

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

SUBCOMMITTEE NO. 4

Agenda

Senator Maria Elena Durazo, Chair
Senator Jim Nielsen
Senator Thomas J. Umberg



Wednesday, May 15, 2019

1:30

State Capitol - Room 2040

Consultant: Joe Stephenshaw, Yong Salas

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PROPOSED FOR VOTE-ONLY

9210 LOCAL GOVERNMENT FINANCING

Issue 1: Property Tax Backfill

Budget. The May Revision augments the property tax backfill funding provided in the 2018 Budget Act by Chapter 1, Statutes of 2019 (AB 72) by \$518,000 General Fund.

Background. Chapter 1, Statutes of 2019 (AB 72) provided \$31.3 million to backfill property tax losses suffered by the counties of Butte, Lake, Orange, Riverside, Shasta, Siskiyou, and Los Angeles as a result of the 2018 wildfires. The May Revision includes funding to backfill property tax losses from the 2018 wildfires based on new or updated information received from eight counties (Los Angeles, Mendocino, Napa, Orange, San Diego, Solano, Tuolumne, and Ventura).

Staff Recommendation. Approve as requested.

Issue 2: Camp Fire Support

Budget. The May Revision includes \$10 million to support communities in their recovery from the 2018 Camp Fire.

Background. The intent of this funding is to support Camp Fire recovery efforts in the following communities:

- Paradise Irrigation District (PID) requests funding to support operations for three years. The Administration will work with PID to determine immediate funding gaps as a result of the Camp Fire and wants to help support the PID maintain core services during the recovery period, contingent on PID providing a long-term plan for a sustainable water system that is consistent with state and local policies/priorities.
- City of Chico and City of Oroville request funding to address the Camp Fire's impacts to housing, public infrastructure, and public safety. The Administration will work collaboratively with the City of Chico and City of Oroville to determine funding gaps and needs as a result of the Camp Fire.

Staff Recommendation. Approve as requested.

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI\$CAL)**Issue 3: Special Project Report 8: Departmental Training and Project Funding**

Budget. The Department of FI\$Cal requests funding of \$31 million (of which is \$17.7 million General Fund) in 2019-20, \$24.7 million (\$14.1 million General Fund) in 2020-21, and \$2.4 million (\$1.4 million General Fund) in 2021-22 to provide support for state departments utilizing the FI\$Cal implemented functionality. Remaining costs will be funded through the Central Cost Services Recovery Fund. FI\$Cal also requests \$6 million General Fund in 2019-20 for additional resources that will enable the project to complete the implementation of the planned cash management functionality and Consolidated Annual Financial Report (CAFR) reporting.

Background. The subcommittee heard an informational item on a FI\$Cal project update at its March 7, 2019 hearing.

Many departments continue to struggle with moving from their legacy and department-specific applications to the integrated financial platform. FI\$Cal states that 152 departments are now transacting in the system, and 64 departments completed year-end close activities for the first time in the system during 2018-19. As of April 2019, 13 departments have yet to close 2017-18 year-end reports.

Accenture, LLP is the contracted FI\$Cal System Integrator, and assisted the state in heavily configuring software developed by Oracle and used in FI\$Cal, and in deploying the software for department usage. This included departmental trainings to use the software, solving complaint tickets, and providing enhancements to the software based on feedback.

This request would allow FI\$Cal to contract for additional resources to provide departmental support, deploy tools to help departments create reports, improve performance in system use, and improve training for departments. A portion of these costs are provided through a combination of General Fund and the Central Cost Services Recovery Fund, which recovers costs from special and non-governmental funds.

Staff Recommendation. Approve as requested, with placeholder trailer bill language that requires reporting on: (1) scope of services provided by the contractor and the cost of those services; (2) the number of staff the contractor used in deploying these services, and the cost of these staff; (3) the date on which each department or agency closed month-end reports and year-end reports; (4) the attendance or participation of trainings by department or agency; and (5) a summary of the implementation activities for the cash management functionality. These reports shall be due on October 1, 2020, October 1, 2021, and October 1, 2022.

Issue 4: Special Project 4 – FISCAL

May Revision. The Administration requests to reduce the amount from \$4,510,000 to \$2,116,000 that would be transferred from General Fund to various special and nongovernmental funds.

Background. This request amends Budget Control Section 8.88 and aligns the FISCAL project's funding with the project's Interim Cost Allocation Plan. This funding will align the FISCAL funding provided in Special Project Report 8 for design, development, and implementation costs with its funding formula.

Staff Recommendation. Approve as requested.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT**Issue 5: CA Infrastructure and Economic Development Bank (IBank) Credit Officer**

Governor's Proposal. The May Revision includes \$263,000 General Fund and one position to establish a credit officer to manage, organize, and lead the efforts of all IBank programs within the Bond Financing Units.

Background. IBank was created in 1994 to finance public infrastructure and private development that promote economic revitalization and public improvements necessary to maintain and create employment within the State of California.

IBank is located within GO-Biz and governed by a five-member Board of Directors, consisting of the Director of GO-Biz, the State Treasurer, the Secretary of Transportation, the Director of the Department of Finance, and an appointee of the Governor.

Since 1995-96, IBank has exercised its statutory authority to offer: 1) direct financings to local governments and public benefit tax-exempt nonprofit entities for infrastructure and economic expansion projects; 2) tax-exempt and taxable revenue bond financings for manufacturing businesses, nonprofit entities, and public entities; and 3) other financing transactions important to the state.

This one position requested was previously filled with an appointee position borrowed from the California State Lottery Commission. The Deputy Director of Credit held the position with IBank from June 16, 2014 to October 31, 2017. When that appointee retired, the position was no longer available to IBank.

Staff Recommendation. Approve as budgeted

Issue 7: Governor's Office of Economic Impact

Governor's Proposal. The May Revision includes trailer bill language to change the name of the Governor's Office of Economic Development (GO-Biz) to the Governor's Office of Economic Impact (GOEI).

Background. The Administration suggests that this change is necessary to reduce confusion and make clear that the organization is the economic development office for the state that helps business identify the advantages of considering California locations for business relocation and expansion, versus being a business regulatory and oversight entity.

Staff Recommendation. Approve as budgeted

CONTROL SECTION 12.00 (STATE APPROPRIATIONS LIMIT)**Issue 6: 2019-20 State Appropriations Limit**

Governor's Proposal. The May Revision proposes that Control Section 12.00 be amended to revise the State Appropriations Limit (SAL). Pursuant to Article XIII B of the California Constitution, the fiscal year 2019-20 SAL is estimated to be \$112.1 billion at the May Revision. The revised limit is the result of applying the growth factor of 4.18 percent. The revised 2019-20 limit is \$1.5 billion below the Governor's budget estimate.

Staff Recommendation. Approve as budgeted.

0110/0120 STATE LEGISLATURE**Issue 8: Constitutional Adjustment (May Revision)**

Governor's Proposal. The Legislature's budget for 2019-20 was proposed in January to be \$147.4 million for the Senate and \$194.2 million for the Assembly. Under the terms of Proposition 140, the growth in the Legislature's budget is constitutionally limited to the growth in the state's appropriation limit (SAL). The year-to-year SAL increase is calculated to be 4.18 percent in the Governor's May Revision, which is below the Governor's budget assumption of 5.5 percent. Applying the May Revision SAL rate to the legislative budget would result in funding of \$145.5 million for the Senate and \$191.7 million for the Assembly.

Background. The Senate's budget was held constant from 2008-09 to 2009-10, reduced by a negative SAL of -1.77 percent in 2010-11, received no increase in the subsequent two years (2011-12 and 2012-13), then received increases of 5.8 percent in 2013-14, 0.48 percent in 2014-15, 4.55 in 2015-16, 5.96 in 2016-17, 4.22 in 2017-18, and 4.03 in in 2018-19. Senate increases were forgone because of the state's budget constraints during the previous recession. Funds from the Senate and Assembly appropriations are also used to fund the Legislative Analyst's Office, which, adjusted for SAL, amounts to \$9.8 million in 2019-20.

Staff Recommendation. Staff recommends that the Legislature's (Senate and Assembly) budget be adjusted as provided in the State Constitution, resulting in a total increase for the Legislature of \$13.5 million over the 2018-19 budget, and that the Legislative Analyst's Office receive its SAL-adjusted share of \$9.8 million from the Senate and the Assembly.

CONTROL SECTION 35.5**Issue 9: Budget Stabilization Account Adjustment**

Governor's Proposal. The May Revision proposes that Control Section 35.50 be amended to reflect updated calculations, as follows:

- Update General Fund revenues pursuant to this section from \$149.6 billion to \$152.2 billion.
- Update the sum of 1.5 percent of General Fund revenues for the 2019-20 fiscal year to reflect \$2.2 billion (an increase of \$24 million from the Governor's budget).
- Update the sum of capital gain revenues that exceed 8 percent of General Fund proceeds of taxes for the 2019-20 fiscal year to reflect \$3.4 billion (an increase of \$1.2 billion from the Governor's budget).
- Update the amount of transfer to the Budget Stabilization Account (BSA) in the 2019-20 fiscal year to reflect \$2.2 billion (an increase of \$390 million from the Governor's budget).
- Makes true-up adjustments to the 2017-18 and 2018-19 fiscal years.

Staff Recommendation. Approve as budgeted.

0954 SCHOLARSHARE INVESTMENT BOARD**Issue 10: Memorial Scholarship Revenue Shift**

Governor's Proposal. The May Revision includes trailer bill language to require all of the California License Plate Revenue be deposited into the Antiterrorism Fund.

Background. Currently, 85 percent of the revenue is deposited in the Antiterrorism Fund while 15 percent of the revenue is deposited in the California Memorial Scholarship Fund. The Memorial Scholarship Fund supports \$5,000 scholarships for dependents of California residents killed in the September 11, 2001 terrorist attacks. Beginning in the 2016-17 fiscal year, all eligible scholarships have been fully funded. The proposed trailer bill language eliminates the revenue deposits into the Memorial Scholarship Fund, which are no longer needed.

Staff Recommendation: Approve as Budgeted.

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS BOARD**Issue 11: Trailer Bill Language**

Proposal. The May Revision includes trailer bill language to: 1) shift the responsibility for disseminating employee information packets for the CalSavers Retirement Savings Program (CalSavers) from the Employment Development Department (EDD) to CalSavers, 2) provide EDD with more flexibility in the timeline to begin enforcing employer compliance, and 3) allow EDD to share data with CalSavers.

Background. CalSavers was established pursuant to SB 1234 (De Leon), Chapter, Statute of 2016. SB 1234 required all California employers with at least five employees to either sponsor a retirement plan or participate in CalSavers. CalSavers was implemented November 19, 2018 when its first eligible employer registered. By June 30, 2020, all eligible employers with over 100 employees will be required to register; by June 30, 2021, all eligible employers with over 50 employees will be required to register; and by June 30, 2022, all eligible employers with five or more employees will be required to register.

Without the requested changes to allow CalSavers to receive employer data from EDD, EDD would have to perform more of the programs duties. This would result in a significantly greater administrative burden for participating employers, restrict options available to participating employers, create a time lag between contributions and deposits, and significantly increase costs.

Staff Recommendation. Approved as budgeted.

7600 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)**Issue 12: Technical Adjustments**

Proposal. The May Revision includes the following technical adjustments to CDTFA's budget:

- **Technical Adjustments for Centralized Revenue Opportunity System** - Decreases of \$17 million General Fund, \$9.6 million in Reimbursements, and \$3.4 million in special funds to reflect a technical correction to the Centralized Revenue Opportunity System.
- **Technical Adjustment to Proposition 56 Expenditures** – Increase of \$6 million in expenditure authority for tobacco enforcement to reflect carryover amounts from previous fiscal years.
- **Technical Adjustment to the Cannabis Tax Fund** – Transfer of \$7.3 million and 29.6 positions from the Cannabis Tax Fund to the Cannabis Tax Fund – Department of Tax and Fee Administration to reflect a new method for tracking cannabis-related expenditures.

Background. These are all technical adjustments to appropriately align the department's expenditure authority.

Staff Recommendation. Approved as budgeted.

Issue 13: Prepaid Mobile Telephony Services (MTS) Surcharges

Governor's Budget. The Governor's budget requests a reduction in resources to efficiently conclude the Prepaid MTS Surcharge Collection Act program as follows:

- A reduction of \$1.0 million and 8.4 positions in 2019-20,
- A reduction of \$1.7 million and 13.6 positions in 2020-21,
- A reduction of \$1.7 million and 13.6 positions in 2021-22,
- A reduction of \$1.8 million and 14.1 positions in 2022-23,
- A reduction of \$1.8 million and 14.6 positions in 2023-24 and ongoing.

Background. On November 15, 2018, the United States District Court, Northern District of California (Metro PCS California, LLC v. Michael Picker), enjoined state agencies from enforcing the provisions of the Prepaid MTS Surcharge Collection Act because it conflicts with federal law. A notice of appeal of the court's decision was filed on December 14, 2018, but a judicial stay of the injunction was not requested, thereby ending CDTFA's enforcement of the Prepaid MTS Surcharge Collection Act.

The local charges are administered under a separate act, the Local Prepaid MTS Collection Act. CDTFA will continue to collect the local portion until its sunset on December 31, 2019.

Staff Recommendation. Approve as budgeted.

0870 OFFICE OF TAX APPEALS (OTA)**Issue 14: Small Business Tax Code Streamlining**

Proposal. The May Revision includes trailer bill language to help business and individuals by expediting certain tax appeals.

Background. Current law requires the OTA to decide appeals using panels of three Administrative Law Judges. The proposed statutory changes allow tax appeals to be decided by one judge, if the appellants opt-in. The appeals must involve franchise income tax matters of less than \$5,000, or business tax matters of less than \$50,000. The business tax appellant must also have less than \$20 million in gross annual sales.

Staff Recommendation. Approved as budgeted.

0750 OFFICE OF THE LIEUTENANT GOVERNOR**Issue 15: Lieutenant Governor Support Staffing**

Proposal. The May Revision includes \$500,000 and four positions to support the Office of the Lieutenant Governor. The positions are a Communications Director, Environmental Analyst, Higher Education Analyst, and Constituent Support Services Specialist.

Background. Over the last ten years the Lieutenant Governor's budget and staffing levels have been significantly reduced while the duties of the office have remained the same. In 2009-10, the budget for the Lieutenant Governor was reduced from \$2.8 million and 30 positions to \$1 million and 9 positions.

The Lieutenant Governor continues to serve on, and rotates with the State Controller, as chair of the three-member State Lands Commission which oversees the control and leasing of over five million of acres of state-owned land, including offshore oil resources, mineral leases, as well as use and permitting for all navigable waterways in California. As the chair of the State Lands Commission, the Lieutenant Governor serves on the Ocean Protection Council which is responsible for improving the effectiveness of state efforts to protect ocean resources, and on the California Coastal Commission statutorily required under the California Coastal Act of 1976 to plan and regulate the use of land and water in the coastal zone. The Lieutenant Governor also serves as a voting member on the University of California Board of Regents and California State University Board of Trustees, and serves as Governor when the Governor is out of the state.

Additionally, as a constitutional officer representing the entire state of California, the Lieutenant Governor receives approximately 80 phone calls and 70 emails daily, as well as social media messaging, from constituents seeking assistance. These requests range in issue areas, from accessing the Affordable Care Act or Cal-Fresh, to discussing proposals around higher education, requesting consideration for various proposals that will come before the state lands commission, or requesting guidance on accessing foreign markets. Currently, the existing staff does not have the capacity to respond to all constituent inquiries, and these incoming requests wait a few weeks before a response and several go unanswered.

Staff Recommendation. Approved as budgeted.

ITEMS FOR DISCUSSION/VOTE

0950 STATE TREASURER'S OFFICE (STO)

Issue 19: Funding Realignment

Proposal. The May Revision includes \$7 million General Fund (GF) and a decrease in reimbursements by a like amount. This adjustment realigns the funding structure of the STO to better reflect the services provided to state agencies.

Background. Over the past two decades, the STO has experienced a significant shift in its primary funding sources, transitioning from the GF to Reimbursements. As the State endured GF budget deficits, the STO's funding structure shifted to a greater reliance on Reimbursements to fund its key programs - cash and securities management, public finance, and investment services. The STO's budget increased 55 percent while funding from the GF and Central Cost Services Recovery Fund (CSCRF) declined from 46 percent to 20 percent. During the past 18 years, staffing levels have remained relatively unchanged, with 244.3 full time equivalents (FTEs) in 2001-02 and 246.4 FTEs in FY 2018-19. The STO's considerable reliance on Reimbursements poses risks to the STO's budget. Given these risks, the STO asserts that its current funding structure is not sustainable.

With the goal of reducing these risks to the STO's budget funding structure, the STO contracted with Crowe LLP (Crowe) to conduct an analysis of its budget structure and funding sources to determine the appropriate funding allocation for the workload responsibilities assigned to, and completed by, the department. Crowe met with key STO staff between July 2018 and December 2018 to obtain a baseline for STO's current and future workload responsibilities. Crowe then performed workload and funding allocation analyses to identify and support specific changes the STO should consider in realigning its budget funding structure.

Based on Crowe's analyses and recommendations, the STO is requesting a funding shift of \$7.0 million, increasing its GF allocation and decreasing its Reimbursements funding correspondingly. These proposed funding source modifications would ultimately result in an overall funding allocation of 58 percent from Reimbursements, 33 percent from the General Fund, and the remaining nine percent from the CSCRF.

Additionally, it is significant to note that in the current fiscal year, 2018-19, the STO is budgeted to receive approximately 20 percent of its funding from the GF and CSCRF, and the remaining 80 percent from Reimbursements. As a comparison to other control agencies, the State Controllers' Office receives approximately 46 percent of its funding from the General Fund and CSCRF, 28 percent from Reimbursements, and the remaining 26 percent from other sources; the Department of Finance receives approximately 80 percent of its funding from the General Fund and CSCRF and the remaining 20 percent from Reimbursements.

Legislative Analyst's Office (LAO). The LAO notes that this proposal is technically complex. They very recently received portions of the consultant's assessment. However, even those portions are lengthy and they expect it would take considerable time to fully review them to

ensure that they support the requested realignment of resources. Accordingly, it is difficult to evaluate the proposal in the short period provided in the May Revision. The LAO further notes that it is unclear at this time what specific steps the department is taking to reevaluate its staffing levels and seek efficiencies, which makes it difficult to assess what an appropriate level of General Fund resources should be provided. However, they suggest that the Legislature could consider providing STO with some or all of the requested General Fund support on a one-time basis in 2019-20 (offset by a commensurate reduction in reimbursements). This would allow the department to return to the Legislature to request an ongoing realignment of funding sources in January. Receiving a proposal in January will provide the Legislature with additional time to analyze and consider this technically complex request. In the meantime, this approach will provide limited-term support to the department to limit the amount of potential reimbursement rate increases prior to the completion of the Legislature's evaluation in the 2020-21 budget process.

Staff Recommendation. Approved the request as budgeted and adopt budget bill language to require the Treasurer's Office to report to the Legislature by March 1, 2020 on an assessment of the office's overall resource requirements, including the impact of any recent or pending changes in responsibilities, such as no longer processing Women, Infants, and Children (WIC) vouchers, and efforts to achieve efficiencies.

CANNABIS-RELATED ISSUES

Issue 16: May Revision Cannabis Proposal

May Revision. The Administration proposes trailer bill language that does the following:

- Allows licensing authorities to issue citations for violations by licensed and unlicensed activities.
- Removes the sunset date for granting provisional licenses.
- Allows licensing authorities to revoke or cancel provisional licenses.
- Encourage jurisdictions to create local equity programs by expanding the definition of "Eligible local jurisdiction" to include jurisdictions that demonstrate an intent to develop a local equity program, and allow a portion of grant funds to be used to assist with the development of such equity programs.
- Provide a definition of "Equity Assessment" and require such local assessment to identify the populations negatively impacted by the War on Drugs and to inform local jurisdiction's the creation of its equity program. Elaborate on and expand the evaluation factors used when reviewing applications from local jurisdictions for equity grants, including whether the local jurisdiction has demonstrated a financial commitment to the implementation and administration of its equity program, and whether the local jurisdiction has committed to implement, or has implemented provisions to remove local barriers to entering the legal cannabis market for local equity applicants and licensees.

- Expedite the allocation of local equity grants to local jurisdictions by providing the Bureau of Cannabis Control an exemption to the rulemaking provisions of the Administrative Procedures Act.
- Allow the Bureau of Cannabis Control to enter into an interagency agreement with the Governor's Office of Economic Impact (previously the Governor's Office of Business and Economic Development) to administer the local equity grant program on its behalf, allowing the Bureau of Cannabis Control to focus on regulating the transportation, distribution, testing and sale of cannabis in California.
- Make other non-substantive technical changes.

Background. Within the last 25 years, both the voters and the Legislature created a myriad of cannabis-related policies. For example:

- In 1996, California voters approved Proposition 215, known as the Compassionate Use Act, which statutorily authorized the use of medical cannabis, and provided protections for physicians who made medical cannabis recommendations.
- In 2003, Senate Bill 420 (Vasconcellos), Chapter 875, Statutes of 2003, established the voluntary Medical Marijuana Program under the California Department of Public Health, which provided access to medical cannabis for qualified patients and primary caregivers and created a medical marijuana identification card and registry database.
- Nearly two decades later, in June 2015, Governor Jerry Brown signed the Medical Marijuana Regulation and Safety Act, comprised of Assembly Bill 243 (Wood), Chapter 688, Statutes of 2015; Assembly Bill 266 (Bonta), Chapter 689, Statutes of 2015; and Senate Bill 643 (McGuire), Chapter 719, Statutes of 2015. Together, these bills established the oversight and regulatory framework for the cultivation, manufacture, transportation, storage, and distribution of medical cannabis in California.
- In 2016, California voters approved Proposition 64, the Control, Regulation and Tax Adult Use of Marijuana Act, which authorized adults aged 21 years or older to legally grow, possess, and use marijuana for non-medical purposes, under specified restrictions. Proposition 64 also provides that revenue from cannabis taxes would support youth programs, environmental protection, and law enforcement.
- In 2017, the Legislature passed the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) that harmonized these bills and created a single-comprehensive system to control and regulate the cultivation, distribution, transport, storage, manufacturing, processing and sale of both medicinal and adult-use cannabis.

State and local governance. The Bureau of Cannabis Control under the Department of Consumer Affairs and other state entities are responsible for regulating cannabis standards for labelling, testing, and packaging products and to develop a system to track such products from production to sale. Local governments continue to have the ability to regulate where and how cannabis businesses operate.

Cannabis Industry Regulated by Multiple State Agencies	
Regulatory Agency	Primary Responsibilities
Bureau of Cannabis Control	License cannabis distributors, transporters, testing facilities, and retailers.
Department of Food and Agriculture	License and regulate cannabis growers.
Department of Public Health	License and regulate producers of edible cannabis products.
State Water Resources Control Board	Regulate the environmental impacts of cannabis growing on water quality.
Department of Fish and Wildlife	Regulate environmental impacts of cannabis growing.
Department of Pesticide Regulation	Regulate pesticide use for growing cannabis.

Proposition 64. Excise taxes are levied on the cultivation and retail sale of both adult-use and medicinal cannabis with tax revenues being deposited into the Cannabis Tax Fund. The cannabis excise tax is forecast to generate \$288 million in 2018-19 and \$359 million in 2019-20, a reduction of \$67 million and \$156 million, respectively, from the Governor’s Budget forecast. The forecast assumes continued growth of more than 15 percent a year as new businesses continue to enter the marketplace and local jurisdictions adjust to the state’s legal framework. It is important to note that for the near term, revenue estimates will be subject to significant uncertainty because the market has only recently been established.

Proposition 64 specified the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized as follows:

	DESCRIPTION/PURPOSE	AMOUNT
Allocation 1	Regulatory and administrative costs necessary to implement, administer, and enforce the Cannabis Act.	
	Grants to local governments to assist in the creation and administration of equity programs, and to support equitable access to the regulated market for individuals through financial and technical assistance. The Governor’s Office of Business and Economic Development will administer the grant program on behalf of the Bureau of Cannabis Control.	\$ 15,000,000
Allocation 2	Research and activities related to the legalization of cannabis, and the past effects of its criminalization.	
	No changes.	\$ -
Allocation 3	As described below.	\$ 198,900,000
60%	<i>Education, prevention, and treatment of youth substance use disorders and school retention.</i>	<i>\$ 119,300,000</i>
	Department of Public Health for cannabis surveillance and education activities.	\$ 12,000,000
	Department of Education to subsidize child care for school-aged children.	\$ 80,500,000

Department of Health Care Services for competitive grants to develop and implement new youth programs in the areas of education, prevention, and treatment of substance use disorders.		\$ 21,500,000
Natural Resources Agency to support youth community access grants.		\$ 5,300,000
20%	<i>Clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation.</i>	\$ 39,800,000
Department of Fish and Wildlife for clean-up, remediation and restoration of damage in watersheds affected by illegal cannabis cultivation, and for enforcement activities.		\$ 23,900,000
Department of Parks and Recreation for identify unknown areas of cannabis cultivation to assist with prioritizing resources for effective enforcement, remediation and restoration of illegal cultivation activities on state park land, and to make roads and trails accessible for peace office patrol and program assessment and development.		\$ 15,900,000
20%	<i>Public safety-related activities.</i>	\$ 39,800,000
California Highway Patrol for training, research, and policy development related to impaired driving and for administrative support.		\$ 2,600,000
California Highway Patrol's impaired driving and traffic safety grant program for non-profits and local governments.		\$ 11,200,000
Board of State and Community Corrections for a competitive grant program for local governments that have not banned cannabis cultivation or retail activities that will prioritize various public health and safety programs.		\$ 26,000,000

Staff Recommendation. Adopt placeholder trailer bill language.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT**Issue 17: Office of Small Business Advocate – Central Valley and Grant Programs**

Governor's Proposal. The May Revision includes \$806,000 General Fund and three positions to provide resources to support the core duties of the Office of the Small Business Advocate, which serves as the lead office in providing small businesses in California with the information and resources necessary to operate and serve as the principal advocate in the state on behalf of small businesses.

Background. OSBA serves as the lead office in providing small businesses in the state with the information and resources needed to survive in the marketplace and serves as the principal advocate in the state on behalf of small businesses. OSBA's core duties include:

- Receiving and responding to inquiries and complaints from small businesses concerning the actions of state agencies and the operative effects of state laws and regulations.
- Dissemination of information about programs and services provided by state government.
- Advisory participation in the consideration of all legislation and administrative regulations that impact small businesses.
- Administration of the Small Business Technical Assistance Expansion Program (SB TAEP), Small Business Technical Assistance Program (SB TAP), and Capital Infusion Program (CIP) grants totaling \$23 million.
- Consulting with experts and authorities in small business capital markets, and individuals with regulatory, legal, economic or financial expertise, including experts representative of the state's geographic and demographic diversity.

To support its core duties, OSBA conducts or provides representation at multiple outreach events to connect with small business owners across multiple geographies, sectors and demographics to disseminate information about state programs, services and new regulations that may impact their business. These events include workshops, webinars, joint events with other public and private agencies, businesses and other organizations, and other community sponsored events.

In addition to the OSBA's responsibilities above, the office also serves as a liaison for small businesses during state-declared states of emergencies, and assists in the recovery, response and preparedness efforts of small businesses and microenterprises.

Without the additional resources and staffing for OSBA, the program will be unable to provide the level of support and services to small businesses in the Central Valley and monitor the grant programs to ensure success. The additional funding requested is necessary to fund the current positions in OSBA since salary savings in other programs will not be available in future years.

Staff Recommendation. Approve as budgeted.

Issue 18: International Trade Specialist Program

Governor's Proposal. The May Revision includes \$592,000 General Fund and three positions to support workload within the International Affairs and Business Unit.

Background. The California Technology, Trade and Commerce Agency (TTC) was charged with promoting California exports and bringing foreign investment into the state. At the time the agency sunset in 2003-04, the state had 85 international positions and 12 foreign trade offices which provided business outreach to Argentina, Hong Kong, China-Shanghai, Germany, Israel, Japan, Mexico, Singapore, South Africa, South Korea, Taiwan and the United Kingdom.

After the sunset of the TTC, the state had no international affairs and trade development staffing until 2010 as part of Executive Order S-05-10, which created the Governor's Office of Economic Development (GOED). GOED was tasked with serving as the single statewide point of contact for business development concerns, a function that was originally recommended in the Governor's 2004 California Performance Review and in a February 2010 Little Hoover Commission report. The executive order emphasized the importance of international trade and investment based economic growth by "fostering relationships with international counterparts to help address barriers to trade, find business partners, and promote California's strengths abroad."

A subsequent government re-organization effort expanded the duties of the International Affairs and Business Development unit and increased dedicated staff support. Legislation in 2011 established the Governor's Office of Business and Economic Development (GO-Biz) in statute. After the codification of GO-Biz, staff support for the International Affairs & Business Development unit increased from one employee to three employees. Although the International Affairs and Business Development program had been a part of GOED, the program was formally codified in Government Code Section 13996.41.

The International Affairs and Business Development unit is the State's primary point of contact for expanding California's two-way international trade and investment relations. The unit works to drive business for California and to address barriers to the State's continued global economic strength. The unit provides critical support on issues relating to international trade and investment opportunities, foreign relations, international agreements and partnerships with the countries that have a friendly relationship with California. GO-Biz has one trade office in China that is maintained by a regional organization through an agreement with the department but has no dedicated state staffing resource.

The addition of three Staff Services Manager II positions (SSM II) (International Trade Specialists) to the International Affairs and Business Development unit will provide the support necessary to carry out engagement in international trade, including export promotion and foreign direct investment with three global regions; Americas, Europe, and Asia. The three international trade specialists will work directly with U.S. Commercial Services in U.S. embassies of California's largest trading partners, provide training and export development assistance for small and medium businesses, lead trade missions to develop new export markets, collaborate

with regional economic development organizations to attract foreign investment into the various regions of California, and receive missions from California's trading partners for investment in California.

Staff Recommendation. Approve as budgeted.

0870 OFFICE OF TAX APPEALS (OTA)

Issue 20: Additional Staffing Resources

Proposal. The May Revision includes \$2.8 million General Fund and 13 positions to provide additional staffing to support appeal process workload.

Background. OTA was established in 2017 and started conducting business January 2018. The Office is responsible for hearing and deciding tax appeals arising from taxpayer disputes of actions taken by the Franchise Tax Board (FTB) and the California Department of Tax and Fee Administration (CDTFA). During its initial year, as OTA established its processes and procedures, it determined that current staffing levels were not sufficient to address ongoing workload. OTA was established based on Board of Equalization's (BOE) staffing model; however, OTA's adjudication process is quite different, and calls for different modeling and level of resources.

As an independent adjudicatory body, OTA's core mission is to issue fair and objective decisions on tax appeals from taxpayers who disagree with determinations made by FTB or CDTFA. To carry out this charge, OTA has offices and hearing facilities in Sacramento, Fresno, and Los Angeles, staffed by ALJs with significant experience in tax law. The headquarters office in Sacramento is currently staffed with 12 ALJs and a Presiding ALJ. The office in Los Angeles has 6 ALJs and a Presiding ALJ. The Fresno hearing facility is staffed by Sacramento and Los Angeles employees.

OTA was initially staffed with newly established positions, as well as positions transferred from CDTFA. The staffing model was designed prior to the opening of OTA and was necessarily derived from estimated workload. These estimates were generally based on the experience of BOE as the previous appeals body. Based on a year's worth of actual data at OTA, it is now apparent that these initial workload forecasts underestimated the actual workload of the Office. Each appeal at OTA receives a written opinion and is considered by a panel of three ALJs, which creates a substantial workload that did not occur at BOE.

Staff Recommendation. Approved as budgeted.