Senate Budget and Fiscal Review—Holly J. Mitchell, Chair
SUBCOMMITTEE NO. 4 **Agenda**

Senator Maria Elena Durazo, Chair
Senator Jim Nielsen
Senator Tom Umberg

Thursday, May 2, 2019
9:30 a.m. or upon adjournment of session
State Capitol – Room 2040

Consultants: James Hacker, Joe Stephenshaw, Yong Salas

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VOTE-ONLY CALENDAR

0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 1: CalVolunteers

Governor's Proposal. The budget requests $20 million General Fund in fiscal year 2019-20, to be spent over two years, for CaliforniaVolunteers to begin the expansion of the state's AmeriCorps members and to supplement the federal education award to reach a combined total of $10,000. It is anticipated that private funds will supplement the state's investment. This item was first heard in Subcommittee No. 4 on March 14th, 2019.

Staff Recommendation: Approve as Budgeted.

Issue 2: Earned Income Tax Credit

Governor's Proposal. The budget requests $5 million General Fund in fiscal year 2019-20 in grant funding for organizations that provide taxpayer outreach and free tax preparation. The 2018-19 budget included $10 million at the Franchise Tax Board for this purpose. It is unclear why this work should be moved from FTB to OPR.

Staff Recommendation: Reject the proposal and provide $5 million to FTB for taxpayer outreach.

Issue 3: Fi$Cal Staffing

Governor's Proposal. The budget requests $334,000 General Fund in 2019-20 and $329,000 General Fund in 2020-21 and ongoing to establish three positions to assist with the implementation of the Financial Information System of California (FI$Cal). This item was first heard by Subcommittee No. 4 on March 14, 2019.

Staff Recommendation: Approve as Budgeted.

Issue 4: SB 1072 Implementation

Governor's Budget. The budget requests three positions and $392,000 General Fund in 2019-20 until 2028-29 to implement SB 1072 (Leyva, Chapter 377, Statutes of 2018).

White the requested positions are broadly reasonable, and in-line with the estimated cost of implementing SB 1072, the first year of implementation requires OPR to develop technical assistance guidelines and establish the outlines of the grant program. However, the grant program would not begin issuing grants until 2020-21. This suggests that the out-year workload is subject to considerable uncertainty. Limited-term funding is therefore appropriate to evaluate workload once the grant program begins issuing awards in the out years.

Staff Recommendation: Approve three positions and $392,000 per year for two years.

0840 STATE CONTROLLER'S OFFICE (SCO)

Issue 5: Unclaimed Property Fraudulent Claims Prevention and Detection Program

Governor's Budget. The Governor's budget requests $1.5 million in 2019-20, ongoing, from the Unclaimed Property Fund (UPF) to support nine permanent positions for the Unclaimed Property Fraudulent Claims Prevention and Detection Program.

Background. In 2010-11, the Unclaimed Property Division (UPD) identified fraudulent claims (paid erroneously) totaling $2.8 million, which indicated that more fraudulent claims were being paid out than UPD was able to identify. SCO received the following resources and established the Fraudulent Claims Prevention and Detection Program:

- 2012-13: 17.9 two-year limited-term (LT) positions to address the increase in fraudulent claims received by UPD.
- 2014-15: 16.0 two-year LT positions to continue the development of electronic fraud detection methods via database system reports.
- 2016-17: 8.0 permanent positions and 9.0 three-year LT positions, which have been successful in identifying and preventing fraudulent claim submissions.

With the approved proposals, UPD has prevented an average of $7.6 million annually in fraudulent claims from being paid out over the past six years. This request will make the nine LT positions from 2016-17 permanent to ensure the SCO maintains these resources.

Staff Recommendation. Approve as budgeted.

Issue 6: Unclaimed Property (UCP) Holder Compliance Audits

Governor's Budget. The Governor's budget requests $1.6 million from the Unclaimed Property Fund in 2019-20 and ongoing and 11 positions to perform audits of holders to ensure compliance with the California Unclaimed Property Law (UPL), reunite unclaimed property with its rightful owners or heirs, and provide administrative support.

Background. In 2007, Senate Bill 86 (Committee on Budget and Fiscal Review), Chapter 179, Statutes of 2007, modified Code of Civil Procedure Section 1501.5, requiring SCO to improve the reporting procedures for unclaimed property holders in California. This process requires holders of unclaimed property to submit Holder Notice Reports before remitting property to SCO; SCO uses the Holder Notice Reports to send Pre-Escheat Notices to rightful owners. The notices advise owners to contact holders directly to retrieve the reported property, giving the holders an opportunity to reestablish contact with the owners and return their property. After filing the Holder Notice Reports, holders are required to submit Holder Remit Reports to SCO, providing information about property that was not returned. When the Holder Remit Report is filed, holders are required to remit the property to SCO.

The trend in compliance with the Unclaimed Property Law is declining among holders. An SCO analysis identified 16,555 unclaimed property reports were received out of the 1,319,928 active California-based businesses in 2016. This reveals a minimum compliance rate of 1.25 percent. In comparison with prior fiscal years, 2.3 percent in 2013 and 2.2 percent in 2015, the trend in compliance is declining. Without the requested resources, the trend in compliance with the UPL will continue to decline, which will result in more Californians losing their properties, and reduced revenues to the State's General Fund in the form of penalty interest.

Legislative Analyst's Office (LAO). The LAO agrees with the Governor's goal to increase holder compliance. They cite that, compliance with unclaimed property law is very low. The state has the incentive to increase holder compliance for two main reasons: (1) to result in more property being reunited with owners (both directly by holders as well as by the state), and (2) to increase a source of state revenue. The LAO presents the following options to further increase compliance:

1. **Include an Unclaimed Property Question on Businesses' Tax Forms.** Most California businesses file income tax returns with the Franchise Tax Board (FTB) each year. Under one option, the Legislature could amend tax law to require businesses to respond to a question about unclaimed property as part of their tax filings. This addition to tax forms could be relatively simple with a single question. For example, the tax form could ask: "Did your business submit a holder notice report to the California State Controller's Office last year?" and indicate that the business could be out of compliance with existing law if it responds "no." Alternatively, the tax form could include a few different questions that ask about different property types and length of time since owner contact. The adoption of this question in tax software would be critical to its effectiveness in improving compliance because so many businesses file their taxes electronically.

2. **Provide a One-Time Amnesty for Noncompliant Holders.** Another option is to provide a one-time amnesty for holders who voluntarily report past-due unclaimed property. Under current law, these holders owe an interest penalty of 12 percent per year for past-due unclaimed property. This may deter some holders from becoming fully compliant, particularly because the probability of being audited is relatively low. The Legislature could temporarily waive this penalty for a certain period for holders who voluntarily report past-due unclaimed property.

Staff Comments. The Subcommittee heard this proposal on March 21st and help it open.

Staff Recommendation. Approve the Governor's budget proposal and adopt budget bill language requiring the Franchise Tax Board to report on plans for including an unclaimed property question on business tax forms and the SCO to report on plans to provide for a one-time amnesty or other options to increase compliance in lieu of an amnesty program.

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0968 TAX CREDIT ALLOCATION COMMITTEE (CTCAC)

Issue 7: Development and Compliance Monitoring

Governor's Budget. The budget requests $458,000 in 2019-20 and $428,000 ongoing for one position for performing IRS Code Compliance Section monitoring services and two Associate Governmental Program Analyst (AGPA) positions for the Development Section to carry out core functions and to administer the federal and state mandates of the Low Income Housing Tax Credit (LIHTC) program.

CTCAC administers both federal and state low-income housing tax credit programs. California is the largest user nationwide of the LIHTC program. Developers rely on federal, state, and local funding sources to build affordable housing as evidenced by the receipt of approximately 300 applications annually. To ensure federal compliance and properly maintained properties, CTCAC must perform federally-mandated compliance monitoring functions. As the workload has continued to increase, CTCAC contracted with an outside consulting firm in 2007 to produce a workload analysis of all compliance functions and staffing requirements. The study documented the need for one additional position every other year to adequately address the increasing workload. CTCAC has continued to use the workload analysis tool developed by the contractor to quantify staffing needs.

Government Health and Safety Code, Section 50199.9(d), allows CTCAC to establish and collect fees for necessary administrative costs and for the purpose of paying the costs of monitoring projects with allocations of tax credits for compliance with federal and state law.

Staff Recommendation: Approve as Budgeted.

760 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 8: Accounting Branch Positions Augmentation

Governor's Budget. The Governor's budget requests the redirection of five vacant Provision 1 positions to the Accounting Branch, and $95,000 to fund the salary difference between the current and proposed classifications of redirected positions.

Background. The CDTFA was established as a result of the Taxpayer Transparency and Fairness Act of 2017 (Act). This Act referenced various audits and evaluations. Audit issues include inadequate internal controls in the Accounting Branch. To address the audit findings as well as other critical unmet workload needs, an internal analysis indicated that 10 additional positions were needed in Accounting. Of the 10 positions, five have already been redirected from other areas within the CDTFA. The five remaining positions are identified but cannot be redirected without Department of Finance (DOF) approval because the positions are designated as Provision 1 (revenue generating).

Provision 1 requires any redirections of resources appropriated for audits, collections, or return processing to be approved by DOF with a 30-day Joint Legislative Budget Committee notification.

Staff Recommendation. Approve as budgeted.

Issue 9: 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.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 10: Housing Element Workload Adjustment

Governor's Budget. The budget requests $1,361,000 in 2019-20 and $1,241,000 ongoing General Fund for eight positions to expand and enhance its housing element review and enforcement functions. HCD currently has seven staff devoted to housing element workload. In 2013-14, HCD had 12.0 staff available for housing element review, including five limited-term positions provided for the peak of fifth cycle review workload. The Administration has indicated that this request would lead to a total of 16.0 positions devoted to housing element workload. This includes seven currently filled housing element positions, one authorized housing element position associated with the implementation of AB 1397 (Low), Chapter 375, Statutes of 2017, and the eight positions requested in this proposal. This item was first heard in Budget Subcommittee No. 4 on March 14, 2019.

Staff Recommendation: Approve as Budgeted.

Issue 11: Community Development Block Grant (CDBG) Disaster Recovery Program

Governor's Budget. The budget requests $108,825,000 in 2019-20 and $2,555,000 ongoing Federal Trust Fund for 10 positions to design and implement the CDBG-Disaster Recovery Program focused on recovery from the 2017 Northern and Southern California wildfires. This item was first heard in Budget Subcommittee No. 4 on March 14, 2019.

Staff Recommendation: Approve as Budgeted.

Issue 12: CalHome Program Changes

Governor's Budget. The Administration has propoased trailer bill language to allow the program to include auxiliary dwelling units (ADUs) and junior accessory dwelling units, and to authorize the program to make grants for housing purposes in declared disaster areas. This proposal was first heard in Budget Subcommittee No. 4 on March 14, 2019.

Staff Recommendation: Approve as Proposed.

Issue 13: Local Housing Trust Fund

Governor's Budget. The Administration has proposed trailer bill language to allow the Local housing Trust Fund to make matching grants to Native American Tribes, and to increase the minimum size of awards to various local trusts. This item was first heard in Budget Subcommittee No. 4 on March 14, 2019.
Staff Recommendation: Approve as Proposed.

Issue 14: Other Trailer Bill Language Proposals

Governor's Budget. The Administration has proposed trailer bill language removing the 55 percent voter threshold and making conforming changes in Enhanced Infrastructure Financing District (EIFD) law. This proposal was first heard in Budget Subcommittee No. 4 on March 14, 2019. Additional trailer bill language has been proposed to streamline the California Environmental Quality Act (CEQA) process for homeless shelters and navigation centers. While there are merits to both proposals, they represent statewide policy changes that should be considered as part of the policy process.

Staff Recommendation: Reject without prejudice.

Issue 15: Organizational Development and Strategic Planning Unit

Governor's Budget. The budget requests $565,000 in 2019-20 and $505,000 annually through 2022-23 from administrative budget authority for four positions to permanently establish the Organizational Development and Strategic Planning (ODSP) unit. The department has indicated that ongoing resources for the requested positions will be available from operational efficiencies created as a result of the BPI process once the requested funding expires in 2022-23. This item was first heard in Budget Subcommittee No. 4 on March 14, 2019.

Staff Recommendation: Approve as Budgeted. Adopt Supplemental Reporting Language requiring HCD to report on annual savings created by the Unit's work for each funded year of work.

ITEMS PROPOSED FOR DISCUSSION/VOTE

7730 FRANCHISE TAX BOARD (FTB)

Issue 16: FI$Cal

Governor's Budget. The Governor's budget requests $1.4 million from various funds for nine permanent positions and three permanent intermittent positions in 2019-20 and 2020-21. These resources will conduct accounting and procurement functions and serve as FTB's foundation to allow the department to fully adopt Financial Information System for California (FI$Cal) implementation and comply with statewide accounting policies.

Background. FTB is responsible for administering the income and franchise tax laws for the State of California. Each year, FTB processes more than 21.1 million tax returns, 13.3 million payments, issues 13.2 million refunds to California's residents, and conducts compliance activities to collect the proper amount owed the state. As a result of these efforts, the department is responsible for administering programs bringing in approximately 78 percent of the General Fund revenue.

In compliance with accounting policies and regulations, FTB's Accounting Section maintains accounting records of the revenue, expenditures, cash, receipts, disbursements, and property for the department. For decades, FTB performed the accounting responsibilities through the state provided accounting system, California State Accounting & Reporting System (CALSTARS). In July 2018, FTB implemented the new statewide accounting system, FI$Cal. FI$Cal combines the State's accounting, budgeting, cash management, and procurement operation into a single, transparent, and unified financial management system that is intended to be used by most state entities. FI$Cal also changed and implemented new, required accounting features, processes and requirements.

While FI$Cal brings transparency and consistency for statewide accounting, it introduced additional complexity to FTB's already complex accounting and procurement needs due to the volume and diversity of accounting transactions that FTB administers. These increased complexities have resulted in an increase in volume, and the requirement of additional tasks to complete a transaction. In addition, increased levels of review are now required. All of these together have resulted in increased timeframes to complete transactions and reconciliations. As a result of this new and increased workload, FTB needs additional resources to carry out its fiduciary responsibilities within mandated timeframes. Specifically, FTB has experienced the following:

- Lengthier accounts payable processes to issue vendor payments and run pay cycles, which leads to prompt payment penalties.
- Lengthier processes in handling purchase orders for the department causing lapsed services.
- Inability to timely post accounting entries and maintain accounting records which will lead to inaccurate financial reports and/or estimated financial statements, uninformed decisions, cash flow concerns, inappropriate fund distributions, loss of public confidence and audit findings.
- Inability to timely complete existing or expected future accounting assignments.
- Inability to timely perform mandated review and reconciliation of state funds monthly, which will lead to inaccurate, late, or estimated and late financial statements and other financial reports. Inability to timely and accurately remit and report revenue deposits.

Staff Recommendation. Approve as budgeted.

0650 Office of Planning and Research

Issue 17: Health in All Policies (HiAP)

Governor's Proposal. The budget requests three positions and $430,000 General Fund in 2019-20 and ongoing to continue the existing Health in All Policies (HiAP) program at the Strategic Growth Council (SGC).

Background. Executive Order S-04-10 (2010) established the Health in All Policies Task Force to advance public health and equity through SGC's programs and throughout State government. The Task Force was directed to "...collaborate with existing SGC working groups to identify priority programs, policies, and strategies to improve the health of Californians..." The Task Force has a wide reach across government, and is comprised of members from 22 California state agencies. HiAP was conceived as a proof of concept initiative through a public-private partnership between the state, the Public Health Institute, and foundation partners.

SGC's HiAP staffing has been fully funded by philanthropic partners and current HiAP staff are employees of the Public Health Institute (PHI), the non-profit partner to the state. State funds have not been allocated to support HiAP staff. However, philanthropic support has amounted to over $4 million since 2010, which has paid staff salaries and benefits.

HiAP staff were initially housed at the California Department of Public Health (CDPH) from 2010 to 2016 because at that time SGC was new, with only one staff, and limited organizational infrastructure or physical space to host the entire program. In August of 2016, with support from CDPH's Director and SGC's Executive Director and Chair, the SGC voted to move the foundation-funded PHI staff from CDPH's building to SGC's location.

Staff Comments. HiAP currently supports three broad efforts. The Government Alliance for Race and Equity (GARE) Capitol Cohort is the country's first-ever state-level multiagency learning and action cohort focused on addressing institutionalized racism across government agencies. Developed through the HiAP Task Force, multi-agency Action Plans outline opportunities and concrete steps to integrate health and equity into government programs and practices. Lastly, the HiAP team has provided support across state government to foster the integration of health and equity into planning guidance and policy documents.

HiAP currently supports four positions at SGC, fully funded by PHI. SGC provides in-kind support to house staff. The philanthropic funding for these positions will expire in July 2019, and SGC has indicated that PHI does not intend to extend it. OPR has indicated that HiAP would move from four to three positions once funding is brought in-house. All three current work streams would continue, with work focusing on state and interagency issues. Workload related to interstate or international efforts would be absorbed or expire.

Staff Recommendation: Hold Open.

2240 California Department of Housing and Community Development

Issue 18: No Place Like Home

Governor's Proposal. The budget requests a $7 million General Fund loan for cash needs of the No Place Like Home Program (NPLH) until the No Place Like Home bonds are issued in Fall of 2019.

Background. Chapter 43, Statutes of 2016, and Chapter 322, Statutes of 2016, established the NPLH program, which develops permanent supportive housing for individuals who are in need of mental health services and are experiencing homelessness or are at risk of chronic homelessness. The NPLH program allows funds to be provided directly to counties with at least five percent of the state's homeless population as demonstrated in the 2015 or later sheltered and unsheltered homeless point-in-time count. HCD developed the NPLH program and adopted program guidelines in July 2017. In August 2017, the California Health Facilities Financing Authority authorized the issuance of up to $2 billion in revenue bonds and the state filed the bond validation action in September 2017. In order to expedite the implementation of the NPLH program, a measure was placed on the 2018 November General Election ballot - No Place Like Home Act of 2018 (Proposition 2), and was subsequently approved by the voters.

Staff Comments. Welfare and Institutions Code (WIC) Section 5849.8(b) sets the criteria for Alternative Process (AP) counties: "The department may establish an alternative process for allocating funds directly to counties, as calculated in Section 5849.6, with at least five percent of the state's homeless population and that demonstrate the capacity to directly administer loan funds for permanent supportive housing serving the target population and the ability to prioritize individuals with mental health supportive needs who are homeless or at risk of chronic homelessness, consistent with this part and as determined by the department." HCD evaluated the AP counties capacity to administer a housing program as part of the designation process. Only four counties meet the five percent threshold, and all will be AP counties by May. It will not be reassessed unless the statute is amended.

Based on the 2017 point-in-time results, the HCD designated the eligible AP Counties are Los Angeles, Santa Clara, San Diego, and San Francisco. Los Angeles County indicated a cash flow need of $3,000,000 and Santa Clara a cash flow need of $4 million before October for projects they intend to provide construction lending to, although awards have not formally been made at this time. The Administration has indicated that the requested $7 million will be repaid to the General Fund once bonds have been sold in the fall of 2019.

Staff Recommendation. Hold Open.

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

Issue 19: 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$Cal to contract for additional resources to provide departmental support, deploy tools to help departments create reports, improve performance in system use, and improve training for departments. A portion of these costs are provided through a combination of General Fund and the Central Cost Services Recovery Fund, which recovers costs from special and non-governmental funds. FI$Cal states that the main reasons for the delays in closing out month and year-end reports are: 1) the time it takes for a department to be proficient in FI$Cal; 2) training that has not been completed by end-users; 3) staff turnover; and 4) the challenges that come with changing the internal business processes of a department. FI$Cal states that historically, it takes one to three years before a department consistently completes their month and year-end reports in a timely manner.

The funding request is broken down as follows (in thousands):

FI$Cal	**2019-20**	**2020-21**	**2021-22**
General Fund	$ 17,656	$ 14,097	$ 1,359
Central Service Cost Recovery Fund	$ 13,320	$ 10,634	$ 1,025

FI$Cal - SCO Functionality	**2019-20**	**2020-21**	**2021-22**
General Fund	$ 6,000		

TOTAL	**$ 36,976**	**$ 24,731**	**$ 2,384**

The project is expected to operate under Special Project Report #8 by mid-May 2019, and full implementation is expected to be complete by July 2020.

Staff Recommendation. Hold open.