opened in 1996, and is budgeted for 220 beds, with a capacity for 400 beds, with 177 beds occupied. The closest VA facility is an hour and a half away in Loma Linda. The 2019 Budget included \$26.5 million for the Barstow home.

CalVet released its Master Plan 2020 for the Veterans Homes in January 2020. An assessment of the Veterans Homes based on veteran need, proximity to VA Care, appropriate levels of care, local healthcare infrastructure, and hiring compatibility found that the Barstow home met none of these criteria satisfactorily.

Assessment Summary of Individual Veterans Homes

Veterans Home	Veteran Need	Proximity to VA Care	Appropriate Levels of Care	Local Healthcare Infrastructure	Hiring Compatibility
Yountville	✓	✗	□	□	✗
Barstow	✗	✗	✗	✗	□
Chula Vista	✓	✓	□	✓	□
Lancaster	□	✗	□	✓	✓
Ventura	✓	✗	✓	✓	□
West Los Angeles	✓	✓	✓	✓	✗
Fresno	✓	✓	✓	✓	✓
Redding	□	✗	✓	✓	✓

The Barstow Veterans Home is not in an appropriate location. The Barstow Home was constructed with the intent of expanding services to veterans in Southern California. However, the Home's placement in the high desert region hampers its operations and limits demand for care.¹

Veteran Need	A large veteran population is located nearby, with evidence that the population has sufficient need for facility-based long-term care.	✗ Does Not Meet the Criteria
Proximity to VA Care	A VA medical facility that provides comprehensive specialty services for veteran residents is located no more than 60 minutes away, and ideally less than 30 minutes away.	✗ Does Not Meet the Criteria
Appropriate Levels of Care	The levels of care or other services provided at the Veterans Home are reflective of veterans' needs, which are otherwise unmet by other service providers.	✗ Does Not Meet the Criteria
Local Healthcare Infrastructure	The local healthcare infrastructure is sufficient to meet the Home's operational and clinical needs, based on the size of the Home.	✗ Does Not Meet the Criteria
Hiring Compatibility	The local cost of living is affordable and the local workforce of nurses and other licensed or certified specialists is of sufficient size to hire facility staff.	□ Partially Meets the Criteria

A conforming adjustment was also included in CalVet's proposal for strategic realignment, which originally shifted resources at Barstow to provide higher levels of care and gradually reduce its domiciliary care.

The Administration states that the initial steps toward a closure would result in a General Fund revenue reduction of \$2.4 million and consists of various sources such as federal per diem, member fees, Medicare, Medi-Cal, and Aid and Attendance using the same methodology used to currently estimate revenues. The reduction is based on a drawdown of approximately 4 residents a month beginning in September increasing to a drawdown of 8 residents a month beginning in November. The drawdown in census is an estimate based on moving a mix of the levels of care, but is subject to bed availability in the other homes and the needs of the resident. There is also an overall estimated General Fund revenue reduction from veterans of \$600,000.

Additionally, the proposal requests a \$400,000 budget reduction in 2020-21, which is comprised of the equivalent of two full-time positions, and correlated food, pharmaceuticals, and other costs associated with a reduction.

Staff Comment. The collective impact of the General Fund revenue reductions and the expenditure savings from the staff reductions resulting from the closure alone is a \$2 million cost to the General Fund in 2020-21 – taking no action in staff or resident reduction results in a \$2 million General Fund savings. Additionally, should another surge in coronavirus infections occur in the fall, transferring elderly veteran residents from one veterans home to another may be a questionable decision.

While a fiscal crisis like the one we are currently facing due to the coronavirus should not be taken lightly, staff believes that a closure of a veterans home should not be rushed, and a thoughtful approach, while working closely with legislative and community stakeholder partners, can help ensure that no harm occurs to the veteran residents. A closure plan can help address questions around resident safety, fiscal solvency, logistics and other questions that this proposal raises.

Staff Recommendation. Reject the May Revision proposal to close the Barstow home and adopt placeholder budget bill language to require CalVet to submit a closure plan to the Legislature and work with stakeholders in the coming year for contemplation in the 2021-22 budget.