Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Norma Torres
Senator Tom Berryhill

Thursday, March 13, 2014
9:30 a.m. or upon adjournment of session
Room 2040

Consultant: Brady Van Engelen

Item	Department
0690	California Office of Emergency Services
2240	Department of Housing and Community Development
8790	Commission on Disability Access
8830	California Law Revision Commission
8940	California Military Department
8955	California Department of Veterans Affairs

(See Table of Contents on pages 1 and 2 for a More Specific Listing of Issues)

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AGENDA – VOTE ONLY ITEMS

(Please see summary chart on Page 2)

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only:

	Issue	2014-15 Amount	Fund Source	Staff Recommendation
	California Commission on Disability Access (8790)			
1	Accessible California	$95,000	General Fund	APPROVE
	California Law Revision Commission (8830)			
2	Funding Shortfall	$50,000	Reimbursement Authority	APPROVE
3	Additional Attorney Support	$62,000	Reimbursement Authority	APPROVE

Issues Proposed for Vote Only – Issue Descriptions

8970 - Commission on Disability Access

Issue 1 – Accessible California

Governor's Budget Request: The 2014-15 Governor's budget includes a request for an augmentation of $95,000 of General Fund support and for one position to address workload associated with the implementation of SB 1186 (Steinberg and Dutton), Chapter 383, Statutes of 2012. SB 1186 modified state disability access laws to encourage greater compliance and reduce disability-related litigation.

Background: SB 1186 among other things, requires that the Commission on Disability Access (Commission) collect demand letters and complaints and post the information on its website. The Commission has been tasked with reviewing the notices and demand letters and identifies the top violators in order to better assist their efforts with disability access compliance. To date, the Commission has received over 2,000 items, primarily legal filings, which require approximately 1.5 hours of review.

8830 - California Law Revision Commission

Issue 2 – Funding Shortfall

Governor's Budget Request: The California Law Revision Commission requests an additional $50,000 in reimbursement authority.

Background: The requested $50,000 in reimbursement authority will be utilized to fill a vacancy that has, to this point, been left vacant. Recently, the Legislature has assigned the Commission an increased workload that will require that the Commission fill the position in order to meet the workload requirements associated with the increasing Legislative workload. The workload associated with this request is a byproduct of legislation enacted in 2012 and 2013.

Issue 3 – Additional Attorney Support

Governor's Budget Request: The California Law Revision Commission (Commission) requests an ongoing increase of $62,000 in reimbursement authority to cover salary and benefits associated with 0.5 positions to address workload associated with Legislative requirements.

Background: The Commission has experienced an increased workload due to a number of changes in statute that have impacted staffing requirements:

- AB x1 26 (Blumenfield) Chapter 5, Statutes of 2011, assigned the Commission the task of analyzing and cleaning up the Community Redevelopment Law.

- ACR 98 (Wagner), Chapter 108, Statutes of 2012, assigned the Commission the task of analyzing and redrafting the Fish and Game Code, and determining if mediation confidentiality law should be changed in cases of attorney malpractice and other professional misconduct.

- SCR 54 (Padilla), Chapter 115, Statutes of 2013, assigned the Commission the task of analyzing and modernizing California law enforcement access to the customer records of electronic communication providers.

Issues Proposed for Discussion / Vote

0690 - OFFICE OF EMERGENCY SERVICES

Department Overview: The principal objective of the Office of Emergency Services (OES) is to reduce vulnerability to hazards and crimes through emergency management, homeland security, and criminal justice. OES coordinates emergency activities to save lives and reduce property loss during disasters and to expedite recovery from the effects of disasters. On a day-to-day basis, the OES provides leadership, assistance, and support to state and local agencies in planning and preparing for the most effective use of federal, state, local, and private sector resources in emergencies. This emergency planning is based upon a system of mutual aid whereby a jurisdiction relies first on its own resources, and then requests assistance from its neighbors. The OES's plans and programs are coordinated with those of the federal government, other states, and state and local agencies within California.

During an emergency, the OES functions as the Governor's immediate staff to coordinate the state's responsibilities under the Emergency Services Act and applicable federal statutes. It also acts as the conduit for federal assistance through natural disaster grants and federal agency support. Additionally, the OES is responsible for the development and coordination of a comprehensive state strategy related to all hazards that includes prevention, preparedness, and response and recovery.

Budget Overview: The January Governor's budget provides OES with 950.9 positions and $1.42 billion ($103.35 million General Fund). This reflects an increase of 38.8 personnel over Fiscal Year (FY) 2013-14 and a decrease in funding of approximately $11.6 million.

Issue 1 – Public Safety Communications Office

Governor's Budget Request: The OES requests an additional 17.3 positions in temporary help and 25 permanent positions to support the transfer of the Public Safety Communications Office (PSCO) from the Department of Technology to the OES.

Background: The PSCO is comprised of 50 offices throughout the state. PSCO has the responsibility of administering the state's 9-1-1 emergency communications program serving 462 police, fire, and paramedic dispatch centers located within California's 58 counties. In 2005, the Office of Network Services was transferred from the Department of General Services to the Department of Technology Services. In an effort to unify all emergency services, the 9-1-1 Emergency Communications and the Radio Communications were transferred in 2009 to the Office of Chief Information Officer (OCIO) and renamed the Public Safety Communications Office (PSCO). During consideration of the 2013-14 budget the Legislature approved the transfer of 374 positions from the Department of Technology to the Office of Emergency Services.

Prior to July 1, 2013, the Department of Military, State Active Duty personnel, had 26.0 employees working with the Cal OES to provide all-hazards training and exercise programs in support of local and state first responders that was funded through a contract using federal funds.

Staff Comment: The requested positions are funded by the Technology Services Revolving Fund. OES currently has the authority to fund the positions, but lacks the positional authority to support the staff transfer from the Military Department. The requested 17.3 positions will support maintenance and operational support to the PSCO's assets, and the 25 requested permanent positions are to support the PSCO's statewide training efforts.

Staff Recommendation: Staff has no issues with this request, approve as budgeted.

Vote:

Issue 2 – Victim Identification Notification Everyday (VINE)

Governor's Budget Request: The OES is requesting $1.8 million local assistance from the Victim-Witness Assistance Fund (0425) for FY 2014-15, and 2015-16 to support the VINE program.

Background: The VINE program affords crime victims and other concerned citizens the opportunity to call a toll-free number or log onto a secure web portal to receive real-time information regarding the custody status of offenders held in jail or prison. They can also register by phone, email, pager or TTD/TTY device when an offender is released, transferred, or has escaped. Operators assist callers who need help obtaining offender information or registering for notification. The service is of no charge to the public.

Staff Comment: Through the American Recovery and Reinvestment Act grant from the OES, the VINE Network was expanded into a statewide victim identification network, which allows any victim in the state to find where their offender is incarcerated. The requested funding will support the program for the next two fiscal years.

Staff Recommendation:

Vote:

Issue 3 – Relocation of Red Mountain Communication Site

Governor's Budget Request: The OES requests $2.683 million (General Fund) to support the relocation of the Red Mountain Communication Site in FY 2014-15.

Background: The Red Mountain Communications Site towers support twelve public safety agencies within Humboldt and Del Norte counties. The United States Forest Service's Six Rivers National Forest Plan requires that all communications facilities currently operating on Red Mountain be removed and the land cleared by December 31, 2022. The proposed project will establish three new facilities that will enhance radio coverage currently provided at the Red Mountain facility. The project will establish three new communications facilities at Rattlesnake Mountain, Alder Camp and Rodgers Peak.

Staff Comment: The requested funds will support the preliminary plans phase of this project. Project costs are currently estimated to total $19.982 million. The next phase, working drawings is expected to cost approximately $1.26 million, and will be requested in FY 2015-16. The last phase, construction, is expected to cost $16.04 million and will be requested in FY 2016-17. Additional costs, associated with maintenance, leasing, and power, to the respective agencies will total $25,000 annually.

Staff Recommendation: Approve as budgeted.

Vote:

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Department Overview: The mission of the Department of Housing and Community Development (HCD) is to preserve and expand safe and affordable housing opportunities, and promote strong communities for all Californians. The HCD: (1) administers housing finance, economic development, and community development programs; (2) develops housing policy and advocates for an adequate housing supply; and, (3) develops building codes and regulates manufactured homes and mobile-home parks. The HCD also provides technical and financial assistance to local agencies to support housing development.

Budget Overview: The Governor's 2014-15 Budget proposes total spending of $268.72 million ($8.63 million General Fund) for HCD in 2014-15. The General Fund contribution for 2014-15 is slightly greater than the 2013-14 General Fund contribution ($1.49 million). Proposed staffing totals 844.7 personnel years (PYs), a slight increase of three PYs, compared with the current year.

The Governor's Reorganization Plan No. 2 of 2012, which merged the Department of Housing and Community Development with the California Housing Finance Agency in the display, contributes to the significant increase in personnel and expenditures in prior fiscal years.

Housing and Community Development Resources
and Expenditures

Fund Source	2012-13	2013-14	2014-15
General Fund	$6.99	$7.14	$8.63
Federal Trust Fund	$99.92	$131.64	$120.38
Other Funds	$88.74	$453.05	$139.71
Total Expenditures	$195.65	$591.83	$268.72
Personnel Years	522.7	543.5	542.1

*Dollars in millions

Issue 1 – Rental Housing Construction Program

Governor's Budget Request: The Governor's budget includes a request to transfer support costs associated with administering the Rental Housing Construction Program from the Rental Housing Construction Fund (0938) to the Rental Housing Rehabilitation Fund (0929). If adopted, the following changes will be reflected:

- A reduction of $1.141 million in the Rental Housing Construction Fund (0938), transferred to the Rental Housing Rehabilitation Fund (0929); and, a reduction of 2.0 positions and $225,000 of funding in Fiscal Year 2015-16.

Background: HCD estimates that there are a total of 1,334 households that currently receive this subsidy. HCD projects that funds that support the Rental Housing Construction Program will be exhausted by the end of Fiscal Year 2014-15. The Rental Housing Construction Program (program) provides subsidies to low income households. HCD estimates that this transfer will extend program operations for the Rental Housing Construction Program to FY 2026-27.

Funds that support this program were originally appropriated by the Legislature in the 1980's, at the time, there were 49 Rental Housing Construction Program agreements and it was expected that the subsidies would cover the projects over a 30-year period, the majority of the contracts for this program were executed between 1983 and 1986, and are coming to the end of their original 30-year obligation. However, HCD has restructured some of the loans and obligations, which will commit HCD beyond the original 30-year period.

The reduction of 2.0 positions and $225,000 in state operations budget authority is a result of a portion of the Rental Housing Construction Program maturing, lessening the workload associated with this program.

Staff Comment: HCD has received legal opinion to determine that funds in the Rental Housing Rehabilitation Fund is a legal source to fund the long-term monitoring costs for the Rental Housing Construction Program. If the transfer is adopted, HCD projects the fund balance for the Rental Housing Rehabilitation Loan Fund to total $69.54 million for the budget year, which means that the transfer will have little to no impact on the condition of the Rental Housing Rehabilitation Fund. Additionally, there is approximately $68.66 million in General Fund loan repayments that are scheduled to be repaid to the Rental Housing Fund in future fiscal years.

Staff Recommendation:

Vote:

Issue 2 – Housing Related Parks Program

Governor's Budget Request: The Governor's budget includes a request to adjust the baseline budget for the Department of Housing and Community Development by an increase of $25 million to fund awards under the Proposition 1C Housing Related Parks Program.

Background: In 2006, voters approved Proposition 1C, authorizing the largest housing bond in the nation. The new bond measure authorized an additional $2.85 billion, most of which was used to support affordable housing efforts. The Housing-Related Parks Program, funded through Proposition 1C, was designed to encourage the construction of low-income housing units by providing funding to cities and counties that can be used for the development and renovation of parks for each qualified housing permit they issue. As of January 30, 2014, there is an estimated $116 million available for award.

While voters approved Proposition 1C in November 2006, the bond required the Legislature to adopt subsequent legislation to implement the Housing-Related Parks Program. AB 2494 (Caballero), Chapter 641, Statutes of 2008 established the Housing-Related Parks Program, under the administration of the Department of Housing and Community Development.

Staff Comment: It was originally anticipated that HCD would make roughly $25 million in awards per year, beginning in 2009 calendar year. However, local governments only qualified for $8.8 million in awards in 2010. HCD issued a Notice of Funding Availability (NOFA) again for the 2011 calendar year, and local governments qualified for only $11.3 million**.**

AB 1672 (Torres) Chapter 779, Statutes of 2012, broadened the Housing Related Parks Program eligibility to include units substantially rehabilitated, preserved or acquired for low or very low income households. HCD expects that this will greatly increase the total amount of awards issued annually.

Staff Recommendation: An amendment to this request may be forthcoming, hold this item open.

Vote:

Issue 3 – Community Development Block Grant

Governor's Budget Request: The Governor's budget includes a request for $1.515 million (General Fund), 9.0 three-year limited-term positions and $971,000 (General Fund) to address backlog and additional workload requirements stemming from additional federal regulations, and a reduction of $1.426 million in Community Development Block Grant disbursements (Local Assistance) for three years.

Background: The Community Development Block Grant (CDBG) program is a flexible program that provides communities with resources to address a wide range of unique community development needs. Established in 1974, the CDBG program is one of the longest continuously run programs at the U.S. Department of Housing and Urban Development (HUD). There are a variety of program areas within CDBG that offer assistance to communities developing public facilities, infrastructure and services, affordable housing, and job creation through business retention efforts. HCD is responsible for the administration of the state program for 163 non-entitlement jurisdictions which are primarily rural and in many cases disadvantaged communities.

The program is highly competitive and demand in the state fare exceeds the award amount provided to the state. In 2012, the state received $43 million that was available for award, however, the 98 applications received by HCD totaled over $104 million. The non-awarded $61 million reflects a total of 44 projects that communities were not able to complete unless they are able to receive a CDBG in a future cycle, or find an alternative funding source.

A shrinking federal award amount and increased workload have applied an additional strain to the CDBG program. The state has received 35 percent less in CDBG funding from HUD over the last eight years. And, HCD has been subject to a federal compliance audit which will result in a $5.9 million debt to the federal Department of Housing and Urban Development. Payments to HUD are not due until 2016, and may be paid either with a reduction in federal disbursements or a cash repayment. To address the $5.9 million owed to HUD, HCD has proposed to repay a total of $1.6 million (General Fund) and the total amount received by $4.3 million. The repayment and the grant reduction will be stretched over a three-year period; totaling $544,000 annually in repayments and a $1.426 million reduction in Local Assistance annually.

The portion of this request that will add 9.0 three-year limited-term positions and $971,000 (General Fund) will ensure that HCD remains compliant with federal regulations and provide local jurisdictions with a greater level of technical assistance.

Staff Comment: The CDBG program requires a state to match administrative costs dollar for dollar for federal grants used for administrative purposes. In 2007-08, an insufficient amount of General Fund was available to match the federal amount, and HCD chose to use an alternative method of "in-kind" matching. A subsequent audit by HUD determined that the "in-kind" match was not appropriate and that the state would owe approximately $1.63 million for unmet matching requirements and $4.27 million for over expenditures.

Staff Recommendation: Staff is concerned with reducing Local Assistance by a total of $4.3 million over four years. As discussed above, the CDBG program is in high demand and provides assistance to a number of communities in California. At this time, staff would recommend approving the request for 9 three-year limited-term positions and $971,000 (General Fund) to support disbursements and grant administration. Staff would recommends holding open the request for $1.515 million (General Fund) and a reduction in Local Assistance of approximately $4.3 million to repay HUD until a future hearing date.

Vote:

Issue 4 – Fund Consolidation

Governor's Budget Request: The Governor's budget includes a request for the consolidation of three funds administered by the Department of Housing and Community Development, remaining funds will either be returned to the Housing Rehabilitation Loan Fund or the General Fund. These funds are:

- School Facilities Fee Assistance Fund (0101)
- California Housing Trust Fund (0843)
- Rural Community Facility Grant Fund (0984)

Background: HCD has determined that these funds are no longer necessary and would like to eliminate the funds to allow for better administration of its programs that it currently maintains, and has proposed trailer bill language that would allow for the elimination of the three funds listed above.

School Facilities Fee Assistance Fund (0101) – The School Facilities Fee Assistance Fund was created to provide down payment assistance to offset developer impact fees for affordable housing. The assistance was provided as a grant if the housing remained owner-occupied for a qualifying period of five years. Funding support was provided by the General Fund in 1998-99 through 2001-02, totaling $140 million. The Department of General Services (DGS) originally administered the program subsequently DGS contracted with the California Housing Finance Agency (CalHFA) to run the program. The program was sunset in 2002.

Proposition 46 of 2002 allocated an additional $50 million to the fund, and HCD, as the administrator of housing bonds for the state, assumed administrative responsibility of the fund. All funds allocated via Proposition 46 have been exhausted and the fund balance is currently less than $100,000 dollars. If approved, the proposed language would designate the General Fund the successor fund for any loan repayments received on loans from the General Fund and funds that were loaned with Proposition 46 dollars would revert to the Housing Rehabilitation Loan Fund.

California Housing Trust Fund (0843) – The California Housing Trust Fund was created in 1985 for the purpose of funding housing to serve low-income households. One of the primary revenue sources for the Housing Trust Fund was tideland oil revenues for transfer to the Emergency Housing Trust Fund to provide grants for emergency shelter operating costs. When tideland oil revenue transfers to housing ceased, the Emergency Housing Trust Fund received General Fund support.
In 2006, authority for the California Housing Trust Fund was amended in anticipation of making an endowment to provide a permanent financing source for affordable housing. Despite the change in law, there has not been an appropriation. Rather, voters approved general obligation housing bonds (Proposition 46) to assist the state's affordable housing efforts. There is currently $2.5 million in loan receivables due to this fund, but those loans are not due until 2019. HCD has proposed retaining these repayments within the Housing Rehabilitation Loan Fund, which would serve as the successor of this fund. The Housing Trust Fund currently has a balance of $68,000, which would also be transferred to the Housing Rehabilitation Loan Fund.

Rural Community Facility Grant (0984) – The Rural Community Facility Grant Fund was created to provide a funding source for technical assistance to rural and low-income communities in obtaining public financing to develop public or mutual water systems, or publicly operated waste water systems. The Rural Community Facility Grant Fund received a $500,000 transfer from the California Housing Finance Fund in 1983 and a $500,000 transfer from the Rental Housing Construction Fund in 1987. There has been no program activity since FY 1988-89.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Adopt proposed trailer bill language.

Vote:

8940 CALIFORNIA MILITARY DEPARTMENT

Department Overview: The California Military Department is responsible for the command, leadership, and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard is to provide military service supporting the state and the nation. The three missions of the California National Guard are to provide: 1) mission ready forces to the federal government, as directed by the President; 2) emergency public safety to civilian authorities ,as directed by the Governor; and, 3) support to the community, as approved by a proper authority. The California Military Department is organized in accordance with federal departments of the Army and the Air Force staffing procedures.

Budget Overview: The Governor's budget proposes $148.94 million ($44.89 million General Fund) and 819.7 personnel years. This reflects a decrease of $3.9 million and an increase of seven positions, as compared to the 2013-14 budget.

California Military Department Resources and Expenditures

Fund Source	2012-13	2013-14	2014-15 (proposed)
General Fund	$43,569	$44,623	$44,885
Federal Trust Fund	$89,902	$97,452	$98,344
Reimbursements	$17,177	$9,072	$3,933
Mental Health Services Fund	$559	$1,358	$1,360
Other Funds	$70	$424	$422
Total Expenditures	**$151,277**	**$152,929**	**$148,944**
Personnel Years	**795.2**	**812.7**	**819.7**

*Dollars in thousands

The Military Department also receives Federal Fund support. These funds are not allocated by the state or deposited in the State Treasury and are not included in program or statewide totals. All of the other federal funds are received from the Federal Government for the support of the federal component of the California National Guard.

Federal Funds – California Military Department

	2012-13	2013-14	2014-15
Expenditures	$934,000	$987,500	$987,500
Personnel Years	4,173.0	4,201.0	4,201.0

*Dollars in thousands

Issue 1 – Environmental Programs

Governor's Budget Request: The Governor's budget includes a request for an increase of $519,000 in Federal Trust Fund authority and an additional seven positions for the California Military Department. The funding and positions support the California Military Department's Environmental Programs Directorate that ensure environmental requirements mandated by federal and state law are being adhered to by the Military Department and its partners.

Background: The California National Guard Environmental Program is comprised of 35 total personnel, and is responsible for environmental compliance within California Army National Guard facilities. The California National Guard is responsible for a number of facilities in the state, including three major training facilities, an aviation repair depot, vehicle and weapons maintenance facilities, and a number of smaller vehicle repair shops. Through the National Guard Bureau's federal manning model, it has been determined that a total of 35 positions be provided to the California Army National Guard to comply with federal, state, and local environmental laws.

Staff Comment: Currently ten of the 35 employees within the Environmental Directorate are contract employees. This request would convert seven of those contract positions to state civil service, and the Military Department would still have a total of thirty-five employees within the Environmental Directorate. Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Force Protection

Governor's Budget Request: The Governor's budget requests an increase of 46 positions within the California Military Department in order to provide security at California Military Department installations and airfields. .

Background: In FY 2010-11, the California Army National Guard secured a Master Cooperative Agreement with the National Guard Bureau for 47 three-year limited-term positions. The positions associated with this activity expired on June 30, 2013, and have been administratively established in 2013-14. The Military Department has requested that these positions be established on a permanent basis. The funds that support these positions are ongoing, and it is unlikely that the National Guard Bureau will rescind this funding support.

Staff Comment: The requested positions will provide security at eight different facilities throughout the state, overseeing state assets and infrastructure at these installations. The eight installations are listed below:

- Joint Forces Headquarters – Sacramento
- Mather Aviation Support Facility – Mather
- Stockton Aviation Support Facility – Stockton
- Fresno Aviation Support Facility – Fresno
- Theater Aviation Sustainment Maintenance Group – Fresno
- Camp Roberts – Bradley
- Camp San Luis Obispo – San Luis Obispo
- Joint Forces Training Base – Los Alamitos

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – California Military Museum

Governor's Budget Request: The Governor's budget proposes trailer bill to redirect the current direct appropriation to the private non-profit California Military Museum Foundation (Foundation) annual $100,000 General Fund appropriation to the California Military Department (CMD).

Background: SB 1470 (Johannessen), Chapter 469, Statutes of 2002, provides for an annual appropriation of $100,000 General Fund to the California Military Museum Foundation (Foundation), a private non-profit organization for the operation of the Foundation. There is currently no codified language in statute to govern this appropriation.

The proposed trailer bill language, if adopted, would provide the CMD with the authority to oversee the expenditures of the Foundation and would require that the Foundation submit invoices, or bills to the CMD in order to receive the appropriated funds.

Staff Comment: Amending statute to provide the Military Department with the annual appropriation rather than a private non-profit organization affords the state better oversight mechanisms of its disbursements. Also, this would establish better fiscal oversight and budgetary procedures for the General Fund appropriation provided to support the Military Museum. The Foundation will still be able to submit reimbursement claims for daily operational expenditures.

Staff Recommendation: Adopt proposed trailer bill language.

Vote:

Issue 4 – State Active Duty Employee Compensation

Governor's Budget Request: The Governor's budget proposes to augment the Military Department's 2014-15 Budget by $615,000 ($256,000 General Fund and $359,000 Federal Trust Fund) to cover the estimated State Active Duty employee compensation increases.

Background: Pursuant to California Military and Veterans Code, Sections 320-321, pay for State Active Duty employees must be based upon established military pay grades and estimated pay increases granted by Congress. This proposed compensation adjustment is due to a congressionally-approved increase in the military allowances for housing and subsistence.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5 – California Army National Guard Armories

Background: According to the 2013 California Army National Guard Armories status report there are 100 active armory sites located throughout the state. The California Army National Guard has dual responsibilities to both federal authorities to ensure readiness of forces for national security missions, and to the Governor in response to state missions for homeland security and disaster support. Armories are the primary place for training and readiness response, and are used as the centralized meeting and training space for California Army National Guard units, as well as for emergency operations and community activities. Depending on the size and types of units in the local area armories may support a single unit, or multiple units. The California Army National Guard utilizes armories for a variety of reasons including; mobilizations, unit training, emergency operations, emergency shelters, and community events.

According to the report 74 percent of the armories were designed and built more than 50 years ago, making them ill-equipped to support many of the armories current usage requirements.

Staff Comment: The Governor's Five-Year infrastructure plan addressed the need to modernize many of the facilities in the California National Guard's armory portfolio, dedicating approximately $63.9 million to facility upgrades over the next five years. However, it is unclear to staff what percentage of the infrastructure plan is federal funding, which, in this case, it is unlikely that the state will receive due to budgetary cutbacks at the federal level.

California Military Department Infrastructure Plan

Project	2014-15	2015-16	2016-17	2017-18	2018-19	**TOTAL**
Advance Plans and Studies	$0	$252	$0	$0	$0	**$252**
Latrine Renovations	$0	$1,539	$0	$0	$0	**$1,539**
Consolidated Headquarters (Phase I)	$7,534	$40,388	$1,961	$0	$0	**$49,703**
San Diego Readiness Center	$0	$0	$790	$872	$9,264	**$10,926**
Kitchen Renovations	$0	$1,556	$0	$0	$0	**$1,556**
TOTAL	$0	$43,735	$2,751	$872	$9,264	**$63,976**

*Dollars in thousands

Staff Recommendation: Direct the California Military Department to provide the Subcommittee with a plan that will begin to address the California Army National Guard's infrastructure needs in FY 2014-15.

Vote:

8950 DEPARTMENT OF VETERANS AFFAIRS

Department Overview: California has the largest state population of veterans in the country. A September 2012 study, conducted by the United States Department of Veterans Affairs (USDVA), indicated that there are 1.79 million veterans living in California. The state's veteran population continues to grow, partially as a result of returning veterans. It is estimated that approximately 35,000 veterans will return from military service to the state annually, over the next few years.

The California Department of Veterans Affairs (CalVet) is the principal agency for state-based veterans' services. CalVet performs three primary functions to support the needs of California's veterans and their families:

- Providing guidance and representation relating to the disability and benefits claims process;

- Making direct loans for the purchase and improvement of farms and homes; and,

- Providing long-term residential and medical care at California Veterans Homes.

The Governor's budget proposes total spending of $399.66 million ($334.1 million General Fund) for the CalVet in 2014-15. This proposal reflects a $28.9 million dollar increase over expenditures for 2013-14.

Summary of Expenditures
(Dollars in Thousands)

Program	2013-14	2014-15
Farm and Home Loans to Veterans	$59,484	$60,485
Veterans Claims and Rights	17,455	14,454
Care of Sick and Disabled Veterans	293,473	324,617
Other	317	101
Total	**$370,729**	**$399,657**

Issue 1 – Conversion to Civil Service

Governor's Budget Proposal: The Governor's 2014-15 budget includes a request for an additional $2.068 million in General Fund support and an increase of 43 positions to assist with veterans claims, food service operations, and security.

Background: On June 18, 2009, the State Personnel Board ordered the California Department of Veterans Affairs (CalVet) to convert a number of contracted positions to civil service. The ruling was in accordance with Government Code §19130, which specifies which personal service contracts may, and may not, be utilized by state agencies. An effort to appeal was made by CalVet in 2011, but was denied by the State Personnel Board. The initial contracts were permitted since they represented a new legislative function, as defined by Government Code §19130.

The requested 43 positions will be spread throughout four of the homes within the Veterans Homes of California network, as follows:

- ***Barstow*** - $1.056 million and 20 positions (11 food service, 8 security, and 1 veteran claims service position).
- ***Chula Vista*** - $927,000 and 22 positions (13 food service, 8 security, and 1 veteran claims service position).
- ***Lancaster*** - $40,000 and 0.5 positions for veteran claims.
- ***Ventura*** - $45,000 and 0.5 positions for veteran claims.

The current security contract is set to expire on December 1, 2014. CalVet has requested that the security positions be brought into compliance with Government Code §19130 before the State Personnel Board issues another injunction.

The Veterans Homes in Yountville and West Los Angeles have permanent positions providing veterans claims representation at their respective facilities. The Redding and Fresno Veterans Homes will also have permanent positions that will provide claims representation to residents. The remaining four veterans homes (Lancaster, Chula Vista, Ventura, and Barstow, contract with the local County Veteran Service Office, however, the county veteran service officers are county employees and CalVet has expressed concern that, as county employees, their priorities may not align with CalVet's. CalVet has noted that during FY 2010-11 a significant increase in claims occurred, which can be attributed to adequate staffing.

Staff Comment: Staff has no issues or concerns with this request.

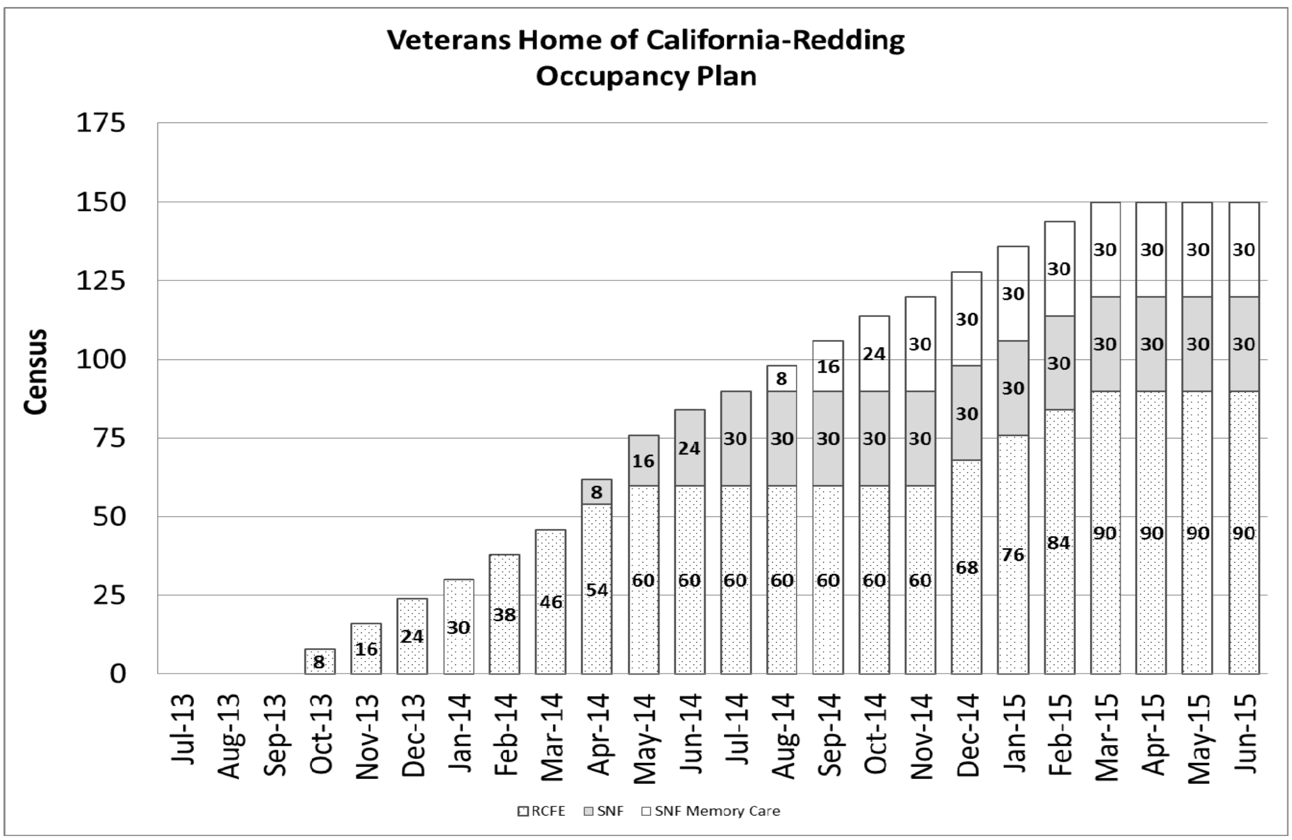
Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Redding Veterans Home – Continued Activation

Governor's Budget Request: The Governor's 2014-15 budget includes a request to increase General Fund support by $3.896 million and 43.3 positions for FY 2014-15 and $5.047 million and 48.8 positions in order to complete the staffing ramp-up at the Redding Veterans Home.

Background: In 2008, the Legislature approved the construction of a new Veterans Home to be located in Redding. Construction of the facility began in 2010 and was completed in 2012. The Budget Act of 2010 included staff and funding for pre-activation through full ramp-up of the veterans home in Redding. Due to the ongoing fiscal constraints, the Budget Act of 2011 delayed the opening of the Redding veterans home and eliminated all funding and positions related to its activation. The Budget Act of 2012 took a similar approach, providing CalVet with enough support to maintain the facility, but not enough to activate it. Funding was provided in the Budget Act of 2013 to open the home, continue the staffing ramp-up and begin the first year of resident admission.



Staff Comment: This is a multi-year request that will fulfill ramp-up activities at the Redding Veterans Home. The requested resources reflect the final phase of ramp-up for this facility and comply with the terms agreed to with the U.S. Department of Veterans Affairs in their construction grant terms. Resident occupancy for this facility has begun and full occupancy is projected to occur in March 2015.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Fresno Veterans Home – Continued Activation

Governor's Budget Request: The Governor's 2014-15 budget includes a request to complete the staffing ramp-up and admission of residents at the Fresno Veterans Home. The request includes:

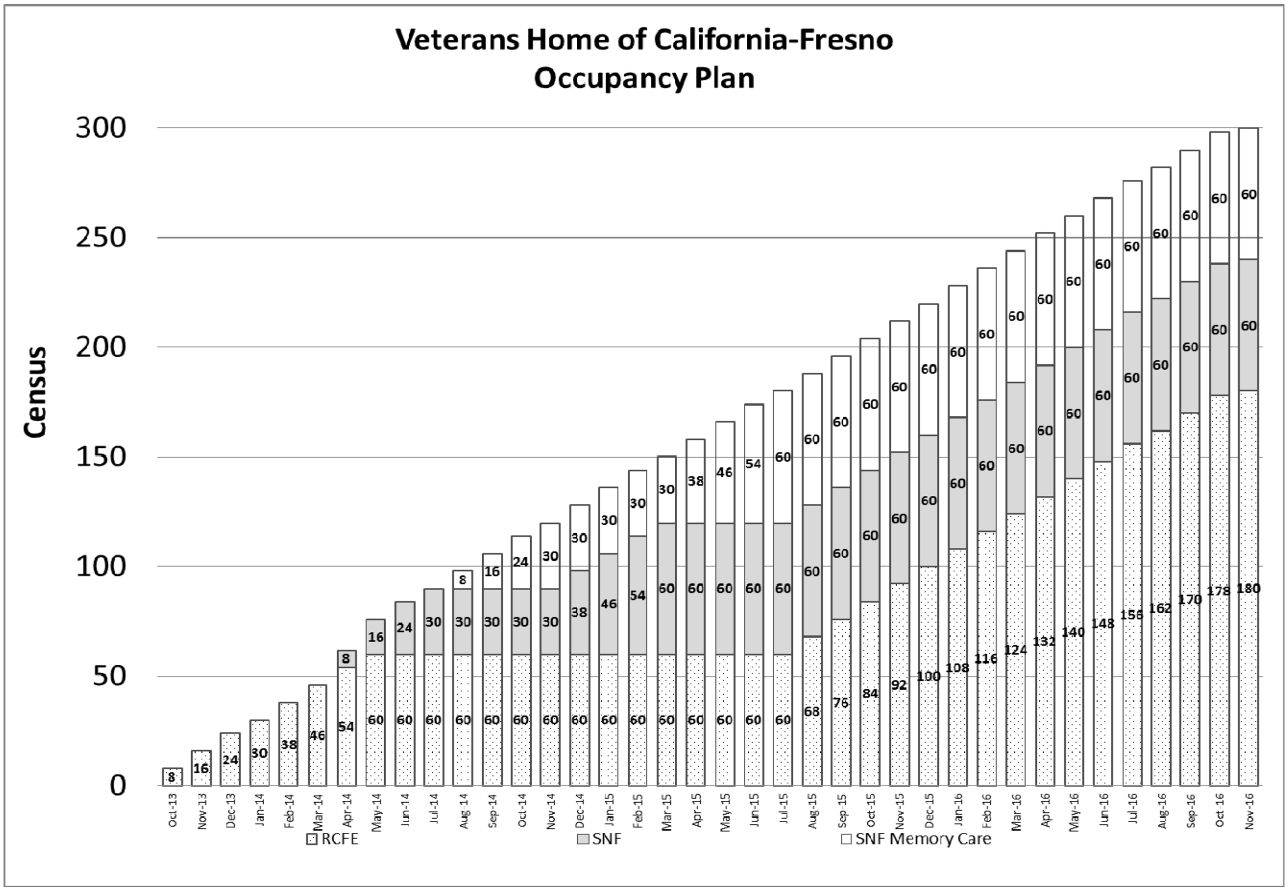
- $7.56 million (General Fund) and 89 positions in Budget Year 2014-15 and $12.83 (General Fund) and 137.9 positions ongoing.

- $4.14 million (General Fund) and 52.2 positions in Budget Year 2015-16 and $6.44 million (General Fund) and 70.1 positions ongoing.

- $602,000 (General Fund) in Budget Year 2016-17 and $700,000 ongoing.

Background: In 2008, the Legislature approved the construction of a new veterans home in Fresno. Construction began in May 2010, and was completed in April 2012. Due to the ongoing fiscal constraints, the Budget Act of 2011 delayed the opening of the Fresno veterans home and eliminated all funding and positions related to its activation. The Budget Act of 2012 took a similar approach, providing CalVet with enough support to maintain the facility, but not enough to activate it. Funding was provided in the Budget Act of 2013 to open the home, continue the staffing ramp-up, and begin the first year of resident admission.

Staff Comment: This request for staffing and resources for the remaining years of admissions is projected to take the total census to an estimated 174 by the end of FY 2014-15, 268 by the end of 2015-16, and full occupancy of 300 in the fall of 2016. The requested resources reflect the request submitted in the U.S. Department of Veterans Affairs construction grant.



Staff Recommendation: Approve as budgeted.

Vote:

Issue 4 – CVSO Auditor

Governor's Budget Request: The Governor's 2014-15 Budget includes a request for $52,000 (General Fund) and one position for a County Subvention Program Auditor and Database Coordinator.

Background: The CalVet County Subvention Program reimburses counties for a portion of their administrative costs and for workload units on a semi-annual basis. Funds are distributed on a pro-rata basis. Auditing the county submissions is a function that has been performed by a retired annuitant.

Recent changes in accordance with SB 1006 (Budget and Fiscal Review Committee), Chapter 32, Statutes of 2012, modified the workload unit computation process. The computation is now based on a performance-based formula that incentivizes County Veteran Service Officers to maximize the amount of federal dollars received by a veteran.

Additionally, SB 1006 modified reporting requirements of CalVet to offer more comparative statistics and best practices in their reports.

Staff Comment: This request will allow CalVet to fulfill a legislative requirement and eliminates a service contract to perform audits of the County Subvention Program.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5 – State Cemeteries Perpetual Maintenance Funding

Governor's Budget Request: The Governor's 2014-15 Budget includes a request for a $10,000 augmentation of the Northern California Veterans Cemetery Perpetual Maintenance Fund for operational and maintenance purposes.

Background: The Northern California Veterans Cemetery Perpetual Maintenance Fund provides funding for the maintenance of the Northern California Veterans Cemetery at Igo and the Yountville Veterans Home Cemetery.

Initial funding levels for the fund were established in 2005 and have not been adjusted. There has been a total of 3,882 burials at the Northern California Veterans Cemetery and total acreage has increased from 1.75 acres to 13.5 acres.

Staff Comment: The Northern California Veterans Cemetery Perpetual Maintenance Fund anticipated FY 2014-15 revenues of $64,000 and authorized expenditures of $55,000, the resources to provide this augmentation to the Northern California Veterans Cemetery and the Yountville Veterans Home Cemetery are available.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 6 – Investigative Services

Governor's Budget Request: The Governor's 2014-15 budget includes a request for $96,000 (General Fund) and two permanent positions to investigate claims of elder abuse, hostile work environment complaints, and other miscellaneous employment related matters.

Background: Currently, CalVet does not have any staff dedicated to investigating claims related to civil litigation, workplace violence complaints, personnel matters, and claims of elder abuse. When necessary, CalVet has been required to contract out investigative-related activities, and is currently expending $97,000 in resources annually for investigative services.

Staff Comment: According to CalVet, providing their Legal Affairs Division with investigative staff would facilitate a more cost-effective and expedient legal process. When not occupied by active investigations, the Legal Affairs Division intends on utilizing the investigator to support attorneys with trial preparation for ongoing litigation files, which will allow for a more efficient use of staff attorney time, as well.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 7 – Central Coast State Cemetery

Governor's Budget Request: The Governor's 2014-15 budget includes a request for Budget Act authority of $8.217 million ($1.42 million Central Coast State Veterans' Cemetery at Fort Ord Operations Fund and $6.797 million Federal Trust Fund Authority), to begin construction of the Central Coast State Veterans Cemetery at Ford.

Background: AB 3035 (Laird), Chapter 291, Statutes of 2006, authorized the construction of a cemetery to be located at the former site of Fort Ord. The Central Coast Cemetery will support the burial needs of approximately 177,000 veterans living within six surrounding counties; Alameda, Monterey, San Mateo, Santa Cruz, San Benito, and Santa Clara. The United States Department of Veterans Affairs, through its National Cemetery Administration State Cemetery Grants program will reimburse 100 percent of allowable costs for the design and construction of the Cemetery.

When complete, this project will include 5,000 columbaria sites; administration building with public information and restrooms; a maintenance yard and building; a committal shelter; and, a memorial area.

Staff Comment: Funds for completion of design of the project were included in the 2013 Budget Act.

Staff Recommendation: Approve as budgeted.

Vote:

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Tom Berryhill
Senator Norma Torres

Thursday, March 20, 2014
9:30 a.m. or Upon Adjournment of Session
Room 2040

Consultants: Farra Bracht

AGENDA - PART A

STATE FINANCE AND ADMINISTRATION

California's Five-Year Infrastructure Plan

Presentation by the Department of Finance

Commentary provided by:
Legislative Analyst's Office

Background. The Administration released its 2014 Five-Year Infrastructure Plan along with the January budget. The plan identifies total statewide deferred maintenance costs of $64.6 billion ($59 billion, or 91 percent, is for the state's roads). The plan proposes to invest $56.7 billion in capital funding over the next five years and, of this amount, $32.3 billion is from federal funds, $12.1 billion from various special funds, $6.1 billion from bond funds, and $5.9 billion from other funds. Most (94 percent) of the capital investments proposed are for the state's transportation system.

The budget proposes to spend, on a one-time basis, $815 million ($800 million General Fund) to address critical deferred maintenance needs in the following areas:

- $337 million for Caltrans
- $188 million for K-12 Schools Emergency Repair Program
- $175 million for California Community Colleges
- $43 million for Parks and Recreation
- $20 million for Corrections and Rehabilitation
- $15 million for Judicial Branch
- $10 million for Developmental Services
- $10 million for State Hospitals
- $7 million for General Services
- $5 million for State Special Schools
- $3 million for Forestry and Fire Protection
- $3 million for Military
- $2 million for Food and Agriculture

The expenditure proposal does not include specific deferred maintenance projects for these departments. Instead, for most of these departments (excludes Caltrans, K-12 Schools, Community Colleges, and the Judicial Branch), in order for these funds to be allocated, departments would provide a list of proposed deferred maintenance projects to the Administration, who would approve or reject the projects, and then notify the Legislature of its approved list of projects 30 days prior to allocating any funds.

LAO Comments. The plan serves an important role by raising some key policy issues for legislative consideration. In particular, the plan raises questions about (1) the appropriate roles of state versus local governments in funding some infrastructure, (2) whether the state is overly reliant on bond financing for infrastructure, and (3) how to address large backlogs of deferred maintenance in state facilities.

The LAO also points out that the plan does not include some important information required by state law. Specifically, the plan does not include the list of infrastructure needs reported by departments. The purpose of this information is to help the Legislature understand the full scope of the state's infrastructure demands and to make judgments about whether it agrees with the Administration's choices about which project should receive funding. The plan also does not identify K-12 school facility needs or the infrastructure needs of the University of California system and California State University system after 2014-15.

The LAO proposes that the Legislature establish infrastructure committees to promote active and coordinated legislative involvement on the issue.

Staff Comments. The five-year plan is a step in the right direction of beginning to identify the magnitude of the state's outstanding capital and deferred maintenance needs. Moreover, while deferring annual maintenance needs avoids expenses in the short run, it often results in substantial additional costs in the long run.

The Administration's plan has some shortcomings. As noted by the LAO, it does not include K-12 and higher education infrastructure projects. The plan also does not include details to help the Legislature prioritize which projects to fund or a well-articulated long-term funding plan. The Legislature may wish to obtain additional information about the analysis used to identify capital and deferred maintenance projects in the appropriate budget subcommittees. Given the state's existing debt burden and General Fund constraints, the Legislature may want to have the Administration provide an analysis of the use of General Fund-backed debt that explores alternatives to the reliance on voter-authorized General Obligation (GO) bonds. In addition, a well thought out plan would also include a discussion of the ease of implementation of various projects, and associated risks, and how those were taken into consideration in the development of the plan. Finally, it will be important for the Legislature to understand how the Administration plans to incorporate this plan into the annual budget process in the future.

Questions for DOF:

(1) How does the Administration intend to move forward with addressing the state's infrastructure needs in future budget proposals?

(2) What funding is currently available for the projects identified in the plan?

(3) Why doesn't the Five-Year Infrastructure Plan propose additional borrowing as a way to fund the state's significant infrastructure needs?

Questions for LAO:

(1) How should infrastructure projects across various state departments be prioritized?

(2) What should be considered when determining what types of funding sources, such as bonds, user fees, or special funds, to use to fund infrastructure projects?

Overview of Debt Financing

Presentation by the State Treasurer's Office

Commentary provided by:
Department of Finance
Legislative Analyst's Office

Presentation from the State Treasurer's Office on California's use of general obligation bonds—primarily for infrastructure and other capital investments, the state's current and future projections of the repayment of bond debt, and the state's overall debt capacity.

Questions:

1) *What is the right amount of debt for the state to carry? How much is too much? How does the state's debt service ratio compare to other states?*

2) *What factors influence the state's credit rating?*

3) *What budget actions are more likely to result in the state's credit being upgraded?*

ITEMS PROPOSED FOR VOTE-ONLY

0950 State Treasurer's Office

Department Summary: The Governor's budget includes stable funding for the State Treasurer's Office (STO) and the 13 related boards, committees, and authorities. None of the proposals below include General Fund costs. In addition, no concerns have been raised with these proposals, and they are recommended for approval as "vote-only issues."

Budget Summary: The STO's budget calls for 236.4 positions and $29.8 million. This is an increase of three positions and nearly $400,000 from the 2013-14 funding level.

Issue 1: Debt Management System (Governor's Budget BCP # 1)

The STO proposes $1.1 million in expenditure and reimbursement authority from the interest on undisbursed bond proceeds to continue implementation of the debt management system project that was originally authorized in the 2013-14 Budget Act. The amount includes funding for a procurement consultant and related vendor, oversight costs of the California Department of Technology, and funding for four positions. The system is necessary for debt administration, including duties associated with trustee, registrar and paying agent responsibilities, payment of debt service, disclosure and analysis of debt issuances. Given the increased legal and financial complexities in the debt markets, the STO indicates a need for a new system to administer outstanding debt, track and pay debt service and fees on outstanding debt, and track and validate the issuance of new debt. The existing system dates to 2004.

Staff Comment. Staff has no concerns with this proposal.

Staff Recommendation. Approve the budget proposal for $1.1 million increased expenditure and reimbursement authority for contractors and four staff positions.

Vote:

0968 California Tax Credit Allocation Committee

Department Summary: The California Tax Credit Allocation Committee (CTCAC) allocates federal and state tax credits used to create and maintain affordable rental housing for low-income households in the state by forming partnerships with developers, investors, and public agencies. The CTCAC works with public and private entities to assist with project development and monitors project compliance. The CTCAC coordinates its functions with state and local housing fund providers and with private fund investors in the provision and maintenance of affordable housing. The CTCAC consists of seven members from state and local governments, with the State Treasurer serving as chair. Other members are the Governor or Director of Finance, State Controller, Director of the Department of Housing and Community Development, Executive Director of the California Housing Finance Agency, and two representatives from local government.

Budget Summary: The CTCAC budget calls for $6.7 million and 40 positions for 2014-15. This represents a slight increase from the 2013-14 funding level of $6.4 million and 40 positions. The CTCAC is funded through fees generated by the issuance of debt and reimbursements, with no General Fund support.

Issue 1: Compliance Monitoring Operating Expense Augmentation (Governor's Budget BCP #1)

The Governor's budget proposes an augmentation of $200,000 to address increased costs for in-state travel related to an increased number of on-site file and physical inspections; and $100,000 to contract out for the collection of demographic data for every household member that occupies a low-income housing tax credit (LIHTC) unit. The CTCAC has not requested an increase in travel funding in over ten years despite travel costs increasing from $65,000 in 2002-03 to $266,000 in 2012-13.

In addition, an augmentation of $50,000 in reimbursement and expenditure authority is requested for fees collected from compliance training workshops provided by CTCAC to users of the LIHTC program.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Approve the request for an expenditure augmentation of $300,000 and increased reimbursement and expenditure authority of $50,000.

Vote:

0971 California Alternative Energy and Advanced Transportation Financing Authority

Department Overview: The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) is housed within the STO and is tasked with the authority to provide financing assistance to entities that wish to develop and commercialize advanced transportation and alternative energy technologies intended to reduce air pollution and conserve energy. The CAEATFA consists of five members and is chaired by the State Treasurer.

Budget Overview: The Governor's budget proposes $27.5 million and 19.5 positions for 2014-15. This represents a net increase of $17.5 million over the estimated current year. The CAEATFA's programs are primarily funded through the California Energy Commission.

Issue 1: Residential PACE Loss Reserve Fund Implementation and Administration (Governor's Budget BCP #2)

The CAEATFA requests a re-appropriation of $10 million for a loss reserve fund (local assistance) to provide credit enhancements for the financing of home energy efficiency project and energy upgrades. This program was originally approved and authorized in the 2013 Budget Act. However, the enabling legislation was not enacted until September 2013, resulting in a delay in program implementation.

Staff Comment. The $10 million re-appropriation would allow for program development and implementation.

Staff Recommendation. Approve the $10 million re-appropriation.

Vote:

0984 CA Secure Choice Retirement Savings Investment Board

Department Summary. The California Secure Choice Retirement Savings Investment Board (SCIB) was established by SB 1234, (de León), Chapter 734, Statutes of 2012, to study the feasibility of implementing a state-administered retirement savings program for private sector employees in California with no access to workplace retirement savings plans. The SCIB consists of nine members: the State Treasurer (Chairperson), the Director of the Department of Finance, the State Controller, a retirement savings and investment expert, an employee representative, a small business representative, a public member and two other members appointed by the Governor.

Budget Summary. The SCIB budget calls for a re-appropriation of $750,000 (or the remainder) of the existing expenditure authority of the $1.0 million provided in the 2013 Budget Act and no staff positions. These funds would be used to conduct a market analysis for a private pension plan consistent with SB 1234.

Issue 1: Market Analysis for the CA Secure Choice Retirement Savings Trust Act (Governor's Budget BCP #1)

The Governor's budget proposes to re-appropriate the remainder of the $1.0 million (estimated to be $750,000) expenditure authority included in the Budget Act of 2013. Budget language is also requested allowing for additional expenditure authority, if additional funding is provided by a nonprofit, or private entity, or from federal funding. This is consistent with the language included in the budget act last year. At this time, no money has been spent, but is it anticipated the work will begin in April 2014 and be completed in October 2014. It is possible the market analysis could begin in 2014-15, if sufficient funds are not received in the current year.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Approve the request for a re-appropriation of the balance of the existing expenditure authority and related budget language.

Vote:

ITEMS PROPOSED FOR DISCUSSION AND VOTE

9600 Debt Service, General Obligation Bonds, and Commercial Paper

Item Overview: Expenditure of bond proceeds is reflected in the budgets of individual departments, with the payment of bond debt service consolidated in Item 9600 in the Governor's budget. It is the repayment of bond debt that is reflected as a General Fund expense. Some bond costs are offset by special funds or federal funds. Other bonds are 'self-liquidating,' or have their own dedicated revenue source for debt service. For example, the Economic Recovery Bonds (ERBs) receive a quarter-cent of the sales tax as a component of the 'triple flip' enacted as part of the 2004 budget package.

Budget Overview: The Governor's budget includes $5.3 billion in General Fund costs for GO bond debt service and related costs, or a total of $6.8 billion when the debt service costs of the ERBs are included. This amount does not include the proposed supplemental payment of $1.6 billion for ERBs that would result in them being paid off by the end of 2014-15. In addition, $1.1 billion in debt costs are scheduled to be funded from special funds. Finally, federal bond subsidies, through the Build America Bonds (BABs) program, will provide $327 million in 2014-15, allowing for a reduction in General Fund expenses. The Governor's proposed budget includes $106.8 billion in General Fund available resources (not including carry-over balances), so the net General Fund bond debt service as a percentage of General Fund resources is about 5.0 percent.

Governor's Budget for General Obligation Bond Debt
(Dollars in Millions)

Category	2012-13 Actual Cost	2013-14 Estimated Cost	2014-15 Forecasted Cost
General Fund Cost	$3,997	$4,916	$5,298
Other Funds Cost	788	1,052	1,133
Federal Subsidy (Build America Bonds Program)	340	324	327
Total Debt Service	**$5,125**	**$6,292**	**$6,758**
Economic Recovery Bonds (ERBs, not included above because indirect GF cost)	$1,313	$1,539	$1,614

The ERBs are not included directly in General Fund costs for bond debt service. As noted above, repayment of these bonds is financed from a quarter cent sales tax that was temporarily redirected from local government. Local government revenue is backfilled through a diversion of property tax revenues and an increase from the state General Fund in Proposition 98 education funding. The Governor's budget reflects special fund expenditures of $1.6 billion for ERB debt service in 2014-15, and the Proposition 98 budget reflects increased General Fund expenditures of $1.6 billion. Paying off the ERBs in 2014-15 will reduce the state's General Fund expenditures for Proposition 98 by roughly $1.5 billion in 2015-16.

Background: The state uses general obligation bonds (GO bonds) to borrow funds for spending—primarily for infrastructure and other capital investments. The use of bonds to accelerate capital projects is a commonly-used practice of government entities. Bonds must be approved by voters and bond proceeds are either continuously appropriated (immediately available for expenditure) or require an appropriation from the Legislature. All bond debt service is continuously appropriated and, therefore, not appropriated in the annual budget bill. The state has $80.7 billion in outstanding GO bond debt (including self-liquidating bonds such as the Economic Recovery Bonds [ERBs]). Another $28.3 billion in bonds are authorized, but remain unissued. In most instances, bonds are sold at different lengths of maturity such that repayment is spread over about 30 years. The chart below indicates the authorized, but unissued, reservoir of bonds.

General Obligation Bonds Authorized and Not Issued
(Dollars in Millions)

Authorized Bond Program	Unissued Amount
Prop 1A of 2008: High-Speed Rail	$9,244
Prop 1B of 2006: Transportation	7,023
Prop 84 of 2006: Safe Drinking Water	2,958
Prop 1E of 2006: Disaster Prep and Flood Prevention	1,819
Prop 71 of 2004: Stem Cell Research	1,560
Prop 46 of 2002 & Prop 1C of 2006: Housing	1,392
Prop 55 of 2004 & Prop 1D of 2006: Education Facilities	1,201
All other	3,134
Total	**$28,331**

The state generally goes to market to sell GO bonds twice annually—once in the spring and once in the fall. Bond structures are often tailored to meet market demand and investor appetite. This tailoring includes tinkering with variables such as fixed and variable rates, call features and premiums, and various security enhancements. Bonds are sold in amounts necessary to meet expenditure needs, plus an additional cash cushion to account for flexibility regarding how fast projects will expend funds and uncertainty about the timing of the next bond sale.

Paying GO bond debt is a significant General Fund expense. State and federal tax exemptions for interest income received by investors ensure that GO bond debt is a low-cost financing alternative. To the extent bond costs do not exceed a government's long-term ability to fund other commitments; bonds allow the public to enjoy the benefits of infrastructure investment more quickly than would otherwise be the case. The LAO indicates that the state's debt service requirements for infrastructure will climb steadily over the next several years, to about $7.1 billion in 2019-20. As a percent of General Fund revenues, debt service is estimated to remain at about 5.9 percent.

Voters approved over $40 billion in new bonds on the 2006 ballot, just prior to the national recession. The bonds have allowed the state to invest in infrastructure while the need for economic stimulus is most acute, while borrowing costs are low, and while construction procurement is favorable. Despite the benefits of bonds, they come with the cost of many years of debt service. Assuming that a bond carries an interest rate of 5 percent, the cost of paying it off with level payments over 30 years is close to $2 for each dollar borrowed—$1 for repaying the amount borrowed and close to $1 for interest. This cost, however, spread over a 30-year period, after adjusting for inflation is considerably less—about $1.40 for each $1 borrowed. That bond cost crowds out alternative expenditures over the life of the bond. The Legislature can prioritize or limit bond funding through the budget process as overall expenditures are prioritized. This question may be particularly acute as the economy begins to recover and interest costs climb as a result of increased demand for capital.

Issue 1: Bond Sale and Cash Plan for 2014-15 (Governor's Budget Proposal)

The budget plan includes an assumption that $2.8 billion in GO bonds will be sold in the spring of 2014, and that $2.1 billion more will be sold in the fall of 2014. Among these planned sales are $2.7 billion for transportation and related capital facilities, $1.4 billion for various education facility bonds, and $618 million for various natural resources bonds.

Detail: As the state's cash situation deteriorated with the most recent recession, the Administration changed the methodology for managing bond cash. Prior to the recession, reserve cash funded project costs in advance of bond sales, and then bond sales replenished cash reserves. When reserve cash declined, the state had to instead sell bonds in advance of expenditures. Due to project expenditures occurring slower than anticipated at the time of bond sales, large bond cash balances developed—about $9.7 billion as of December 2011. The Administration recently implemented a plan to utilize commercial paper to aid cashflow, and reduce the need to carry large bond cash balances, as well as requiring GO bond programs to demonstrate an immediate need for additional bond proceeds prior to issuing new bonds. As of December 2013, about $4.5 billion in bond cash was on-hand from prior bond sales, as shown in the table below. At budget hearings, the Administration could be asked to discuss their management of bond proceeds, forecasts of project expenditures, and the optimal level of cash balances.

General Obligation Bonds Current Cash Proceeds
(Dollars in Millions)

Authorized Bond Program	Bond Proceed Cash Remaining as of Dec. 2013
Prop 1B of 2006: Transportation	$921
Prop 1E of 2006: Disaster Prep and Flood Prevention	896
Prop 84 of 2006: Safe Drinking Water	567
Prop 1C of 2006: Housing	293
Prop 1D of 2006: Public Education Facilities	354
Prop 50 of 2002: Water Security	447
Prop 13 of 1996: Clean Water and Watershed	204
All others	817
Total	**$4,499**

Staff Comment. While funding for bond debt service is continuously appropriated, a broader discussion on GO bonds may be useful to understand the Administration's priorities and help inform future discussion on individual bonds and expenditure plans. The Administration should be prepared to discuss their overall plan for GO bonds in 2014-15. Individual bonds will be discussed in more detail by subject matter in this subcommittee and other subcommittees as hearings progress this spring.

Question:

1) *Is bond cash sufficient to fund all bond projects appropriated by the Legislature, or are any projects on hold due to insufficient bond cash or other reasons?*

Staff Recommendation: Informational item. Bring the issue back at a future time if the Administration substantially revises their bond plan as part of the May Revision.

Issue 2: Infrastructure Financing and Debt Service Capacity (Governor's Budget Proposal)

The Governor's budget proposes bond sales in the spring and fall of 2014. The issuance of authorized bonds on a consistent basis over the next few years would keep debt service requirements in the range of 6-7 percent of General Fund revenues. In recent years, debt service has been one of the fastest growing segments of the budget and debt service on infrastructure bonds is expected to increase to $8.6 billion by 2017-18. In addition, significant infrastructure needs are apparent throughout the state which must be addressed through additional bond authorizations, on a pay-as-you-go basis, or some alternative means of financing.

Detail: The Administration released its 2014 Five-Year Infrastructure Plan along with the budget as summarized earlier in this agenda. The plan focuses on using existing revenue streams—mostly federal funds, special funds, and already authorized bond funds—for its funding proposals. The plan does not propose the addition of any new taxes or new general obligation bonds. The plan notes that to the extent the state undertakes additional borrowing, it will affect the state's debt-service ratio, which is the portion of the state's annual General Fund revenues that must be set aside for debt-service payments and are, therefore, not available to support other programs.

LAO Comment. The LAO in its analysis of the 2014 California Five-Year Infrastructure Plan notes that the state's funding approach is an important consideration for the Legislature. It finds the Legislature may want to determine whether it agrees with the Governor's cautious approach to taking on new General Fund commitments, including debt obligations. In addition, the Legislature may wish to explore other funding sources, besides the General Fund, such as special funds and user fees.

Staff Comment: The Administration should be prepared to discuss the affordability of the state GO bond plan and the ability of the state's General Fund to continue at the current level—or any future increased level—of debt service requirements given the other demands on it. This additional debt could include a possible water bond to address the reliability of the state's water supply. The Administration should describe options for infrastructure and include a discussion of things that it considers when weighing financing options such as financing costs, ease of implementation, project flexibility, and assumed risk.

Questions:

(1) What is the state's capacity for more GO bonds, especially to fund infrastructure projects?

(2) How does the Administration determine how to fund infrastructure projects? What options does it weigh?

Staff Recommendation: Informational item.

9620 Cash Management and Budgetary Loans

Item Overview: This budget item appropriates funds to pay interest costs on General Fund borrowing used to overcome cash flow imbalances during the fiscal year. Because receipts and disbursements occur unevenly throughout the fiscal year, the General Fund borrows in most years, even though each budget is balanced when enacted, and funds are repaid within the fiscal year. Interest is paid on both internal borrowing, such as short-term loans from special funds, and for external borrowing, such as Revenue Anticipation Notes (RANs). This item additionally pays interest costs for budgetary borrowing by the General Fund from special funds. Budgetary borrowing is across fiscal years and is scored as a budget solution, whereas cashflow borrowing is not counted as a budget solution, but conducted in order to maintain adequate cash reserves.

Budget Overview: This item appropriates funds for interest costs associated with cashflow and budgetary borrowing. The budget includes $120 million General Fund for the interest costs associated with two cashflow borrowing methods—$60 million for the RAN and $60 million for internal borrowing costs. The proposed amounts are conservative and based on budgeting sufficient funds to cover the uncertainty in interest rates and other factors. In addition, the budget includes $54 million in interest costs associated with the repayment of internal budgetary borrowing from special funds.

Issue 1: Cashflow Borrowing (Governor's Budget Proposal)

The Governor's Budget proposes both internal and external cashflow borrowing. Generally, internal sources are assessed first, and external borrowing is used to supplement internal sources. In order to supplement the state's internal borrowing within the budget year, the Administration has proposed a RAN initially sized at $3.5 billion. This provides an additional cashflow cushion to the existing availability of internal resources. Without the external borrowing, there would be insufficient cash reserves and other funds during the months of October, November, December, and March.

Background and Detail: The state's receipts and disbursements of cash occur unevenly throughout the fiscal year. As a consequence, the General Fund borrows for cashflow purposes in most years, even though each budget is balanced when enacted and funds are repaid within the fiscal year. Given that the state receives revenues on an uneven basis throughout the year, the state's cash position varies, with the typical low points occurring in July, October, and November. Maintaining an adequate cash balance allows the state to pay its bills in a timely fashion. Interest is paid on both internal borrowing (such as cashflow loans from special funds) and for external borrowing (such as Revenue Anticipation Notes [RANs]). For the current year, the state issued RANs in August of 2013 of $5.5 billion. The RANs are payable in May and June and carry an expected interest cost of $16 million.

Total monthly borrowable internal resources from some 700 plus funds are typically in the range of $20 billion. The state also established a new cashflow tool in the form of the Voluntary Investment Program (VIP) in 2012. This measure provided an additional means to assure cashflow continuity by establishing a new account for voluntary participation by local governments. Another cash management tool of the state is the State Agency Investment Fund (SAIF), which attracts deposits from entities not otherwise required to deposit funds with the state. The VIP and SAIF were not used in the current year.

An additional tool in managing cash is deferrals of payments within the fiscal year to K-12 and higher education, local governments, and other entities. In recent years, flexible deferrals have been enacted in statutes that allow specified deferrals if necessary to maintain a prudent balance for bond debt and other priority payments. For the current year, there were deferrals allowed for K-12 education, higher education, and local government payments. The fiscal impact of these deferrals varies from entity to entity, depending upon their own cash positions.

Based on the cashflow statements of the Administration, the cash low-points will occur in October, December, and March, when unused borrowable cash resources are estimated to be $4.5 billion, $4.2 billion and $5.0 billion respectively. By way of comparison, and reflective of the uneven flow of receipts and disbursements, the cash and borrowable resources in June of this year are estimated to be $20.8 billion.

LAO Comment. The LAO finds that the estimated interest cost related to budgetary loans ($54 million) is reasonable given the loans proposed to be repaid.

Regarding internal cash-flow borrowing, costs were $50 million in 2012-13 and are estimated to be $40 million in 2013-14. The LAO finds the $60 million budgeted in 2014-15 will probably prove to be too high given that the state's cash position appears better than in recent fiscal years.

Lastly, external borrowing costs were about $48 million on a $10 billion RAN in 2012-13 and are estimated to be about $16 million on a $5.5 billion RAN in 2013-14. For planning purposes, the budget proposes a RAN of $3.5 billion for 2014-15. The LAO finds that external borrowing costs associated with the 2014-15 RAN will probably prove to be significantly below the Administration's current estimates. In total, Item 9620 costs likely will prove to be less than the Administration now estimates—probably by an amount in the low tens of millions of dollars. The Administration's January estimates are provided for planning purposes, and these are typically updated with the May Revision, at which time we will be able to reassess the scoring.

The LAO also notes that unlike most items in the annual budget plan, Item 9620 interest costs will automatically be paid if interest costs prove to be higher than budgeted. Both Items 9620-001-0001 and 9620-002-0001 include provisional language appropriating "any amount necessary" to pay required internal borrowing and budgetary loan interest costs. For RAN costs, Section 17310 of the Government Code also provides for payment of any amounts necessary for interest costs. The LAO advises the Legislature to score interest costs based on the best estimate available at the time the budget is passed. In the event that costs exceed (or are below) this estimate, the General Fund reserve will be less (or more) than budgeted.

In addition, while it is unlikely that there will be substantial new special fund budgetary loans in the near future, the LAO recommends a change in the way interest is calculated for *future* special fund budgetary loans. Specifically, a blended interest rate that accounts for changes in the Pooled Money Investment Account rates over time would more appropriately compensate special funds for their reduced balances. To implement this recommendation the LAO suggests that the Legislature could direct DOF to work with the State Controller's Office to propose appropriate statutory language to implement this change.

Staff Comment: Maintaining an emphasis on cashflow borrowing from internal sources is sound fiscal policy that reduces the need for more expensive external borrowing. The LAO finds that some of the estimated borrowing costs may be too high based on past costs. At the time of the May Revision, the Administration's proposal will likely be updated and at that time should be reassessed to ensure that the estimated borrowing costs are appropriate.

Questions:

1) *Please explain the basis for the estimated internal cashflow borrowing costs of $60 million for 2014-15.*

2) *What is the basis for the estimated borrowing cost of $60 million for the RAN?*

Staff Recommendation: Hold open and reassess at the May Revision.

Issue 2: Budgetary Borrowing Repayment Plan (Governor's Budget Proposal)

The Governor proposes to pay down $11.0 billion of the remaining $24.9 billion "wall-of-debt" by the end of 2014-15. In addition, the Governor's multi-year budget plan proposes to fully repay wall-of-debt obligations by the end of 2017-18. Assuming this plan is adhered to, the 2018-19 budget and ongoing budgets would be increasingly free of these debt pressures and expenditures would be more in line with annual revenues. The estimated wall-of-debt repayment schedule is presented in the following table.

Governor's Wall-of-Debt and Proposed Repayment
(Dollars in Millions)

Item	Current Wall Amount	Payments 2013-14	Repayment Proposed in 2014-15	Repayment Proposed in 2015-16	Repayment Proposed in 2016-17	Repayment Proposed in 2017-18
Deferred Payments to Schools and Community Colleges	$6,164	$3,690	$2,474	$0	$0	$0
Economic Recovery Bonds	3,914	0	3,165	0	0	0
Loans from Special Funds	3,880	0	927	2,021	932	0
Mandate Payments to Local Governments	5,382	0	0	1,993	1,752	1,637
Underfunding of Proposition 98	2,391	598	0	1,793	0	0
Deferred Medi-Cal Costs	1,773	0	60	40	0	1,637
Deferral of State Payroll Costs	783	0	0	0	783	0
Deferred Payments to CalPERS	411	0	0	0	411	0
Proposition 42 Borrowing from Transportation Funds	168	0	83	85	0	0
Total	**$24,866**	**$4,288**	**$6,709**	**$5,932**	**$3,878**	**$3,310**

The planned payments for ERBs and Proposition 42 borrowing are constitutionally required or dictated by bond debt service. However, the Governor's proposal to retire ERBs a year early by making a one-time supplemental payment of $1.6 billion, is discretionary, as is the payment of loans from special funds. The Administration indicates that repayment of roughly half of the special fund loans allows the state to make critical investments in maintaining the state's highways and roads, and addressing climate change. The amount of special fund loans proposed for repayment in the Governor's budget is $927 million, plus total interest costs of $54 million. Interest is required on most special fund loans and is paid when the principal is repaid.

Governor's Proposal for Repayment of Special Fund Loans
(Dollars in Millions)

Affected Department and Special Fund	Principal Amount
Transportation—Highway Users Tax Account Loan Repayment	$328.3
Trial Courts—State Courts Facility Construction Fund	130.0
Air Resources Board—Greenhouse Gas Reduction Fund	100.0
Resources—California Beverage Container Recycling Fund	82.3
Public Utilities Commission—California High Cost Fund B Administrative Committee Fund	59.0
Transportation—State Highway Account, State Transportation Fund	56.0
Resources—Electronic Waste Recovery and Recycling	27.0
Health—Hospital Building Fund	20.0
General Services—Public School Planning, Design, and Construction Review Revolving Fund	20.0
Consumer Affairs—Vehicle Inspection Repair Fund	14.0
Justice—False Claims Act Fund	12.7
Health—Health Data and Planning Fund	12.0
Emergency Services—Victim-Witness Assistance Fund	10.1
Consumer Affairs—Enhanced Fleet Modernization Subaccount	10.0
Secretary of State—Victims of Corporate Fraud Compensation Fund	10.0
Other Departments, Funds and Accounts	35.6
Total	**$927.0**

Background and Detail: Through budget actions over the last decade, the state has borrowed from special funds and deferred various payments in order to close budget deficits. By the close of 2010-11, the DOF indicates that a total of $34.7 billion in loans and deferrals has accumulated and remained unpaid. The Governor defines this as the wall-of-debt, and includes in his definition adjustments related to his budget proposals. This amount largely represents the debt overhang from prior year budgets adopted under the previous Administration. By the end of the current year, this amount is expected to be reduced to $24.9 billion.

Some obligations included in the wall-of-debt have required repayment in specified years due to constitutional requirements or due to scheduled bond debt service. An example of a rigid remittance requirement is the annual Economic Recovery Bond (ERB) payment of approximately $1.5 billion through 2016-17. Other debt payments are more flexible and can be repaid over time as the budget situation allows, such as school payment deferrals, and as long as borrowing does not interfere with the activities that a special fund loan supports. In either case, the wall of debt represents a budget challenge, as payments on these accumulated debts restrict legislative discretion and displace funding for ongoing or expanded program costs.

Staff Comment: The Governor's continued emphasis on repaying budgetary debt, specifically the ERBs and special fund loans, is sound fiscal policy and would continue California's progress towards strong fiscal footing. The plan to repay the wall-of-debt over the next four years is timed to coincide with the expiration of the state's receipt of revenues from temporary taxes established by Proposition 30 in November 2012. In addition, paying off the ERBs early would free up sales tax resources now dedicated to General Fund bond repayment, most likely beginning in 2015-16. Overall, the rate of repayment is somewhat more aggressive in 2014-15 and 2015-16, about $6.7 billion and $5.9 billion respectively, than in the final two budget years of repayment, which are about $3 billion in 2016-17 and 2017-18.

Generally, actions regarding special fund loans will be made in the budget subcommittees by subject-matter area, although the 9620 Budget Item should be made to conform.

Some of the loans proposed by the Administration for repayment are necessary to make, some of the loans could be repaid earlier to help meet the desired program objectives, and some of the proposed loan repayments are unnecessary at this time, as the programs have been operating for many years without these funds.

In order to assess which loans justify repayment, it will be important to apply specific criteria to each loan proposed for repayment. One way to do this during budget hearings is to ask key questions of departments that have outstanding special funds loans such as:

- Do expenditures consistently exceed revenues?
- Are special fund programs cost-effective?
- What is an appropriate fund balance?
- Is a substantial, one-time cost anticipated, such as deferred capital projects or maintenance?
- Are reductions in fees justified?
- Does the department, board, or bureau have performance targets?
- What interest rate is the General Fund paying to borrow from this special fund?
- How would the repayment funds be used by the program?

In addition, the Legislature can scrutinize the current and budget year spending projections to determine if the fund balance, as presented by the Administration, is accurate. One way to do this is to request that the Governor provide updated fund condition statements, at the time of the May Revise, for those loans that are proposed for repayment. This is not the current practice and more up-to-date information would help the Legislature to better examine the expenditure needs of the affected departments and programs, assess the projected trend of spending, and the need for repayment.

Our analysis of a selection of loans from a variety of program areas found that one of the loans proposed for repayment could be delayed and two other special funds could benefit from an early loan repayment as described below. These are examples only and it is possible that a more comprehensive review of all outstanding special fund loans could find additional loan repayments that could be delayed or advanced.

The committee may want to hold final determination on loan repayments until the May Revision when final revenue forecasts are known. The Administration should be prepared to discuss their overall plan for special fund loan repayment for the remainder of 2013-14 and for 2014-15 through 2017-18.

Questions:

1) *How are decisions made about which special fund loans to repay? What criteria did the Administration use to determine which special fund loans to pay off and when?*

2) *When a decision was made to repay a certain special fund, how was the repayment amount determined?*

Staff Recommendation: Hold open.

Control Section 6.10 Funding for Deferred Maintenance Projects

Item Overview: Budget Control Section 6.10 gives the Department of Finance the authority to allocate $100 million General Fund in the amounts identified below for deferred maintenance projects:

• Department of Parks and Recreation	$40,000,000
• Department of Corrections and Rehabilitation	$20,000,000
• Department of Developmental Services	$10,000,000
• Department of State Hospitals	$10,000,000
• Department of General Services	$7,000,000
• State Special Schools	$5,000,000
• California Military Department	$3,000,000
• Department of Forestry and Fire Protection	$3,000,000
• Department of Food and Agriculture	$2,000,000

Under this proposal, departments would provide DOF a list of deferred maintenance projects for which the funding would be allocated. The DOF would review and provide the approved list to the Chairperson of the Joint Legislative Budget Committee (JLBC) 30 days prior to allocating any funds. The amounts specified above would be available for encumbrance or expenditure until June 30, 2016. If a department makes a change to the approved list after the funds have been allocated, DOF's approval is required and the JLBC would be notified 30 days prior to the change being approved.

Background. At this time, most deferred maintenance is funded through the baseline support budget provided to individual departments. Departments have some discretion to use these funds for maintenance projects or other higher priority needs within the department.

In response to this proposal, some departments have provided lists of deferred maintenance projects and identified which projects are the highest priorities for completion. However, other departments have not.

Staff Comment: The Governor's proposal to provide funding for deferred maintenance is a positive first step toward addressing the problem. However, the proposed process for the allocation of the $100 million (which in some cases could be for projects costing tens of millions of dollars) may not provide for adequate Legislative oversight and transparency. (The proposals for deferred maintenance funding are also being discussed in the budget subcommittees as part of each department's budget.)

It is unclear why the Administration is proposing an alternative process, to the typical budget process where departments' support budgets include funding for deferred maintenance projects. The JLBC process, that is being proposed, is not transparent and is intended to be an alternative process, not a primary process for allocating state funds. In addition, the proposed allocation of the $100 million would not provide the Legislature with an understanding of how each department prioritized projects. For example, it would be unclear if a department's prioritization process emphasized important factors, such as if the projects could leverage additional federal or local funds, or if they would help to generate revenue for the state. Project prioritization could also be based on whether the project addresses fire, life, and safety issues, or prevents future greater state costs. The proposed process also would not allow the Legislature an opportunity to provide its input on other projects that it considers high priorities. Finally, this process also would not allow the Legislature to consider other potentially appropriate funding sources for deferred maintenance projects, such as using bond funds or user fees, rather than state General Funds.

Given these considerations, the Legislature may want to reject the proposed control section process and direct the Administration to come back with proposals that enable the Legislature to approved funding for deferred maintenance projects through department's support budgets.

Questions:

1) *Why is an alternative process to funding deferred maintenance projects through departments' support budgets being proposed? Why can't these projects be funded within departments' support budgets that are approved as part of the budget process?*

2) *Would the proposed funding be in addition to the baseline funding for deferred maintenance included in departments' support budgets, or would this supplant existing funding?*

3) *What is the distinction between a deferred maintenance project and a project that has had such significant deferred maintenance that the project has become a capital outlay project? Would these types of capital outlay projects be funded under this proposal?*

4) *How would the process work if the Legislature has concerns with the projects submitted and approved by DOF using the Control Section process?*

Staff Recommendation: Reject Control Section 6.10. Direct the Administration to come back with a proposal that allows the Legislature to approve funding for individual department's deferred maintenance projects through the regular budget process.

Vote:

0985 California School Finance Authority

Department Summary. The California School Finance Authority (CSFA) was created in 1985 to oversee the statewide system for the sale of revenue bonds to reconstruct, remodel, or replace existing school buildings, acquire new school sites and buildings to be made available to public school districts (K-12) and community colleges, and to assist school districts by providing access to financing for working capital and capital improvements. Over the last 25 years, the CSFA has developed a number of school facilities financing programs and most recently is focused on assisting charter schools to meet their facility needs. The CSFA is a three-member board comprised of the State Treasurer, the Superintendent of Public Instruction, and the Director of the DOF, and is administered within the Office of the State Treasurer.

Budget Summary. The CSFA budget calls for $126.1 million and 10 positions for 2014-15. This represents a small increase from the 2013-14 funding level of $126.0 million and eight positions. The CSFA is largely funded by General Fund (Proposition 98), federal funds, and other funds that include General Funds (non-98).

Issue 1: Charter School Facility Grant Program (Governor’s Budget BCP #1)

Last year the Charter School Facility Grant Program and the Charter School Revolving Loan Program were transferred from the California Department of Education (CDE) to CSFA. The shift included $175,000 in General Fund (Non-98) and 2.0 positions from CDE to CSFA to support the program transfer in 2013-14 and beyond. The shift was approved because CSFA already administers similar programs and according to the Administration, the proposed shift was intended to improve the efficiency of charter school program administration and disbursement of funds to local charter schools.

The Governor’s budget requests two additional positions and to upgrade an existing position, for a total cost of $167,000 General Fund (non-98), to administer the program.

Staff Comment. The CSFA is requesting additional resources that were not anticipated last year. The CSFA believes that CDE was able to absorb some of the workload that was shifted last year and that is why the resources that were provided were inadequate. According to CSFA, it does not have the capacity to absorb any workload and therefore needs these additional resources. The LAO, in their review of this issue, found that CSFA has not provided a workload analysis justifying the need for the additional staff. This additional information will better enable the Legislature to determine what resources are actually needed to administer the program.

Questions:

1) *When the administration of this program was shifted from CDE to CSFA last year, why was the need for additional resources not anticipated?*

2) *Are there funds other than state General Funds that could be used to pay for these additional staff positions?*

Staff Recommendation. Hold the item open and direct CSFA to provide a workload analysis to the LAO, in the next month, justifying the need for the additional positions. Direct LAO to review the workload analysis and report back at a future subcommittee hearing on their review and recommendation for this item.

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Tom Berryhill
Senator Norma Torres

Thursday, March 20, 2014
9:30 a.m. or Upon Adjournment of Session
Room 2040

Consultants: Farra Bracht

AGENDA - PART A

OUTCOMES

STATE FINANCE AND ADMINISTRATION

ITEMS PROPOSED FOR VOTE-ONLY

0950 State Treasurer's Office

Issue 1: Debt Management System (Governor's Budget BCP # 1)

Staff Recommendation. Approve the budget proposal for $1.1 million increased expenditure and reimbursement authority for contractors and four staff positions.

Vote: 3-0

0968 California Tax Credit Allocation Committee

Issue 1: Compliance Monitoring Operating Expense Augmentation (Governor's Budget BCP #1)

Staff Recommendation: Approve the request for an expenditure augmentation of $300,000 and increased reimbursement and expenditure authority of $50,000.

Vote: 3-0

0971 California Alternative Energy and Advanced Transportation Financing Authority

Issue 1: Residential PACE Loss Reserve Fund Implementation and Administration (Governor's Budget BCP #2)

Staff Recommendation. Approve the $10 million re-appropriation.

Vote: 2-1 (Berryhill—no)

0984 CA Secure Choice Retirement Savings Investment Board

Issue 1: Market Analysis for the CA Secure Choice Retirement Savings Trust Act (Governor's Budget BCP #1)

Staff Recommendation: Approve the request for a re-appropriation of the balance of the existing expenditure authority and related budget language.

Vote: 2-1 (Berryhill—no)

ITEMS PROPOSED FOR DISCUSSION AND VOTE

9600 Debt Service, General Obligation Bonds, and Commercial Paper

Issue 1: Bond Sale and Cash Plan for 2014-15 (Governor's Budget Proposal)

Informational item. Bring the issue back at a future time if the Administration substantially revises their bond plan as part of the May Revision.

Issue 2: Infrastructure Financing and Debt Service Capacity (Governor's Budget Proposal)

Informational item.

9620 Cash Management and Budgetary Loans

Issue 1: Cashflow Borrowing (Governor's Budget Proposal)

Hold open and reassess at the May Revision.

Issue 2: Budgetary Borrowing Repayment Plan (Governor's Budget Proposal)

Hold open.

Control Section 6.10 Funding for Deferred Maintenance Projects

Staff Recommendation: Reject Control Section 6.10. Direct the Administration to come back with a proposal that allows the Legislature to approve funding for individual department's deferred maintenance projects through the regular budget process.

Vote: 3-0

0985 California School Finance Authority

Issue 1: Charter School Facility Grant Program (Governor's Budget BCP #1)

Hold open and direct CSFA to provide a workload analysis to the LAO, in the next month, justifying the need for the additional positions. Direct LAO to review the workload analysis and report back at a future subcommittee hearing on their review and recommendation for this item.

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Tom Berryhill
Senator Norma Torres

Thursday, March 20, 2014
9:30 a.m. or Upon Adjournment of Session
Room 2040

Consultant: Mark Ibele

Agenda - Part B

State Finance and Administration

Items for Vote-Only

0509 Governor's Office of Business and Economic Development

Issue 1: Made in California (Governor's Budget BCP 3)

The Governor's budget calls for three positions and $500,000 (one-time) to meet the requirements of SB 12 (Corbett), Chapter 541, Statutes of 2013. SB 12 creates a labeling program in California and makes it illegal for products to be represented as "Made in California" unless the product is substantially made in the state, as represented by at least 51 percent of the wholesale value. Companies that wish to participate in the Made in California program are required to be registered with the Governor's Office of Business and Economic Development (GO-Biz) to use the designated label. The program is designed to leverage a return by generating additional sales, the taxes on which would benefit the General Fund. Opportunities for generating direct revenue from the program—either through fees or marketing agreements—are available, but not actually required. Thus, while the appropriation for one year of funding is made available through this proposal, the source of additional years' funding is not yet developed. The initial year of funding allows for the required implementation of the statute.

Staff Comments: None

Staff Recommendation: Approve the proposal for positions and one-time funding.

VOTE:

0860 Board of Equalization

Issue 2: Intrusion Prevention and Detection System (Governor's Budget BCP 3)

The Governor's budget calls for $285,000 ($186,000 GF) and two permanent positions to administer, maintain, inspect the network security solutions for the Board of Equalization (BOE) that comply with Internal Revenue System (IRS) requirements for agencies that have access to IRS data and information. The ongoing annual costs, beginning in 2015-16, will be $255,000. Periodically, the IRS reviews BOE's safeguards in place to ensure compliance. In its last review of BOE's systems, the IRS determined that the existing safeguards need to be enhanced in order to be fully compliant with its security requirements. The proposal will allow the BOE to reconfigure its system, resulting in improved detection and prevention of identified intrusion risks. Additional personnel are required to continuously support, monitor, and audit the network security solutions and safeguard practices.

Staff Comments: Staff has no concern with this proposal.

Staff Recommendation: Approve as budgeted.

VOTE:

7730 Franchise Tax Board

Issue 3: Asset Forfeiture Accounts (Governor's Budget BCP 7)

The Administration requests approval of $150,000 per fiscal year, in special funds from the Asset Forfeiture Account, to provide for costs associated with criminal investigation law enforcement activities. In addition, the proposal calls for budget bill language (BBL) to allow the DOF to increase the amount of funds, upon 30-day notice to the Joint Legislative Budget Committee (JLBC). Franchise Tax Board's (FTB's) Criminal Investigation Bureau participates in three assets forfeiture programs with the following agencies: U.S. Department of Justice, U.S. Department of Treasury, and California Department of Justice. The current balance in the assets forfeiture fund is approximately $326,000, which may only be used for criminal investigation law enforcement activities, such as associated equipment and training. Pursuant to signed agreements, the funds may not be used to supplant General Fund support for the program.

Staff Comments: None

Staff Recommendation: Approve as budgeted.

VOTE:

Items for Discussion and Vote

0509 Governor's Office of Business and Economic Development

Department Overview: The Governor's Office of Business and Economic Development (GO-Biz) was created to serve as a single point of contact for economic development and job creation efforts. The department offers a range of services to businesses, including: business attraction, retention and expansion services; site location selection; permit assistance; regulatory filing and approval assistance; small business assistance; international trade development; and, assistance with state government. Under the Governor's Reorganization Plan No. 2 (GRP 2), the Infrastructure Development Bank, the California Film Commission, the Office of Tourism, and the Small Business Loan Guarantee Program were transitioned from the Business, Transportation and Housing Agency (BT&H) to GO-Biz, effective July 1, 2013.

Background: As part of last year's budget package, the Legislature approved AB 93 (Committee on Budget), Chapter 69, Statutes of 2013 and SB 90 (Galgiani), Chapter 70, Statutes of 2013, which together formed the basis of the revisions to local economic development programs. This legislative package included the elimination of enterprise zone programs, and enactment of a sales tax exemption for certain capital purchases, a geographic specific hiring credit, and a targeted tax credit for specific businesses. The sales tax exemption is administered by the Board of Equalization and the hiring credit by the Franchise Tax Board. The targeted tax credit—termed the California Competes Tax Credit (CCTC)—is administered by GO-Biz and the Franchise Tax Board (FTB).

The purpose of the CCTC is to attract, expand, and retain businesses in California. The businesses that apply for the credit will be evaluated on the basis of number of employees; jobs created or retained; location of the company in the state; and magnitude of investment by the business. The tax credit package will be negotiated between the business and the Administration (GO-Biz) and then voted on by the GO-Biz committee, consisting of the Director of GO-Biz, the Director of Finance, the State Treasurer, and one appointee each from the Senate and the Assembly.

Taxpayers may receive a maximum of 20 percent of the total amount of credits available for a particular year. In addition, 25 percent of the available credits must be provided to small businesses (companies with gross receipts of $2 million or less). The amount of credits that can be allocated is up to $30 million in 2013-14, $150 million in 2014-15 and $200 million for years 2015-16 through 2017-18. These amounts may be reduced in order to ensure the total amount of tax reductions resulting from the three tax preference programs described above is no greater than $750 million in a fiscal year.

Budget Overview: In the current year, the department is budgeted for $20.7 million and 74 positions. This represented a significant increase in funding and positions over 2012-13, due largely to the shift of departments and programs from BT&H to GO-Biz. With the shift of programs and personnel, most of the funding (44 percent) is derived from California Infrastructure and Economic Development Bank Fund, with an additional 37 percent coming from the General Fund. For 2014-15, GO-Biz is proposed to be funded at $22.1 million, representing an increase deemed necessary to fund additional positions to administer the programs approved by the Legislature last year.

Issues Proposed for Discussion

Issue 1: Oversight of Program Development (Informational Issue)

GO-Biz is the responsible agency for administering an entirely new program that will potentially involve a sizeable commitment of state funds, in the form of revenues foregone, over several years. The funds will 'flow' based on negotiated contracts with private companies. While similar programs are used in other states with varying degrees of success, this approach to business development and assistance is not one that California has used in the past. Given this new approach to awarding tax credits, it is important that the Legislature be vigilant in its oversight of the program, to ensure that the program is implemented in the most effective manner possible. The committee may wish to have the GO-Biz provide an update on the development and implementation of the program. Of particular interest is the ability of the FTB, which will audit the agreements and ensure compliance, will have sufficient information available to them to ascertain if the participating businesses are fulfilling their side of the bargain. Its active participation in assisting in the structure of the agreements is crucial.

Issues Proposed for Discussion and Vote

Issue 2: Additional Funding and Positions (Governor's Budget BCP 2)

The Governor's budget calls for ten limited-term positions for activities associated with the GO-Biz program. The request calls for $965,000 in on-going funding and $30,000 in one-time funding. The department is hiring for six to seven of these positions in the current year, and the BCP would allow for the continued funding of these positions in the budget year. The proposal would allow for the funding of an additional three to four positions. The new positions would represent a full ramp-up in the administrative staffing for the program. The ten positions will include a deputy director for California Competes, a staff attorney, six analytical staff, a software specialist, and a technical support staff.

Background: The department has relied upon existing resources for necessary administrative duties during the initial year of the program. Program activities are expected to increase dramatically over the next two years, which will necessitate additional staffing. The department indicates that continued reliance on existing staff would impair other GO-Biz programs and borrowing from other departments would be inefficient and work to the detriment of the overall effectiveness of the program.

The activities of the proposed staff will include a detailed examination and analysis of the application, including employment and income impacts, type, size and duration of investment, nature of business activities, socio-economic characteristics of business location, other incentives available in California and other states, opportunities for future business growth, overall economic impact, and anticipated net benefits to the state. In addition, the staff will be responsible for establishing the terms and conditions of the contract such that the state's interest and investments are protected.

Staff Comments and Questions: It is somewhat unclear from the proposal and discussions with GO-Biz and DOF the validity of the timing of the hiring and the duration of the limited-term positions. GO-Biz has managed to administer the program for the first year without the full resources and the program does not fully ramp up until 2015-16. In addition, it appears that the contracts for the current year may be delayed, which would push back the full roll-out of the program. More fundamentally, given that revenue impacts tax preferences from the three tax programs identified above may not exceed $750 million annually, the CCTC may never actually realize its maximum allocated cap. Therefore, full staffing may not be necessary at this time. On the other hand, since the state has decided to move in the direction of negotiated agreements, it is important that adequate staffing be provided to oversee and ensure the integrity of the program. An alternative approach the committee may wish to consider is to approve funding for the six or seven current year positions, along with BBL that could provide for a limited augmentation for additional positions upon 30 day notification to the JLBC. The resources for this activity should conform to those for Item 7730, Franchise Tax Board, discussed in Issue 4 of that item.

As part of the staffing analysis, it would be beneficial to have access to data from other states regarding their administrative designs for similar programs. Last year, GO-Biz was provided funding for a deputy director for legal affairs and a systems software specialist, positions that would seem to overlap with the current request. The committee may wish to ask the department for further justification for the additional positions in these areas. GO-Biz also estimates that a large percentage of its activities will relate to small business applications and that "the majority" of small businesses in the state will apply for the credits. The basis of this claim may be of interest to the committee.

<u>*Questions for the Department or DOF:*</u>

1. *How can we ensure that the contracts and agreements with businesses will be constructed in a fashion that will lend them to being auditable? Will the FTB participate in the design of the contract?*

2. *Given that GO-Biz has not yet structured any agreements, is it pre-mature to establish new positions—of a rather specialized nature—prior to having any sense of how complex such agreements are likely to be? Does it make sense to survey other states regarding the likely number and complexity of the deals?*

3. *How did you arrive at the estimate for the receipt of applications from small businesses? How much of the estimated workload is driven by the sheer volume of anticipated applications?*

Staff Recommendation: Hold open.

<u>VOTE:</u>

0860 Board of Equalization

Department Overview: The State Board of Equalization (BOE) is comprised of five members—four members each elected specifically to the board on a district basis and the State Controller. The BOE administers the sales and use tax (including all state and local components), oversees the local administration of the property tax, and collects a variety of excise and special taxes (including the gasoline tax, insurance tax, and cigarette and tobacco products taxes) and various fees (including the underground storage tank fee, e-waste recycling fee, and fire prevention fee). The BOE establishes the values of state-assessed property, including inter-county pipelines, railroads, and regulated telephone, electricity, and gas utilities. The BOE also hears taxpayer appeals of BOE administered taxes and fees and FTB decisions on personal income and corporation taxes.

Budget Overview: The Governor's budget proposes resource support of $564.7 million ($317.2 million General Fund), and 4,848 positions for the BOE in fiscal year 2014-15. The budget proposes a total funding increase of $2.1 million (0.4 percent) and a very slight General Fund support increase, compared with spending estimates for the current year. Proposed staffing in the budget would increase by just three positions from the current-year estimate. The department received much higher increases in funding during the current year, compared to 2012-13.

Items Proposed for Discussion and Vote

Issue 1: Narrowing the Tax Gap (Informational Issue)

The tax gap is defined as the difference between the amount of tax lawfully owed and the amount actually collected. Both BOE and FTB have estimated tax gap amounts over the last few years. BOE estimates the current gap for taxes that it administers at approximately $2.3 billion in lost revenues annually due to noncompliance, with General Fund reductions well in excess of about $1.0 billion annually. The major components of the tax gap are: (1) use tax liabilities of businesses and individual consumers; (2) tax evasion by non-filers; and (3) under-reporting and nonpayment by registered taxpayers.

BOE has a number of programs—largely through the sales and use tax program—that are aimed at reducing the size of the tax gap. Some of these are designed to increase voluntary compliance and focus on education and outreach efforts to inform consumers and businesses regarding their tax collection and remittance obligations. In other cases, tax gap efforts are focused more on the compliance and enforcement activities, such as the Statewide Compliance and Outreach Program. BOE has a number of additional tax gap initiatives currently in place. These programs include more effective use of software applications, utilizing North American Industry Classification System (NAICS) codes, investigating misuse of resale certificates, and conducting special audits of auto auctions and gas stations. These programs are generally outlined in BOE's report to the Legislature on compliance and audit activities provided in December of each year. In addition, this report includes information regarding BOE's Enhancing Tax Compliance Program. Current tax gap activities and revenue impacts are listed below.

Board of Equalization
Tax Gap Initiatives
(Dollars in Millions)

Tax Gap Program	2012-13 Estimated Revenue	2012-13 Actual Revenue
US Customs	$14.4	$13.0
Agriculture Station Inspection	44.0	60.9
AB4X 18 Qualified Purchaser	51.3	50.4
Statewide Compliance and Outreach	68.2	85.9
Instate Service	34.2	36.0
Tax Gap II	15.0	9.5
Out of State 1032 Audits	20.0	28.9
Enhancing Tax Compliance	107.6	140.5

BOE has had a tax gap strategic plan in place since 2007. In bringing the components of the plan into operation, BOE has initiated a number of specific programs—including those outlined above. BOE staff should describe for the committee the results of its tax gap initiatives to date, the overall success of the program, and any impact of budget reductions on strategic planning for its Tax Gap initiatives, including the impact of the personal leave program.

Staff Comment: The department should outline its current approach to narrowing the tax gap, and in particular, its progress in coordinating with other state agencies—as well as other states—in these activities. The committee may want to pursue questions relating to audit selection and any new tax gap programs that are currently being designed or pursued, including those identified above, as well as how the department's Centralized Revenue Opportunity System (CROS) will assist in efforts to reduce the tax gap.

Staff Recommendation: Informational item.

Issue 2: Southern California Appeals and Settlement Unit (Governor's Budget BCP 1)

The Governor's Budget proposes $3.6 million ($2.4 General Fund and $1.2 million reimbursements) and the continuation of 22 two-year limited-term positions, to continue the Southern California Appeals and Settlement Unit (SCAS). The unit was started in 2010 in response to an increasing backlog of cases in the settlement and appeals, and consisted of limited-term positions. This proposal would continue funding those positions. The positions consist of attorneys and business tax specialists, and funding would result in the acceleration of an additional 868 cases and $84.9 million in accelerated revenue.

Background: The funding for SCAS was initiated in response to rising appeals and settlement cases as a result of changes in the economy, specifically the deterioration in business conditions associated with the recession. Taxpayers began to file an increasing number of appeals and requests for settlement that placed additional burdens on existing staff. From 2007-08 to 2009-10, appeals increased 32 percent and settlement proposals by roughly 100 percent. Resources devoted to the program resulted in accelerated revenue (actual revenues moved to a collectible state) of $195.1 million, and exceeded the initial estimates for the program in the first three years of the program. Specifically, actuals (estimates) were: $11.4 million ($5.1 million) in 2010-11, $85.5 million ($57.0 million) in 2011-12 and $98.2 million ($84.9 million) in 2012-13. For 2013-14, the BOE expects to accelerate $84.9 million into the current year, compared to what would have been received without the program.

Staff Comment and Questions: The department has provided data related to the prior three years of funding for the program that would indicate that continued resources are warranted. It may interest the committee to know when the backlog in the appeals and settlement units will be reduced to the level that additional resources are not needed, or if this level of appeals and settlement activity is the new normal. According to the department, settlement inventories are not decreasing and demand for these are actually on the rise. The number of appeals cases appears to have stabilized.

<u>*Questions for the Department or DOF:*</u>

1. *Are the current levels of activity for appeals and settlement likely to continue for the indefinite future? Is this the result of structural changes?*

2. *What is the current average settlement as a proportion of tax liability? Has this increased or decreased as a result of recent effort, and if so, why?*

Staff Recommendation: Approve as budgeted.

<u>VOTE:</u>

Issue 3: Centralized Revenue Opportunity System (Governor's Budget; Proposed Budget Bill Language)

The Administration has proposed budget bill language (BBL) that would add to the administrative flexibility of the department in bring the Centralize Revenue Opportunity System (CROS) on-line. Specifically the proposed BBL states:

> *The Department of Finance may augment the amount appropriated in Schedule (2) for support of the Centralized Revenue Opportunity System (CROS) project to provide for contractually required, benefit-based, vendor compensation payments and vendor support requirements. The Director of Finance may authorize the augmentation not sooner than 30 days after notification in writing to the Joint Legislative Budget Committee. This provision shall apply to any item currently assessed for the support of the CROS project. Any funds provided that are not expressly used for the specified purposes shall revert to the fund from which they were appropriated.*

Background: BOE is in the process of consolidating and modernizing its existing taxpayer information systems through the CROS project. As designed, CROS would replace the BOE's existing two systems of tax information and return management, expand online business and taxpayer services, and provide an agency-wide data warehouse.

The acquisition of CROS will be achieved through a performance-based, benefits funded procurement approach. This approach is similar to that used by the Franchise Tax Board (FTB) and the Employment Development Department (EDD) for their respective information and data management systems. The approach does not require up-front vendor funding, as the development and implementation costs are paid under a benefits-funded contract, with payment allowed only when increased revenues are received. Contractor payments would be dependent on the generation of additional revenues attributable to the project and would be capped overall.

Following approval from the DOF and the Department of Technology, the BOE published a Request for Proposals on July 1, 2013, and held a bidders conference the next month. The BOE expects draft proposals in February 2014 and final proposals in August 2014. The CROS project expects to award a vendor contract in March 2015. The final date of the contract upon completion of the CROS project is expected to be June 2020. The project generated $38.7 million of additional revenue in 2012-13 and is expected to generate revenues of $66.5 million in 2013-14.

Staff Comment and Questions: The proposed budget bill language (BBL) is a reasonable means to grant additional flexibility for a project of this scale, especially given the uncertainties and intricacies of technology projects. However, the committee may want to explore establishing a ceiling on the funding acceleration that could occur through notification to the JLBC, or indicate the aspects of the contract that could be augmented. For example, similar language for Franchise Tax Board's Enterprise Data to Revenue project includes an augmentation ceiling of $3.0 million.

Staff Recommendation: Hold Open.

VOTE:

Issue 4: Fire Prevention Fee (Governor's Budget BCP 2)

The Administration proposes to continue funding 54.0 limited-term positions for the processing of workload associated with collection of the State Responsibility Area (SRA) Fire Prevention fee. In addition, the proposal would establish an addition 9.0 two-year, limited-term positions and 9.7 one-year, temporary staff positions. The 2014-15 cost would be $7.3 million (Special Fund), declining to $6.7 million in 2015-16. Fee revenues are expected to be $90.8 million annually.

Background: Effective July 1, 2011, the state imposed fire prevention fees on the owners of habitable structures in SRAs beginning in 2011-12. This fee was imposed pursuant to AB 29 X1 (Budget Committee), Chapter 8, Statutes of 2011, which requires the fee of $150 per structure to be used to support the fire prevention activities of the Board of Forestry and the California Department of Forestry and Fire Prevention. Under the legislation, the BOE is assigned the responsibility of collecting the fee and remitting the proceeds, upon legislative appropriation, to the agencies named above.

The administrative activities associated with the SRA fee include registering accounts, annual issuances of notices of determination, collection of past due fees, and processing refunds, and notices of redetermination. In addition, the agency notes that there would be additional fee payer assistance measures, increased mail inquiries, cashiering and key entry, account maintenance, and reconciliation, and ongoing IT costs given the volume of the new fee base. Technology appears to be a continuing issue based on the complexity of BOE's legacy systems.

LAO Perspective: The LAO concurs with the Administration regarding the total number of positions for this program in 2014-15. However, they indicate that in subsequent years the number of fee payer calls to BOE will likely decline by more than one-third. Given this potential decline in workload, they recommend that the Legislature shift 12 proposed phone-related positions from permanent to two-year limited term. Overall, they recommend that the Legislature establish 42 permanent positions, 21 two-year limited-term positions, and 9.7 one-year temporary positions. Should telephone workloads not decline as projected, the Legislature could revisit this issue when the limited-term positions expire.

Staff Comment: There is a substantial effort and resource requirements for implementing a new tax or fee, particularly in cases with a broad base of fee payers. This is certainly the case with the SRA fee. After the initial investment in the program however, personnel costs and IT costs should generally decline. The committee may want to ask the department whether a decline in personnel is expected in the out years and any drawback associated with limited-term positions rather than permanent. Given that the implementation is largely complete and necessary fee-payer assistance should be declining, the need for permanent staff is questionable. In addition, with the relatively small number of annual property turnovers, it may be that personnel requirements would drop in the future. The committee may want the department to restructure the proposal based on a portion of the positions being limited-term.

Questions for the Department or DOF:

1. *Would the LAO adjustment, which would allow for more limited-term positions and fewer permanent positions, address workload issues?*

2. *Can you provide data on phone-calls and inquires related to the fee since it was established? What is the current compliance rate with the tax currently?*

Staff Recommendation: Adopt LAO alternative staffing proposal.

VOTE:

7730 Franchise Tax Board

Department Overview: The Franchise Tax Board (FTB) is one of the state's two major tax collection agencies and administers the personal income tax and the corporation tax programs, the largest and third-largest contributors to the state's revenue, respectively. The department also performs some non-tax collection activities, such as the collection of court-ordered payments, delinquent vehicle license fees, and political reform audits. The FTB is governed by a three-member board, consisting of the Director of Finance, the Chair of the Board of Equalization, and the State Controller. An executive officer, appointed by the board, manages the daily functions of the department.

Budget Overview: The Governor's Budget proposes expenditures of $689.5 million ($656.6 million General Fund) and 5,818 positions for FTB. This represents a continuation of a substantial increase in support for the agency compared to the 2009-10 fiscal year. This is somewhat of a decline from the current year funding level of $760.9 million. Expenditures grew from $533.1 million in 2009-10 due primarily to reinstating some of the budget reductions from earlier years as well as new programs. The budget reinstatements were made to reverse negative revenue impacts of the prior Administration's statewide cuts and furloughs, which included the state's tax collection agencies. In addition, the budget calls for augmentations for specific tax compliance programs and technology improvements related to the department's revenue collection activities. Recent budget increases have also been the result of funding for the Enterprise Date to Revenue (EDR) project, a benefits-funded project discussed below.

Items Proposed for Discussion and Vote

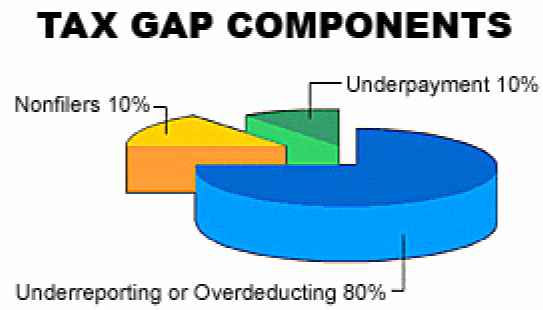
Issue 1: Tax Gap Related Policies (Informational Item)

The tax gap is defined as the difference between what taxpayers should pay according to law and what is actually remitted. The tax gap is the result of non-compliance with the state's tax laws, either through intentional disregard or unintentional means. The presence of the tax gap puts an additional strain and burden on compliant taxpayers since, if all individuals and businesses complied, taxes for compliant taxpayers could decline and still result in generating the same amount of revenue for the state. The FTB estimates the current annual tax gap to be $10 billion ($8 billion personal income tax and $2 billion corporation tax)—or roughly 15 percent of total taxes that should be collected from these sources.

FTB pursues various programs to narrow the tax gap. Some of these programs focus on taxpayer education and seek additional compliance from those who may not be aware of certain tax requirements. Other measures relate to enforcement efforts to improve compliance among individuals and businesses that chose not to comply with the state's tax laws. These measures result in additional revenue for the state that would otherwise not be received. Equally central to the core value of good tax collection practices is that such efforts make the tax system fairer to everyone by distributing the burden according to adopted laws.

In general, the efforts and programs of FTB are designed to address the following components of the tax gap:

- Non-filers—Entities that simply avoid filing required income tax forms.
- Under-reporters/Over-reporters—Entities that under-report the amount of income or over-report income deductions or tax credits.
- Non-Payers—Entities that file but do not remit tax owed.



Tax enforcement and compliance has become increasingly driven by information, data, and technology over the last couple of decades. The FTB processes more than 15 million personal income tax returns and one million business enterprise returns annually. Given the volume and complexity of tax returns, filings and programs, it has become imperative that tax agencies remain current in information technology in order to access and exchange information. FTB's operations are heavily reliant on effective storage and use of data from a variety of sources, in order to maintain adequate compliance and enforcement activities. The FTB has made significant progress in this area, and this continues to be a focus of its activities (see discussion under EDR issue). These efforts can also have a positive impact on reducing the tax gap.

FTB's Tax Gap Action Committee (TGAC) identifies specific tax gap-related initiatives and recommends efforts to pursue remedial actions. Currently, TGAC's key initiatives are:

- Provide background information on the underground and illegal economies. Continue partnerships with California agencies to improve compliance with tax and related laws.

- Increase FTB's ability to identify fraudulent refund claims and prevent the issuance of erroneous refunds when the claim is the result of a thief using a real taxpayer's information to file a false claim.[1]

[1] In a related refund issue, as part of the 2012-13 Budget, statutory language was proposed that would have imposed a penalty on certain erroneous refund claims. The language imposing a penalty on these erroneous refund claims, when there is no reasonable basis, was not approved, thus allowing non-compliant taxpayers the opportunity to play 'audit roulette.' The language would provide additional conformity with federal law. The corresponding federal treatment imposes a penalty if a claim for refund is made for an excessive amount unless there is a reasonable basis for the claim. The proposal would have closed a loophole in the general accuracy-related penalty framework by imposing a penalty equal to 20 percent of the excessive amount.

Staff Comment and Questions: The department should provide background information to the committee regarding the status of tax gap efforts, and provide any updates from prior years. This update should include results from discreet programs as well as general successes in narrowing the tax gap through increased data sharing and advances in technological capabilities. The LAO should provide comments regarding the department's efforts in this regard and any additional measures that the department could take to improve compliance.

<u>*Questions for the Department or DOF:*</u>

1. *What new tax gap initiatives has the department embarked upon?*

Staff Recommendation: Informational item.

Issue 2: Enterprise Data to Revenue Project (Governor's Budget BCP 1 and Budget Bill Language)

FTB processes more than 15 million personal income tax returns and one million business enterprise returns annually. Its operations are heavily reliant on effective storage and use of data from a variety of sources. This request is for a fourth year of funding for its Enterprise Data to Revenue (EDR) Project, which will address the agency's return processing and utilization of data and connect various systems.

The request calls for $75.1 million General Fund and 23 permanent positions, 42 limited-term positions, and 6 temporary help positions in 2014-15. Of the $75.1 million, $68.5 million is the payment to the vendor for the project. The proposal also includes a placeholder for the department's anticipated 2015-16 resource needs of 3 positions and $47.5 million ($41.2 million vendor payment). In addition, the department requests approval of BBL that would allow DOF to augment the budget for the project by up to $3.0 million upon notification to the JLBC. EDR is a fixed-price, benefits-funded project in that timing of the vendor payment is contingent on the state receiving additional revenues attributable to the project. Anticipated revenue attributable to EDR is between $519.2 million and $684.6 million in 2014-15 and between $800.5 million and $1.1 billion in 2015-16.

Details of the Project: EDR will replace several older FTB information technology systems and streamline other existing systems. Over the long term, the project is expected to annually generate and safeguard significant state revenues in the high hundreds of millions of dollars. As a result of certain components coming on-line, the project and related activities generated $7.5 million in revenues in 2009-10, $25.4 million in 2010-11, $115.7 million in 2011-12, and $338.5 million in 2012-13. The amounts projected for each of these years were $3.8 million, $13.7 million, $65.3 million and $187.7 million, respectively. Total cost of the project through 2017-18 is estimated to be $746.0 million, with approximately $537.7 million for the IT component cost. Total revenue generated by the EDR project over this period is expected to be roughly $4.7 billion, for a benefit cost ratio of 6.3:1.

The continuation of the EDR project is expected to fund the technology-intensive portion of the project. FTB indicates that the initial revenues generated by the EDR project were primarily from adding staff to process the current backlog of business entity returns and begin collection correspondence in order to accelerate revenue. Beginning in 2011-12, substantial revenues were generated by the EDR project proper.

Main Goals: The EDR Project has three major goals. First, it seeks to capture all tax return data in an electronic form. Second, the project will integrate the various existing "siloed" tax databases at FTB into a data warehouse. Third, the project will enable FTB to add third-party data (for example, county assessor data) to its data warehouse. The FTB asserts that the EDR Project will allow it to substantially improve detection of underpayment and fraud in order to collect taxes from those who are not paying the full amount that they owe. In addition, FTB indicates that the project will enable it to improve service and give taxpayers better access to their tax records.

Project Components: The project includes the following improvements to FTB’s systems that process personal income tax and business entity tax returns:

- An underpayment modeling process that would be integrated with the Accounts Receivable Collections System and Taxpayer Information System.

- An enterprise data warehouse with data search and analysis tools.

- A taxpayer records folder that is accessible to the taxpayer and allows taxpayers and FTB staff to access the information.

- Re–engineering of existing business processes—including imaging of tax returns, data capture, fraud and underpayment detection, tax return validation, filing enforcement, and other audit processes—and integration of these enhanced business processes with FTB’s existing tax systems.

- Improved business services at FTB such as address verification, issuance of notices, and a single internal password sign-on for its IT systems.

Benefits-Funded Approach: Contractor payment for system development and implementation are conditioned on generating additional revenue that will more than cover the cost. This approach is intended to protect the state and also give the contractors a strong incentive to develop the project in a manner that produces significant revenue quickly. The FTB has used this approach previously. FTB's benefit-funded approach made use of revenue gains from reducing the business entity backlog to more than offset costs in 2009-10 through 2012-13. Cleaning up the backlog was a necessary condition to efficient project development. In subsequent years, there have been large increases in annual revenue gains that are directly attributable to the IT project. From 2011-12 to 2015-16, annual revenue gains are estimated to increase from $115.7 million to $1.2 billion. IT project implementation costs are expected to increase from $37.0 million in 2011-12 to a peak of $144.9 million in 2013-14 and then decline to $55.8 million by 2015-16. The benefits method of financing EDR is similar to that used by the Employment Development Department and Board of Equalization for certain technology projects.

LAO Perspective: The LAO has no fundamental disagreement with the request related to EDR, but does recommend certain alterations to the proposal. Specifically, they recommend that the Legislature increase the number of new permanent positions the FTB is allowed to establish in order to better retain staff to those positions. In other instances, however, they recommend the Legislature only authorize certain positions on a two-year limited-term basis until a sufficient workload history has been established. LAO's specific recommendations are as follows:

- Approve six audit positions on a limited-term basis and nine positions permanently.
- Approve two fraud and discovery positions on a limited-term basis, four positions permanently.
- Approve three business entities section positions on a limited-term basis, three positions permanently.
- Approve data inspection and information capture activities as permanent rather than temporary.
- Approve web business services position as permanent rather than temporary.

Staff Comment: The net benefit of this project (as estimated in the FSR) ramps up quickly. As noted above, the project began to produce significant net revenues starting in 2011-12. The FTB has among the best track records in California state government for the successful development and implementation of major information technology projects. FTB projects have experienced some delays and cost increases in certain phases, although these problems generally have not prevented successful completion of project phases. Generally, the project has come on-line faster than anticipated. Existing Supplemental Report Language requires FTB to report to the Legislature when revenue, costs, scope, or schedule variances exceed 10 percent. The committee may ask the LAO and the California Technology Agency (CTA) to comment on the project.

Questions for the Department or DOF:

1. *Would the LAO adjustment, which would shift the distribution of permanent and limited-term positions, address workload issues?*

2. *How will the project benefit the state's other tax agencies—EDD and BOE? If there are revenue impacts, have these been incorporated in the revenue estimates?*

Staff Recommendation: Adopt LAO alternative staffing proposal and adopt proposed BBL.

VOTE:

Issue 3: Accounts Receivable Management Program (Governor Budget BCP 2)

FTB requests $7.7 million (General Fund) and the continuation of 101 two-year, limited-term positions associated with working down the existing inventory of accounts receivable (AR). The current positions will expire June 30, 2014. These positions were originally approved on a two-year, limited-term basis in 2010-11. The revenue resulting from the continuation of these positions for an additional two years is expected to be $108.0 million in 2014-15 and $108.0 million in 2015-16.

FTB's tax collection activities involve collection against accounts receivable, and include automated billing and collection activities, notices, levies, attachment of assets, and routing accounts to collector. FTB's accounts receivable inventory has increased substantially over the last few years, from $5.4 billion in 2007 to $8.5 billion in 2011; as of July 1, 2013, inventory remained at about this level. The inventory in accounts receivable increased substantially during the years when the agency's resources were curtailed due to furloughs, work force reductions, and other types of retrenchment during the previous Administration.

Staff Comments: The department has provided data and other information justifying the need for continued enhanced accounts receivable resources. When these positions were extended in 2012, FTB indicated that it expected efficiency improvements to occur in the future. FTB has noted previously that continuing efforts will reduce the accounts receivable inventory through: (1) technology, including EDR (discussed above), the recently instituted Federal Treasury Offset Program (FTOP); (2) partnering with other agencies and additional data sharing; and, (3) outsourcing particular collection activities. As these improvements to the existing system have come on line, there should have been a reduced need for additional personnel resources; however, AR inventory has not been appreciably reduced. Given this, the committee may want to question the department regarding the future design of its AR program and, in particular, how technology improvements can address the inventory build-up.

Staff Recommendation: Approve as budgeted.

VOTE:

Issue 4: Additional Staffing for New Legislation (Governor's Budget BCP 4)

The department requests an augmentation in the budget year and budget year plus one for additional staff and overtime to administer three new tax components: the California Competes Tax Credits, New Employment Tax Credit, and Like-Kind Exchange Information Reporting. The request is for $954,000 and six two-year, limited-term positions in 2014-15 and $961,000 and eight two-year, limited-term positions in 2015-16. The request also includes a request for $579,000 in overtime costs.

Background: As part of last year's budget package, the Legislature approved AB 93 and SB 90, which together formed the basis of the revisions to local economic development programs. This legislative package included the elimination of enterprise zone programs, and enactment of a sales tax exemption for certain capital purchases, a geographic specific hiring credit, and a targeted tax credit for specific businesses. The sales tax exemption is administered by the Board of Equalization and the hiring credit—the New Employment Tax Credit (NETC)—by the Franchise Tax Board. The targeted tax credit—termed the California Competes Tax Credit (CCTC)—is administered by GO-Biz. Additional information about these legislative changes is provided under Item 0590.

- Under the NETC, effective from January 1, 2014, through January 1, 2021, participating companies must hire qualified, full-time employee and pay wages for work performed in an eligible census tract or former enterprise zone. As part of the process, a tentative credit must be requested from FTB. FTB must process the tentative credit request, provide a data base for the credits, develop guidelines and regulations for the program, verify compliance, and engage in other activities to effectively administer the program.

- Under the CCTC, agreements will be struck between the state and selected businesses that would provide for tax credits related to investments and employment in the state. The credits would be awarded through December 31, 2020. FTB's four requested audit positions would review the proposed contract agreements, review books and records of the businesses to ensure compliance, inform GO-Biz of any potential contract breeches, and recapture any credits claimed but not earned.

- Under the Like-Kind Exchange Information Reporting, FTB staff will provide outreach to businesses, and engage in administrative support to gather data from the filed forms, and validate and document the information provided. Like-Kind Exchanges provide a mechanism to delay the payment of tax on capital gains generated by the sale of business property when replacement property is purchased from the sale proceeds. The reporting requirement will provide a mechanism to collect taxes owed when a final sale of such exchanged property occurs.

Staff Comment: The California Competes Tax Credit is an entirely new program for the state and will involve highly detailed agreements between the state and businesses. The program will be operated in tandem with GO-Biz and will involve the commitment of substantial resources in the form of foregone revenues. Over the five year period of time of the program, almost $800 million could be allocated to the awarded tax credits. Given that GO-Biz has no experience in drawing up contracts of the type anticipated under the program, it is vital that sufficient oversight be exercised over the program. FTB has considerable experience with auditing tax returns and ascertaining whether requirements of a particular tax program have been met. For adequate auditing to occur, the agreements must require quantitative measures and the requested data must be available to FTB. Consequently, it is important that FTB be involved in structuring the more technical requirements of the agreements to guarantee that adequate audits can be conducted. Staff concerns with the proposal are similar to those for the California Competes Tax Credit, discussed under Issue 2, Item 0509, Governor's Office of Business and Economic Development, relating to the need for a full complement of resources at this time. FTB's resource requirements should conform to those for GO-Biz.

Staff Recommendation: Hold open.

VOTE:

Issue 5: Tax Program Data Security (Governor's Budget BCP 5)

The Administration has proposed additional funding for security data systems and personnel for the FTB. The BCP calls for $2.6 million and seven positions to accommodate workload growth and to implement new security systems at the agency. Of the proposed 2014-15 request, $1.8 million is one-time funding to procure and install a data security monitoring and auditing system (ongoing funding for this beginning in 2015-16 will be $526,000 annually for two positions), and $800,000 for the seven positions to secure critical assets and safeguard taxpayer information.

Background: FTB has in place multiple layers of overlapping security software and an intrusion detection and prevention system to safeguard information. These consist of protection mechanisms, oversight, procedures, and policies for the purposes of ensuring confidentiality, integrity, and availability of FTB's IT systems and assets. These systems prevent accidental or unauthorized access, modification, destruction, or misuse of data. The sole purpose is to prevent security breaches, fraud, and detect and respond to an attack, thereby reducing and mitigating consequences associated with a breach of confidential information.

As shown in the table below, FTB has steadily increased the resources going to data security and integrity over the years, as intrusion attempts have increased in frequency and sophistication. The proposal will give a significant resource boost to the program. FTB provides information to, and maintains information for, various state departments that require data security and integrity, including Board of Equalization, Employment Development Department, and Department of Child Support Services. In addition, FTB receives confidential data from the Internal Revenue Service (IRS) which maintains rigorous security standards for data sharing programs.

Franchise Tax Board
Security Resources
(Dollars in Thousands)

Program Budget	2008-09	2009-10	2010-11	2011-12	2012-13
Authorized Expenditures	$3,568	$3,239	$3,865	$4,005	$4,396
Actual Expenditures	$2,990	$3,212	$3,677	$3,971	$4,081
Authorized Positions	35	34	37	38	38
Filled Positions	30	34	34	36	38
Vacancies	5	0	3	2	0

Additional resources will be used for the new data security tool, as well as funding for an information security oversight specialist, an intrusion detection response specialist, an information security compliance specialist, a penetration testing specialist, two internal investigation specialists, and a worksite security staff.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Recommend approval of the request.

VOTE:

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Tom Berryhill
Senator Norma Torres

Thursday, March 20, 2014
9:30 a.m. or Upon Adjournment of Session
Room 2040

Consultant: Mark Ibele

Agenda - Part B

State Finance and Administration

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Tom Berryhill
Senator Norma Torres

Thursday, March 27, 2014
9:30 a.m. – Rose Ann Vuich Hearing Room 2040

Consultant: Mark Ibele

Local Government Finance

Proposed Discussion and Vote Calendar

Issues Proposed for Discussion / Vote

9210 Local Government Financing

Item Overview: The 9210 budget item includes several programs that make state subventions to local governments. In past years, the payments have included General Fund appropriations for constitutionally-required repayment of 2009-10 Proposition 1A borrowing from local governments; a small subvention related to former redevelopment agencies (RDAs) to help retire a portion of outstanding debt that was backed by the personal property tax; and a subvention of for counties and cities within those counties for insufficient Educational Revenue Augmentation Fund (ERAF) resources.

Budget Overview: The proposed budget for the 9210 item is $16.0 million General Fund. This is comprised of $8.5 million in subventions to the counties of Alpine, Amador, and San Mateo (and cities within those counties), and $7.5 million for the proposed State-County Assessors' Partnership Agreement Program. The subventions are related to the so-called 'Triple Flip' and 'Vehicle License Fee (VLF) Swap,' both of which are described below. The Department of Finance (DOF) indicates it will not know the final subvention amounts for each of these counties until the May Revision.

Issue 1: Subventions to Alpine, Amador, and San Mateo Counties (Governor's Budget Proposal)

Proposal: The Governor's budget proposes a General Fund subvention of $8.5 million to backfill Alpine, Amador, and San Mateo counties due to circumstances that reduced property tax directed to those county governments, and cities within those counties, in 2012-13. These circumstances also occurred in these counties in the prior year, and the state provided a subvention. The revenue losses will likely continue to some degree in the future, but the Administration indicates its current proposal is of a one-time nature.

Background and Detail: Legislation enacted early in the Schwarzenegger Administration shifted local property tax from schools to cities and counties to accommodate two state fiscal initiatives. Schools were then backfilled with state funds for each of these initiatives. Overall, the fiscal changes resulted in a large net revenue gain for cities and counties as the replacement revenue streams have grown faster than the relinquished revenue streams. However, unique circumstances reportedly reversed this outcome in 2010-11 for Amador County and in 2011-12 and 2012-13 for Alpine, Amador, and San Mateo counties, and it is possible this outcome could occur for a few additional counties in the future.

In the 2004 primary election, voters approved Proposition 58, which allowed the state to sell Economic Recovery Bonds (ERBs) to pay its accumulated budget deficit. The local sales tax for cities and counties was reduced by one-quarter cent and the state sales tax was increased by one-quarter cent to create a dedicated funding source to repay the ERBs. Property tax was redirected from schools to cities and counties, and the state backfilled schools via the Proposition 98 funding guarantee. This financing mechanism is sometimes called the Triple Flip, and the process was intended to hold local governments harmless. At the time the ERBs are repaid (in 2016-17, or earlier under the Governor's budget proposal), the local sales tax rate will be restored, and no flip—triple or otherwise—will be necessary.

Also in 2004, the Legislature enacted the VLF Swap. The measure was designed to provide a more reliable funding mechanism to backfill cities and counties for the local revenue decrease resulting from the action that the reduced the VLF tax on motor vehicle from 2.0 percent of a vehicle's value to 0.65 percent of a vehicle's value. Here again, the state redirected property tax from schools to cities and counties to make up for the VLF cut and backfilled schools for the property tax loses with state funds.

The backfill for the Triple Flip and the VLF Swap must originate from property taxes either shifted from the Education Revenue Augmentation Fund (ERAF) or from non-basic aid K-12 and community college districts (but not from so-called 'basic aid' schools). This funding mechanism stopped fully working for Amador County reportedly in 2010-11 due to all the schools in those counties becoming basic aid schools. Basic aid schools receive sufficient local property tax to fully fund the per-student amounts required by the Proposition 98 guarantee, and therefore, the state's funding is minimal. Due to this basic aid situation, current law will not provide backfill for such schools for any property tax shifted to cities and counties. County auditors have reportedly reduced or discontinued the shift of property tax from schools to those cities and counties.

Staff Comments: The financing shifts and educational financing provisions are complex, and perhaps not entirely relevant to making a determination on this budget request. Some issues for consideration are the following:

- The funding shifts included revenue growth uncertainty and risk, as the relative growth of various revenue streams over many years was unknown. On a statewide basis, data suggests most counties have received a net benefit from the shifts.

- There was no backfill guaranteed in the original legislation, although the Alpine, Amador and San Mateo outcomes were also not anticipated. The enacting legislation did not include provisions for the state to backfill locals with new subventions if the baseline funding mechanism proved to be insufficient.

- At the time of the legislation, stakeholders were likely aware of the risk of variable levels of growth for different revenue streams, but may not have anticipated that outcome of all schools within the county becoming basic aid.

The overall approach to this issue has generally been ad hoc in nature, and a response to facts and circumstances. This would be of significant concern if the magnitude of the General Fund relief were to continue indefinitely or increase in magnitude. However, the DOF indicates that the unwinding of the Triple Flip should result in a general decrease in existing relief to counties and lessen the chances that the problem will extend to additional counties.

LAO Perspective: LAO has suggested in the past that the state could reimburse cities and counties for all Triple Flip and VLF Swap funding shortfalls, as proposed in the Governor's budget or, in recognition of the significant fiscal benefits cities and counties receive under the VLF Swap, reimburse cities and counties only where necessary to replace actual sales tax and VLF revenue losses (what they would have received had they retained these revenue streams). Either level of reimbursement could be accomplished through the budget or through a shift in property taxes. The former approach would provide more revenue certainty for local governments while the latter would be more reflective as to the actual costs.

Staff Recommendation: Staff recommends holding the item open, pending May Revision request.

Vote:

Issue 2: State-County Assessor's Partnership Agreement Program (Governor's Budget Proposal and Trailer Bill Language)

Proposal: The Governor's budget proposes $7.5 million and trailer bill language (TBL) to enact a state-county program to improve assessments for property tax purposes throughout California. The budget proposal establishes a State - County Assessors' Partnership Agreement Program (SCAPAP) to enhance local property assessment efforts. The SCAPAP would begin on a three year pilot basis, funded at $7.5 million per year, and administered by the DOF.

The SCAPAP will be limited to nine county assessors' offices competitively selected from a mix of urban, suburban, and rural counties. To participate in the SCAPAP, the county must submit an application to DOF demonstrating work to be performed. The county must also agree to provide its Assessor's office with a specified amount of matching county funds each fiscal year to generate additional property tax revenues for local agencies by doing the following:

- Enroll newly-constructed property and incorporate property ownership changes.
- Reassess property to reflect current market values.
- Enroll property modifications that change the property's taxable value.
- Respond to assessed valuation appeals.

Under the proposal, DOF will review the applications and select participants on the strength of each County's proposal. As the three year program term nears its expiration date, the DOF proposes to evaluate the results and issue findings to the Legislature. The Administration and the Legislature would then determine whether to continue the program in its current form, expand the program to more counties, or allow it to expire.

Each year, participating counties would have to report to the Administration the number and taxable value of properties added to the local property tax roll as a result of activities undertaken with grant funds. In addition to new or updated assessments, each county would report the total amount of property taxes preserved when staff successfully defended a property owner's appeal to reduce their property's taxable value. The Administration would determine whether each county's pilot was successful, based on whether a county pilot resulted in additional property tax revenues being allocated to schools that are at least three times larger than the amount of the state grant in that county. (Additional revenue from the program includes revenue accelerated, increased, or preserved by staff hired using state grants and county matching funds). The Administration's calculation would not vary by county based on the schools' share of countywide property taxes in that county. The Director of Finance would have authority to terminate the grant program in any county that does not meet this level of return. The Administration's grant program is a three-year pilot program, after which the Administration would use its findings to make a recommendation as to whether the Program should be continued in its current form, expanded to include additional county assessors' offices, or terminated in 2017-18.

Background: County assessors are responsible for assessing real and qualifying personal property for property tax purposes, and for maintaining and updating property tax rolls. Beginning in 1995, the state provided annual General Fund loans to county assessors' offices to enable them to more quickly enroll newly-constructed property and account for property ownership changes. The additional property tax revenue received by schools through these efforts reduced the state's Proposition 98 General Fund costs, and the loans to the assessors were thereafter forgiven. The loan program was reconstituted in 2002 as a grant program, known as the Property Tax Administration Grant Program. This program operated until 2005 06, when it was eliminated as a savings measure.

The underlying rationale for property tax assistance programs is that the counties may not be receiving proper 'price signals' (net of return). That is, because the property tax revenues that go to the state may not be incorporated in the counties' staffing calculus, a less than optimal amount of resources may be devoted to assessment activities. While most local governments that receive property taxes reimburse the county for their proportionate share of administrative costs, schools and community colleges ("schools") are not required to pay these costs. Instead, counties pay the schools' share of costs as well as their own. Statewide, counties pay about two-thirds of the cost to administer the tax while receiving less than one-third of the revenues they collect. As a result of this imbalance, there have been long-standing concerns that—without an additional incentive—counties might not fund property tax administration at an efficient level. If property tax administration were not funded appropriately, this could have a fiscal effect on the state because local property taxes that go to schools generally offset required state spending on education.

LAO Perspective: LAO has provided a thorough review and analysis of the Administration's proposal, and further developed some of the aspects of the pilot project in a constructive manner. Overall, it views the proposal favorably, but indicates that there are some specific changes that could improve the program. LAO recommends:

- Altering the proposed dollar-for-dollar county match to reflect each county's share of benefits from additional spending on property tax activities. This would address the likelihood that (under a one-to-one match) counties that receive a greater share of property taxes would have a greater incentive to participate in the program.

- Providing for a guaranteed state grant for three years, without early termination. Under the Administration's proposal, counties that failed to meet the 3/1 benefit/cost threshold would be terminated from the program. While the current proposal could result in greater state revenue, it may also result in failure to gain full knowledge of the characteristics of a successful program and terminate programs that are only more successful over a somewhat longer term.

- Allocating the state grant in proportion to the total property value in that county. Under the Administration's proposal, each county would receive the same amount—thus some counties would receive larger grants, relative to their size—than other counties. This alternative approach is an attempt to control for that potential asymmetry.

- Selecting county participation based on random selection, when possible. This would help ensure that the design of a final program (if any) would be informed by the participation of counties with varying characteristics, rather than having a pilot which might be biased in favor of characteristics that benefit the state.

Staff Comments: The Administration's proposal to reinitiate assistance to counties to improve the Administration of the local property tax is an appropriate one. The benefits derived from property tax revenues benefit the state—and taxpayers statewide—as well as local governments. To explore potential benefits of additional support through a pilot program is reasonable, although it carries with it some tensions. Fundamentally, the overarching goals of the program seem to be both to generate additional revenues and also to determine what type of program works. While these twin goals may be largely compatible, they could also be at odds with each other. For example, the Governor's budget indicates that programs will be selected 'competitively' on the 'strength' of each county's proposal. It is likely that a program that may not be 'competitive' in terms of revenue generation could be quite informative with respect to important design features in a program. Staff recommends additional discussions to allow for further refinement of and improvements to the Governor's proposal.

Staff Recommendation: Hold open.

Vote:

Issue Proposed for Discussion / Vote

Local Government Revenues

This issue relates to local government revenues and proposed changes in statute that could affect the allocation and distribution of such resources.

Issue 1: Stranded Supplemental Property Taxes (Governor's Budget Trailer Bill)

Proposal: Under current law, certain property taxes, collected pursuant to the supplemental role, cannot legally be distributed to local governments if all a county's school districts are basic aid. The Administration proposes trailer bill language (TBL) that would address this technical issue and allow for the distribution of these "stranded" property taxes. When all of a county's K-12 schools are basic aid, the legislation proposed by the Administration would take the property tax that currently cannot be distributed to the county's K-12 schools and redistribute that sum to the county, County Office of Education, Community Colleges, cities, and special districts. The distribution would be proportionate to each affected taxing entity's share of the 'AB 8 base.' (AB 8 [Greene], Chapter 282, Statutes of 1979, was the initial legislation establishing the local property tax allocation system.)

Background: Revenue and Taxation Code Section 75.70 contains a formula for distributing supplemental roll property tax revenues. Each affected taxing entity receives a specified share, based primarily on its share of the AB 8 base property tax revenues. After the county, cities, special districts, Community Colleges, and the County Office of Education have been filled to their statutory caps pursuant to the formula, the remaining supplemental roll revenue is distributed to non-basic aid K-12 schools. Specifically, the statutes state the remainder shall be distributed to each K-12 school based on its average daily attendance (ADA), as certified by the Department of Education.

Since basic aid schools have a certified ADA of 'zero', they receive no supplemental roll revenue. When the supplemental roll was created in the 1980s, it was the intent of policymakers that the revenues only go to those K-12 schools with the greatest funding need. Since basic aid schools are filled to their revenue limits solely with property tax revenues, their need for supplemental roll revenue is less than that of the non-basic aid districts that receive significantly less property tax revenue.

At least one county (Plumas) has a unique situation in that: (1) each affected tax entity has been filled to its statutory supplemental roll cap, and (2) there are no non-basic aid K-12 schools in the County to absorb the remaining supplemental roll revenues. Consequently, for at least three years, the previous county auditor-controller was holding the excess monies in an impound account. The accumulated balance is estimated to be $2.6 million.

Staff Comment: The proposal from the Administration is a largely technical change allowing for the appropriate distribution of property taxes to local governments.

Staff Recommendation: Adopt the TBL proposed by the Administration.

Vote:

Issues Proposed for Discussion

Issue 2: Vehicle License Fee Adjustment Amount (Informational Issue)

Issue: As a result of reductions in the vehicle license fee (VLF) and shifts of revenue sources pursuant to realignment (and previous legislation), some newly-incorporated cities—as well as cities with newly-annexed areas—do not receive revenue that they would otherwise have received under prior law. Specifically, cities used to receive a VLF 'bump' under prior law. The reduction in financial resources has resulted in significant fiscal challenges for these cities, with potential impacts on their financial stability.

Background: In lieu of a property tax on motor vehicles, the state collects the annual VLF and allocates the revenues, minus administrative costs, to cities and counties. In 1998, the Legislature began cutting the VLF rate from 2 percent to 0.65 percent of a vehicle's value. The General Fund backfilled the lost VLF revenues to cities and counties. As part of the 2004-05 budget agreement, the Legislature enacted the 'VLF Swap' which replaced the backfill to local governments from the General Fund, with property tax revenues that otherwise would have gone to schools through the Educational Revenue Augmentation Fund (ERAF). This replacement property tax funding is known as the "VLF adjustment amount." The General Fund backfills schools for their lost ERAF money.

Before 2004, for the first seven years after incorporation, new cities received VLF funds under a formula that calculated their population as three times the number of the city's registered voters. This formula deliberately overstated a new city's population, resulting in a higher share of VLF funds. This so-called VLF bump gave a new city more money during its start-up period. The VLF Swap did not reallocate extra property tax revenues to cities that were not in existence when the state was compensating cities for the difference between the 2% and 0.65% VLF rates. As a result, new cities received less VLF funding than they would have if they had incorporated before the VLF Swap. Similarly, a city that annexed an inhabited area received less VLF revenue than it would have before the VLF-property tax swap. Because the amount of the per capita VLF allocations went down when the Legislature cut the VLF rate, the amount of additional VLF revenue coming to a city as the result of annexing an inhabited area was also sharply reduced. The VLF Swap did not compensate cities for this reduction. Cities only receive additional property tax revenues in lieu of lost VLF based on the future growth of assessed valuation in the annexed area.

Cities asked the Legislature to reallocate a portion of existing cities' remaining VLF funds to new cities and to cities that annex inhabited areas to help make new city incorporations and city annexations financially feasible. In response, the Legislature passed AB 1602 (Laird), Chapter 556, Statues of 2006, which changed the allocation of VLF funds to restore the reduced VLF revenues for city incorporations and annexations that were lost under the VLF Swap. Subsequently, the 2011 Realignment Proposal shifted several state programs and commensurate revenues to local governments. The Legislature passed Senate Bill 89 (Committee on Budget and Fiscal Review), Chapter 35, Statutes of 2011, which recalculated the Department of Motor Vehicle's administration fund to $25 million and increased vehicle license registration by $12 per vehicle to offset DMV's budget reduction. SB 89 also eliminated the $153 million in VLF revenues allocated to cities and shifted those revenues to fund public safety realignment. The passage of Proposition 30 in 2012 amended the Constitution to permanently dedicate a portion of the sales tax and VLF to local governments to pay for the programs realigned in 2011-12. It also temporarily increased the sales tax for four years and state personal income taxes for seven years.

Staff Comment: Cities argue that SB 89's elimination of VLF allocations jeopardizes the financial viability of recently incorporated cities and cities that annexed inhabited areas. Local officials want the Legislature to recalculate the VLF adjustment amount to give additional resources to four recently incorporated cities and to cities that annexed inhabited areas after 2004.

Staff Recommendation: Informational issue.

8885 Commission on State Mandates

Item Overview: The Commission on State Mandates (Commission) is a quasi-judicial body created for the purpose of determining state mandated costs. The objective of the Commission is to impartially hear and determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state consistent with Article XIII B, Section 6 of the California Constitution. The Commission consists of the Director of Finance, the State Controller, the State Treasurer, the Director of the Office of Planning and Research, and a public member and two local government representatives appointed by the Governor and approved by the Senate.

Budget Overview: For 2013-14, the Commission was budgeted at $1.9 million and 13 positions for state operations. This administrative support level was increased slightly from the prior year‘s funding of $1.6 million. For 2014-15, the administrative support resources will remain flat. Costs associated with funding mandates proposed in the Governor’s budget for 2014-15 are approximately $36.2 million (all funds) and $33.6 (General Fund).

Background: The Commission is responsible for determining whether a new statute, executive order, or regulation contains a reimbursable state mandate on local governments, and for establishing the appropriate reimbursement to local governments from a mandate claim. The Constitution generally requires the state to reimburse local governments when it mandates that they provide a new program or higher level of service. Activities or services required by the Constitution are not considered reimbursable mandates. The Constitution, as amended by Proposition 1A of 2004, requires that the Legislature either fund or suspend local mandates. Payments for mandate costs incurred prior to 2004 are one exception noted in the Constitution—such pre-2004 mandate costs can be repaid over time. Another exception in the Constitution is for mandates related to labor relations. In these cases, the state can defer payment of the mandates and still retain the mandates’ requirements. In most cases, if the Legislature fails to fund a mandate, or if the Governor vetoes funding, the legal requirements are considered suspended pursuant to the Constitution.

Mandate reimbursement claims are filed with the Commission for the prior fiscal year—after that fiscal year is completed and actual costs are known. The state pays the mandate claims in the following fiscal year. For example, local costs incurred in 2012-13 are reported and claimed in 2013-14, and the state will reimburse locals for these costs as part of the 2014-15 budget. Suspending a mandate does not relieve the state of the obligation of reimbursing valid claims from prior-years, but it does allow the state to defer payment. For example, several elections-related mandates were suspended for the first time in the 2011-12 budget. This means the activities for locals were optional in 2011-12 and locals cannot claim reimbursement for any new costs incurred in 2011-12. However, the mandate claims for these costs in 2009-10 and 2010-11 are still due—either over time or all at once in the year when the mandate suspension is lifted. The state owes local governments approximately $1.8 billion in non-education mandate payments. Of this, about $900 million is associated with pre-2004 mandate claims. The Governor proposes to pay-off the pre-2004 mandate costs in 2015-16 and 2016-17 as part of the elimination of the ‘wall of debt’.

Issues Proposed for Discussion

Issue 1: Mandate Process (Informational Issue)

Determining whether a particular state requirement is a state-mandated local program and the process by which the reimbursable cost is determined is an extensive, time-consuming, and multi-stage undertaking. State and local officials have expressed significant concerns in the past about the mandate determination process, especially its length and the complexity of reimbursement claiming methodologies.

A lengthy period of review and determination presents several difficulties that affect both the state and local governments. Among the most important are flip sides of the same coin, specifically:

- Local governments must carry out the mandated requirements without reimbursement for a period of some years, plus any additional time associated with development of the mandate test claim, appropriation of reimbursement funds, and the issuance of checks.

- State mandate liabilities accumulate during the determination period and make the amount of state costs reported to the Legislature higher than they would be with an expedited process. Policy review of mandates is hindered because the Legislature receives cost information years after the debate regarding their imposition.

Last year the Commission was appropriated resources for additional staff, with the requested positions directed to increasing the capacity of the Commission in order to comply with statutory time frames and accelerate the reduction in the backlogs associated with various Commission activities. These activities include addressing test claims, establishing and amending parameters and guidelines, developing statewide cost estimates, and addressing incorrect reductions claims.

Staff Comment: Commission staff indicates that progress has been made regarding reducing the administrative backlog associated with the mandate process. That is, the additional resources budgeted for the Commission during the current year have had a beneficial impact. Clearly, this is only the administrative component of a larger local mandate issue, but it nevertheless is a positive sign. The resources appear to have resulted in reducing the delays that have been endemic to the current system. The committee may ask the Commission to discuss its current activities and recent reported improvements.

In addition, last year, the Administration indicated that it would pursue policies to improve the mandate process, including deferring decisions to local government decision-makers and allowing for maximum flexibility. The committee could request that the Administration discuss the direction that it has taken (or will be taking) with respect to these reforms.

Questions:

1. *Commission: Can you provide us additional detail on the backlog and how this has been addressed over the last year after the receipt of the budget augmentation?*

2. *<u>LAO and Commission:</u> What is the overall time period for the full mandate process at this point? Short of a full-blown overhaul of the process, are their additional steps that the Legislature could take to address the mandate process?*

Staff Recommendation: Informational issue.

Issues Proposed for Discussion / Vote

Issue 2: Mandate Funding (Governor's Budget Proposal)

The Governor's mandate proposal is a continuation of the status quo in terms of funded mandates**.** The Governor's budget proposes expenditures of $33.6 million (General Fund) related to 13 non-education mandates. These 13 mandates are identical to those funded and kept in force during the current year, the payments on which constitute the bulk of the General Fund cost for this item. These mandates all relate to public safety or property taxes and are listed in the following table:

Mandate Funding in Governor's Budget
General Fund
(Dollars in Thousands)

Funded Mandate Title	Amount
Allocation of Property Tax Revenue	$520
Crime Victim's Domestic Violence Incident Reports	175
Custody of Minors-Child Abduction and Recovery	11,977
Domestic Violence Arrests and Victim's Assistance	1,438
Domestic Violence Arrest Policies	7,334
Domestic Violence Treatment Services	2,041
Health Benefits for Survivors of Public Safety Officers	1,780
Medical Beneficiary Death Notices	10
Peace Officer Personnel Records	690
Rape Victim Counseling	344
Sexually Violent Predators	7,000
Threats Against Police Officers	3
Unitary Countywide Tax Rates	255
Total Funded	**$33,567**

Staff Comment: At the time the agenda was finalized, no concerns had been raised with this budget request. The mandates selected for funding continue the policy adopted in previous years by the Legislature.

Staff Recommendation: Approve the budget request for continued funding of selected local government mandates.

Vote:

Issue 3: Mandate Suspensions (Governor's Budget Proposal)

The Governor's budget proposes the suspension of numerous mandates in order to achieve budgetary savings. Almost all of these mandates have been suspended for several years, typically as part of the budget process. In general, mandate suspension has not been subject to thorough policy review that would evaluate the costs and benefits of the mandate, but rather have been suspended solely for the purpose of budgetary savings. The policy decision to establish the mandate in the first place has not generally been a major part of the discussion.

Mandates proposed for suspension include mandates suspended in prior years plus two new mandates with statewide cost estimates. The two new mandates with statewide cost estimates are Local Agency Ethics and Tuberculosis Control, which are in **boldface** in the table presented below.

Mandates Suspended in Governor's Budget
General Fund Savings 2014-15
(Dollars in Thousands)

Suspended Mandate Title	Savings
Adult Felony Restitution	$0
Absentee Ballots	49,422
Absentee Ballots-Tabulation by Precinct	68
AIDS/Search Warrant	1,596
Airport Land Use Commission/Plans	1,263
Animal Adoption	36,305
Brendon Maguire Act	0
Conservatorship: Developmentally Disabled Adults	349
Coroners' Costs	222
Crime Statistics Reports for the Dept. of Justice and as Amended	158,627
Crime Victims' Domestic Violence Incident Reports II	2,007
Deaf Teletype Equipment	0
Developmentally Disabled Attorneys' Services	1,201
DNA Database & Amendments to Postmortem Exams: Non-ID Bodies	310
Domestic Violence Background Checks	19,222
Domestic Violence Information	0
Elder Abuse, Law Enforcement Training	0
Extended Commitment, Youth Authority	0
False Reports of Police Misconduct	10
Fifteen-Day Close of Voter Registration	0
Firearm Hearings for Discharged Inpatients	157
Grand Jury Proceedings	0
Handicapped Voter Access Information	0
Identity Theft	83,470
In-Home Supportive Services II	443
Inmate AIDS Testing	0

Judiciary Proceedings for Mentally Retarded Persons	274
Law Enforcement Sexual Harassment Training	0
Local Agency Ethics	***29***
Local Coastal Plans	0
Mandate Reimbursement Process I	6,910
Mandate Reimbursement Process II (consolidation of MRPI and MRPII)	0
Mentally Disordered Offenders' Treatment as a Condition of Parole	4,910
Mentally Disordered Offenders' Extended Commitments Proceedings	7,222
Mentally Disordered Sex Offenders' Recommitments	340
Mentally Retarded Defendants Representation	36
Missing Person Report III	0
Modified Primary Election	1,738
Not Guilty by Reason of Insanity	5,214
Open Meetings Act/Brown Act Reform	111,606
Pacific Beach Safety: Water Quality and Closures	344
Perinatal Services	2,338
Permanent Absentee Voter II	6,560
Personal Safety Alarm Devices	0
Photographic Record of Evidence	-78
Pocket Masks (CPR)	0
Post Conviction: DNA Court Proceedings	410
Postmortem Examinations: Unidentified Bodies, Human Remains	-466
Prisoner Parental Rights	0
Senior Citizens Property Tax Postponement	481
Sex Crime Confidentiality	0
Sex Offenders: Disclosure by Law Enforcement Officers	0
SIDS Autopsies	0
SIDS Contacts by Local Health Officers	0
SIDS Training for Firefighters	0
Stolen Vehicle Notification	1,117
Structural and Wildland Firefighter Safety	0
Tuberculosis Control	***133***
Very High Fire Hazard Severity Zones	0
Victims' Statements-Minors	0
Voter Identification Procedures	7,553
Voter Registration Procedures	2,481
Total Suspended	**$513,824**

LAO Perspective: In prior years, the Legislative Analyst's Office (LAO) has raised questions regarding a number of the mandates proposed for suspension. Depending on the particular mandate, the recommendations have included funding, repealing, or changing the underlying statute to reflect a best practices approach.

- **Elections Mandates.** The LAO has in the past recommended that the mandates relating to elections in the table above (in *italics*) not be suspended but rather funded in the budget, along with the direction that the Administration work with counties to explore alternative funding mechanisms. If these mandates were not suspended, the budgetary impact of funding these mandates would be about $100.0 million on a one-time basis, and a substantially lesser amount of $30.5 million annually thereafter.

Despite the suspension, to-date, it appears that no counties have deviated from providing services required pursuant to the previously mandated activities. Given that the state owes more than $114.0 million to counties for conducting past elections and counties are not required to comply with suspended statutes, there may be a moderate risk that one or more counties may opt not to comply during future elections. According to the LAO, "The longer the state suspends these mandates and the more elections mandates the state chooses to suspend, the greater the risk that at least one county will decide not to perform the previously mandated activities."

- **Newly Suspended Mandates.** Two mandates with newly-determined statewide costs estimates—Local Agency Ethics and Tuberculosis Control—are also proposed for suspension. (In order to 'stop the meter' on these mandates, the Administration proposed to suspend these last year, but this proposal was not adopted.) The LAO suggested the Legislature consider alternatives to the Tuberculosis Control mandate based on alternative funding for the activity. The state and local effort required to structure this alternative has not occurred.

  Regarding the Local Agency Ethics mandate, the Commission determined that state law established a mandate for some activities of certain local governments (largely general law cities, and certain special districts, that are required to pay compensation) related to adopting policies regarding the reimbursement of expenses and providing ethics training for officials who receive compensation. The LAO noted inconsistency of imposing the mandate on some local governments (that are required to pay compensation) and not on others. LAO recommends changes in law that would make compensation optional for all local governments (thus removing the mandate) or exclude from the requirement those local governments that are obligated to pay compensation.

Staff Comment: Other than the issues discussed above, no major concerns have been raised regarding the continued suspension of these mandates. Staff notes that suspending the election mandates would not preclude the Administration from working with counties to explore alternative funding mechanisms, as suggested by LAO. With the exception of the two mandates with recent statewide cost estimates noted above, the selected mandates in the figure have been suspended in prior years. Last year, the Legislature rejected the proposal to suspend the Tuberculosis Control mandate based on public health concerns. It initially adopted statutory revisions that would have 'unmandated' the Local Agency Ethics activities, but subsequently reversed this.

Staff Recommendation: Hold open the proposed suspension of the election mandates. Suspend the Local Agency Ethics mandate and adopt LAO recommendation to revise the applicability of the underlying statute and adopt placeholder TBL. Do not approve the suspension of the Tuberculosis Control mandate, which will be considered in Subcommittee 3, and conform to the action of that Subcommittee for this mandate. Approve the suspension of all the remaining mandates included in the Governor's budget.

Vote:

Issue for Discussion / Vote

Local Economic Development

This item includes topics that address local governments' ability to engage in local economic development efforts, including the Governor's proposal for a revised infrastructure financing district policy and the process of dissolving redevelopment agencies.

Issue 1: Reforming Infrastructure Financing Districts (Governor's Budget Trailer Bill Language)

Proposal: As a means of addressing concerns related to local economic development tools, the Governor proposes expanding the tax increment financing tool utilized by infrastructure financing districts (IFDs) to include a broader array of uses than those currently authorized. The Administration proposes legislation that is designed to ease the formation of IFDs and broaden the application of this financing alternative. Specifically, the proposal would:

- Expand the types of projects that IFDs can fund to include military base reuse, urban infill, transit priority projects, affordable housing, and associated necessary consumer services. The goal is to maintain the IFD focus on projects which have tangible quality-of-life benefits for the residents of the IFD project area.

- Allow cities or counties that meet specified benchmarks to create these new IFDs and issue related debt, subject to receiving 55 percent voter approval, instead of the current two-thirds vote requirement.

- Allow new IFD project areas to overlap with the project areas of former redevelopment agencies (RDAs), while strictly limiting the available funding in those areas to dollars available after payment on all of the former RDA's approved obligations.

- Expand the time in which IFDs can receive property tax increment from 30 years to 45 years, and allow the participating tax entities to issue loans to the IFDs to facilitate their establishment.

- Maintain the current IFD prohibition on the diversion of property tax revenues from K-14 schools, and require entities that seek to establish an IFD to gain the approval of the county, cities, and special districts that contribute their revenue, to the IFD.

The proposal notes that the expansion of the use of IFDs should not come at the expense of the continuing RDA dissolution process. If the establishing city or county formerly operated an RDA, the expanded IFD tool would be available to them only when they meet the following benchmarks:

- Receipt of a Finding of Completion from the DOF, demonstrating that the city or county has remitted all unencumbered cash assets of its former RDA to the affected taxing entities.

- Compliance with all RDA audit findings of the State Controller's Office.
- Resolution of any outstanding legal issues between the successor agency, the city or county that created the RDA, and the state.

Background: Under current law, IFDs are empowered to use tax increment financing to finance tax allocation bonds and use the proceeds for local development. IFDs may also exercise eminent domain powers while they are in existence. IFDs are less flexible than RDAs in the types of projects that they may fund, with financed projects generally limited to highways and transit projects; water, flood control, sewer, and solid waste projects; child care facilities; and libraries and parks. Furthermore, unlike RDAs, affected cities, counties, and special districts have the option to participate in the IFDs while schools cannot, resulting in no Proposition 98 impacts for IFDs. IFDs require a two-thirds vote by the affected electorate to be created.

The end of RDAs has prompted interest in the Legislature in developing a replacement program and a discussion of important elements that such a program might contain. In addition to IFDs, there are other existing programs—business improvement districts (BIDs), joint powers authorities (JPAs), property tax debt overrides, Mello-Roos financings, assessment levies, or other parcel taxes. However, none of these current local financing tools have all of the elements that made redevelopment so attractive and valuable to California cities and counties. Specifically, RDAs provided the sponsoring government with considerable resources and did so without requiring the approval of local voters or business owners; directly imposing increased costs on local residents or business owners; or requiring additional voter approval prior to issuing debt. However, they also caused a substantial diversion of property taxes from local schools and increased pressure on the General Fund.

There have been alternative proposals that allow local discretion in community development efforts and provide accompanying fiscal tools, but eliminate the fiscal exposure to the state. In 2012, two such measures—SB 1156 (Steinberg) and AB 2144 (Pérez, et al)—were adopted by the Legislature but vetoed by the Governor on the basis that the time was not right, given the continuing RDA dissolution process. In 2013, SB 1 (Steinberg) took a related approach with the proposed establishment of investment authorities that would be allowed to receive a non-school property tax increment if agreed to by the local government that would otherwise have received the property tax revenue. This measure was not ultimately adopted by the Legislature.

LAO Perspective: In the LAO's analysis of the Administration's IFD proposal, they recommend adopting most of the components of the proposal; however, they also make several suggestions regarding changes. Specifically, LAO recommends:

- Eliminating the ability of IFDs to fund retail facilities—unless they are oriented towards fulfilling sustainable communities' goals—because the collective benefit to local governments is limited.
- Rejecting the new audit ability for DOF's, recommending that IFDs be treated like other local governments, with required reporting to the SCO.

- Reworking the approval and creation process by (1) allowing all affected residents (not just those in the proposed IFD) to vote for its approval, and (2) clarifying that IFDs are a distinct local entity (like JPAs).

- Rejecting the proposal to require cities and counties to meet certain conditions—such as the resolution of legal disputes—as a requirement of establishing an IFD.

Staff Comments and Questions: Although recent policy changes with respect to redevelopment and enterprise zones have been successful in focusing revenues on essential state services, some suggest that they have also left local governments without the necessary tools to address issues related to economic development. The argument that the state's resources need to be concentrated for statewide services is a reasonable one. Just as reasonable is the position that additional tools need to be made available to local governments to address local concerns. While the focus and the operations of RDAs and EZ tax incentives were very different, they both provided support for local economic development and are now no longer long-term options.

The Administration's proposal is an attempt to address the current lacuna in local governments' economic development tool kit. The new tools made available last year under the tax incentive reformulation will provide some additional resources for local government. Specifically, the New Hiring Tax Credit will provide incentives for employers to locate within certain areas that were former enterprise zones, and the pilot projects associated with this program will serve additional areas in need of development. However, these programs will be more difficult for employers to qualify for and be much more curtailed in terms of the level of state support in foregone revenues. The California Competes Tax Credits may be a useful statewide tool in particular circumstances with particular firms, but they will not necessarily address specific areas of the state most in need of development assistance.

The Governor's proposal is an attempt to address some of the local economic development needs. By expanding the nature of the types of projects that IFDs can finance, the flexibility and usefulness of this tool is improved. However, it is not intuitively apparent why certain other public improvements could not be included as well, and leave more decision-making to local discretion in terms of projects to fund. In contrast, others have suggested that although the proposal allows for investment in housing, it does not require it, thus providing a poor substitute for the affordable housing requirement for RDAs. Lowering the voting threshold to 55 percent approval will make the IFD tool more accessible; however, other legislative proposals—such as SB 214 (Wolk)—would have eliminated the voter requirement for a city or county to create an IFD. Interestingly, the Governor's veto message for SB 214 indicated that expanding the scope of IFDs was premature, but expressed no concern regarding the vote elimination.

The Governor's proposal ties the expanded and reformed IFD to the status of RDA wind-down and the state budget, even though the actual linkage is indirect, at best. For example, the requirement on local governments to resolve legal disputes with the state in order to use the new tool could be interpreted as an enticement to abandoned perfectly reasonable legal actions regarding particular local projects. Given that many RDA dissolution issues are still winding their way through the court system, the revised IFD offered by the Governor is not likely to have widespread application in the near future. In addition, the proposed requirement that local governments comply with SCO audits, while reasonable on its face, may be a significant hurdle for local governments, since only 115 of approximately 400 audits have even been completed. Given this, the Legislature may want to consider adjusting these compliance requirements.

In addition, there may be some rationale for state support for local economic development. This must ultimately hinge on maintaining the state's budget on a strong fiscal track and be measured against other budgetary demands. Still, in some cases, an argument may be made for state support for projects of a regional or statewide benefit—such as transportation improvements, housing, or open space—or joint projects that benefit local schools in some manner. Such state support could be based on grants or loans, or possibly by using a pre-designated fixed amount of property tax increment, or an equivalent amount derived from state resources. Projects eligible for some degree of state support could be selected based on the degree to which they meet a certain level of state or regional impact—with greater support for those with a higher degree of regional or state impact.

Questions:

1. *LAO: Is it reasonable to tie the new IFD tools to the complete resolution of all legal actions against the state, regardless of the validity of such actions by local governments?*

2. *DOF: Since local governments can currently use their property tax increment for allowable public purposes, what is the advantage of the IFD proposal other than it may facilitate securitization?*

3. *LAO / DOF: Are there situations that would warrant state support for particular projects, for example, those with a regional or state-wide impact?*

4. *LAO: Is the scope of activities for local governments under the proposal reasonable? Specifically, given the loss of support for affordable housing with the dissolution of RDAs, should there be a requirement for housing?*

Staff Recommendation: Hold open.

Vote:

Issue for Discussion:

Issue 2: Dissolution of Redevelopment Agencies (Informational Issue)

Background: The process of winding down redevelopment agencies (RDAs) was not expected to be a straightforward process without uncertainty and controversy. Yet, the extreme complexity of dissolving the program has befuddled many, delaying the receipt of property taxes by school districts and resulting in a lack of clarity for local governments. In particular, allowing for the continuation of certain projects that meet pre-established criteria has been more complicated than most observers initially believed. As we noted last year, projects which are partially complete or require changes to existing agreements pose particular problems, and these problems have persisted through the past year. Local governments with various projects have raised questions regarding the application of the criteria, the consistency with which the criteria are applied, and what constitutes a reasonable level of state involvement with respect to local projects. Some local governments have expressed the view that the Administration has attempted to curtail projects in too aggressive a manner, given the intent of the enabling statutes, and sought to establish on-going state review of various projects.

AB 662 (Atkins) was one of the measures adopted by the Legislature to address some of these issues. For example, the bill would have clarified the flexibility of a successor to the RDA to enter into and alter contracts and agreements related to enforceable obligations, as long as additional tax increment is not committed to the project. The bill would also have allowed reasonable estimates and projections to be used to support payment amounts for enforceable obligations. The bill contained several other provisions that would have clarified the process for partially completed projects, provided flexibility to the RDA successors, and potentially paved the way for a less contentious process for the dissolution of RDAs. The bill was vetoed by the Governor, after the DOF indicated that unintended General Fund costs could occur. As confusion and conflict over the dissolution process continues, the Legislature may want to revisit these issues again, either in the budget or through policy committees, in order to assure that RDA dissolution continues on a fair and reasonable track, consistent with legislative intent.

Staff Comments and Questions: The RDA wind-down has been exceeding complex. Still outstanding are numerous legal issues, which have both impaired the timely flow of additional property taxes to local schools as well the ability of local governments to complete anticipated projects.

Questions:

1. *DOF: What are the major legal cases and issues still outstanding? What are the fiscal implications for the state and when will these be resolved?*

2. *DOF: What is the estimate for the amount of former RDA assets that can be additionally shifted to local schools?*

3. *DOF: What is the estimate for the total amount of property tax increment that is still subject to litigation?*

4. *<u>LAO:</u> Is there additional clarity that should be provided through legislation or regulations to govern the RDA dissolution process?*

Staff Recommendation: Informational issue.

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Tom Berryhill
Senator Norma Torres

Thursday, March 27, 2014
9:30 a.m. – Rose Ann Vuich Hearing Room 2040

Consultant: Mark Ibele

Local Government Finance

<u>Proposed Discussion and Vote Calendar</u>

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Norma Torres
Senator Tom Berryhill

Thursday, April 3, 2013
9:30 AM or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultant: **Brady Van Engelen**

Item Number and Title

0840	State Controller
0845	Department of Insurance
0890	Secretary of State
7502	Department of Technology
8880	Financial Information System for California (FI$Cal)

(See Table of Contents on pages 1 and 2 for a More Specific Listing of Issues)

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

AGENDA – VOTE ONLY ITEMS

(Please see summary chart on Page 4)

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only:

	Issue	2014-15 Amount	Fund Source	Staff Recommendation
	Secretary of State(0890)			
1	Legislative Workload Adjustments	$79,000	General Fund	APPROVE
	Department of Technology (7502)			
1	Capacity BCP's	$35.878 million	Technology Services Revolving Fund	APPROVE
2	Prior Year Adjustments	-$26.849 million (2013-14 reduction is -$25.791)	Technology Services Revolving Fund	APPROVE

Vote:

Issues Proposed for Vote Only – Issue Descriptions

Secretary of State

Issue 1 – Legislative Workload Adjustments

Governor's Budget Request: The Secretary of State requests $79,000 (General Fund) and one permanent Management Services Technician to implement the provisions of AB 849 (Garcia), Chapter 676, Statutes of 2013.

Background: AB 849 allows elderly/dependent adult victims of domestic violence, sexual assault, or stalking to apply to the Secretary of State's California Address Confidentiality Program (Safe at Home). AB 849 also requires that the Secretary of State identify, recruit, and train state, local, and non-profit agencies that specialize in the needs of the elderly/dependent adult population and designate them as enrolling agencies for the Safe at Home program.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Department of Technology

Issue 1 – Capacity Budget Change Proposals

Governor's Budget Request: The Department of Technology is requesting a total of $35.878 million (Technology Services Revolving Fund) to address capacity increases in the customer service areas of the Vacaville and Gold Camp Data Centers. The requested amount for each service provided is listed below:

Request Number	Service Area	BCP Amount
1	Mainframe CPU Capacity	$7,629,000
2	Midrange Server Capacity	$14,284,000
3	Enterprise Data Storage	$8,810,000
4	Network Capacity	$5,155,000
	TOTAL	**$35,878,000**

1) **Mainframe CPU Processing Capacity ($7.629 million)** - The Governor's 2014-15 budget includes a proposal to increase expenditure authority by $7.629 million (Technology Services Revolving Fund) in FY 2014-15 to allow the Office of Technology Services (OTech) to purchase 1,930 millions of instructions per second (MIPS) of mainframe processing capacity to meet projected customer needs.

   The Office of Technology currently has over 500 customers of which, approximately 250 are mainframe processing customers, and many are still adding new applications, building new databases, and using WebSphere to add Web interfaces to their legacy applications. Mainframe computing demand is projected to increase by 11.3 percent in 2013-14.

2) **Midrange Server Capacity ($14.284 million)** - The Governor's 2014-15 budget requests increased expenditure authority of $14.284 million (Technology Services Revolving Fund). The request stems from the OTech need for additional hardware, operating system software, applications software, statewide E-mail, and database software to ensure adequate midrange service capacity to meet the needs of customer-driven workloads. This request also includes resources to meet the disaster recovery requirements of customers.

   There is an increased demand on services by customer departments at a variety of state entities. This increased demand, largely stemming from increased population and use of services, results in the growth of customer applications and the need for additional server capacity. OTech continues to experience a substantial increase in the midrange computing workload, database instances, Disaster Recovery, and web services.

3) **Enterprise Data Storage ($8.810 million)** - The Governor's 2014-15 budget includes a request to increase the spending authority of the Department of Technology by $8.810 million (Technology Services Revolving Fund) in FY 2014-15 for hardware, software, and connectivity components to ensure adequate data storage support to meet the needs from customer-driven workloads, approved information technology (IT) projects, and disaster recovery.

   While providing for the increasing needs of current customers, the OTech must provide resources for approved IT projects supported by the Department of Technology. In order to achieve both normal growth and approved IT projects, OTech must increase the number and density of virtual servers in preparation of departments growing or migrating over to the Office of Technology. Virtual servers require large amounts of data storage to support their efficient and effective use of IT resources and data processing. Increased IT density allows OTech to support the migration of IT workload from other agencies. In addition, OTech must provide for customers with disaster recovery data storage requirements that are currently located at OTech or relaying them to their data center.

4) **Network Capacity ($5.155 million)** - The Governor's 2014-15 budget includes a request to increase the spending authority of the Technology Agency by $5.155 million (Technology Services Revolving Fund) in FY 2014-15 to purchase switches, circuits, load balancers, firewalls, and maintenance services.

   OTech currently manages two data centers located in Vacaville and Rancho Cordova, and is responsible for the network infrastructure needs of the data centers that provide network services connecting their data center facilities to most of the executive branch departments and local agencies.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Prior Year Adjustments

Governor's Budget Request: The Department of Technology is requesting a technical adjustment to align previously approved budget actions with ongoing costs related to prior year capacity budget requests. The adjustment amounts to a net reduction of $25.791 million in 2013-14 and a net reduction of $26.849 million in 2014-15.

Background: These technical adjustments are a result of one-time reductions, project cost reductions due to favorable contracts, and/or project completions. The initial budget request is determined in advance of the service or product being acquired and the actual cost may vary by the time the expense is incurred. The intent of the request is to better align the Department of Technology's budget with actual expenditures for prior year requests.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issues Proposed for Discussion / Vote

0840 STATE CONTROLLER

Department Overview: The State Controller (SCO) is the Chief Fiscal Officer of California. The Controller provides fiscal control for, and independent oversight of, more than $100 billion in receipts and disbursements of public funds. In addition, the Controller offers fiscal guidance to local governments, and performs audit functions to uncover fraud and abuse of taxpayer dollars. The SCO's primary objectives are to:

- Account for and control disbursement of state funds.
- Determine legality and accuracy of issue warrants in payment of the State's bills.
- Claims against the state.
- Administer the Uniform State Payroll System.
- Audit and process personnel and payroll transactions for state civil service, exempt employees, and state university and college system employees.
- Audit state and local government programs.
- Inform the public of the State's financial condition.
- Administer the unclaimed property law.
- Inform the public of financial transactions of city, county, and district governments.

The SCO is funded through the General Fund, as well as over 300 special funds and accounts and reimbursements. The Governor's budget requests $188.85 million ($48.99 million General Fund) and 1,392.1 personnel years to support the SCO.

2014-15 State Controller's Budget
(Dollars in millions)

FUND SOURCE	2012-13	2013-14	2014-15
General Fund	$45.69	$54.81	$48.99
Unclaimed Property Fund	$31.30	$33.56	$36.14
Central Service Cost Recovery Fund	$20.10	$24.16	$23.14
Other Special Funds and Accounts	$29.01	$15.73	$15.5
Reimbursements	$52.57	$64.56	$64.08
Total Expenditures	$178.67	$192.82	$188.85
Personnel Years	1,297.4	1,398.3	1,392.1

Issue 1 – 21st Century Project

Governor's Budget Request: The SCO requests 5.0 positions and $6.529 million ($3.59 million General Fund, $1.265 million Reimbursement Authority, and $1.674 million Special Fund) for FY 2014-15 to support ongoing legal costs. The SCO has requested that budget bill Llanguage and Control Section language be added to the 2014 Budget Act. This request also includes trailer bill language that would extend the sunset date of the 21st Century Project until June 30, 2017.

Background: The SCO is responsible for disbursement of pay to the state's 275,000 employees. In 2004, the Department of Finance (DOF) approved the justification documents submitted by the SCO requesting an updated payroll system that would provide a greater level of integration. The SCO procured Commercial Off-the-Shelf (COTS) software in 2005 and intended on utilizing that COTS software to update the state's payroll system.

The Department of General Services (DGS) awarded the second contract to a different vendor, SAP, on February 2, 2010. An updated Special Project Report (SPR 4), that was issued prior to the contract being awarded, identified the method that would eventually be utilized to implement the new MyCalPAYS system. The first, and smallest phase, would consist of converting payroll for the approximately 1,300 SCO staff to the new payroll system.

The initial pilot was deployed in June of 2012 and revealed a significant volume of errors. The SCO issued a cure letter in October of 2012 to SAP, requesting that the vendor deliver the resources necessary to correct the identified errors. SCO was not satisfied with the response and subsequently terminated the contract with SAP in February 2013. Due to the contract being terminated, the Technology Agency had little choice but to suspend the 21st Century Project.

In June 2013, the SCO and SAP participated in contractual mediation. The mediation process did not provide an acceptable outcome and, on November 21, 2013, the SCO filed a lawsuit against SAP for breach of contract. The 2013 Budget Act provided the SCO with $1.0 million for legal support, which is set to expire on June 30, 2014. According to SCO, the state has the potential to recoup 1.5 times the contract amount, or up to $150 million. Alternatively, SAP could be awarded $50 million.

Request Detail:
A more specific cost breakdown of the SCO's request for $6.529 million to support ongoing legal costs is provided below:

- $645,000 for 5.0 one-year limited-term positions these positions will be responsible for pertinent document retrieval, developing a project history and timeline, and maintenance of the MyCalPays system in support of the legal team.

- $996,000 for the project management advisory contract. The project advisors, Flagship Advisors is comprised of two people and provides assistance with business processes, integration, coordination, configuration, customization, testing, training, installation, data conversion, and work force transition.

- $2.5 million for legal counsel to defend the state against claims made by SAP. This request may only reflect a portion of total legal costs; the SCO has requested that provisional language be included to provide additional funding for legal costs, if necessary.

- $904,000 for costs associated with leasing a facility.

- $1.193 million for costs associated with IT services from the Department of Technology. These services include infrastructure support and data center storage support.

- $266,000 for data center services that will support the maintenance of the software purchases that are a component of the 21st Century Project.

As noted earlier, there are multiple components to this request, and it may be best to consider each component individually:

Proposed Trailer Bill Language - Government Code §12432 authorized the State Controller, beginning in FY 2006-07, to assess special funds within the state treasury for costs attributable to the replacement of the state payroll disbursement system. This replacement effort has been referred to as the 21st Century Project. This code section also notes that costs assessed to the 21st Century Project will be evenly split between the General Fund and special funds within the state treasury.

The provisions included in this section were set to expire on June 30, 2011. AB 119 (Blumenfield), Chapter 31, Statutes of 2011, extended the original sunset date by three calendar years, moving it to June 30, 2014. The requested amendment would once again extend the sunset date. The provisions included in Government Code Section §12432 would not expire until June 30, 2017.

Staff Comment: This requested trailer bill language would extend the current authority for assessments on special funds within the state treasury for costs related to the implementation of the 21st Century Project for an additional three years.

Requesting spending authority for a currently suspended IT project raises some concern for staff. The SCO has yet to publish an independent assessment on the lessons learned from the previous efforts related to the 21st Century Project. Yet, SCO is requesting funds and statutory authority for the continuation of the project, Beyond the legal case before SCO, staff is uncertain what the 21st Century project staff are proposing to accomplish given we do not know what remains salvageable from prior implementation efforts.

Requested positions and funding - Another component to this request is the SCO's request for 5.0 positions and $6.529 million ($3.59 million General Fund, $1.265 million Reimbursement Authority, and $1.674 million Special Fund) for FY 2014-15 to support ongoing legal costs. The requested positions would largely support the SCO's efforts in response to public records and discovery. The positions would also provide technical assistance to the legal team as needed. As noted earlier, costs attributed directly to SCO staff will total $645,000 for FY 2014-15, the remainder of the requested funds will be utilized for a variety of purposes including: legal support, data center services, capital facility costs, software maintenance costs, and payment to external consultants.

Staff Comment: Staff recognizes the need to support SCO's legal costs associated with this request. It is important to note that the requested positions and funding support sustainment of the current suspension of the 21st Century Project, not a progression towards a new automated payroll disbursement system. However, the request includes funding for Flagship Advisors which has provided the SCO with project management support for over four years, beginning in February 2010. After this amount of time, there should be an adequate level of knowledge transferred between the consultant and the project team. To further reduce costs associated with the 21st Century Project, while in its current suspended status, the Legislature may wish to consider eliminating funding for the external consultant contract. The requested five one-year limited-term positions contain a high-level of expertise that can adequately support the SCO's legal efforts. Also, it is unclear how many staff from the external consultant, Flagship Advisors, would be made available to support SCO's efforts.

<u>Provisional Budget Bill Language:</u> The SCO has requested that language be added to the budget act that authorizes additional expenditures for legal costs. The provisional items, under 0840-001-0001 and Control Section 25.25, would allow for further augmentation from all fund sources to fund litigation and related support efforts associated with the 21st Century Project.

Staff Comment: For historical purposes, staff concurs that costs associated with the 21st Century Project should be included under the SCO's annual budget bill item, and the control section associated with the SCO, 0840-001-0001 and control section 25.25. Staff does not have any issues with this portion of the proposal.

LAO Comment: The LAO recently published a review of the SCO's request. In their briefing the LAO noted several items:

Legal costs are likely to exceed currently requested amount*.* The LAO noted that it is likely that this request has under-budgeted legal costs associated with the 21st Century Project. The SCO has estimated that legal costs from outside counsel will total between $4.5 million and $5 million for FY 2014-15. The SCO derived that estimate from monthly totals from September 2013, to date.

Lacking a project assessment. During consideration of the FY 2013-14 budget, the LAO proposed the SCO conduct an assessment on the 21st Century Project to determine a number of different items: the viability of the current software platform, whether or not the state's payroll process needed to be modified prior to the re-start of the project, lessons learned, and to present an analysis of alternatives.

LAO Recommendations: The LAO also made several recommendations associated with this request that the Legislature may wish to consider including:

1. Budgeting estimated costs for SCO's legal effort.
2. The Legislature should appropriate additional funds so the SCO, in consultation with the Department of Technology can provide an assessment.
3. Initiate a review of the performance of the Department of Technology concerning its oversight role, how its policies applied to the 21st Century Project, and impediments, either statutory or otherwise, that limit their ability to exercise oversight of IT projects.

Staff Recommendation: Hold open.

Vote:

Issue 2 – Software Cost Increases

Governor's Budget Request: The SCO requests $3.482 million ($797,000 General Fund, $1.692 million reimbursements and $993,000 Special Fund) in 2014-15 through 2017-18, to continue funding a contract with Integrated Data Management System (IDMS) technology services.

Background: The IDMS is comprised of a suite of software products that run on the mainframe housed at the Office of Technology Services. The systems are wholly integrated and allow for direct interface and/or provide for files to be passed between each unique system. The Controller's Office is highly dependent on IDMS applications, and uses the business functions for personnel, payroll, fiscal, and audits. There are a total of fifteen unique IDMS supported applications that the SCO utilizes.

In FY 2012-13, SCO paid $1.25 million for IDMS services. Costs have increased because the SCO is now one of only two state entities (California Highway Patrol is the other) that utilize IDMS applications and, therefore, are paying for a much higher share of the costs than before, when the costs could be distributed across multiple agencies. The Department of Technology recently negotiated a five-year contract with Computer Associates so SCO can utilize their services and their IDMS software until March 31, 2018.

Staff Comment: If the other user of IDMS, the California Highway Patrol, were to leave, costs would increase to $4.6 million annually. Given the high number of legacy systems utilized by the SCO, it is unlikely that a more cost-effective alternative can be acquired and integrated before the expiration of the contract. Additionally, some of the functions incorporated into the 21st Century Project would have replaced the need for IDMS. The suspension of the 21st Century Project, coupled with the additional year added to the project timeline for the Financial Information System for California (FI$Cal) project highlights SCO's need and reliance on IDMS.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – MyCalPers

Governor's Budget Request: The SCO requests 15.0 five-year limited-term positions and $1.356 million ($759,000 General Fund and $597,000 Special Fund) from 2014-15 through 2018-19 to address the increased workload generated by the implementation of the California Public Employees Retirement System (CalPERS) Pension System Resumption (PSR) Project.

Background: The MyCalPERS system, which CalPERS migrated to in order to consolidate forty-nine various information systems within CalPERS' internal network, was intended to provide employers a streamlined, self-service environment for completing retirement and health business transactions. The SCO and CalPERS interface regularly on the SCO's Uniform State Payroll System and CalPERS' retirement system. The interfaces are complex and large, handling the information of over 274,673 active members.

In March 2009, CalPERS informed the SCO that employers would be responsible for the correcting and reporting of all discrepancies between SCO's Uniform State Payroll System and the new CalPERS system, a function that historically was performed by CalPERS staff. In 2011, CalPERS shared its test results of the MyCalPERS system with SCO staff, and SCO prepared to address the higher than originally expected level of errors by redirecting staff from its retirement unit. In 2012, the Legislature authorized seven limited-term positions to address the growing backlog of errors created due to the interface of the MyCalPERS system with the SCO's Uniform State Payroll System.

The SCO anticipates that the number of outstanding errors at the end of FY 2013-14 will be 316,636. SCO staff estimate that, under the current conditions, 17.8 PYs would be required to address the backlog of errors by FY 2018-19. However, the SCO contends that an automated fix to the errors occurring in the current Uniform State Payroll System will further reduce the error reporting rate. SCO staff will need to modify their current system in order to achieve a greater level of compatibility with the CalPERS system, and then will proceed with identifying a solution for files that have already been transmitted to the CalPERS system. If the SCO is successful in modifying their reporting process, and modifying their previously reported data, the total error rate will drop significantly. Recognizing this, the DOF has requested that provisional language be included that will provide the DOF with the authority to reduce the amounts authorized to the SCO if the transition is successful. The proposed provisional language is below:

> "*The Department of Finance may reduce the amounts authorized under Item 0840-001-0001 of this act, upon successful completion of a system change that significantly reduces the number of error records, and in turn, the SCO workload related to the CalPERS PSR System Resumption. This adjustment shall be in coordination with the SCO and CalPERS. No adjustments shall be made pursuant to this provision prior to a 30-day notification in writing to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committee of each house of the Legislature that consider appropriations.*"

Staff Comment: The requested resources will help address the backlog of errors between the Uniform State Payroll System and the provisional language would allow for a reduction in funding if necessary.

Staff Recommendation: Approve as budgeted and adopt provisional budget bill language.

Vote:

Issue 4 – Sustained Accounting and Reporting Workload

Governor's Budget Request: The SCO requests the continuation of 2.1 two-year limited-term positions and $217,000 ($122,000 General Fund and $95,000 Central Service Cost Recovery Fund) in 2014-15 and 2015-16 to address the statewide cash management workload.

Background: The SCO is responsible for the fiscal control of over $100 billion in annual receipts and disbursements of public funds. Within the SCO, the Division of Accounting and Reporting (DAR) is responsible for statewide cash management activities, which include:

- Accounting and controlling the disbursement of all state funds.
- Determining the legality and accuracy of every claim against the state.
- Issuing warrants in payment of the state's bills including lottery prizes.
- Informing the public of the state's financial condition.

There are currently six full-time staff that provide state-wide cash management support at the SCO. The 2012 Budget Act provided SCO with two, two-year limited-term staff to support cash management activities for SCO staff. This request is a continuation of these positions. The requested positions are already filled, and the staff have been trained by the SCO to perform cash management-related activities.

Staff Comment: The SCO's calculations project workload hours to total approximately 14,540 for FY 2014-15. If the average PY were to work approximately 1,775 hours annually, DAR would need 8.19 staff to address the workload; this is in line with the requested position total. Given that the current cash-flow situation is not as dire as it was in FY 2011-12, when the positions were originally authorized by the Legislature, approving the positions on a limited-term basis, as proposed in this BCP, is reasonable.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5 – Unclaimed Property: Fraudulent Claims Protection and Prevention

Governor's Budget Request: The SCO requests 16 two-year limited-term positions and $2.095 million (Unclaimed Property Fund) for FY 2014-15 and $2.082 million in FY 2015-16 to detect and prevent fraudulent unclaimed property claims.

Background: Under current law, the SCO is responsible for safeguarding unclaimed property until it is returned to the lawful owner. The Unclaimed Property Division (UPD) of the SCO reunites owners with their lost or abandoned property when the owner files a paper claim following a search for property on the SCO's website or after calling the Unclaimed Property Division call center to request a claim form. A claim may be filed by either the owner or the heir of the owner as reported by the holder.

Staff Comment: A similar request was submitted during consideration of the FY 2012-13 Budget. At that time the number of claims filed over the previous four years, ranged from two in 2007-08 to 1,017 in 2010-11. Given the wide variation in claims, staff recommended the 17.9 requested positions be provided on a limited-term basis.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 6 – Unclaimed Property: Insurance Workload

Governor's Budget Request: The SCO requests 11.0 permanent positions and $1.117 million from the Unclaimed Property Fund in FY 2014-15, and ongoing, to address life insurance companies' compliance with state unclaimed property regulations.

Background: Under current law, the SCO is responsible for safeguarding unclaimed property until it is returned to the lawful owner. In most cases, after three years, the property is transferred to the state. There are a variety of ways for property owners to be notified of property being held. Recently, legislative and administrative changes have increased workload in the areas of financial accountability and corporate actions, and the collection of securities. According to the SCO's, the goal of this program is to expedite the return of the property to owners by increasing the ability of the SCO to preserve the integrity of the ownership trail.

Recent audits conducted by the SCO have found that insurance companies often fail to pay death beneficiaries on their life insurance policy. Instead, companies draw-down the policies' cash reserves in order to continue collecting premium payments from the deceased policy holder. Once the cash reserves are depleted, the companies cancel the policy. Owners of such benefits, and the SCO, are often not notified. Since notice has not been given and the SCO does not have the property on file, the property is seldom conveyed to the lawful owner.

Staff Comment: The 2012 Budget Act authorized a similar request; providing the Unclaimed Property Division with 13.0 three-year limited-term positions and $1.303 million in Unclaimed Property authority for FY 2012-13 and $1.115 million in FY 2013-14. As of June 2013, the policyholders, heirs, or beneficiaries of property valued at $45.6 million have been located and paid.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 7 – Unclaimed Property: Holder Compliance

Governor's Budget Request: The SCO requests 23.0 permanent positions and $2.475 million from the Unclaimed Property Fund in 2014-15, and ongoing. The requested funds and positions will support the SCO's holder compliance program on a permanent basis.

Background: Banks and other institutions are required by law to remit unclaimed property to the state. The unclaimed property law states that after a property has remained inactive for three years, and holder efforts to reconnect the property with its owner have not proven successful, the property may be considered unclaimed. The most common types of property remitted to the state are bank accounts, safe deposit box contents, insurance policy proceeds, and stocks.

The SCO regularly conducts audits of banks, and other institutions that may hold property, to determine if unclaimed property is being safeguarded and used in accordance to the State's unclaimed property law. The SCO performs these audits through direct contact with businesses, hospitals, banks, retailers, utility companies, and major financial institutions; essentially any business entity that could be holding unclaimed property. The SCO also contracts with third-party vendors for review of out-of-state holders of unclaimed property.

When properties with cash value are remitted to the state they are deposited into the Unclaimed Property Fund. The state regularly sweeps the Unclaimed Property Fund, typically when the fund balance exceeds $50,000, into the General Fund. In FY 2012-13, these sweeps provided the General Fund with approximately $473 million in revenue.

LAO Recommendation: The LAO previously found that property holder outreach and compliance would result $5.5 million of property per year returned to its owners, and $4.1 million of property per year would be remitted to the SCO. However, the audits have resulted in about $2.3 million of property returned to owners and $4.1 million remitted to the SCO. The LAO has observed that the SCO's holder compliance initiative has remitted more property than originally projected to the SCO, but the results have varied from the earlier projections. The LAO would recommend that the positions be provided on a two-year limited-term basis and that the Legislature continue to monitor outcomes related to this effort.

Staff Recommendation: Approve budget change proposal on a two-year limited-term basis.

Vote:

Issue 8 – Unclaimed Property: Budget Bill Language

Governor's Budget Request: The Governor's May Revise includes a request to revise the existing provisional language for Item 0840-001-0970 to better define the expenditures paid from that account.

Background: Administration of the Unclaimed Property Program is a responsibility of the SCO, pursuant to the Code of Civil Procedure § 1300-1615. The Code of Civil Procedure provides the SCO with a continuous appropriation to carry out and enforce the Unclaimed Property Law. In addition to the continuous appropriation currently in statute, there is an item in the budget bill that provides the SCO with an appropriation for $36.1 million for the administration of the Unclaimed Property Program, as it relates to the administration of the program. The proposed budget bill language is below:

Provisional language for Item 0840-001-0970

> *The funding provided in Item 0840-001-0970 shall cover costs for personal services and related operating expenses and equipment (including legal costs that are not related to enforcing the recovery of property, and system related costs) for the Unclaimed Property Program. Continuous appropriations from the Unclaimed Fund are allowed for other program costs authorized under Section 1584(b) and Section 1325 of the Code of Civil Procedure. These continuous appropriations shall not be used to cover spending authorized under Item 0840-001-0970.*

Staff Comment: This request does not augment the overall amount of any funds, including the Unclaimed Property Fund, for use by the SCO.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 9 – Unclaimed Property: Assessments

Governor's Budget Request: The State Controller's Office requests three permanent positions to process assessments of fees when holders of unclaimed property do not remit escheated funds to the state in accordance with the unclaimed property law.

Background: The state's unclaimed property law, specifically Code Sections 1532 and 1577 of the Code of Civil Procedure (CCP), requires that holders report unclaimed cash exceeding $20,000 and those that fail to report will be assessed at a twelve percent interest to the date that the claim should have been reported. In 2008, the SCO's unclaimed property division successfully integrated a new system designed to track holder reporting and remitting activities associated with these assessments. However, no permanent staff was provided in conjunction with the implementation of the new system and the workload associated with supporting the SCO's efforts with these assessments was supported by student assistants.

Staff Comment: This workload was previously performed by hiring student assistants at a cost of $233,000. The workload that was previously performed by student assistants will now be performed by permanent staff.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 10 – Unclaimed Property: Securities Workload

Governor's Budget Request: The State Controller's Office requests 23.1 three-year limited-term positions and $1.999 million from the Unclaimed Property Fund to manage the securities portfolio in accordance with statute.

Background: The state's unclaimed property laws dictate that corporations, businesses, associations, financial institutions, and insurance companies annually report and deliver property to the SCO after there has been no activity on the account or no contact with the rightful owner for a period of time, which is generally three years. The SCO's unclaimed property division is responsible for the return of unclaimed property to its rightful owner. The unclaimed property division is statutorily required to provide a response to claimants within 180 days. The claims are usually either in the form of cash or securities. When a claim contains securities, the SCO is responsible for assessing the value of the claim. The requested positions will support the Unclaimed Property Division's sale of securities, claims on securities, and provide administrative support to the Unclaimed Property Division. The support total for each office is provided below:

19 positions for Security sales - Section 1563(b) of the Code of Civil Procedure directs the State Controller to sell unclaimed securities no sooner than 18 months, but not later than 20 months, after the final date that the securities were reported to the SCO. The requested positions will support the SCO's efforts to address corporate actions related to a security claim that must be taken prior to the security being sold and address a growing backlog of corporate actions that must be taken. The SCO estimates that, as of June 2013, 3,946 different security actions representing shares valuing approximately $40 million have been in SCO's portfolio longer than twenty months. There are currently five filled positions within this office.

2.5 positions for Security claims – As noted above, the SCO's Unclaimed Property Division receives more security claims than they have the capacity to process on an annual basis. The requested positions will support the SCO's efforts to reduce the growing inventory, and also provide a more timely response to claimants. The SCO anticipates that with the added positions the Unclaimed Property Division will be capable of providing a response to a security claim within a three month timeframe after approval. There are currently eleven full-time positions within this office.

1.6 Administrative Support Positions – The administrative support position will assist the Unclaimed Property Division in developing duty statements, records tracking, and records maintenance. There are currently eight full-time positions within the Unclaimed Property Division's administrative support unit.

Staff Comment: Sale proceeds of securities are swept to the General Fund until a claim is filed by the rightful owner, at which time, the SCO provides the securities claim in the form of cash proceeds. The SCO anticipates security sales proceeds to total $69.5 million for FY 2013-14.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 11 – Local Government Oversight

Governor's Budget Request: The State Controller's Office requests $1.159 million in reimbursement authority to support 9.0 three-year limited-term positions in order to provide oversight of local government entities.

Background: Generally, state oversight of local governments is limited to state and federal assistance provided to administer statewide programs. However, that oversight is often limited to urban counties and local governments that utilize a larger proportion of state and federal funding. While there are codified requirements that local governments must follow, there have been several instances of misuse including: unallowable taxes being imposed on property owned by residents and businesses, local defaults which can impact the state's overall credit rating, and misusing state and/or federal funds to offset local district General Fund expenditures. In addition, current statute provides for a more indirect oversight of local government funding using the following three elements:

1) **Annual Audits.** Each local government entity is required to have an annual audit performed by an independent auditor. If the local government has over $500,000 in federal expenditures, it must also have a single audit. Local governments are required to submit these audits to the SCO. The SCO can initiate a quality control review of the work papers of any auditor when there is suspicion that the work performed is inadequate.

2) **Financial Transaction Reports.** Statute requires the SCO to collect a report of annual financial transactions from each county, city, and special district and to publish them in reports available to the Governor, legislature, and general public. Statute further provides that, if the reports are not made in the time, form, and manner required, or if there is reason to believe a report is false, incomplete, or incorrect, the SCO shall appoint a qualified accountant to make an investigation and to obtain the information required. Statute specifies that the SCO's enforcement costs are to be reimbursed by the local government entity in question. Financial Transaction Reports represent the primary source of information on statewide data as it relates to local government expenditures.

3) **Accounting and Audit Guidelines.** Uniform accounting guidelines are intended to provide local governments with the information necessary to implement and operate a common 34 accounting and reporting system. Currently, such guidelines are only required for counties and special districts.

Staff Comment: This request represents a partial continuation of a request approved in the 2011 Budget Act, which provided the SCO with 16.4 three-year limited-term positions to conduct audit oversight of local entities. At this time, the SCO anticipates it only needs 9.0 positions to complete workload.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 12 – Statewide Training for Departmental Personnel and Payroll Staff

Governor's Budget Request: The SCO requests four two-year limited-term positions and $390,000 ($218,000 General Fund and $172,000 in special funds) in 2014-15 to meet statewide demand for payroll, personnel, and disability training programs for human resources staff.

Background: The statewide training unit (STU), within the SCO, that is responsible for providing personnel and payroll training to human resources staff in all civil service departments to ensure they are capable of utilizing the SCO's Uniform State Payroll System.

Demand for on-site training has far exceeded STU's capacity to deliver. For calendar year 2013, the SCO estimates that this division will only be able to provide approximately 40 percent of the requested training classes. Historically, the SCO has been able to provide an average of 47 percent of requested training. The requested positions would provide SCO with the capacity to provide their historical average of 47 percent of requested training.

Staff Comment: The SCO anticipates that they will have the capacity in 2016 to provide some training through e-learning, an online classroom environment, which it believes will increase its capacity to meet 57 percent of the requested demand.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 13 – Legislative Reform Workload

Governor's Budget Request: The SCO requests 3.2 two-year limited-term positions and $328,000 ($184,000 General Fund and $144,000 Special Fund) to support workload associated with the California Public Employees' Pension Reform Act (PEPRA) and the Federal Patient Protection and Affordable Care Act (ACA).

Background: Changes to both state and federal law have impacted the workload of the SCO's personnel and payroll services division. PEPRA modified retirement contribution rates for nearly 80,000 state employees. The SCO is responsible for ensuring that personnel and payroll activities are current, and will be required to reflect the changes made by this law. PEPRA modified a number of other changes to the Public Employees' Retirement Law that will require that the SCO modify their business practices going forward.

The ACA will require a greater level of detail in reporting requirements to ensure that the state is compliant with federal regulations. The complexity of the ACA will require additional workload to ensure that all reporting requirements of the state are met, and that the state is compliant with its obligations as an employer. CalHR has estimated that the penalties for non-compliance could potentially reach $350-$450 million annually for the state.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

0845 DEPARTMENT OF INSURANCE

Department and Budget Overview. The California Department of Insurance (CDI) regulates the California insurance market and enforces the California Insurance Code, including conducting examinations and investigations of insurance companies and producers and responding to consumer inquiries. CDI reviews and approves insurance rates to enforce the statutory requirement that rates are not excessive or unfair. The CDI also administers the conservation and liquidation of insolvent and delinquent insurance companies and fights insurance fraud, in conjunction with local and state law enforcement agencies. The January budget provides the CDI with 1,349.3 authorized positions and $245.07 million (Insurance Fund, federal funds, and reimbursements).

Issue 1 – Office of the Patient Advocate

Governor's Budget Request: The Department of Insurance requests an increase of special fund authority of $163,000 in Fiscal Year 2014-15 and $150,000 in 2015-16 and 1.5 positions to support implementation activities of AB 922 (Monning), Chapter 552, Statutes of 2011.

Background: AB 922 transferred the Office of the Patient Advocate (OPA) from the Department of Managed Health Care to the California Health and Human Services Agency (CHHSA) in 2012 in order to provide assistance to individuals, including those served by health care service plans regulated by the Department of Managed Health Care and the California Department of Insurance (CDI). AB 922 also requires the CDI to do the following:

- Provide assistance to OPA to develop informational guides for consumers
- Receive complaints referred by OPA
- Develop reports related to health consumer complaints
- Receive and handle referrals from OPA regarding studies and investigations
- Provide transfers of money from the Insurance Fund as needed for OPA

In FY 2012-13, CDI's Consumer Services Division was responsible for handling over 10,000 health-related complaints and responding to over 14,000 health-related telephone calls. CDI projects that the number of written complaints for FY 2014-15 will remain at approximately 10,000 and the number of phone calls will increase to over 16,000.

Staff Comment: Senate Budget Subcommittee No. 3 is addressing the role of OPA, and whether its current functionality best meets the intent of AB 922. Staff would recommend holding this item open until a resolution has been reached regarding the status of OPA.

Staff Recommendation: Hold this item open.

Vote:

Issue 2 – Principle-Based Reserving

Governor's Budget Request: The Department of Insurance requests $491,000 (Insurance Fund) for 2014-15 and $463,000 for 2015-16 and four positions to address increased workload associated with changes made to the insurance reserving methodology, and budget bill language stipulating that resources are only available upon the adoption of revisions by the Legislature.

Background: The CDI is responsible for ensuring that companies that offer life insurance policies maintain their solvency through adequate reserves. Claims for life insurance are readily verifiable and often paid very quickly, as opposed to casualty claims which are paid out over a longer duration or after litigation. Solvency is determined by an actuarial model that has been utilized by the industry for well over a century.

A newer modeling methodology, Principle-Based Reserving (PBR), which estimates insurer liability for future insurance claims will eventually become the industry standard. PBR will be operative, and the standard for life insurance reserves after legislative adoption by a super-majority of U.S. jurisdictions representing at least 75 percent of total U.S. premiums. CDI has requested four permanent positions to address the workload associated with conducting PBR.

In addition to the requested funding and positions, the CDI has requested budget bill language be added. The requested language would stipulate that resources related to PBR actuarial methodology only be made available upon the adoption of revisions made by the Legislature to the National Association of Insurance Commissioners valuation manual.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Health Care Coverage Market Reform

Governor's Budget Request: The CDI requests $1.01 million (Insurance Fund) in expenditure authority in 2014-15 to fund a total of 9.0 positions, to address the workload associated with ABX1 2 (Pan) Chapter 1, Statutes of 2013, which amended and added several statutes to the California Insurance Code in order to conform with federal guidelines established by the ACA.

Background: Consumers of health insurance fall into one of three categories: individuals, small groups/businesses, and large groups or businesses with more than 50 employees. The majority of the regulation conducted by the CDI is of health insurance companies that cover individuals or small group/businesses. It is estimated that this represents approximately 12 percent of the state's regulated health insurance population. The Department of Managed Health Care is responsible for the remaining portion.

ABX1 2, which conformed state regulations with federal healthcare guidelines, has created a more complex health insurance market, added 2.7 million new insured lives to the health insurance market, and increased the number of inquiries and complaints received by CDI's Consumer Services Division. According to CDI, the consumer services division anticipates an increase in the number of complaints received via telephone and in writing.

LAO Recommendation: The LAO recommends that the Legislature approve the seven positions to address an expected increase in the volume of health-related consumer complaints on a two-year limited-term basis. At this time, it is unclear how ACA implementation will (a) affect consumer complaints relative to past experience and (b) change the share of Californians enrolled in CDI-regulated individual market health insurance products relative to health insurance products regulated by DMHC. Approving these positions on a limited-term basis would allow the Legislature to reexamine the CDI's need for these seven positions, or a smaller or greater number, on a permanent basis in several years once the permanent impacts to CDI of federal health care reform are better understood.

Staff Comment: The CDI contends that recruiting and hiring the requested positions on a limited-term basis might be problematic. This issue merits further discussion.

Staff Recommendation: Hold this item open.

Vote:

Issue 4 – Accelerated Death Benefits – Life Insurance

Governor's Budget Request: The CDI requests an increase of $370,000 (Insurance Fund) in expenditure authority for FY 2014-15, and $312,000 in FY 2015-16 and ongoing to fund 3.0 positions to support the implementation of SB 281 (Calderon), Chapter 345, Statutes of 2013.

Background: Under prior law, accelerated death benefit provisions of a life insurance policy would accelerate the actual benefit upon the insured becoming chronically ill. The policy would be held to the same legal standards as applied to stand-alone long-term care policies, regardless if the insured was receiving long-term care or not. SB 281 modified the legal standards for accelerated death benefit provisions of life insurance policies. These policies allow policy owners to access death benefits when they experience a catastrophic or chronic illness.

The CDI anticipates that the changes made as part of SB 281 will increase the workload of the Department's Consumer Services Division (CSD) by approximately 600 workload hours for call center support, 2,520 workload hours for written cases, and 1,750 workload hours related to legal examination and correspondence.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5 – Electronic Notice Transmission

Governor's Budget Request: The CDI is requesting an increase in expenditure authority from the Insurance Fund of $773,000 in Fiscal Year 2014-15, $603,000 in FY 2015-16 and FY 2016-17, and 5.0 three-year limited-term positions to support the implementation of SB 251 (Calderon) Chapter 369, Statutes of 2013.

Background: SB 251 authorizes, until January 1, 2019, an insurer, with the consent of the policyholder, to transmit electronically, in lieu of mail, certain notices pertaining to workers' compensation insurance: the offer of renewal required for personal auto, real and personal property, and liability insurance policies; the notice of conditional renewal for commercial insurance policies; and the offer of renewal and certain disclosures related to earthquake insurance so long as the insurer complies with the specified provisions of the Uniform Electronic Transactions Act (UETA) and additional procedures and standards.

Additionally, SB 251 requires that the Insurance Commissioner submit a report, on or before January 1, 2018, to the Governor and specified committees of the Senate and Assembly regarding the impact and implementation of the authorization of the electronic transmission of certain insurance renewal offers, notices, or disclosures.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 6 – Stop-Loss Insurance Coverage

Governor's Budget Request: The CDI requests a one-time augmentation of $76,000 from the Insurance Fund to comply with provisions of SB 161 (Hernandez) Chapter 443, Statutes of 2013.

Background: SB 161 established regulatory requirements for stop-loss insurance for small employers, including on or after January 1, 2016, setting an individual attachment point of $40,000 or greater and an aggregate attachment point of the greater of $5,000 times the total number of group members, 120 percent of expected claims, or $40,000.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 7 – Community Development Financial Institution Investments

Governor's Budget Request: The CDI requests an increase of $555,000 in expenditure authority from the Insurance Fund in Fiscal Year 2014-15, and an increase of $522,000 for FY 2015-16 and FY 2016-17, to fund five three-year limited-term positions to support the implementation of AB 32 (Perez), Chapter 608, Statutes of 2013.

Background: The California Organized Investment Network (COIN) program was created in 1996 as a public-private partnership by the CDI, the insurance industry, state government leaders, and community development organizations with the goal of helping to address the unmet capital needs for economic development and affordable housing in low-income urban and rural communities throughout California. The COIN program serves as a liaison between insurers that are seeking investment opportunities and the community organizations that are seeking investment capital for projects. Community Development Financial Institutions (CDFIs) work with COIN - an office within the California Department of Insurance - as financial intermediaries providing access to credit, loans, and investments to small businesses and non-profits that serve economically disadvantaged communities. CDFIs also offer administrative and technical assistance in these low-income communities. Generally, CDFIs lend to borrowers that do not satisfy the criteria for conventional lenders and focus on a particular community or certain groups of people.

In 1997, the COIN CDFI Tax Credit program was created to attract and leverage private capital to fund investments into CDFIs that yield economic and social benefits for California's underserved markets, as well as investments that yield environmental benefits. The program was set to expire at the end of 2011, but was extended until January 1, 2017 by AB 32. The goal of the CDFI tax credit program is to provide incentives to attract private capital investments that otherwise may not be available. The statewide amount of the credit for all recipients is capped at $2 million per year for the three taxes combined. Every $1 of the tax credit yields $5 of private investment, with the total tax credit allocation of $2 million generating up to $10 million of private investments in COIN-certified CDFIs. However, if less than $10 million is invested in qualified CDFIs in any calendar year, the remaining amount may be carried over to the next year and any succeeding year during which the credit remains in effect.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

0890 SECRETARY OF STATE

Department Overview: The Secretary of State (SOS), a statewide elected official, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The SOS is also responsible for the administration and enforcement of laws pertaining to the filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, preserving documents and records having historical significance. The SOS is the filing officer for lobbying and campaign registration and disclosure documents filed under the Political Reform Act. The SOS also operates the Safe-At-Home program, maintains the Domestic Partners and Advanced Health Care Directives Registries, and is home to the California Museum for History, Women and the Arts.

The Governor's Budget proposes total spending of $103.83 million ($28.75 million General Fund) for the SOS in 2014-15. Proposed staffing totals 562 personnel years (PYs), an increase of three PYs compared with the current year.

2014-15 California Secretary of State Budget
(Dollars in millions)

Funding	**2013-13**	**2013-14**	**2014-15**
General Fund	$196	$27.57	$28.75
Secretary of State's Business Fees Fund	$32.63	$41.61	$53.01
Federal Trust Fund	$5.26	$30.95	$19.9
Reimbursements	$32.19	$12.08	--
Victims of Corporate Fraud Compensation Fund	$2.17	$1.53	$1.63
Total Expenditures	$72.39	$113.84	$103.88
Personnel Years	465.0	559.0	562.0

*dollars in millions

Issue 1 – Help America Vote Act (HAVA)/VoteCal

Governor's Budget Request: The Secretary of State's Office has submitted two requests associated with the implementation of the statewide mandates of the Help America Vote Act (HAVA) of 2002.

1) $14.8 million (Federal Trust Fund Authority) in Fiscal Year 2014-15 to continue the implementation of the statewide voter registration database, known as VoteCal.

2) $5.105 million (Federal Trust Fund Authority) in Fiscal Year 2014-15 to continue the implementation of HAVA mandates. These mandates include modernization of voting equipment, education and training programs for local officials, and development and dissemination of voting information to increase voter participation.

Help America Vote Act (HAVA) - On October 29, 2002, President Bush signed into law the Help America Vote Act of 2002. This legislation requires states and localities to meet uniform and nondiscriminatory election technology and administration requirements applicable to federal elections. To date, California has received $435.2 million in federal HAVA funds, including interest earned.

HAVA has, so far, allowed the state and counties to replace punch-card voting systems and improve voter outreach, poll worker training, county security measures, and voter access for persons with disabilities. Activities in FY 2014-15 include voting system testing and approval and voter education programs. Grants to counties account for $2.3 million of the funding.

VoteCal. Section 303 of the Help America Vote Act (HAVA) of 2002 (Public Law 107-22, 107th Congress) mandates that each state implement a uniform computer voter registration database that can be maintained at the state level. To address this mandate, the Secretary of State has begun the implementation of VoteCal, the state's voter registration database. This database must contain the name and registration information of every legally registered active or inactive voter in the state.

On January 10, 2013, Special Project Report Number 5 (SPR 5) was approved by the Department of Technology. According to SPR 5 full-deployment of VoteCal is planned for June 30, 2015. The SPR projects that the total cost of VoteCal through implementation will be $98.2 million. For FY 2014-15, the Secretary of State has requested $14.8 million in Federal Trust Fund. This request will support the customization of software, project management contract, oversight contract, staff salaries, and training at the local level.

Staff Comment: Staff has no concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Business Connect Project

Governor's Budget Request: The Secretary of State's Office requests an augmentation of $4.59 million ($4.092 million Business Fees Fund and $0.5 million Business Programs Modernization Fund) for the continuation of the Business Connect Project.

Background: The Secretary of State is responsible for the management of over 150 different types of filings of business entities in California. The Business Programs Division, which is responsible for the management of business filings, is comprised of three sections: the Business Entities Section; Notary Public/Special Filings Section; and, the Uniform Commercial Code/Statement of Information section.

The Secretary of State receives more than one million business filings annually, and its current systems rely on antiquated methods, such as index cards and other paper documentation, to process and maintain records. Many business filings and other requests for services must be conducted in-person or by mail. These outdated methods result in very slow processing times, preventing new businesses from opening their doors and creating jobs. Processing times for the office have been as long as 117 days, preventing new companies from beginning operations and creating delays and uncertainty for existing companies.

To address this, the Secretary of State proposed automating many of the filing functions within the Business Programs Division. In March 2011, the Secretary of State submitted a Feasibility Study Report (FSR) that outlined the goals for this project. At that time, it was estimated that total project costs would be approximately $21.36 million with annual ongoing maintenance and support costs totaling $1.8 million. Resources to support the project would be directed from the Business Fees Fund.

The project's overall cost has been revised in an updated Special Project Report (SPR), that was issued in December 2013 to reflect the selection of a vendor. Even though project costs associated with systems integration and the purchase of hardware and software are lower than originally anticipated, project costs will increase due to a greater need for offsite backup and disaster recovery. Total project costs are now estimated to be $22.2 million, reflecting an increase of approximately $800,000 from the originally approved FSR amount.

Staff Comment: The Secretary of State anticipates that the upward revision in funding will largely be offset by the elimination of 45 positions that are currently associated with the Business Connect Project, and the expiration of 54 limited-term positions that support the Business Programs Division, that will no longer be needed once the filing process is automated. The Secretary of State's Office estimates that total net benefit of reduced position authority amounts to approximately $7.1 million.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Transfer of State Records Management Program to Secretary of State

Governor's Budget Request: The Secretary of State (SOS) requests an augmentation of 1.0 personnel years and $432,000 (General Fund) to transfer the California Records and Information Management (CalRIM) program and its three Records Analyst positions from the Department of General Services to the Secretary of State's Office. This request also includes trailer bill language that would amend current statute to reflect the changes requested in this proposal.

Background: The State Archives, which is part of the SOS, collects, catalogs, preserves, and provides access to the historic records of state government and some records of local governments. The SOS also had responsibility for state records management until legislation created DGS in 1963.

The state records program within the Department of General Services (DGS) has two elements: California Information Records Management (CalRIM) and the State Records Center (SRC). CalRIM establishes guidelines for state agencies in records management and retention and provides training and other technical services to help state agencies maintain effective records programs. The SRC stores and retrieves vital records and semi-active and inactive records for state agencies.

CalRIM and the State Archives currently review and approve records retention schedules prepared by state agencies. State Archives staff determines if records identified on each retention schedule have archival value and should therefore be transferred to the archives at the end of the records' lifecycles.

Staff Comment: This request is part of a two-step process. A spring finance letter will request a multi-tiered adjustment with a reduction to DGS' budget totaling $432,000 ongoing, a cessation of the statewide surcharge for the CalRIM program, and a commensurate reduction to all state entities that currently pay into this portion of the statewide surcharge, which will total $432,000 ($267,840 GF) in aggregate.

Staff Recommendation: Approve as budgeted. Adopt proposed trailer bill.

Vote:

Issue 4 – Building Rental Agreement

Governor's Budget Request: The Secretary of State is requesting an augmentation of $2.419 million ($1.427 General Fund and $.992 Special Fund) for Fiscal Year 2014-15.

Background: Due to a calculation error, the Secretary of State's current rent authority is insufficient. When the Secretary of State's building bond was paid off and the Secretary of State moved under the Department of General Services Building Rental Agreement (BRA), the authority for rent was misaligned with actual invoices, the Secretary of State's authority for rent is insufficient in relation to the amount being invoiced. The Secretary of State has requested an augmentation of $2.419 million, of which $535,000 is one-time and $1.184 million is ongoing.

Spring Finance Letter: The Secretary of State submitted a Spring Finance Letter requesting that that total amount to support this request be reduced by $983,000 ($575,000 General Fund and $408,000 Special Fund). The net budget augmentation related to this request for FY 2014-15 will total $1.436 million. This adjustment will more accurately reflect the level of funding necessary to cover the BRA.

Staff Recommendation: Approve request as modified by Spring Finance Letter.

Vote:

7502 DEPARTMENT OF TECHNOLOGY

Department Overview: The Department of Technology was established to support state programs and departments in the delivery of state services and information to constituents and businesses through agile, cost-effective, innovative, reliable, and secure technology. The department retains statewide authority to centralize and unify information technology projects and data center services to enhance the ability to develop, launch, manage, and monitor large information technology projects.

In August 2010, the California State Legislature passed AB 2408 (Smyth), Chapter 404, Statutes of 2010, to reestablish the Office of the State Chief Information Officer (OCIO) as the California Technology Agency and to rename the State Chief Information Officer as the Secretary of the California Technology Agency. While Senate Bill 90 (Committee on Budget and Fiscal Review), Chapter 183, Statutes of 2007, had already made the OCIO a cabinet-level agency with statutory authority over strategic vision and planning, enterprise architecture, IT policy, and project approval and oversight for the state in 2007; AB 2408 codified into law significant functions, duties, and responsibilities of the office that had been assigned to the Office of the Chief Information Officer. In addition to consolidating statewide IT functions under one cabinet-level agency, the legislation passed in 2010 was also responsible for coordinating the activities of agency and department CIOs and promoting the efficient and effective use of IT in state operations.

On July 1, 2013, the Governor's Reorganization Plan No. 2 (GRP2) created the Government Operations Agency and, as a part of that plan, moved the California Technology Agency (previous Organization Code 0502) under the newly-created Government Operations Agency, which now houses the Department of Technology.

The Office of Technology Services (OTech), within the Department of Technology, provides the information technology processing platforms for over 500 customers, including the Executive Branch and public entities. OTech is accountable to its customers for providing secure services that are responsive to their needs and represent best value to the state. OTech is a fee-for-service organization and operates as a 100 percent reimbursable department. OTech's Service Level Agreements with its customers include a 99.9 percent service availability goal for IT services. OTech must continue to provide sufficient processing capacity to deliver their performance and service agreed to in the Service Level Agreements.

Budget Overview: The Governor's 2014-15 Budget proposes $434.51 million dollars ($4.37 million General Fund) and 902.7 personnel years. The Governor's 2014-15 budget request reflects an increase of $37.75 million dollars ($80,000 General Fund increase) and an increase of 5.0 Personnel Years.

2014-15 Department of Technology Budget Overview
(Dollars in millions)

Funding	2012-13	2013-14	2014-15
General Fund	$3.95	$4.29	$4.37
State Emergency Telephone Number Account	$94.04	$-	$-
Federal Trust Fund	$1.93	$-	$-
Reimbursements	$321	$2.80	$2.80
Technology Services Revolving Fund	$331.32	$322.85	$360.60
Central Service Cost Recovery Fund	$2.93	$3.23	$3.15
Total Expenditures	$434.51	$333.18	$370.93
Personnel Years	1,166.8	897.7	902.7

Issue 1 – Secure File Transfer

Governor's Budget Request: The Department of Technology requests a $103,000 reduction in budget authority for FY 2014-15 to replace contractor staff with two permanent civil service staff to support the Secured File Transfer Shared Service.

Background: The department's Secure File Transfer service provides a more secure way to share data as an alternative to more popular methods such as CD's, DVD's, USB drives and internet transfers. The Secure File Transfer service is extremely specialized and often entails tailoring systems to meet specific requirements of various customers. Currently, OTech has 7,450 Secure File Transfer accounts, with over 39 departments.

The Secure File Transfer service is currently supported by contractors. The service contract totals $323,000 a year. OTech estimates that workload associated with this service could be provided in-house by two permanent staff at $220,000 a year. Savings associated with this service would eventually be reflected in lower rates provided to the Department's customers.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Security Compliance

Governor's Budget Request: The Department of Technology requests a $684,000 (Technology Services Revolving Fund) budget augmentation and five limited-term positions to staff a two-year pilot project with the Office of Information Security (OIS).

Background: OIS, an office within the Department of Technology, is statutorily responsible for developing and maintaining state information security polices and standards and providing technology direction to agencies and departments to ensure the confidentiality, integrity, and availability of state systems and applications, and ensuring the protection of state information.

The technology security standards, which OIS establishes and monitors for compliance, are largely consolidated within Chapter 5300 of the State Administrative Manual (SAM). The SAM contains statewide policy on various issues, including IT. Chapter 5300 of SAM sets standards for a variety of IT security issues, including risk management, recovery planning, telecommunications, privacy, encryption, data retention, and remote access.

This pilot audit process would begin with the assessment of security measures and practices at eight departments that range in size. The selection criteria for an assessment would be dependent on several factors: departments believed to be most susceptible to risk, repeat offenders, and those deemed to play a critical role in the State Emergency Plan functions.

LAO Recommendation: The LAO has recommended approval with modifications of the Governor's proposal. The pilot will help the state to more accurately assess the extent of noncompliance, thereby informing the state's decisionmaking regarding establishing an effective enforcement approach to reduce its IT security risk. Given the limited resources budgeted for the pilot, it is appropriate that resources are prioritized as proposed---through the audit selection criteria---towards agencies and departments with the most critical information assets. However, to fully realize the benefits of the pilot, the LAO recommends the Legislature direct CalTech during budget hearings to address the following issues and make associated modifications to the pilot.

- The department should provide greater detail to the Legislature on the audit methodology and how the methodology will be developed. For example, will there be a standard methodology or will methodology be adapted based on the IT needs of the audited department? How will the department respond when noncompliance is found at an audited department? The Legislature would want to ensure that the audit methodology is consistent with its priorities.

- The department should add a robust evaluation component to the pilot to assess what was learned from the pilot and inform a decision whether or not to scale up the pilot by expanding OIS's auditing capacity. Specifically, the evaluation of the pilot should (1) compare the noncompliance identified in the pilot with noncompliance identified in prior self-certifications to determine the extent to which self-certification is underestimating the state's IT security risk, (2) assess the severity of the noncompliance, and (3) estimate the cost of achieving compliance in cases where noncompliance was identified.

- The Legislature should also direct CalTech to submit a report to the Legislature after the pilot concludes that highlights compliance challenges faced by the audited departments and includes recommendations as to how agencies and departments could more effectively be brought into compliance. The LAO also recommends the Legislature approve the proposed trailer bill language, as it will facilitate OIS's ability to recover costs associated with the audits, as audits are usually not currently requested by departments.

Staff Comment: Staff concurs with the LAO recommendation. To best determine if the auditing capacity of OIS should be expanded, additional reporting requirements should be added. As noted in the LAO recommendation, the evaluation should include a comparison of noncompliance prior to the implementation of the pilot versus noncompliance during the pilot process, an assessment of how severe a risk was posed by noncompliance, and the amount of resources required to ensure compliance when identified by OIS.

Staff Recommendation: Approve as budgeted, with additional reporting requirements included in theLAO recommendation. Adopt proposed trailer bill language.

Vote:

Issue 3 – Gold Camp Data Center

Governor's Budget Request: The Department of Technology requests $6.68 million (Technology Services Revolving Fund) to increase the heating and cooling capacity at the Gold Camp Data Center.

Background: The Gold Camp Data Center, located in Rancho Cordova, is one of two data centers owned and operated by the Department of Technology. The Gold Camp Data Center was designed and built approximately 13 years ago, and was designed to support the data conditions of that period. However, additional data requirements and new programs have added to the data center's workload. The requested funds would support the development of a new Uninterruptible Power Supply (UPS) system, associated power distribution equipment, and cooling components. The Department of Technology anticipates that the construction of the new UPS will be complete by November 2015.

Staff Comment: Upon completion of this project, the Department of Technology has projected that they will have the capacity for growth that will take them to FY 2022-23.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 4 – Department of Technology Sunset

Governor's Budget Request: The Department of Technology requests the deletion of Government Code Section §11548.5, which includes a sunset of the Department of Technology on January 1, 2015.

Background: AB 2408 (Smyth) Chapter 404, Statutes of 2010, codified the changes made in the Governor's Reorganization Plan No.1 of 2009. One of the many changes included in AB 2408 was the extension of a repeal provision included in Government Code Section §11548.5 that would sunset the authority provided to the Department of Technology on January 1, 2015.

The Department of Technology contends that the services provided by the department are so sweeping that a sunset of their authority would be much less feasible than it was when the Legislature allowed the sunset of the Department of Information Technology (DOIT) in 2002.

Staff Comment: The requested language does not have an impact on the budget, and therefore should be considered in a policy committee.

Staff Recommendation: Hold open.

Vote:

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

Background: The Financial Information System for California (FI$Cal) Project is a partnership of four control agencies: the Department of Finance, the State Controller's Office, the State Treasurer's Office and the Department of General Services. FI$Cal is expected to provide the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. This "Next Generation" project, through the adoption of best business practices, is expected to reengineer business processes; improve efficiency; enhance decision making and resource management; and provide reliable, accessible, and timely statewide financial information allowing the state to be more transparent. After a lengthy multi-stage procurement process, a vendor was selected in 2012 to begin designing and implementing the project.

FI$Cal is the state's largest information technology project in terms of budget and scope, and has considerable project risks. In recent history, the Legislature has taken action to mitigate this risk and ensure the best chance for project success by prescribing a multi-stage procurement, requiring additional reporting, stipulating that the State Auditor's Office monitor the procurement process, and by having the active monitoring of project meetings by LAO staff.

The Administration is proposing a shift in implementation plans for the FI$Cal project that will lengthen the overall duration of the project, this change has been articulated in the Special Project Report #5 (SPR 5) and the department's BCP.

The current FI$Cal project plan anticipated that groups of state departments would join the new system over three 12-month waves of implementation between 2014 and 2016. The new project plan has lengthened the waves to 24-month periods and moved most of the departments into the last wave of implementation, this will extend implementation of the project by one year, until 2017. This change will increase total project costs from $616.8 million to $672.6 million, a 55.8 million or 9 percent, increase in total costs.

Issue 1 – Funding for Design, Development, and Implementation of FI$Cal

Governor's Budget Request: FI$Cal requests $4.3 million for Fiscal Year 2014-15 to replace the Department of General Services Activity Based Management System (ABMS) and convert DGS from partially deferred to a FI$Cal Wave 2 department. This request brings the total amount requested for FI$Cal for FY 2014-15 to $106.5 million ($94.4 million General Fund, $8.9 million various special funds, and $3.2 million Central Service Cost Recovery Fund). This request also includes trailer bill language to reflect these changes in statute.

Background: The process for IT procurement is generally the same, regardless of the cost and scope of the project. The review and approval process begins with the state entity seeking the IT project developing a feasibility study report (FSR). The FSR is essentially the business justification for undertaking a project. The FSR is translated into a budget proposal that is submitted to the Legislature for review and action. Modifications to the original FSR that alter scope, cost, and/or schedule are proposed in a Special Project Report (SPR). In January 2014 FI$Cal released the fifth iteration of an SPR (SPR 5). The Legislature approved SPR 4 in March 2012. The changes in SPR 5 are a result of the project team gaining a better understanding of the technical solution and what requirements will be necessary to fully implement each subsequent wave.

Approximately eighteen months have elapsed since the contract with FI$Cal's system integrator, Accenture, was executed (June 2012). Since then, the FI$Cal project team, including the systems integrator, have developed a better understanding of what requirements will be needed to fully implement all waves successfully. During pre-wave, the project team conducted a more in-depth analysis of each future wave to ensure that they were best positioned for a successful implementation. The project has been designed to increase functionality while also increasing the number of departments during each wave. The table below represents the number of departments included in each wave, added functionality of each wave, and the go-live date of each wave per SPR 5:

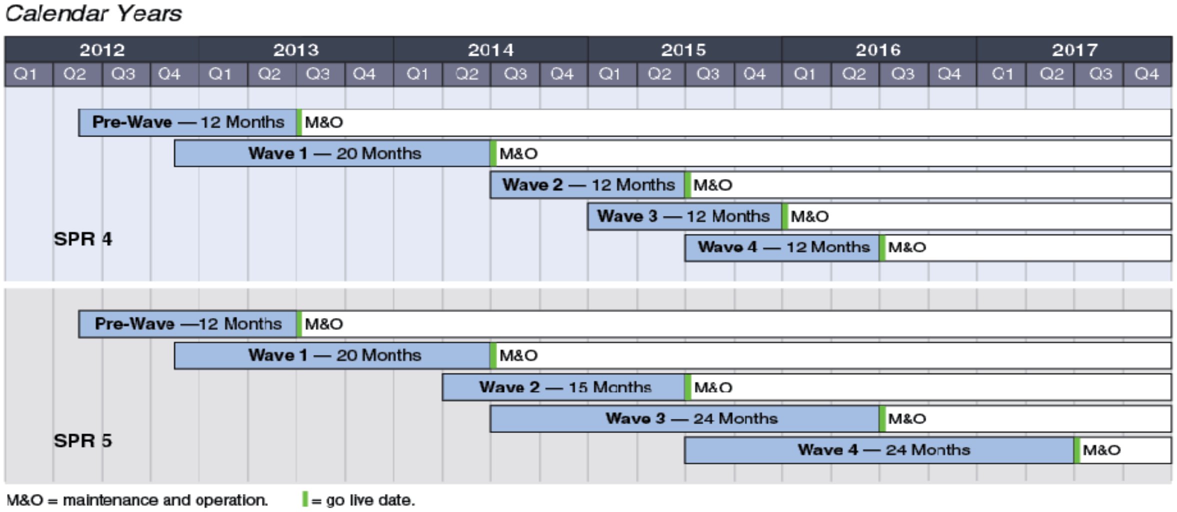
FI$Cal Schedule per SPR 5

Wave and go-live Date	Number of Additional Departments	Additional Functionality
Pre-Wave **July 1, 2013**	7	Chart of Accounts Master Vendor File Requisition to Purchase Order
Wave 1 **July 1, 2014**	23	DOF Control Agency Functions Department-level accounting, budgeting, cash management, and procurement
Wave 2 **July 1, 2015**	3	DGS Control Agency Functions
Wave 3 **July 1, 2016**	2	SCO Control Agency Functions STO Control Agency Functions
Wave 4 **July 1, 2017**	68	Public Transparency Website

SPR 5 will result in a twelve-month schedule extension of FI$Cal and increases the projects overall cost by $56 million. The request is a reflection of the FI$Cal project team incorporating the financial management functions within the Department of General Services (DGS) into the scope of the project. FI$Cal had originally intended to defer DGS' financial management activities until a later date. The FI$Cal project team has determined that the software that supports the financial management activities is outdated and will need to be replaced and the latest SPR reflects the change to incorporate DGS' financial management activities into the scope of FI$Cal. The most significant change as a result of the latest SPR is that there are now a larger number of departments included into Wave 4 – the final wave. A comparison of the implementation timeline under SPR 4 and SPR 5 is below:

Figure 3

Comparison of FI$Cal Implementation Timeline Under Special Project Report (SPR) 4 and 5



LAO Recommendation: *Monitor and Reassess Approach for Wave 4 Through Modified Annual Reporting.* Currently, the project is required to provide the Legislature an update in February of each year. As part of this update, the project is required to provide a discussion of lessons learned and best practices that will be incorporated into future changes in project management activities. The LAO thinks it is important for the Legislature to remain apprised of project developments through the annual report. However, the timing of the annual report to the Legislature should more closely align with the deployment of FI$Cal waves. As the February annual report is not available to the Legislature until seven months after the project's July deployments, too much time may have elapsed for the Legislature to address problems arising from the deployment of a wave. The LAO recommends that the Legislature revise the due date for the annual report from February 15 to October 15, in better time for the Administration and Legislature to make necessary budgetary changes. The LAO also recommends the Legislature direct the project after the completion of Waves 1, 2, and 3 to identify—as part of the annual report—foreseeable challenges with the implementation of future waves, particularly Wave 4.

Consider Retention Pay Program. Although it has not been conclusively proven that pay differentials improve staff recruitment and retention on IT projects, the LAO thinks the Legislature should consider directing the Administration to develop a retention benefit that rewards state workers for staying at the FI$Cal project through its completion. While the state may be limited in what types of retention benefits it could extend to FI$Cal staff due to civil service rules (for example, the state likely could not provide outgoing staff hiring preferences upon the completion of the project), the LAO thinks the Administration could explore various retention benefits. The LAO recommend that any retention benefit for FI$Cal staff include an assessment of the benefit program's impact on the project's ability to recruit and retain qualified staff. Measuring the outcomes of a retention benefit would help ensure that the benefit is set at an appropriate level and could be used to establish a best practice for future critical IT projects.

Approve 2014–15 Budget Proposal, While Understanding Inherent Project Risk. The Governor's budget proposal reflects a reasonable funding plan to implement the updated project plan (SPR 5). The LAO believes that the time and effort that project staff has spent in updating the project plan has reduced overall risk and strengthened FI$Cal's likelihood of success. Nevertheless, FI$Cal involves the development of the most ambitious and complex IT system in the history of the state and significant risk remains. In its review of the Governor's proposal and its ongoing oversight of the

FI$Cal Project, the Legislature should be aware of and monitor not only the general risk inherent in all IT projects but also the shifting of some risk to the latter end of the project due to the substantial increase in Wave 4 departments. The LAO recommends the Legislature ask the project to identify the steps it is taking to address the risks inherent in the substantial broadening of the scope of Wave 4. Ultimately, the LAO believes that the benefits of proceeding with FI$Cal development outweigh the risk and therefore recommend approval of the Governor's budget proposal. Should the project make significant changes going forward, a new budget proposal would be submitted for legislative review.

Bureau of State Audits: Pursuant to Government Code, Section 15849.22(e), the California State Auditor (State Auditor) is required to monitor the FI$Cal project throughout its development. The most recent report, issued February 26, 2014, noted that the project has made progress, but the State Auditor still does have some concerns. Some of the issues addressed in the annual report include the following:

- The increased size of SPR 5 may overwhelm the projects resources during the implementation of Wave 4 – the largest wave.
- The project is behind schedule in implementing some key budgeting functions.
- The project has taken full advantage of knowledge transfer opportunities, which could increase a dependence on a vendor for future maintenance of Fi$Cal.

Staff Comment: Staff largely concurs with the recommendations provided by the LAO. However, after discussing with the LAO and the FI$Cal project team, it appears that incorporating the information identified by the LAO into the quarterly reports that are currently provided by FI$Cal staff would be the most effective means to gather this information.

Staff also agrees with the concerns raised by the LAO regarding staff retention for FI$Cal. It is important to note that the staff retention and recruitment challenges faced by FI$Cal are not unique to this project. Many other large-scale IT projects suffer from the same challenges. Directing FI$Cal to identify a benefit plan that could address staffing challenges for this project may also benefit future projects. Staff would recommend that the FI$Cal project team work with the LAO to identify a recruitment and retention plan that will afford the FI$Cal, and future projects, a higher degree of staff continuity. As noted by the LAO, the plan should include identifiable metrics so best practices could be applied to future IT projects.

Assembly Budget Subcommittee No. 4 approved the requested funding on an ongoing basis. This subcommittee may wish taking the same action. Any changes that impact the cost of FI$Cal will require that a new SPR be developed, triggering a new request. This subcommittee may still hold informational oversight hearings regarding the process of FI$Cal.

Staff Recommendation: Approve as budgeted. Adopt proposed trailer bill. Direct FI$Cal project staffing to incorporate the information requested by the LAO, including information on the status of the implementation of the most recent wave release into the quarterly FI$Cal reports. Direct FI$Cal staff to coordinate with the LAO to identify a staff retention plan that addresses the staffing challenges associated with a large-scale IT project, such as FI$Cal.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Norma Torres
Senator Tom Berryhill

Thursday, April 3, 2013
9:30 AM or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultant: Brady Van Engelen

<u>Item Number and Title</u>

0840	State Controller
0845	Department of Insurance
0890	Secretary of State
7502	Department of Technology
8880	Financial Information System for California (FI$Cal)

(See Table of Contents on pages 1 and 2 for a More Specific Listing of Issues)

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AGENDA – VOTE ONLY ITEMS

(Please see summary chart on Page 4)

AGENDA – DISCUSSION / VOTE ITEMS

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Norma Torres
Senator Tom Berryhill

Thursday, April 10, 2014
9:30 a.m. or Upon Adjournment of Session
Rose Ann Vuich Room 2040

Consultant: Brady Van Engelen
PART I

Item Number and Title

0911	Citizens Redistricting Commission
1110/1111	Department of Consumer Affairs Boards and Bureaus
1690	Seismic Safety Commission
1701	Department of Business Oversight
2100	Department of Alcoholic Beverage Control
7760	Department of General Services
8790	Commission on Disability Access
8830	California Law Revision Commission

(See Table of Contents on page 2 for a More Specific Listing of Issues)

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AGENDA – VOTE ONLY ITEMS

(Please see summary chart on Page 2)

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only – Issue Descriptions

California Department of Consumer Affairs

Issue 1 – Governor's Reorganization Plan No. 2: Technical Cleanup

Governor's Budget Request: The Governor requests transfer authority for 5.0 permanent positions and budget authority for $418,000 in Fiscal Year (FY) 2014-15, and ongoing, from the Bureau of Real Estate to the Department of Consumer Affairs.

Background: As part of the Governor's Reorganization Plan No. 2, the Bureau of Real Estate became a bureau within the Department of Consumer Affairs. As part of this process, the positions that supported the Bureau of Real Estate have been transferred to the Department of Consumer Affairs. The Department of Consumer Affairs, the Governor's Office, the Department of Finance, and the Bureau of Real Estate have been coordinating to identify positions that duplicate services provided by the Department of Consumer Affairs. The Bureau has identified five positions within the administrative division that mirror functions that can be provided by the Department's Office of Administrative Services staff.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Issue 2 – Board of Accountancy

Governor's Budget Request: The Governor requests 1.0 permanent position within the California Board of Accountancy (board) to support enhanced licensure requirements that began on January 1, 2014. Existing resources within the board will support the requested 1.0 position.

Background: SB 819 (Yee), Chapter 308, Statutes of 2009, modified the licensure process for the state's prospective accountants. The new educational requirements became effective as of January 1, 2014. The additional educational requirements will increase the board's applicant review workload, and require response to additional inquiries.

Staff Comment: Staff has no issue or concerns with this request.

Staff Recommendation: Approve as budgeted.

Issue 3 – Acupuncture Board

Governor's Budget Request: The Governor requests 3.0 permanent positions, as well as increased budget authority of $280,000 in FY 2014-15 and $256,000 in FY 2015-16, and ongoing, for increased workload within the Acupuncture Board (board).

Background: Over the last decade, the number of licensed acupuncturists in the state has nearly tripled, totaling over 16,000. However, staffing levels within the board have remained constant. The board is currently authorized for 8.5 positions to carry out its responsibility to provide enforcement, education, oversight, and licensing of acupuncturists practicing in the state.

Staff Comment: This request includes budget bill language that would require the board to report on complaint and disciplinary workloads, case processing times, staffing levels, and an analysis on the effectiveness of the requested staffing augmentation.

Staff Recommendation: Approve as budgeted.

Issue 4 – California State Athletic Commission

Governor's Budget Request: The Governor has submitted two requests related to the California State Athletic Commission that will be addressed in the vote-only calendar:

1. **Boxer's Pension Fund:** The Governor requests 0.5 positions in FY 2014-15 within the State Athletic Commission (commission). The requested position will be supported by cancelling an external contract that has been administering the Boxer's Pension.

   Background: This request is in response to an audit conducted by the Bureau of State Audits (BSA) in 2005. In that audit, the BSA noted several instances of fiscal mismanagement of the Boxer's Pension: a limited number of boxers were drawing from the fund, administrative costs to manage the fund exceeded total disbursements, and a high degree of inaccurate reporting on the status of the fund. The requested 0.5 position will be funded by terminating an external contract that previously administered the fund. The annual cost of the contract totaled $32,000, which will now be directed to the requested 0.5 position at the commission. According to the commission the requested 0.5 position will assist in outreach related activities to increase awareness of the fund as well.

   Staff Comment: The commission has requested to withdraw this request.

   Staff Recommendation: Reject proposal.

2. **Professional Trainer Licensing Requirements:** The Governor requests a two-year limited-term 0.5 position and $47,000 in FY 2014-15 and FY 2015-16 within the commission. The requested position will meet the legislative requirements of SB 309 (Lieu), Chapter 370, Statutes of 2013, which requires a licensed professional trainer to certify participant readiness.

   Background: SB 309, among other things, created a new type of license within the commission, the Professional Trainer License. This new type of license will replace the professional boxers' training license and is intended to enhance the regulatory efforts of the commission.

   Staff Comment: The commission estimates that licensing fees associated with the new licensing type will generate approximately $100,000 in revenue annually. Revenue generated from the new licensing type will support the request by the commission for 0.5 positions. The requested position will support the day-to-day management activities associated with the new license within the commission.

Staff Recommendation: Approve as budgeted.

Issue 5 – Board of Behavioral Sciences

Governor's Budget Request: The Governor has submitted two requests related to the Board of Behavioral Sciences that will be considered on the vote-only calendar:

1. **Complaint Intake:** The Governor is requesting 4.5 permanent positions and $430,000 in FY 2014-15 and $390,000 in 2015-16, and ongoing, to address an increased workload within the Board of Behavioral Sciences (board).

   Background: The board serves as the regulatory authority responsible for the licensure, examination, and enforcement of Licensed Marriage and Family Therapists, Licensed Clinical Social Workers, Licensed Educational Psychologists, and Licensed Professional Clinical Counselors. The board currently licenses 84,685 mental health professionals in the state. Since FY 2008-09, enforcement workload has increased significantly for the board. The issuance of citations and fines has increased by over 150 percent, and the board has not been provided additional resources to address the increased workload.

   Staff Comment: This request includes budget bill language that would require the Board to report on complaint and disciplinary workloads, case processing times, staffing levels, and an analysis on the effectiveness of the requested staffing augmentation.

   Staff Recommendation: Approve as budgeted.

2. **Licensing Evaluators:** The Governor is requesting 3.0 positions and $218,000 in FY 2014-15 and 3.0 positions and $194,000 in FY 2015-16; and 2.0 permanent positions and $128,000 ongoing, for the board.

   Background: The requested funding and positions will increase the board's capacity to process licensing applications for Licensed Marriage and Family Therapist applicants, and for Family Therapist Intern evaluators. Since FY 2008-09, there has been a 322 percent increase in processing time for licensure examination applications. This delay has kept some qualified candidates from entering the mental health profession in California in a timely manner.

   Staff Comment: This request includes budget bill language that would require the board to report on complaint and disciplinary workloads, case processing times, staffing levels, and an analysis on the effectiveness of the requested staffing augmentation.

Issue 6 – Contractors' State License Board

Governor's Budget Request: The Governor requests 4.0 permanent positions within the Contractors' State License Board (CSLB) to address enforcement workload. The costs associated with the requested positions will be absorbed by the CSLB.

Background: SB 136 (Figueroa), Chapter 909, Statutes of 2004, required that applicants seeking a CSLB license receive a criminal history record check from the California Department of Justice (DOJ) and the Federal Bureau of Investigation (FBI). To address this, the CSLB sought, and received, 3.0 additional positions during FY 2004-05. However, the positions are dedicated to processing criminal background check for new applicants only. This request would address the CSLB's enforcement efforts for individuals licensed by the CSLB.

Staff Comment: Staff has no issues or concerns related to this request.

Staff Recommendation: Approve as budgeted.

Issue 7 – Dental Board of California

Governor's Budget Request: The Governor is requesting positional authority for 0.5 limited-term position within the Dental Board of California (board) for three years to implement provisions of SB 562 (Galgiani), Chapter 624, Statutes of 2013. This request includes $54,000 in expenditure authority for FY 2014-15, and $36,000 for FY 2015-16 and FY 2016-17.

Background: SB 562, among other things, addressed registration requirements for mobile or portable dental clinics. The bill eliminated the one mobile or dental clinic per dentist limit, and, instead requires that a dental practice that regularly uses portable dental units to register with the Board. There are currently 25 mobile dental unit permit-holders, and the board anticipates that number to grow due to the elimination of restrictions.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Issue 8 – Medical Board of California: Licensed Midwifery Program

Governor's Budget Request: The Governor requests $13,000 in expenditure authority, ongoing, for the Licensed Midwifery Program. The expenditure authority will be used to reimburse the Medical Board for services provided.

Background: The Licensed Midwifery Program within the Medical Board (board), was established in 1994 and has been supported by the board since its inception. The Board has determined that the Licensed Midwifery Program utilizes board services that total approximately $13,000 annually. The board is seeking reimbursement for the services provided.

Staff Comment: Annual revenues for the Licensed Midwifery Program total $34,000. The Licensed Midwifery Program has sufficient funding to support the request for expenditure authority.

Staff Recommendation: Approve as budgeted.

Issue 9 – Naturopathic Medicine Committee

Governor's Budget Request: The Governor is requesting 1.0 three-year limited-term position and $109,000 in FY 2014-15, and $101,000 in FY 2015-16 and 2016-17, to address workload associated with enforcement within the Naturopathic Medicine Committee (committee).

Background: Since October 23, 2009, the committee has operated as a committee under the Osteopathic Medical Board. However, the committee has the autonomy to function independent of the Osteopathic Medical Board. The committee currently authorized 1.0 PY, which performs the administrative and executive functions for the committee. The committee's workload for FY 2014-15 is projected to increase by twenty percent. The committee has requested the 1.0 position to address the growing workload.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 10 – Osteopathic Medical Board of California

Governor's Budget Request: The Governor has 3.0 permanent positions beginning in FY 2014-15 to address workload associated with licensing and enforcement.

Background: Since 2009 there has been an increasing number of Doctors of Osteopathy (DO) within the state. The board estimates the number of licensed DOs within the state has increased by 31 percent over the last four years. The board estimates the positions associated with this request total $175,000, which will be internally redirected within the Board to support this request.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Issue 11 – Physical Therapy Board

Governor's Budget Request: The Governor has submitted two requests related to the Physical Therapy Board (board) that will be considered on the vote-only calendar:

1. **Regulation Analyst:** SB 198 (Lieu), Chapter 389, Statutes of 2013, among other things, reorganizes and clarifies provisions within the Physical Therapy Practice Act (act). In order to address the revisions to the act, the board has requested an augmentation of $91,000 in FY 2014-15, and $83,000 in FY 2015-16, and 1.0 two-year limited-term position. The Physical Therapy fund, which supports the Board, has adequate funding to support this request.

   Staff Comment: Staff has no issues or concerns with this request.

   Staff Recommendation: Approve as budgeted.

2. **Enforcement:** The Governor requests an ongoing increase in expenditure authority of $189,000 and 2.0 permanent positions within the Physical Therapy Board (Board) to address ongoing enforcement efforts. The caseload of each analyst within the Board has grown significantly over the last several years; increasing by nearly 50 percent since 2008. Current staffing levels are not sufficient to absorb the overall number of complaints received.

   Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Issue 12 – Board of Psychology

Governor's Budget Request: The Governor is requesting 3.0 permanent positions within the Board of Psychology (Board) in FY 2014-15 to address increasing workload. Funding to support the requested positions would be redirected internally. The board estimates that costs associated with the requested positions total $208,229.

Background: The board has experienced a 30 percent increase in its licensing population since FY 2008-09. However, the number of staff dedicated to processing applications has remained constant since 2006, when it was provided 2.5 positions to support processing applications. The board projects that the requested positions will allow the application evaluation process to occur within an eight week timeframe, as opposed to the current fourteen weeks required to evaluate and notify applicants.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 13 – Respiratory Care Board

Governor's Budget Request: The Governor is requesting 1.0 permanent position and $104,000 in FY 2014-15 and $96,000 ongoing to address workload associated with enforcement.

Background: The board has experienced a 30 percent increase in its licensing population since FY 2008-09. However, the number of staff dedicated to processing applications has remained constant since 2006, when it was provided 2.5 positions to support processing applications. The board projects that the requested positions will allow the application evaluation process to occur within an eight week timeframe, as opposed to the current fourteen weeks required to evaluate and notify applicants.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 14 – Bureau of Electronic & Appliance Repair, Home Furnishings & Thermal Insulation

Governor's Budget Request: The Governor requests 1.5 positions and $102,000 for FY 2014-15, and 2.3 positions and $168,000 for FY 2015-16, and 3.0 positions and $223,000 in FY 2016-17, and ongoing, to address workload related to AB 480 (Calderon), Chapter 421, Statutes of 2013, with the Bureau of Electronic & Appliance Repair, Home Furnishings & Thermal Insulation (bureau).

Background: The bureau is responsible for the regulation of service contracts held by consumers within the state. AB 480 added the regulation of service contracts for optical products to the list of consumer service contracts regulated by the bureau. The bureau anticipates an increased workload, and has proposed to stagger the hiring process to ensure that bureau staff is properly trained.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 15 – Professional Fiduciaries Bureau

Governor's Budget Request: The Governor requests $80,000 and 1.0 position in FY 2014-15, and $72,000 in FY 2015-16, and ongoing, to support enforcement efforts within the Professional Fiduciaries Bureau (bureau). Additionally, the Governor requests a two-year limited-term $50,000 increase in expenditure authority for Attorney General (AG) related services for the bureau.

Background: The bureau is responsible for the regulation of guardians, conservators, professional fiduciaries, and agents under durable power of attorney as defined by the Professional Fiduciaries Act. SB 1550 (Figueroa), Chapter 491, Statutes of 2006, created the bureau, and provided it with 4.0 positions. The bureau has since been reduced to 1.7 PY's, requiring that its only licensing analyst assist with enforcement related activities.

Additionally, the Governor has requested to establish a two-year limited-term expenditure authority of $50,000 for the Bureau. Over the last four fiscal years the bureau's AG-related expenditures averaged $40,000. This request seems within a reasonable range for the bureau's historical AG-related expenditures.

Staff Comment: This request includes budget bill language that would require the Bureau to report on complaint and disciplinary workloads, case processing times, staffing levels, and an analysis on the effectiveness of the requested staffing augmentation.

Staff Recommendation: Approve as budgeted.

Issue 16 – Veterinary Medical Board

Governor's Budget Request: The Governor has submitted two requests related to the Veterinary Medical Board:

1. **Hospital Inspections and Veterinary Assistants:** The Governor has requested 2.0 permanent positions and 5.0 two-year limited-term positions, and $677,000 (Veterinary Medical Board Contingent Fund) in FY 2014-15, $621,000 (Veterinary Medical Board Contingent Fund) in FY 2015-16, and $277,000 (Veterinary Medical Board Contingent Fund) in FY 2016-17, to support the Veterinary Medical Board's (Board) effort to implement provisions of SB 304 (Lieu), Chapter 515, Statutes of 2013.

   Background: SB 304, among other things, requires the board to make every effort to inspect at least 20 percent of veterinary premises on an annual basis. The board currently has funding authority to support approximately 220 inspections annually, the requested funding will increase the board's capacity to perform over 650 inspections annually. In addition to the inspection requirements included in SB 304, the bill allows for the licensure of veterinary assistants by the board. The board estimates that this would increase its licensee population by approximately 13,000 individuals. Currently, the board licenses approximately 17,000 applicants.

Staff Comment: This request includes budget bill language that would require the Bureau to report on complaint and disciplinary workloads, case processing times, staffing levels, and an analysis on the effectiveness of the requested staffing augmentation.

Staff Recommendation: Approve as budgeted.

2. **Enforcement:** The Governor has requested 2.5 permanent positions and 1.5 two-year limited-term positions, and an increase in expenditure authority for the Veterinary Medical Board (board) of $348,000 (Veterinary Medical Board Contingent Fund), in FY 2014-15, $316,000 in FY 2015-16 (Veterinary Medical Board Contingent Fund), and $202,000 (Veterinary Medical Board Contingent Fund), and ongoing, to support enforcements efforts within the Board.

   Background: Created in 1893, the Veterinary Medical Board (Board) licenses and regulates veterinarians, registered veterinary technicians (RVTs), RVT schools/programs and veterinary premises/hospitals through the enforcement of the California Veterinary Medicine Practice Act.

   The board protects the public from the incompetent, unprofessional, and unlicensed practice of veterinary medicine. The board requires adherence to strict licensure requirements for California veterinarians and RVTs. The pet-owning public expects that the providers of their pet's health care are well-trained and are competent to provide these services. The board assures the public that veterinarians and RVTs possess the level of competence required to perform these services by developing and enforcing the standards for examinations, licensing, and hospital and school inspection.

   The board also conducts regular practice analyses to validate the licensing examinations for both veterinarians and RVTs. Additional eligibility pathways have also been approved for licensure of internationally trained veterinary graduates and certification of RVTs to allow qualified applicants from other states in the U.S. and countries around the world to come to California and to improve the provision of veterinary health care for consumers and their animals. The board also states that its mission is to protect consumers and animals through the development and maintenance of professional standards, the licensing of veterinarians and registered veterinary technicians, and through diligent enforcement of the California Veterinary Medicine Practice Act.

   Over the past several years, the board's workload has increased. This workload increase has led to a significant backlog in the intake cycle time, time required for cases requiring formal discipline, and the average number of days from receipt of a complaint to the closure of an investigation. However, there has only been a minimal increase in staffing at the board over that same period of time. A lack of additional resources has led to a significant backlog at the board. The number of licensed veterinarians has increased 12 percent and the number of registered veterinary technicians has increased 25 percent.

Staff Comment: This request includes budget bill language that would require the board to report on complaint and disciplinary workloads, case processing times, staffing levels, and an analysis on the effectiveness of the requested staffing augmentation.

Staff Recommendation: Approve as budgeted

Department of General Services

Issue 1 – Office of State Publishing: Elimination of the Video Multimedia Center

Governor's Budget Request: The Governor has requested to eliminate the Office of Stat Publishing's (OSP) Video Multimedia Center by June 30, 2015, which will result in savings of $464,000.

Background: In an effort to reduce costs, Department of General Services (DGS) reduced its FY 2012-13 budget by $33.397 million and 45.5 positions. In FY 2013-14, DGS further reduced its budget by $5.594 million and 22.5 positions. As a program, the Video Multimedia Center has struggled to recover its program costs, which have negatively impacted OSP's budget. Over the past five fiscal years, the Video Multimedia Center has sustained a shortfall of $677,309. In order to recover costs, the rates would need to increase by 225 percent for FY 2013-14.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 2 – Building Standards Commission

Governor's Budget Request: The Governor has requested $153,000 (Building Standards Revolving Fund) in 2014-15 and $152,000 (Building Standards Revolving Fund) in 2015-16, and 1.0 two-year limited-term position, within the California Building Standards Commission (CBSC) to support workload associated with AB 341 (Dickinson), Chapter 585, Statutes of 2013.

Background: AB 341 requires the CBSC to update the California Green Building Standards Code, and makes other changes to the California Building Code for the purpose of developing green building standards.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 3 – Natural Gas Services Program Fund

Governor's Budget Request: The Governor has requested to move the existing Natural Gas Services Program, under the newly-created Natural Gas Services Program Fund, which represents a shift of funding source from the Service Revolving Fund to the Natural Gas Services Program Fund in the amount of $248,979,000 for the purchase of natural gas, and

$1,203,000 for the support of four existing program positions. This shift is a result of AB 650 (Nazarian), Chapter 615, Statutes of 2013.

Background: AB 650, among other things, established the Natural Gas Services Program, within the DGS. Prior to the passage of AB 650, the legal authority to operate the Natural Gas Service Program was based on DGS' broad authority to provide services to state and local governments. The passage of AB 650 statutorily provided DGS with authority to administer this program.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 4 – California Records and Information Management Program Transfer

Spring Finance Letter: The Governor has requested a decrease of $432,000 ($259,000 General Fund and $173,000 special funds) and 3.0 positions, to reflect the transfer of the California Records Information Management Program to the Secretary of State.

Background: The state records program within the DGS has two elements: California Information Records Management (CalRIM) and the State Records Center (SRC). CalRIM establishes guidelines for state agencies in records management and retention and provides training and other technical services to help state agencies maintain effective records programs. The SRC stores and retrieves vital records and semi-active and inactive records for state agencies.

CalRIM and the State Archives currently review and approve records retention schedules prepared by state agencies. State Archives staff determines if records identified on each retention schedule have archival value and should, therefore, be transferred to the archives at the end of the records' lifecycles.

Staff Comment: This request is part of a two-step process. On April 3rd, Senate Budget Subcommittee No. 4 heard a request to augment the Secretary of State budget by $432,000 in FY 2014-15 to support the transfer of CalRIM. The request was approved.

Staff Recommendation: Approve as budgeted.

Issue 5 – GS $MART

Spring Finance Letter: The Governor has requested an increase of expenditure authority of $232,000 (Special Fund), and 2.0 permanent positions, to implement the GS $mart program within DGS.

Background: SB 71 (Committee on Budget and Fiscal Review), Chapter 28, Statutes of 2013, established the GS $mart program. The GS $mart program serves as the state's financial marketplace, providing state entities with lease purchasing opportunities. There are high-cost items, such as a $6 million generator or a $5 million airplane, which agencies are not capable of purchasing in a single budget year. The program allows an agency to spread the cost of specified goods over several years versus paying for them all in one fiscal year at tax-exempt rates.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve Spring Finance Letter request.

Issue 6 – Administrative Services

Governor's Budget Request: The Governor has requested an augmentation of $373,000 expenditure authority ($174,000 Service Revolving Fund and $199,000 Reimbursement) and 3.0 positions; to provide fiscal and information technology services to the newly-established Government Operations Agency (GOA) and Business, Consumer Services and Housing Agency (BCSHA).

Background: Effective July 1, 2013, the California State and Consumer Services Agency was abolished and its functions were shifted to the newly-established BCSHA and GOA. These two new agencies need ongoing budgeting and accounting services, technology services, and human resources and support, beginning 2013-14. DGS plans to request current year support through Budget Act Item 7760-001-0666.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Commission on Disability Access

Issue 1 – Accessible California

Governor's Budget Request: The 2014-15 Governor's budget includes a request for an augmentation of $95,000 of General Fund support for the implementation of SB 1186 (Steinberg and Dutton) Chapter 383, Statutes of 2012. SB 1186 modified state disability access laws to encourage greater compliance and reduce disability-related litigation.

Background: SB 1186, among other things, requires that the Commission on Disability Access (commission) collect demand letters and complaints and post the information on its website. The commission has been tasked with reviewing the notices and demand letters, and identifying the top violators in order to better assist their efforts with disability access compliance. To date, the commission has received over 2,000 items, primarily legal filings, which require approximately 1.5 hours of review each.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

California Law Revision Commission

Issue 1– Funding Shortfall

Governor's Budget Request: The California Law Revision Commission (commission) requests an additional $50,000 in reimbursement authority.

Background: The requested $50,000 in reimbursement authority will be utilized to fill a vacancy within the commission. Recently, the Legislature has assigned the Commission an increased workload that will require that the commission fill the position in order to meet the workload requirements associated with the increasing Legislative workload.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Issue 2 – Additional Attorney Support

Governor's Budget Request: The California Law Revision Commission requests an ongoing increase of $62,000 in reimbursement authority to cover salary and benefits associated with 0.5 positions to address workload associated with legislative requirements.

Background: The commission has experienced an increased workload due to a number of changes in statute that have impacted staffing requirements:

- AB 26X 1 (Blumenfeld), Chapter 5, Statutes of 2011, assigned the commission the task of analyzing and cleaning up the Community Redevelopment Law.

- ACR 98 (Wagner), Chapter 108, Statutes of 2012, assigned the commission the task of analyzing and redrafting the Fish and Game Code, and determining if mediation confidentiality law should be changed in cases of attorney malpractice and other professional misconduct.

- SCR 54 (Padilla), Chapter 115, Statutes of 2013 assigned the commission the task of analyzing and modernizing California law enforcement access to the customer records of electronic communication providers.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Issues Proposed for Discussion / Vote

0911 CITIZENS REDISTRICTING COMMISSION

Governor's Budget Request: The Governor has requested $20,000 in General Fund (GF) to support the Citizens Redistricting Commission for FY 2014-15.

Background: Proposition 11, the Voters FIRST Act, was approved by the voters on the November 4, 2008, general election ballot. Proposition 11 changed the state's redistricting process by establishing a 14-member Citizens Redistricting Commission (commission) to draw the new district boundaries for the State Assembly, State Senate, and Board of Equalization beginning with the 2010 Census and every ten years thereafter. Proposition 11 specifies that a minimum of $3 million in funding be provided, or the amount appropriated for the previous redistricting plus the Consumer Price Index, whichever is greater.

Pursuant to the requirements of Proposition 11, the 2009-10 budget appropriated $3 million GF for Proposition 11 implementation costs over a three-year period for the commission, State Auditor, and Secretary of State. Additionally, the 2010-11 budget included provisional budget bill language to provide an expedited request process should the commission demonstrate it required funding greater than the $2.5 million (the amount that remained from the 2009-10 $3 million GF appropriation) for its costs from January 1, 2011 to June 30, 2011.

Proposition 20 was approved by the voters on the November 2, 2010 general election ballot, requiring changes and expansions to the 2008 amendments to the California Constitution. The 2010 amendments added California's 53 Congressional Districts to the commission's redistricting responsibilities and expanded the criteria for the district mapping process. The amendments also shortened the completion date for all four maps and supporting reports to no later than August 15, 2011, thereby reducing the time allowed for the commission's mandatory submission of the four maps to the Secretary of State by one month. These amendments were made with no additional appropriation of funds to support the expanded responsibilities and requirements.

The requested funds will support two activities for the Commission: $15,000 to support an interagency agreement between the commission and the DGS to support fiscal services and human resources related activities and $5,000 to access external legal advice as necessary. The commission's FY 2013-14 budget totals $71,000 and 0.5 PY's. The commission is utilizing existing resources to fund the currently authorized part-time position and funding.

LAO Recommendation: The commission's 2013-14 budget stems from a decision the Legislature made a year earlier to provide the commission one half-time position to serve as a point of contact for commission matters and litigation. The commission's workload has not increased since that time. Thus, the LAO can see no reason to increase the commission's budget. In addition, the LAO finds DGS's proposal to charge $15,000 to administer a budget of $71,000 to be excessive. Accordingly, the LAO recommended the Legislature direct the Department of Finance and the commission to develop a plan to allow the commission to operate within its 2013-14 budgetary appropriation. Such a plan could include (1) negotiating lower cost contracted services with DGS, (2) reducing or eliminating proposed contract legal services, (3) reducing the time base of the commission's authorized position, and/or (4) shifting the commission's position from a manager classification to a less expensive analyst classification.

Staff Comment: Staff agrees with the LAO's observation that charging $15,000 for the administration of a budget totaling $71,000 seems excessive. Furthermore, the most recent redistricting process occurred between 2009 and 2011. At this time, staff would recommend holding this item open and directing the commission to revise their proposal to accommodate the FY 2013-14 budgetary appropriation.

Staff Recommendation: Hold open, direct commission to revise request and resubmit.

1110/11 CALIFORNIA DEPARTMENT OF CONSUMER AFFAIRS

Department Overview: The Department of Consumer Affair's (DCA) boards and bureaus provide exams and licensing, enforcement, complaint mediation, education for consumers, and information on privacy concerns. DCA boards and bureaus establish minimal competency standards for more than 250 professions involving three million professionals. The DCA consists of 36 regulatory boards, bureaus, committees, commissions, and programs, all of which regulate more than 100 businesses and 200 industries and professions, including doctors, contractors, private security companies, and beauty salons.

The boards and commissions are semi-autonomous regulatory bodies with the authority to set their own priorities and policies. Members of the boards and commissions are appointed by the Governor and the Legislature.

Budget Overview: The department's boards are budgeted under organizational code 1110, and the total proposed budget for the Boards is $309.62 million (non-General Fund) and 1,533.2 Personnel Years for FY 2014-15.

The Bureaus are budgeted under organizational code 1111, and the total proposed budget is $297.87 million (non-General Fund) and 1,885.1 Personnel Years, for FY 2014-15.

DCA Boards and Bureaus Resources

		Positions		Expenditures	
		2013-14	2014-15	2013-14	2014-15
1	Board of Accountancy	80.8	98.8	$ 11,854	$ 13,709
2	Architects Board	30.4	30.4	$ 4,983	$ 5,080
3	Athletic Commission	9.1	12.1	$ 8,241	$ 9,139
4	Board of Behavioral Science	42.5	50.0	$ 8,090	$ 7,898
5	Chiropractic Examiners	19.4	19.4	$ 3,823	$ 3,813
6	Barbering and Cosmetology	92.2	92.2	$ 21,352	$ 21,025
7	Contractors State Licensing	401.6	405.6	$ 61,713	$ 62,430
8	Dental Board	74.1	74.6	$ 14,304	$ 14,745
9	Dental Hygiene Committee	8.2	8.2	$ 1,513	$ 1,518
10	Guide Dogs for the Blind	1.5	1.5	$ 199	$ 203
11	Medical Board	282.3	171.3	$ 58,929	$ 60,047
12	Acupuncture Board	8.0	11.0	$ 2,777	$ 3,279
13	Physical Therapy Board	16.4	19.4	$ 3,207	$ 3,904
14	Physician Assistant Board	4.5	4.5	$ 1,517	$ 1,535
15	Podiatric Medicine	5.2	5.2	$ 1,123	$ 1,441
16	Psychology	17.3	20.3	$ 4,576	$ 4,673
17	Respiratory Care Board	16.4	17.4	$ 3,315	$ 3,488
18	Speech-Language Hearing Aid	8.6	8.6	$ 1,918	$ 1,969
19	Occupational Therapy	7.7	7.7	$ 1,439	$ 1,316
20	Board of Optometry	10.4	10.4	$ 1,863	$ 1,848
21	Osteopathic Medical Board	8.4	11.4	$ 1,911	$ 1,895
22	Naturopathic Medicine Committee	1.0	2.0	$ 173	$ 309
22	Board of Pharmacy	81.1	101.1	$ 16,202	$ 19,626
23	Engineers and Land Surveyors	64.7	64.7	$ 11,134	$ 11,050
24	Registered Nursing	132.0	130.8	$ 31,899	$ 37,862
25	Court Reporters Board	5.0	5.0	$ 1,218	$ 1,221
26	Structural Pest Control Board	29.9	29.9	$ 4,870	$ 4,838
27	Veterinary Medical Board	12.8	23.8	$ 3,054	$ 4,507
28	Vocational Nursing	67.9	67.9	$ 12,299	$ 11,477
29	Arbitration Certification Program	8.0	8.0	$ 1,175	$ 1,202
30	Security and Investigative	49.9	49.9	$ 12,977	$ 13,363
31	Private Postsecondary Education	66.0	76.0	$ 11,507	$ 13,111
32	Electronic and Appliance Repair, Home Furnishings, and Thermal Insulation	41.9	43.4	$ 7,535	$ 7,883
33	Automotive Repair	594.8	592.8	$ 200,579	$ 194,751
34	Telephone Medical Advice Services Bureau	1.0	1.0	$ 175	$ 179
35	Cemetery and Funeral	21.5	21.5	$ 4,454	$ 4,466
36	Real Estate Appraisers	32.8	32.8	$ 5,502	$ 5,621
37	Department of Real Estate	334.7	329.7	$ 48,299	$ 49,195
38	Professional Fiduciaries	1.7	2.7	$ 440	$ 596

(dollars in thousands)

Issue 1 – BreEZe System

Governor's Budget Request: The Governor's budget includes a request for $11.84 million in additional funding for continued support of the DCA's automated licensing and enforcement system - BreEZe.

Background: The DCA is the umbrella agency for 37 business and professional licensing entities (collectively referred to as boards and bureaus) that regulate over 2.7 million businesses and professionals in over 250 license categories.

The BreEZe project began with the approval of a Feasibility Study Report (FSR) on November 30, 2009. In FY 2010-11, the DCA gained approval of a Budget Change Proposal to redirect funding from the existing iLicensing Project, plus an augmentation of budgets for the BreEZe project to support the procurement and implementation of an integrated licensing and enforcement system, in support of the DCA's Consumer Protection Enforcement Initiative. In FY 2011-12, the department gained approval to appropriate $1.2 million on a one-time basis, to the BreEZe project. BreEZe is designed to bring all of the Department of Consumer Affairs' boards and bureaus into an integrated licensing and enforcement system. The Legislature approved $11.995 million in funding to support BrEZe related activities for FY 2013-14.

The BreEZe project includes the purchase and implementation of a commercially integrated enterprise enforcement case management and licensing system that can be fitted specifically for DCA's needs. The BreEZe Project consists of three phases, and is scheduled for completion in December 2015. In November 2013, DCA transitioned some its entities from the legacy system over to the BreEZe system as part of R1.

BreEZe Costs	Budget Year 2014-15 (dollars in millions)
DCA Boards	$10,385
DCA Bureaus	$1,459
Total	**$11,844**

Staff Comment: As noted earlier, DCA has transitioned some of its entities from the legacy system to the BreEZe system. Some boards that have transitioned to BreEZe have faced difficulty transitioning to the new software platform. BreEZe project staff are coordinating with the systems integrator, Accenture, to revise future releases, and hopefully reduce future issues that arise from DCA's boards and bureaus transitioning to BreEZe.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Board of Accountancy

Board of Accountancy: The California Board of Accountancy (CBA) was established in 1901 and was charged with regulating the practice of accountancy, and prohibited anyone from falsely claiming to be a certified accountant. The first accountants certified by the CBA were required to sit for written examinations, including questions on Theory of Accounts, Practical Accounting, Auditing, and Commerce Law, and attain a passage rate of at least 70 percent for each section. Applicants were required to provide a notarized affidavit certifying at least three years accounting experience, at least two years of which must have been in the office of a Certified Public Accountant (CPA) performing actual accounting work. In addition, each applicant was required to submit three references testifying to his character, in the form of a "Certificate of Moral Character." Today's mandate, that each CBA licensee pass an ethics course, finds its antecedent in the CBA's original requirement of this certificate. In 1929, the Legislature placed the CBA within the Department of Professional and Vocational Standards. In 1945, the Accountancy Act was substantially revised. In 1971, the Legislature located the CBA within the newly-created Department of Consumer Affairs (DCA). Today, the CBA regulates about 80,126 certified public accountants and 5,198 accountancy firms.

Governor's Budget Request: The Governor has submitted two consumer-protection related requests on behalf of the CBA:

1. **Peer Review and Investigation Backlog:** The Governor has requested an increase of expenditure authority for the CBA in FY 2014-15 of $940,000 (Accountancy Fund), $$876,000 (Accountancy Fund) in FY 2015-16, and $657,000 (Accountancy Fund) in FY 2016-17, and ongoing. In addition to the funding requested, the Governor has requested an increase of six permanent positions and two two-year limited-term positions with the CBA. The positions will support the CBA's enforcement efforts.

   Background: As of FY 2012-13, the CBA's average time to close a complaint through the disciplinary process was approximately 830 days. This number far exceeds the DCA target of 540 days for all boards and bureaus within the DCA umbrella. The requested positions will support the CBA's efforts to better align themselves with the 540 day complaint turnaround-time established by the DCA.

   Staff Comment: Staff has no issues or concerns with this request.

   Staff Recommendation: Approve as budgeted.

2. **Mandatory Retroactive Fingerprinting:** The Governor has requested 6.0 three-year limited-term positions, 3.0 two-year limited-term positions, and a budget augmentation of $923,000 (Accountancy Fund) for FY 2014-15, $851,000 for FY 2015-16, and $595,000 for FY 2016-17 to address the increased workload associated with mandatory fingerprinting requirements.

   Background: In 2011, the CBA began the process of requiring licensees to submit fingerprints and complete state and federal level criminal offender record information with the Department of Justice (DOJ). With over 80,000 certified public accountants and 5,000 accountancy firms, the CBA investigators are each required to review approximately 7,000 licensees. The requested positions will reduce the caseload per investigator significantly.

Staff Comment: The requested positions are limited-term. Upon the expiration of the limited-term position authority, the CBA, and the DCA, will determine if the workload associated with this request is ongoing.

Staff Recommendation: Approve as budgeted.

Issue 3 – State Athletic Commission

Governor's Budget Request: The Governor requests 2.0 positions and $361,000 (Athletic Commission Fund) in FY 2014-15, and ongoing, for the State Athletic Commission (commission).

Background: The commission is responsible for licensing fighters, promoters, managers, seconds, matchmakers, referees, judges, timekeepers, and approves physicians. The commission protects consumers by ensuring that bouts are fair and competitive while protecting the health and safety of participants.

During Fiscal Year 2011-12 the commission neared insolvency. That was only avoided because of the severe cuts taken by the commission to end the year with 0.1 months ($23,000) in the reserve. During that time the following actions were taken:

- Laying off all temporary staff
- Declaring lay off of two permanent full-time staff
- Reducing staffing levels at regulated events
- Reducing staff and Commission member travel

In FY 2013-14, the commission developed a short-term solvency plan and the commission's ongoing budget was reduced by $814,000. The commission anticipates a slightly higher level of revenue for FY 2013-14, and ongoing, and currently maintains a fund balance of approximately $400,000.

Staff Comment: This plan aligns with recommendations made by the Legislature and the Bureau of State Audits, which have both raised concerns regarding the lack of staffing levels within the commission.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 4 – California Medical Board/Division of Investigation: SB 304

Medical Board of California: The primary purpose of the Medical Board of California (MBC) is to protect consumers, much like the other boards and committees under the DCA. While the MBC does engage in a number of activities to educate or assist physicians, the primary purpose of the MBC is to benefit consumers through the appropriate licensing of physicians and surgeons and through enforcement of the Medical Practice Act. Under the Medical Practice Act in the Business and Professions Code (BPC), the MBC has jurisdiction over physicians licensed by the state. The MBC licenses and regulates approximately 132,000 physicians and surgeons. The MBC issues some 5,300 licenses each year, and approximately 64,000 licenses are renewed each year. The MBC also has statutory and regulatory authority over licensed midwives, medical assistants, registered contact lens dispensers, registered dispensing opticians, registered non-resident contact lens sellers, registered spectacle lens dispensers, registered polysomnographic trainees, registered polysomnographic technicians, registered polysomnographic technologists, research psychoanalysts, student research psychoanalysts, special program registrants, and special faculty permits.

Governor's Budget Request: The Governor's budget requests a one-time transfer of 116.0 positions and $15.5 million to the Division of Investigation – Health Quality Investigation Unit in FY 2014-15 in order to implement SB 304 (Lieu), Chapter 515, Statutes of 2013. This request also includes a request for 1.0 permanent position and $118,000 in FY 2014-15, and ongoing, to review investigative case dispositions, and perform other duties previously performed by the board's chief of enforcement.

Background: SB 304, among other things, transferred inspectors from the MBC to the Division of Investigation (DOI) within the DCA. Additionally, this bill transferred the Health Quality Investigation Unit (unit) from MBC to DOI within DCA, and states that the primary responsibility of the unit is to investigate violations of law or regulation by licensees and applicants within the jurisdiction of MBC, the California Board of Podiatric Medicine, the Board of Psychology, or any committee under the jurisdiction of MBC.

Staff Comment: This budget change proposal is in response to legislative action taken last year as part of the Joint Legislative Sunset Review process.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5 – California State Board of Pharmacy

The California State Board of Pharmacy (board) is responsible for enforcing federal and state laws pertaining to the acquisition, storage, distribution and dispensing of dangerous drugs (including controlled substances), and dangerous devices. The board has approximately 130,000 licensees in 17 license categories that include both personal and business licenses. As an agency that regulates the individuals and businesses that dispense, compound, provide, store, and distribute prescription drugs and devices and pharmaceutical services to the public, or to other health care practitioners in compliance with state and federal law, the licensing of pharmacists, pharmacies, and pharmacy technicians is the primary focus of board activity, with consumer protection at the core of the Board's operations. The board's regulatory authority, as described in the Pharmacy Law, extends over individuals and firms located both within and outside California, if they provide services in California

Governor's Budget Request: The Governor's 2014-15 budget includes four requests to support the board:

1. **Combatting Prescription Drug Abuse:** The Governor's budget requests 8.0 three-year, limited-term positions and $1.3 million (Pharmacy Board Contingency Fund) in FY 2014-15, and $1.261 million in FY 2015-16 and 2016-17, in order to increase monitoring and enforcement efforts within the Board.

   Background: In 2012, the media highlighted instances of failures in the regulatory approach of the board, and other medical professional entities within the state, that led to the death of individuals due to controlled substances. However, the board currently lacks the capacity for a thorough review of licensees within the state that are not compliant with board correspondence regulations. The board intends on utilizing the requested positions to review data from the state's Controlled Substance Utilization Review and Evaluation System (CURES), which is a required reporting system for those that either prescribe or dispense controlled substances within the state. After reviewing data retrieved from the CURES database, the board will be better equipped to identify errant licensees.

   Staff Comment: This request is subject to a reporting requirement, pursuant to budget bill language, that will determine whether or not the requested positions have increased the enforcement capacity of the board.

   Staff Recommendation: Approve as budgeted.

2. **Enforcement Monitoring:** The Governor requests 2.0 permanent positions and $185,000 (Pharmacy Board Contingency Fund) to increase the board's enforcement efforts.

   Background: The board has sustained an increased growth in enforcement-related workload; the number of cases pending before the Attorney General since FY 2009-10 has grown 67 percent, and the number of citations issued by the board has increased 236 percent. The workload associated with the growth is no longer absorbable by board staff.

   Staff Comment: This request is subject to a reporting requirement, pursuant to budget bill language, that will determine whether or not the requested positions have increased the enforcement capacity of the board.

   Staff Recommendation: Approve as budgeted.

3. **Advanced Practice Pharmacist:** The Governor requests 3.0 three-year limited-term positions and $390,000 (Pharmacy Board Contingency Fund) for FY 2014-15, and $338,000 for FY 2015-16 and FY 2016-17, to implement the provisions of SB 493 (Hernandez), Chapter 469, Statutes of 2013.

   Background: SB 493, among other things, created an "Advanced Practice Pharmacist" designation to be recognized by the board, which allows for a pharmacist to perform certain health care services. The board estimates that approximately 2,100 pharmacists will apply for the designation.

Staff Comment: The board has noted that if the program is effective and requires additional resources, the board will submit a subsequent budget change proposal.

4. **Sterile Compounding:** The Governor requests 7.0 three-year limited-term positions and $1.264 million (Pharmacy Board Contingency Fund) in FY 2014-15, and $1.208 million in FY 2015-16 and 2016-17 to support the provisions set forth in SB 294 (Emmerson), Chapter 565, Statutes of 2013.

   Background: SB 294, among other things, expands the types of compounded drugs for which a license is required. Additionally, the bill specifies that both resident and non-resident sterile compounding pharmacies must be licensed by the board, and all licensed pharmacies are subject to an inspection. The board anticipates that this will create an additional 700 inspections that will need to be performed annually.

   Staff Comment: Staff has no concerns or issues with this request.

   Staff Recommendation: Approve as budgeted.

Issue 6 – Attorney General Augmentation

The DCA's boards and bureaus have the capacity to investigate some complaints within their own enforcement division. The procedures for investigating and referring to the Attorney General's office (AG), or the Office of Administrative Hearings (OAH), are set forth in the Administrative Procedures Act. When necessary, formal discipline measures that require review, and possible prosecution, are referred to either the AG's office or the OAH. The Governor has requested increased expenditure authority for four of the boards and bureaus within the DCA:

1. **Board of Registered Nursing**: The Governor requests a $2.5 million increase in the Board of Registered Nursing's (BRN) AG expenditure authority for 2014-15, and ongoing. Additionally, the Governor requests a $200,000 (Board of Registered Nursing Fund) increase in the BRN's Office of OAH expenditure for 2014-15, and ongoing.

   Background: The BRN has sustained an increase in the number of complaints filed and the number of cases that are referred for disciplinary action since FY 2011-12. The BRN has exceeded its AG budget authority in FY 2010-11 and FY 2012-13. The BRN is in a similar situation regarding its budget authority for cases referred to the OAH. According to the BRN the average case processing time requires approximately two years. The requested funding will reduce the case processing time to one year and nine months.

   Staff Comment: Staff has no issues or concerns with this request.

   Staff Recommendation: Approve as budgeted.

2. **Court Reporters Board:** The Governor has submitted a Spring Finance Letter requesting that AG expenditure authority for the Court Reporters Board (board) be increased by $80,000 (special fund) on a one-time basis in FY 2014-15 in order to address a backlog of enforcement cases pending AG support.

Background: Historically, the board has exhausted its funding for AG support prior to the end of the fiscal year. The board anticipates that will occur again in FY 2013-14, and has had to redirect funds from other areas to support AG-related costs. The board is no longer able to absorb the costs related to AG enforcement, and has requested one-time augmentation which would allow three pending cases to move forward.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve as budgeted.

3. **Bureau of Security and Investigative Services:** The Governor has submitted a request to augment the Bureau of Security and Investigative Services (bureau) AG expenditure authority by $600,000 (special fund) in FY 2014-15, and ongoing.

   Background: The bureau is responsible for the licensure of repossesors, guards, alarm agents, locksmiths, and private investigators. The bureau currently has a licensed population totaling 466,369, some of whom are licensed to carry a firearm**.** The bureau has experienced ten percent growth in its licensing population since FY 2009-10. However, it has not received an increase in its AG expenditure authority during this timeframe. According to the bureau, it has exceeded its AG expenditure authority budget by 260 percent annually during FY 2011-12 and FY 2012-13.

   Staff Comment: Staff has no issues or concerns with this request.

   Staff Recommendation: Approve as budgeted.

4. **Physical Therapy Board:** The Governor has submitted a request to augment the Physical Therapy Board's (board) Attorney General (AG) expenditure authority by $142,000 (special fund) in FY 2014-15, and ongoing.

   Background: Since FY 2010-11, the board has overspent its AG budget authority by approximately $149,000. During FY 2012-12 the board exhausted its AG budget authority prior to the end of the fiscal year and was forced to redirect funding to support its AG-related costs. During FY 2012-13, the board requested, and received, a one-time augmentation of $150,000 to its AG expenditure authority.

   Staff Comment: Staff has no issues or concerns with this request.

   Staff Recommendation: Approve as budgeted.

Issue 7 – Bureau of Private Postsecondary Education

Governor's Budget Request: The Governor's 2014-15 budget includes a request for 11.0 three-year limited-term positions to address a growing backlog in the number of enforcement cases within the Bureau of Private Postsecondary Education (bureau). This request includes an increase in expenditure authority for the bureau of $1.292 million (Private Postsecondary Education Fund) in FY 2014-15, and $1.204 million in FY 2015-16 and 2016-17.

Background: The bureau is responsible for the oversight of California's private postsecondary educational institutions. Currently, there are approximately 1,500 institutions regulated by the Bureau. Many of the institutions governed by the bureau are vocational institutions offering skills training for entry-level positions in a variety of industries and trades. Upon passage of AB 48 (Portantino), Chapter 310, Statutes of 2009, 63 authorized positions were allocated under the assumption that the workload would be similar to the bureau's predecessor, The bureau for Private Postsecondary and Vocational Education, which sunset in 2007. bureau staff estimates that they will receive approximately 725 new complaint cases in FY 2013-14. According to workload estimates, the bureau has the capacity to resolve 43 complaints each month, creating a backlog which now totals 707 cases.

The bureau received additional resources in FY 2013-14 to address the increasing licensing workload. At that time, the bureau noted that additional resources may be necessary to address the growing number of complaints that need to be addressed by the bureau's Complaint and Investigation Unit.

Staff Comment: This request includes budget bill language that would require the bureau to report on complaint and disciplinary workloads, case processing times, staffing levels, and an analysis on the effectiveness of the requested staffing augmentation.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 8 – Board of Registered Nurses

Governor's Budget Request: The Governor's 2014-15 budget includes a request for 28.0 positions and $2.522 million (Board of Registered Nursing Fund) in FY 2014-15, 28.0 positions and $2.298 million (Board of Registered Nursing Fund) in FY 2015-16, 27.0 positions and $2.243 million (Board of Registered Nursing Fund) in FY 2016-17, and 23.0 permanent positions and $1.816 million (Board of Registered Nursing Fund) to support the Board of Registered Nursing's (BRN) enforcement workload.

Background: The BRN is responsible for regulating the practice of registered nurses (RNs) in California. Currently, there are almost 380,000 licensed RNs in California, with over 23,000 new licenses issued annually, and more than 170,000 licenses renewed annually. The BRN also regulates interim permittees, i.e., applicants who are pending licensure by examination, and temporary licensees, i.e., out-of-state applicants who are pending licensure by endorsement. The interim permit allows the applicant to practice while under the supervision of an RN while awaiting examination results. Similarly, the temporary license enables the applicant to practice registered nursing pending a final decision on the licensure application. The BRN also issues certificates to Clinical Nurse Specialists, Nurse Anesthetists, Nurse Practitioners, Nurse-Midwives and Public Health Nurses. These titles are those most commonly used by the California RNs and use of the titles is protected under the Business and Professions Code.

The BRN has sustained a continued growth in the number of complaints filed, number of citations issued, and the number of cases referred to the Attorney General's office. Of the requested 28.0 positions, 23.0 are permanent positions, 4.0 are three-year limited-term positions, and 1.0 two-year limited-term position. The requested positions will support BRN's investigation unit, discipline unit, and the probation unit. All of the requested positions are intended to align the BRN's discipline processing time within the DCA stated goal of 12 to 18 months.

Staff Comment: This proposal will require a General Fund loan repayment of $11.3 million. Additionally, this request includes budget bill language that would require the Bureau to report on complaint and disciplinary workloads, case processing times, staffing levels, and an analysis on the effectiveness of the requested staffing augmentation.

Staff Recommendation: Approve as budgeted.

Issue 9 – Bureau of Automotive Repair

Governor's Budget Request: The Governor's 2014-15 budget includes a request for an augmentation of $40.372 million (Enhanced Fleet Modernization Subaccount, High Polluter Repair or Removal Account) and 9.0 permanent positions for the Bureau of Automotive Repair's (BAR) administration of the Enhanced Fleet Modernization Program (EFMP), which was authorized by AB 118 (Nunez), Chapter 750, Statutes of 2007.

Background: A key part of California's air quality emissions reduction strategy is to implement incentive-based air quality programs to encourage the early retirement and replacement of older vehicles with newer, cleaner ones. Older vehicles account for approximately 25 percent of the miles driven but contribute up to 75 percent of the emissions released. Reducing emissions from the older vehicles is a critical part of California's State Implementation Plan (SIP), which outlines the state's clean air strategy. The SIP is used by the federal government to determine the amount of federal transportation funds California will receive.

The Consumer Assistance Program (CAP) was originally started in 1997 and contains two parts: vehicle retirement and vehicle repair. Under the vehicle repair program, qualified low-income consumers can receive financial assistance up to $500 to repair a vehicle that is unable to pass biennial smog check inspection when it exceeds specified emission standards. To receive the repair assistance, eligible consumers must pay the initial $20 in repairs.

Demand for EFMP retirement has regularly exceeded the amount of funds available. According to the BAR, an additional 34,000 consumers would have participated in the program had resources been available to meet demand. In FY 2013-14, the BAR was appropriated $32.8 million to administer the program; the appropriated funds were exhausted prior to the end of the fiscal year. SB 359 (Corbett), Chapter 415, Statutes of 2013, provided the BAR with an $8 million Legislative appropriation to continue to administer the program.

Of the $40.372 million requested, the BAR proposes to use $37.0 million for the retirement of 32,600 qualified vehicles. $2.8 million will be used for the voucher program, which is administered by the California Air Resources Board. This component of the EFMP is available to consumers that live in the South Coast or San Joaquin Air Districts. Eligible customers receive either a $2,000 or $2,500 voucher towards the purchase of a new car when they retire their vehicle through the EFMP. The remaining $572,000 will be utilized by the BAR for administrative purposes associated with the EFMP.

Staff Comment: This proposal requires repayment of the remaining $40 million outstanding from the $60 million General Fund loan taken in FY 2010-11.

Staff Recommendation: Approve as budgeted.

Vote:

1690 SEISMIC SAFETY COMMISSION

Issue 1 – Continued Funding: Technical Cleanup

Governor's Budget Request: The Governor has requested trailer bill language clarifying that assessment on renter's insurance policies shall be made, as well as policies covering contents, in order to be consistent with the original intent of the assessment that was established in AB 98 (Committee on Budget), Chapter 27, Statutes of 2013.

Background: The Seismic Safety Commission (commission) was originally created in 1975 and was supported by the General Fund. The commission's mission is to investigate earthquakes, research earthquake related activities, and recommend to the Governor and the Legislature policies and programs needed to reduce earthquake risk. Additionally, the commission is responsible for managing California's Earthquake Loss Reduction Plan 2007-2011.

The commission currently has one office that houses 6.4 positions and supports the commission's activities including bi-monthly meetings at various sites statewide. The use of the Insurance Fund for the Commission was designed to be a short-term solution. However, the previous budget concerns in the state have forced the Commission to utilize the Insurance Fund as a more permanent source of funding.

AB 98 directs the Department of Insurance to calculate an annual assessment, not to exceed $0.15 on commercial and residential property policy holders to be collected by insurers. This technical clean-up would clarify that renter's insurance policies shall be assessed as well.

Staff Comment: The requested language is subject to a supermajority vote.

Staff Recommendation: Adopt proposed trailer bill language.

1701 DEPARTMENT OF BUSINESS OVERSIGHT

Department Overview: Effective July 1, 2013, pursuant to the Governor's Reorganization Plan No. 2 of 2012, the Department of Financial Institutions and the Department of Corporations merged to create the Department of Business Oversight (DBO). The DBO regulates state-licensed financial institutions, products, and professionals to provide accessibility to a fair and secure financial services marketplace.

Budget Overview: The Governor’s 2014-15 budget includes a request for $83.79 (Special Fund) million in order to support the DBO. Additionally, the request includes positional authority of 601.0 personnel years.

Issue 1 – National Mortgage Settlement – Outreach and Education

Governor’s Budget Request: The Governor’s 2014-15 budget includes a request for a one-time augmentation of $500,000 (State Corporations Fund) in FY 2014-15, and a one-time $500,000 (State Corporations Fund) augmentation in 2015-16, to provide foreclosure prevention and recovery education in regions of the state that have been most impacted. .

Background: In February 2012, the U.S. Department of Justice, the U.S. Department of Housing and Urban Development and 49 state attorneys general signed the $25 billion National Mortgage Settlement with five major mortgage servicers: Bank of America, Citi, JPMorgan Chase, Wells Fargo, and Ally/GMAC. As part of the settlement, each participating banking regulator received $1.0 million to execute the terms of the settlement agreement, which require the development of an outreach program to reach distressed homeowners who have been impacted by foreclosures.

With the additional funds, the DBO anticipates that it will be able to conduct 400 outreach events, attended by approximately 30,000 individuals, and distribute 300,000 pieces of educational material. Overall, the DBO estimates that it will be able to reach more than 100,000 distressed homeowners with the requested funds.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Broker-Dealer Investment and Advisor Program

Governor's Budget Request: The Governor's 2014-15 budget includes a request for 36.0 positions and an increase of expenditure authority of $7.9 million (State Corporations Fund) for the Department of Business Oversight (DBO) to implement the provisions of SB 538 (Hill), Chapter 335, Statutes of 2013, which improved the examination process for broker-dealer and investment adviser representatives.

Background: The DBO is responsible for the regulation and licensure of investment advisors, broker-dealers, and broker-dealer agents. The DBO estimates that there are 24,359 licensed firms and 328,548 licensed agents/representatives, in the state. Currently, the DBO has a combined 23.0 positions dedicated to licensing and enforcement. The DBO has determined that the amount of workload associated with the licensing and regulation of the state's investment advisors and broker-dealers far exceeds the DBO's current enforcement and licensing capacity. An audit conducted by the Bureau of State Audits (BSA) in 2007 found that the fee structure to support the broker-dealer investment and advisor program was not self-sufficient.

Prior to the passage of SB 538, the DBO did not have the fiscal resources to support staff associated with the additional workload. The DBO had been redirecting approximately $2.0 million in fines and penalties from the Corporations Fund to support the broker-dealer investment advisor program. SB 538, among other things, established renewal licensing fees for broker-dealer agents and investment advisors. The intent was to create a more self-sustaining program that was not reliant on penalties and fines administered by the DBO.

Staff Comment: Prior to the passage of SB 538, California was the only state in the nation that did not require a renewal fee for broker-dealers and investment advisors within the state.

Staff Recommendation: Approve as budgeted.

Vote:

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Department Overview: The Department of Alcoholic Beverage Control (ABC) is vested with the exclusive power to license and regulate persons and businesses engaged in the manufacture, importation, distribution, and sale of alcoholic beverages in the State of California. The department's mission is to administer the provisions of the Alcoholic Beverage Control Act in a manner that fosters and protects the health, safety, welfare, and economic well-being of the people of California.

The Governor's Budget proposes total spending of $57.9 million (Special Fund) for the Department of Alcoholic Beverage Control in 2014-15, an increase of 3.3 percent compared with estimated spending for the current year. Proposed staffing totals 429.9 personnel, a 0.5 percent increase.

Issue 1 - Winemaker Instructional Events Autographing

Governor's Budget Request: The Governor's budget includes 1.0 position on a two-year, limited-term basis, and $99,000 (Special Fund), to implement AB 636 (Hall), Chapter 329, Statutes of 2013.

Background: AB 636 permits a winegrower, California winegrower's agent, importer, or other specified parties appearing at an instructional event, to provide autographs to consumers or consumer advertising specialties given by the person to a consumer or on any item provided by a consumer. Additionally, it prohibits a requirement of the purchase of any alcoholic beverage in connection with such autographing.

ABC's Trade Enforcement Unit (TEU) is responsible for enforcing this new law. The TEU currently consists of 4.0 sworn staff and cannot absorb the workload associated with the new law. TEU estimates that the workload will include 25 additional investigations per year, with each investigation taking between 15-25 days, for a total of 375 days.

Staff Comment: Staff has no issues or concerns related to this request.

Staff Recommendation: Approve as budgeted.

Issue 2 – Invitation-only Parties at Licensed Retail Locations

Governor's Budget Request: The Governor's budget includes 1.0 position on a two-year limited-term basis and $99,000 (Special Fund) in 2014-15, and $89,000 (Special Fund) in 2015-16, to implement AB 1116 (Hall), Chapter 461, Statutes of 2013.

Background: AB 1116 expands an existing provision of law that permits certain alcoholic beverage producers to hold private, free-of-charge, invitational-only promotional events, with entertainment, food and beverages, for a limited number of consumers over 21 years of age, and subject to specified conditions. It also allows such events on the premises of a licensed "hotel," as defined, and extends the sunset from January 1, 2014to January 1, 2018.

According to ABC, the invitation-only promotional events have substantially expanded the allowable relationships between a supplier and a consumer. While the intent is to promote a specific alcoholic beverage or brand to consumers, the retail licensee would financially benefit by hosting an event. Such a benefit could create opportunities for collusion and prohibited agreements between suppliers and retailers such as unfair product placement, commercial bribery, and predatory marketing practices.

The ABC anticipates a large number of complaints will come from competing manufacturers and anticipates workload to increase because of the nature of the work. The anticipated increased workload is tied-house violation investigations, and are labor intensive because a large number of the authorized licensees are domiciled outside the state and accessing records is burdensome.

The TEU estimates the workload would include 20 days per investigation, multiplied by 25 investigations per year, for a total of 500 days.

Staff Comment: Staff has no issues or concerns related to this request.

Staff Recommendation: Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

Department Overview: The Department of General Services (DGS) is responsible for the management, review control and support of state agencies as assigned by the Governor and specified by statute. The department's functions include: acquisition, development, leasing, disposal and management of state properties; architectural approval of local schools and other state buildings; printing services provided by the second largest government printing plant in the U.S; procurement of supplies needed by other state agencies; and maintenance of the vast fleet of state vehicles.

Budget Overview: The Governor's 2014-15 budget proposes $1.05 billion dollars ($8.67 million General Fund) and 3,596.4 Personnel Years.

Issue 1 – Excess Properties: Interim Support and Consultant Services

Governor's Budget Request: The Governor requests a one-time augmentation to the Property Acquisition Law Money Account (PAL) totaling $1.506 million, and a loan from the General Fund totaling $1.506 million for FY 2014-15 to support the DGS property disposition efforts.

Background: This request is related to the disposition of three parcels of state-owned property that have been deemed by the Legislature as surplus property: Agnews Developmental Center, San Francisco Civic Surplus Parcel, the Estrella Correctional Facility, and Preston Youth Correctional Facility.

Agnews Developmental Center: SB 136 (Huff), Chapter 166, Statutes of 2009 authorized the DGS to dispose of all, or any portion, of the Agnews Developmental Center located in San Jose. Cisco Systems, who had acquired a separate parcel of the Agnews Developmental Center in 1997, was afforded the right of first refusal for this portion of property. Cisco notified the state that they did not intend to purchase this parcel in late 2012. DGS estimates that costs associated with maintenance total for FY 2014-15 total $848,000. DGS estimates that sale proceeds for this parcel will total $60 million.

San Francisco Civic Parcel: AB 2026 (Villines), Chapter 761, Statutes of 2008, authorized the disposition of .39 acres of land located midblock on the north side of Golden Gate Avenue, between Gough and Franklin Streets within the City of San Francisco. The property was originally acquired through an exchange with the City and County of San Francisco. This property is currently leased to a private parking operator and DGS notes that increasing property values warrant consideration of offering this parcel for sale. DGS estimates that costs associated with the disposition of this parcel will total $108,000 for FY 2014-15.

Estrella Correctional Facility and Preston Youth Correctional Facility: AB 826 (Jones-Sawyer), Chapter 505, Statutes of 2013, authorized the DGS to dispose of any, or all, of the 15 acres of the Preston Youth Correctional Facility and 160 acres of the Estrella Correctional Facility. DGS estimates that costs associated with the disposition of these two parcels will total $550,000 for FY 2014-15.

Staff Comment: Staff has no concerns with this request.

Staff Recommendation: Approve as budgeted.

Issue 2 – Mercury Cleaners Site Remediation

Governor's Budget Request: The Governor requests a one-time General Fund augmentation of $1.0 million in FY 2014-15, to fund preliminary work related to site remediation for state-owned property located at 1419 16th Street, Sacramento.

Spring Finance Letter: The Governor submitted a Spring Finance Letter that modified the request to include an additional $2.7 million in General Fund to be utilized for site remediation for the state-owned parcel located at 1419 16th Street, Sacramento. The total General Fund request for this project now totals $3.7 million.

Background: The State of California has retained ownership of the property located at 1419 16th Street, Sacramento since 1967. DGS acts as the real estate manager for the site, and the Capital Area Development Authority (CADA), a statutorily-created joint powers authority between the State and the City of Sacramento, leases the land from the state at no-cost under a long-term ground lease. The site has been used by a commercial dry-cleaning business since 1947.

An environmental assessment has been conducted at this location, and it was determined that dry cleaning solvents were found in the soil. DGS is currently in voluntary compliance, which includes the development of a remediation plan. Without remediation of the site, there is an ongoing risk of exposure to solvents by residents in the area, as well as an adjacent daycare facility. Should the state not abate the condition of the site, it could be in violation of the Porter-Cologne Water Quality Control Act, and could be cited and substantially fined for non-compliance.

Staff Comment: DGS has noted that if the state is found in non-compliance with the Porter-Cologne Water Quality Control Act, it could be fined up to $15.000 a day, totaling $5.5 million a year.

Staff Recommendation: Approve as budgeted with modifications requested in Spring Finance Letter.

Vote:

Issue 3 – Equipment Maintenance Management Insurance Program

Governor's Budget Request: The Governor requests an increase in expenditure authority of $199,000 for the Service Revolving Fund in 2014-15, $195,000 in 2015-16, and 2.0 positions on a two-year limited-term basis to expand the Equipment Maintenance Management Insurance Program (EMMP).

Background: In 2010, DGS, which is responsible for the procurement of insurance for state agencies, piloted an insurance program designed to reduce a reliance on more expensive equipment maintenance service contracts. Since the inception of the pilot program, DGS has worked with departments throughout the state to increase interest in participating. As of June 30, 2013, there were thirteen departments participating in EMMP with more than 16,000 pieces of equipment covered. DGS estimates that, since 2010, $3.471 million in savings has been achieved through this program. DGS is currently redirecting staff from other job functions to implement the program. Increased workload within DGS' Office of Risk and Insurance Management will not allow for the continued redirection.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Issue 4 – Office of Administrative Hearings

Governor's Budget Request: The Governor requests an augmentation of $1.8 million from the Service Revolving Fund and 19.0 positions beginning in 2014-15, for the Office of Administrative Hearings (OAH).

Background: The OAH provides administrative law judges (ALJ) to hear disputes for over 1,500 state and local agencies. The OAH conducts adjudicatory hearings, prehearing and settlement conferences, and mediations. Recently, OAH's hearing workload has increased and he number of permanent positions that support the OAH have decreased. The increase in workload and decrease in staffing have limited OAH's ability to meet its goal of setting cases for hearings within 120 days.

LAO Comments: The LAO has noted that while the proposal will increase of permanent ALJ's, it only represents a modest increase in the overall number of ALJ hours. The LAO has commented that the magnitude of the current delays at the OAH, and the existing caseload growth, may limit the ability of this proposal to address the issue of backlogs.

Furthermore, the LAO found that this proposal is not targeted to any one particular office that OAH operates (Sacramento, Oakland, Los Angeles, Van Nuys, and San Diego). The scheduling timeframe for each office varies, and this request does not seem to take that into account.

LAO Recommendation: The LAO recommends approval of this request, and recommends the adoption of reporting requirements related to caseload and hearing timeframes. Specifically, the reporting should be delineated by agency, hearing location, and case type.

Staff Comment: Staff concurs with the LAO regarding reporting requirements. Staff recommends Supplemental Reporting Language that would provide data on the agency, hearing location, and case type on OAH's annual caseload.

Vote:

Issue 5 – Intellectual Property

Governor's Budget Request: The Governor has submitted a request to increase DGS expenditure authority by $393,000 (Service Revolving Fund) in 2014-15 and $319,000 in FY 2015-16, and ongoing, and 2.0 permanent positions, in order to implement the provisions of AB 744 (Perez), Chapter 463, Statutes of 2012.

Background: A report issued by the Bureau of State Audits (BSA) found that a number of state agencies are not sufficiently knowledgeable about the Intellectual Property that they own in order to act against individuals and entities that use the state's Intellectual Property inappropriately, including profiting from products developed at state expense and claiming rights to state-developed inventions. The report also noted that statewide guidance was limited. AB 744, among other things, requires the DGS to carryout various powers and duties relating to assisting a state agency in the management and development of intellectual property developed by state employees or with state funding, including, among other duties, developing a database of state-owned intellectual property using specified data, starting January 1, 2015. DGS currently does not have a subject matter expert with regards to Intellectual Property and will be reliant on external consultants to create and maintain the program.

Staff Comment: Staff does not have any issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 6 – Electric Vehicle Charging Station

Governor's Budget Request: The Governor requests reimbursement authority of $1.0 million in FY 2014-15, and $600,000 in FY 2015-16 for the Department of General Services Executive Office of Sustainability in order to install electric vehicle supply equipment in DGS' parking facilities statewide.

Background: The California Energy Commission and DGS have signed an interagency agreement for $2.0 million to install electric vehicle supply equipment in state-owned parking facilities. A current year request of $400,000 in reimbursement authority has been submitted, in accordance with Control Section 1.5 of the Budget Act. This request is seeking augmentation of reimbursement authority for the remaining $1.6 million.

Staff Comment: DGS estimates that the requested funding will support the deployment of 185 electric vehicle supply equipment locations statewide.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 7 – Sale-Leaseback Legal Fees

Governor's Budget Request: The Governor requests $492,000 (General Fund) for FY 2013-14 and $582,000 for FY 2014-15, to support legal fees related to the Sale Leaseback Initiative.

Background: AB 22 X4 (Evans), Chapter 20, Statutes of 2009, provided DGS with $3.148 million (Property Law Money Account) in order to prepare specific state-owned properties for sale. Ultimately, the Administration chose not to go forward with the sale and lease-back of the state-owned buildings. Shortly thereafter, a lawsuit was filed against the state alleging that the transaction should move forward and that the cancellation of the sale by the state led to lost profits. DGS has sought external legal counsel to represent the state.

The majority of the $3.148 million that was appropriated as part of AB x4 22 was used for the preparation of the property sale prior to the lawsuit being filed. DGS has redirected some funds to support legal costs, but, as a fee-for-service state entity, they lack the capacity to absorb the requested funds. This request also includes budget bill language that will allow for the re-appropriation of any unexpended funds in FY 2013-14 be made available for encumbrance or expenditure until June 30, 2015.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 8 – Capital Outlay

Governor's Budget Request: The Governor requests $2.5 million (General Fund) for the development of a long-range planning study for the Sacramento Region to determine and address the infrastructure deficiencies and space needs within the region. The study by the Department of General Services (DGS), will be used to develop detailed cost and scope information for future budget proposals.

Sacramento Area Inventory: DGS controls over 16 million net square feet (NSF) of state-owned and privately-owned leased general purpose office space in the Sacramento area, including 34 general purpose state-owned office buildings totaling 8 million NSF. Of the 34 building, 19 are over 25 years old, with the majority in need of renovation or replacement due to fire and life safety and other code deficiencies.

DGS Activities: It is a DGS practice to compile and maintain some information on the condition of existing state facilities. DGS compiles a five-year special repair plan every year, identifying proposed special repairs at state facilities. DGS also conducts infrastructure and site feasibility studies of individual buildings and sites. These studies provide detailed information on the condition of building systems, analyses, and costs estimates for building renovations and replacement.

DGS also conducts various facility planning efforts. In 2008, DGS completed a Sacramento Region State Office Planning Study. The study focused on identifying opportunities for constructing one or more new state office buildings in the region, identified long-term state office space needs, examined opportunities for reuse of state-owned assets, and identified areas that could accommodate the development of state office space.

Governor's Proposal: The Governor is proposing $2.5 million from the General Fund for a long-range planning study for the Sacramento region. The proposal includes the following:

- **Facility Condition Assessment.** $1.3 million to fund facility condition assessment of all existing state facilities in the Sacramento region.

- **Project Sequencing Plan.** $700,000 to rank potential office construction and renovation projects and to create a plan for the sequencing of projects.

- **Funding Plan.** $250,000 for an economic analysis and funding plan for the top priority projects identified in the sequencing plan.

- **Updated Office Planning Study.** $50,000 to update the 2008 Sacramento Region State Office Planning Study.

- **Administration**. $200,000 for staff administration.

LAO Recommendation: The LAO recommends the following:

- Only approve $1.5 million for the office planning study update and facility condition assessments components of the Governor's proposal.

- Use the Service Revolving Fund rather than the General Fund.

- Reject $1 million in funding for the sequencing and funding plan components.

- Request DGS report at budget subcommittee hearings on its plan for ongoing facility condition assessments.

Staff Comment: Staff understands the LAO's concern regarding the fund source of the Captial outlay study, but also understands that ultimately the funds for this project will come from the General Fund. The Service Revolving Fund draws support from agencies that receive General Fund support, and agencies that receive Special Fund support. It is important to not delay a solution for some of the downtown properties any further and phasing the funding could potentially delay that process.

Staff Recommendation: Approve as budgeted.

Issue 9 – Capital Area Development Authority

Background: In the mid 1960's, the State of California acquired 42 blocks of property south of the Capitol for development of a state office campus. The properties acquired by the state consisted primarily of housing in a neighborhood that was, before the acquisition program began, one of the most populous in the central city. By 1969, only three state office buildings had been built when the building program was officially curtailed. The State of California and the City of Sacramento formed the Capitol Area Development Authority (CADA) in 1978.

In May 2011, the Administration proposed that the state sell properties no longer needed for state programmatic purposes, including those managed by CADA. In response to the Governor's directive, the DGS initiated a plan to sell five CADA-managed properties per year, with the entire portfolio to be sold in about 10 years.

Staff Comment: Under this approach, it is unclear whether and how individual property purchasers would meet legislative affordable housing requirements, and how, during the 10-year sales period, CADA could continue to provide affordable housing under its self-funded, internally subsidized model as the number of properties in its control declines and its revenues diminish. Further, it is unclear what entity would assume CADA's outstanding debt and regulatory obligations. The Governor's 2014-15 budget does not include a proposal directly related to the long-term administration of CADA-owned properties.

Questions for DGS:

1. *Has CADA submitted a plan to withdraw from the Joint Powers Agreement to DGS? If so, has DGS submitted a response to CADA?*

2. *Does the Administration intend on submitting legislation related to the Governor's proposal? If so, when will the proposed language be available?*

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Norma Torres
Senator Tom Berryhill

Thursday, April 10, 2014
9:30 a.m. or Upon Adjournment of Session
Rose Ann Vuich Room 2040

Consultant: Brady Van Engelen
PART I

Item Number and Title

0911	Citizens Redistricting Commission
1110/1111	Department of Consumer Affairs Boards and Bureaus
1690	Seismic Safety Commission
1701	Department of Business Oversight
2100	Department of Alcoholic Beverage Control
7760	Department of General Services
8790	Commission on Disability Access
8830	California Law Revision Commission

(See Table of Contents on page 2 for a More Specific Listing of Issues)

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AGENDA – VOTE ONLY ITEMS

(Please see summary chart on Page 2)

AGENDA – DISCUSSION / VOTE ITEMS

California State Senate

MEMBERS:
TOM BERRYHILL
NORMA TORRES

CONSULTANTS:
MARK IBELE
BRADY VAN ENGELEN

(916) 651-4103

COMMITTEE
ON
BUDGET AND FISCAL REVIEW
SUBCOMMITTEE NO. 4 ON
STATE ADMINISTRATION AND GENERAL GOVERNMENT

ROOM 5019, STATE CAPITOL
SACRAMENTO, CA 95814

SENATOR
RICHARD D. ROTH
CHAIR

OVERSIGHT HEARING

Information Technology Procurement and Implementation

April 10, 2014
State Capitol Rose Ann Vuich Hearing Room 2040
9:30 a.m. or Upon Adjournment of Session

AGENDA

Introductory Remarks

Legislative Analyst's Office
- Lourdes Morales, Fiscal and Policy Analyst
- Mark Newton, Deputy Legislative Analyst

State of California Task Force on Re-Engineering IT Procurement for Success
- Dr. Rosio Alvarez, Chair

California State Controller's Office
- Lisa Crowe, Chief, Personnel and Payroll Services Division
- Tony Davidson, Project Director, 21st Century Project
- Jim Lombard, Chief Administrative Officer
- Jan Ross, Chief Information Officer
- Tom Yowell, Chief, Administration and Disbursements Division

California Department of Technology
- Andrea Wallin-Rohmann, Deputy Director of Policy

Public Comment

Closing Comments

INFORMATION TECHNOLOGY PROCUREMENT AND PROJECT IMPLEMENTATION

Background: On August 15, 2013, Senate Budget and Fiscal Review Subcommittee No. 4 held an oversight hearing related to the suspension, and subsequent termination, of the 21st Century Project. While that oversight hearing focused on the 21st Century Project, there have been other costly state information technology (IT) projects that have also been suspended or terminated. This hearing is intended to determine if the cost overruns and project failures are a symptom of problems within the state's current IT procurement process.

IT oversight and procurement have suffered a long and troubled history in the state. Prior to the early 1990s, a sub-unit within the Department of Finance (DOF) performed oversight of IT projects. However, the management of IT projects was highly decentralized and the Department of General Services (DGS) was responsible for the procurement of IT-related services and products. In response to criticism that this approach was inadequate as the state's investment in IT grew, the California Department of Information Technology (DOIT) was created in 1995 to oversee the planning and the development of IT projects.

The DOIT was instrumental in securing a six-year, $95 million contract with Oracle for enterprise software. The no-bid, sole-source contract was widely scorned and triggered an investigation by the State Auditor in 2002, who issued a scathing report that alleged, among other things, that the state might have saved $41 million if it had obtained the software without the contract. Following the audit, the state cancelled the contract and the Legislature allowed the statutes that had created DOIT to sunset. Functions supporting IT projects were then scattered state departments and agencies.

Four years later, in 2006, a new law established the Office of the State Chief Information Officer (OCIO) and charged it with coordinating government information technology efforts. In 2007, the office's responsibilities were expanded to include planning and project approval. In 2009, the Legislature further consolidated statewide technology functions under the office. AB 2408 (Smyth and Huber), Chapter 404, Statutes of 2010, combined the OCIO, the Office of Information Security, the Department of Technology Services, and the Department of General Services' Telecommunications Division into a single unit. On September 28, 2010, the Governor signed legislation renaming the office as the California Technology Agency and extended its sunset provision to 2015.

During consideration of the 2013-14 budget, some significant changes were made to the IT procurement process. SB 71 (Budget and Fiscal Review Committee), Chapter 28, Statutes of 2013, modified the way that the state purchases IT enhancements. Prior to the passage of SB 71, as had long been the process, the DGS was responsible for IT-related procurement for most state agencies. SB 71 transferred procurement authority for large-scale IT-related enhancements, and the DGS staff responsible for this function, to the Department of Technology, formerly known as the California Technology Agency.

Throughout the history of the state's management of projects, the size and scope of IT projects has continued to grow. That growth is reflected in the state's significant investment in IT upgrades, which was roughly $1.3 billion in 1994, and totals more than $3.9 billion in the budget year. The suspension of several high-cost, IT upgrades, budgeted at nearly $1.0 billion, has significantly decreased the state's overall investment in IT modernization, which totaled nearly $5.0 billion at this time last year.

Among these suspended projects, was the contract with the vendor responsible for integrating the IT upgrade for the state's payroll disbursement system, the 21st Century Project, which was terminated in February 2013 after investing approximately $250 million.

TASK FORCE ON RE-ENGINEERING IT PROCUREMENT FOR SUCCESS

Issue 1 – Task Force Recommendations

Background: In just the first few months of 2013, two major California IT projects with combined budgets of over $500 million had either been suspended or canceled after years of development. Additionally, many state software-development projects exceeded their cost and schedule estimates. These problems are by no means unique to California or the public sector; large-scale commercial companies frequently experience failed IT projects and even the most respected systems integrators and developers have regular project failures. In light of these factors, the Governor and the Controller commissioned the Task Force on Reengineering IT Procurement for Success to help the state identify how it can: (1) hire the right vendors, (2) at the best value, and (3) hold them accountable for their performance.

While the primary focus of the task force was the procurement process, the recommendations extend into vendor management to address the risks presented in the entire project life cycle. To arrive at these recommendations, the task force interviewed stakeholders in the vendor, state, and general procurement communities; reviewed relevant studies and past reports; and drew on the collective experience of its members.

Staff Comment: The majority of the recommendations in the task force's report, issued in August of 2013, are administrative in nature and can be implemented through administrative action; however, a few will require statutory or legislative changes. There may be additional instances in which the state may need to identify conflicts that will require amending statute and work with the Legislature to modify statutes that limit the state's ability to pursue the recommendations.

Questions for the Task Force on Re-engineering IT Procurement for Success:

1. *Can you please describe which recommendations will require legislative action?*

2. *Did the task force consider utilizing an approach that breaks larger IT projects into numerous smaller projects? If not, does the Task Force see any issues with utilizing that approach moving forward?*

DEPARTMENT OF TECHNOLOGY

Issue 1 – Stage/Gate Model

Background: The process for IT procurement is generally the same, regardless of the cost and scope of the project. The review and approval process begins with the state entity seeking the IT project developing a feasibility study report (FSR). Once approved by the Department of

Finance, the FSR is essentially the business justification for undertaking a project. The FSR is translated into a budget proposal that is submitted to the Legislature for review and action.

Upon receiving the authority to procure IT enhancements, as provided by SB 71, the Department of Technology reviewed existing procurement processes and determined that the current IT modernization process was often viewed as cumbersome by both the vendor and the end-user department, required too much time for decision-making, and often relied on outdated data. The Department of Technology modified the IT procurement process with the intent of improving the quality, value, and likelihood of success for IT projects undertaken by the state.

As part of its improvement process, the Department of Technology has introduced the Stage/Gate model for IT projects. While state entities must still complete an FSR, the initial information that they are expected to provide will be different. The introduction of the Stage/Gate model is designed to be more informative on the front-end of the request, and departments/agencies must provide a more accurate project budget estimate and more clearly define the business case that led them to request an upgrade to their IT portfolio. The Department of Technology expects that the introduction of the Stage/Gate model will reduce the need for change orders mid-project. Technology Letter (TL) 13-02 introduced the changes, which all state entities are subject to, into the IT project approval lifecycle.

The Stage/Gate model also will break the IT procurement process into multiple stages. Each subsequent stage will be separated by a deliverable, or a gate. After each stage, the Department of Technology will conduct an analysis to determine whether or not the investment remains practical, and if the project should continue. The Stage/Gate model has the potential to reduce the complexity of future IT projects in the state by breaking the project into multiple discrete phases. According to a recent study conducted by the University of Oxford, the longer a project is scheduled to last, the more likely it is to run over time and over budget, with every additional year increasing the cost by 15 percent.

Staff Comments: The recent changes to the procurement process may be positive, but only time will tell. The introduction of the Stage/Gate model represents a change to the procurement process that was likely necessary. There are certain advantages to utilizing the proposed model, and the Stage/Gate model is a commonly accepted practice in the IT industry. However, there are certain risks that may arise from its use. One of the disadvantages of using the Stage/Gate model is that it limits creativity and ingenuity. The process to move from one gate to the next is very structured and the focus to move to the next gate may limit creativity. Additionally, it is unclear if every project will have clearly defined deliverables or gates, or if an agency will attempt to do too much in one phase.

Questions for the Department of Technology:

1. *Will modifying the procurement process require any changes to statute?*

2. *How does the Department of Technology plan on ensuring that the right people are determining whether or not a project moves forward?*

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Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Norma Torres
Senator Tom Berryhill

Thursday, May 8, 2014
9:30 AM or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultants: **Farra Bracht and Brady Van Engelen**

<u>Item Number and Title</u>

0690	Office of Emergency Services
0845	Department of Insurance
0911	Citizens Redistricting Commission
0950	State Treasurer's Office
0971	California Alternative Energy and Advanced Transportation Finance Authority
0985	School Finance Authority
1700	Department of Fair Employment and Housing
2240	Department of Housing and Community Development
8940	California Military Department
8955	California Department of Veterans Affairs

(See Table of Contents on pages 1 and 2 for a More Specific Listing of Issues)

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AGENDA – VOTE ONLY ITEMS

(Please see summary chart on Page 4)

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only – Issue Descriptions

Office of Emergency Services (OES)

Issue 1 – Public Safety Communications Office

Governor's Budget Request: The OES requests an additional 17.3 positions in temporary help and 25 permanent positions to support the transfer of the Public Safety Communications Office (PSCO) from the Department of Technology to the OES.

Background: The PSCO is comprised of 50 offices throughout the state. PSCO has the responsibility of administering the state's 9-1-1 emergency communications program, serving 462 police, fire, and paramedic dispatch centers located within California's 58 counties. In 2005, the Office of Network Services was transferred from the Department of General Services to the Department of Technology Services. In an effort to unify all emergency services, the 9-1-1 Emergency Communications and the Radio Communications were transferred in 2009 to the Office of Chief Information Officer (OCIO) and renamed the Public Safety Communications Office. During consideration of the 2013-14 budget the Legislature approved the transfer of 374 positions from the Department of Technology to the Office of Emergency Services.

Prior to July 1, 2013, the Department of Military, State Active Duty personnel, had 26.0 employees working with the Cal OES to provide all-hazards training and exercise programs in support of local and state first responders that was funded through a contract using federal funds.

Staff Comment: The requested positions are funded by the Technology Services Revolving Fund. OES currently has the authority to fund the positions, but lacks the positional authority to support the staff transfer from the Military Department. The requested 17.3 positions will support maintenance and operational support to the PSCO's assets, and the 25 requested permanent positions are to support the PSCO's statewide training efforts.

Staff Recommendation: Staff has no issues with this request; approve as budgeted.

Vote:

Issue 2 – Relocation of Red Mountain Communications Site

Governor's Budget Request: The OES requests $2.683 million (General Fund) to support the relocation of the Red Mountain Communication Site in Fiscal Year (FY) 2014-15.

Background: The Red Mountain Communications Site towers support twelve public safety agencies within Humboldt and Del Norte counties. The United States Forest Service's Six Rivers National Forest Plan requires that all communications facilities currently operating on Red Mountain be removed and the land cleared by December 31, 2022. The proposed project will establish three new facilities that will enhance radio coverage currently provided at the Red Mountain facility. The project will establish three new communications facilities at Rattlesnake Mountain, Alder Camp, and Rodgers Peak.

Staff Comment: The requested funds will support the preliminary plans phase of this project. Project costs are currently estimated to total $19.982 million. The next phase, working drawings is expected to cost approximately $1.26 million, and will be requested in FY 2015-16. The last phase, construction, is expected to cost $16.04 million and will be requested in FY 2016-17. Additional costs, associated with maintenance, leasing, and power, to the respective agencies will total $25,000 annually.

Staff Recommendation: Approve as budgeted.

Vote:

California Department of Insurance (CDI)

Issue 1 – Legislative Workload Adjustments

Spring Finance Letter: The Governor has submitted a spring finance letter requesting an increase of expenditure authority of $121,000 (Insurance Fund) in FY 2014-15 and $114,000 ongoing to address workload associated with the implementation of SB 617 (Calderon), Chapter 496, Statutes of 2011.

Background: SB 617 required each agency adopting a major regulation that is subject to the Office of Administrative Law review to prepare an economic analysis and required state agencies to monitor internal auditing and financial controls. Additionally, the Department of Finance (DOF) has adopted regulations for state agencies to follow when conducting a Standardized Regulatory Impact Assessment. Those regulations became effective on December 1, 2013.

As a result of both SB 617 and the new adopted regulations by the DOF, the workload for CDI has increased significantly. CDI has about 15 active rulemaking projects subject to the Administrative Procedure Act, with approximately three considered major regulations under the new law.

Staff Comment: This proposal provides resources for CDI to comply with provisions included in SB 617.

Staff Recommendation: Staff has no issues with this request; approve requested funds and positions in spring finance letter.

Vote:

California Alternative Energy and Advanced Transportation Finance Authority (CAEATFA)

Issue 1: Implementation of California Public Utilities Commission (CPUC) Energy Efficiency Financing Pilot Programs-California Hub for Energy Efficiency Financing (CHEEF)

Background: This budget proposal was heard in the Senate Budget Subcommittee No. 2 on Resources and Transportation on March 6th. The budget requests reimbursement and expenditure authority of $4.4 million, over two years, to enable it to serve as the administrator of investor-owned utility (IOU) ratepayer funds for the CHEEF program. Overall funding for the pilot program would use $65.9 million from IOU ratepayer funds (derived directly from the IOUs, not from the CPUC). Of the $65.9 million, approximately 65 percent of the funds would go directly to residential customers and 35 percent ($23 million) would be spent by IOUs and CAEATFA for administrative costs, outreach, and evaluation.

The funding for two years would include:

- $5 million for CHEEF startup costs (CAEATFA administrative and contracting costs).
- $10 million for marketing, education, and outreach ($8 million at IOUs, $2 million at CAEATFA).
- $28.9 million for residential credit enhancements including: $25 million for single family loan loss reserves; $2.9 million for multi-family debt service reserve fund; and, $1 million for energy financing line item charges (to Pacific Gas and Electric Company).
- $14 million for non-residential credit enhancements (small business sector).
- $8 million to the IOUs for information technology.

Staff Comments: The proposal before the subcommittee does not request approval of the policy set forth by the CPUC but rather is the last step before implementing the CPUC's quasi-legislative policy decision. Given the Legislature's reaction to the CPUC's establishment of programs and activities outside the legislative process last year, it would behoove the CPUC to use the legislative process, rather than bypass it, in its efforts to start new programs. Staff are equally concerned that the majority of the funding for this project under review, would not be administered through the budget, but rather would be directed outside the budget process with objectives not clearly defined in statute.

In addition, CAEATFA—the administrator of the state funds in this proposal, is reviewed under Budget Subcommittee No. 4 because it is within the Treasurer's Office. There is no companion budget proposal under the CPUC's budget.

The Assembly Budget Subcommittee No. 4 adopted this proposal on April 1, 2014.

Staff Recommendation: Reduce this request by $1,000, without prejudice to the proposal, to keep this item open for further discussion.

Vote.

California School Finance Authority

Department Summary: The California School Finance Authority (CSFA) was created in 1985 to oversee the statewide system for the sale of revenue bonds to reconstruct, remodel, or replace existing school buildings, acquire new school sites and buildings to be made available to public school districts (K-12) and community colleges, and to assist school districts by providing access to financing for working capital and capital improvements. Over the last 25 years, the CSFA has developed a number of school facilities financing programs and most recently is focused on assisting charter schools to meet their facility needs. The CSFA is a three-member board comprised of the State Treasurer, the Superintendent of Public Instruction, and the Director of the DOF, and is administered within the Office of the State Treasurer.

Budget Summary: The CSFA budget calls for $126.1 million and 10 positions for 2014-15. This represents a small increase from the 2013-14 funding level of $126.0 million and eight positions. The CSFA is largely funded by General Fund (Proposition 98), federal funds, and other funds that include General Funds (non-98).

Issue 1: Charter School Facility Grant Program

Last year, the Charter School Facility Grant Program (CSFGP) and the Charter School Revolving Loan Program were transferred from the California Department of Education (CDE) to CSFA. The shift included $175,000 in General Fund (Non-98) and 2.0 positions from CDE to CSFA to support the program transfer in 2013-14 and beyond. The shift was approved because CSFA already administers similar programs and, according to the Administration, the proposed shift was intended to improve the efficiency of charter school program administration and disbursement of funds to local charter schools.

The Governor's budget requests two additional positions and to upgrade an existing position, for a total cost of $167,000 General Fund (non-98), to administer the program.

Staff Comment: Following the March 20th hearing of this item, the LAO reviewed the workload data subsequently provided by CSFA and found that the request for additional staff and funding is reasonable and recommends approval of the request. The LAO's analysis is below.

LAO Comment: According to a LAO analysis, for the past several years, the Legislature has appropriated $92 million annually to the CSFGP to assist charter schools in low-income areas with facility-related costs including leases, remodeling, and deferred maintenance. Prior to 2013-14, the program was administered by the CDE. The program made initial payments by October 1 of each year, with additional payments made over the course of the current and subsequent fiscal years. The 2013-14 budget package transferred the administration of the program to CSFA along with one analytical position. In addition, the trailer bill language accelerated the payment schedule. Specifically, statute now requires an initial payment by August 31 of each year, with additional payments made entirely within the current fiscal year. To adhere to this new schedule, the CSFA analyzes funding applications to make initial funding allocations, followed by a series of "true-ups" to actual costs. Given the accelerated schedule, these estimates and true-ups must be done more quickly and more frequently than in the past. Furthermore, the number of funding applications has grown by at least 10 percent per year for the past several years, consistent with the overall growth in the number of charter schools in California. (As of 2011-12, the last year for which final payment data are available, about 300 charter schools received funding from the CSFGP.)

To determine if the requested positions were reasonable, the LAO asked CSFA to provide information about the tasks involved in administering the CSFGP, the expected time needed to process each funding application, the rationale for selecting the specific position classifications, and the manner in which the program workload was completed in the current year. Among their findings were the following:

- During the current year, CSFA has relied on staff assigned to other programs to complete some of the CSFGP workload. This approach is unlikely to be sustainable over the long term because these other staff positions are not supported by General Fund appropriations and have limitations on how their time may be used.
- Given the number of hours required to review each funding application (at least 13) and the expected number of applications (more than 300), the one analyst currently assigned to this program is unlikely to be sufficient to perform all work associated with the program.
- The tasks that will be performed by the requested positions relate to the activities involved in administering the program. Although the positions requested are at a lower classification than is typically used to administer programs like the CSFGP, CSFA has used similarly classified positions to administer other facility funding programs successfully.
- Even with approval of the two positions, CSFA will be required to absorb workload increases associated with an expected increase in the number of funding applications. Absorbing this workload is reasonable because the hours required to process each application should decrease as CSFA gains more experience with the program.
- The CSFA has been prudent with the resources currently provided and is meeting the Legislature's intent that funds be apportioned in an expeditious manner. Administrative changes the CSFA is implementing, such as developing conflict-of-interest rules for charter schools receiving funding, are reasonable and will help ensure proper oversight of state funds.

Staff Recommendation: Approve the request for two additional positions and an upgrade to an existing position, for a total cost of $167,000 General Fund (non-98).

Vote:

Department of Housing and Community Development (HCD)

Issue 1 – Rental Housing Construction Program

Governor's Budget Request: The Governor's budget includes a request to transfer support costs associated with administering the Rental Housing Construction Program (program) from the Rental Housing Construction Fund (0938) to the Rental Housing Rehabilitation Fund (0929). If adopted, the following changes will be reflected:

- A reduction of $1.141 million in the Rental Housing Construction Fund (0938), transferred to the Rental Housing Rehabilitation Fund (0929); and, a reduction of 2.0 positions and $225,000 of funding in FY 2015-16.

Background: The Department of Housing and Community Development (HCD) estimates that there are a total of 1,334 households that currently receive this subsidy. HCD projects that funds that support the program will be exhausted by the end of FY 2014-15. The program provides subsidies to low-income households. HCD estimates that this transfer will extend program operations for the Rental Housing Construction Program to FY 2026-27.

Funds that support this program were originally appropriated by the Legislature in the 1980s. At the time, there were 49 program agreements and it was expected that the subsidies would cover the projects over a 30-year period, the majority of the contracts for this program were executed between 1983 and 1986, and are coming to the end of their original 30-year obligation. However, HCD has restructured some of the loans and obligations, which will commit HCD beyond the original 30-year period.

The reduction of 2.0 positions and $225,000 in state operations budget authority is a result of a portion of the program maturing, lessening the workload associated with this program.

Staff Comment: HCD has received a legal opinion to determine that funds in the Rental Housing Rehabilitation Fund is a legal source to fund the long-term monitoring costs for the program. If the transfer is adopted, HCD projects the fund balance for the Rental Housing Rehabilitation Loan Fund to total $69.54 million for the budget year, which means that the transfer will have little to no impact on the condition of the Rental Housing Rehabilitation Fund. Additionally, there is approximately $68.66 million in General Fund loan repayments that are scheduled to be repaid to the Rental Housing Fund in future fiscal years.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Community Development Block Grant

Governor's Budget Request: The Governor's budget includes a request for $1.515 million (General Fund), 9.0 three-year limited-term positions and $971,000 (General Fund) to address backlog and additional workload requirements stemming from additional federal regulations, and a reduction of $1.426 million in Community Development Block Grant disbursements (local assistance) for three years.

Background: The Community Development Block Grant (CDBG) program is a flexible program that provides communities with resources to address a wide range of unique community development needs. Established in 1974, the CDBG program is one of the longest continuously run programs at the U.S. Department of Housing and Urban Development (HUD). There are a variety of program areas within CDBG that offer assistance to communities developing public facilities, infrastructure and services, affordable housing, and job creation through business retention efforts. HCD is responsible for the administration of the state program for 163 non-entitlement jurisdictions, which are primarily rural and, in many cases, disadvantaged communities.

The program is highly competitive and demand in the state fare exceeds the award amount provided to the state. In 2012, the state received $43 million that was available for award, however, the 98 applications received by HCD totaled over $104 million. The non-awarded $61 million reflects a total of 44 projects that communities are not able to complete unless they receive a CDBG in a future cycle, or find an alternative funding source.

A shrinking federal award amount and increased workload have applied an additional strain to the CDBG program. The state has received 35 percent less in CDBG funding from HUD over the last eight years. And, HCD has been subject to a federal compliance audit which will result in a $5.9 million debt to the federal Department of Housing and Urban Development. Payments to HUD are not due until 2016, and may be paid either with a reduction in federal disbursements or a cash repayment. To address the $5.9 million owed to HUD, HCD has proposed to repay a total of $1.6 million (General Fund) and the total amount received by $4.3 million. The repayment and the grant reduction will be stretched over a three-year period; totaling $544,000 annually in repayments and a $1.426 million reduction in Local Assistance annually.

The portion of this request that will add 9.0 three-year limited-term positions and $971,000 (General Fund) will ensure that HCD remains compliant with federal regulations and provide local jurisdictions with a greater level of technical assistance.

Staff Comment: The CDBG program requires a state to match administrative costs dollar for dollar for federal grants used for administrative purposes. In 2007-08, an insufficient amount of General Fund was available to match the federal amount, and HCD chose to use an alternative method of “in-kind” matching. A subsequent audit by HUD determined that the “in-kind” match was not appropriate and that the state would owe approximately $1.63 million for unmet matching requirements and $4.27 million for over expenditures.

Staff Recommendation: Approve as budgeted.

Vote:

California Military Department

Issue 1 – Environmental Programs

Governor's Budget Request: The Governor’s budget includes a request for an increase of $519,000 in Federal Trust Fund authority and an additional seven positions for the California Military Department (CMD). The funding and positions support the CMD’s Environmental Programs Directorate that ensure environmental requirements mandated by federal and state law, are being adhered to by the Military Department and its partners.

Background: The California National Guard Environmental Program is comprised of 35 total personnel, and is responsible for environmental compliance within CMD’s Army National Guard facilities. The California National Guard is responsible for a number of facilities in the state, including three major training facilities, an aviation repair depot, vehicle and weapons maintenance facilities, and a number of smaller vehicle repair shops. Through the National Guard Bureau’s federal manning model, it has been determined that a total of 35 positions be provided to the California Army National Guard to comply with federal, state, and local environmental laws.

Staff Comment: Currently ten of the 35 employees within the Environmental Directorate are contract employees. This request would convert seven of those contract positions to state civil service, and the Military Department would still have a total of thirty-five employees within the Environmental Directorate. Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Force Protection

Governor's Budget Request: The Governor's budget requests an increase of 46 positions within the California Military Department in order to provide security at CMD installations and airfields.

Background: In FY 2010-11, the California Army National Guard secured a Master Cooperative Agreement with the National Guard Bureau for 47 three-year limited-term positions. The positions associated with this activity expired on June 30, 2013, and have been administratively established in 2013-14. The Military Department has requested that these positions be established on a permanent basis. The funds that support these positions are ongoing, and it is unlikely that the National Guard Bureau will rescind this funding support.

Staff Comment: The requested positions will provide security at eight different facilities throughout the state, overseeing state assets and infrastructure at these installations. The eight installations are listed below:

- Joint Forces Headquarters – Sacramento
- Mather Aviation Support Facility – Mather
- Stockton Aviation Support Facility – Stockton
- Fresno Aviation Support Facility – Fresno
- Theater Aviation Sustainment Maintenance Group – Fresno
- Camp Roberts – Bradley
- Camp San Luis Obispo – San Luis Obispo
- Joint Forces Training Base – Los Alamitos

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – California Military Museum

Governor's Budget Request: The Governor's budget proposes trailer bill language to redirect the annual $100,000 appropriation (General Fund) to the private non-profit California Military Museum Foundation (foundation) annual $100,000 General Fund appropriation to the CMD.

Background: SB 1470 (Johannessen), Chapter 469, Statutes of 2002, provides for an annual appropriation of $100,000 General Fund to the foundation, a private non-profit organization for the operation of the museum. There is currently no codified language in statute to govern this appropriation.

The proposed trailer bill language, if adopted, would provide the CMD with the authority to oversee the expenditures of the Foundation and would require that the foundation submit invoices, or bills to the CMD in order to receive the appropriated funds.

Staff Comment: The Governor's proposal affords the state better mechanisms for the oversight of The California Military Museum, and would establish better fiscal oversight and budgetary procedures for the General Fund appropriation provided to support the Military Museum.

Staff Recommendation: Adopt proposed trailer bill language.

Vote:

Issue 4 – State Active Duty Employee Compensation

Governor's Budget Request: The Governor's budget proposes to augment the Military Department's 2014-15 budget by $615,000 ($256,000 General Fund and $359,000 Federal Trust Fund) to cover the estimated State Active Duty employee compensation increases.

Background: Pursuant to California Military and Veterans Code, Sections 320-321, pay for State Active Duty employees must be based upon established military pay grades and estimated pay increases granted by Congress. This proposed compensation adjustment is due to a congressionally-approved increase in the military allowances for housing and subsistence.

Staff Recommendation: Approve as budgeted.

Vote:

California Department of Veterans Affairs (CalVet)

Issue 1 – Conversion to Civil Service

Governor's Budget Proposal: The Governor's 2014-15 budget includes a request for an additional $2.068 million in General Fund support and an increase of 43 positions to assist with veterans' claims, food service operations, and security. These positions would be converted from contracted positions

Background: On June 18, 2009, the State Personnel Board ordered the California Department of Veterans Affairs (CalVet) to convert a number of contracted positions to civil service. The ruling was in accordance with Government Code §19130, which specifies which personal service contracts may, and may not, be utilized by state agencies. An appeal made by CalVet in 2011, but was denied by the State Personnel Board. The initial contracts were permitted since they represented a new legislative function, as defined by Government Code §19130.

The requested 43 positions will be spread throughout four of the homes within the Veterans Homes of California network, as follows:

- ***Barstow*** - $1.056 million and 20 positions (11 food service, eight security, and one veteran claims service position).

- ***Chula Vista*** - $927,000 and 22 positions (13 food service, eight security, and one veteran claims service position).

- ***Lancaster*** - $40,000 and 0.5 positions for veteran claims.

- ***Ventura*** - $45,000 and 0.5 positions for veteran claims.

The current security contract is set to expire on December 1, 2014. CalVet has requested that the security positions be brought into compliance with Government Code §19130 before the State Personnel Board issues another injunction.

The veterans homes in Yountville and West Los Angeles have permanent positions providing veterans' claims representation at their respective facilities. The Redding and Fresno veterans homes will also have permanent positions that will provide claims representation to residents. The remaining four veterans homes (Lancaster, Chula Vista, Ventura, and Barstow, contract with the local county veteran service office, however, the county veteran service officers are county employees and CalVet has expressed concern that, as county employees, their priorities may not align with CalVet's. CalVet has noted that during FY 2010-11, a significant increase in claims occurred, which can be attributed to adequate staffing.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Redding Veterans Home – Continued Activation

Governor's Budget Request: The Governor's 2014-15 budget includes a request to increase General Fund support by $3.896 million and 43.3 positions for FY 2014-15, and $5.047 million and 48.8 positions in order to complete the staffing ramp-up at the Redding Veterans Home.

Background: In 2008, the Legislature approved the construction of a new veterans home in Redding. Construction of the facility began in 2010 and was completed in 2012. The Budget Act of 2010 included staff and funding for pre-activation through full ramp-up. Due to the ongoing fiscal constraints, the Budget Act of 2011 delayed the opening of the veterans home and eliminated all funding and positions related to its activation. The Budget Act of 2012 took a similar approach, providing CalVet with enough support to maintain the facility, but not enough to activate it. Funding was provided in the Budget Act of 2013 to open the veterans home, continue the staffing ramp-up and begin the first year of resident admission.

Staff Comment: This is a multi-year request that will fulfill ramp-up activities at the Redding Veterans Home. The requested resources reflect the final phase of ramp-up for this facility and comply with the terms agreed to with the U.S. Department of Veterans Affairs in their construction grant terms. Resident occupancy for this facility has begun and full occupancy is projected to occur in March 2015.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Fresno Veterans Home – Continued Activation

Governor's Budget Request: The Governor's 2014-15 budget includes a request to complete the staffing ramp-up and admission of residents at the Fresno Veterans Home. The request includes:

- $7.56 million (General Fund) and 89 positions in Budget Year 2014-15 and $12.83 (General Fund) and 137.9 positions ongoing.
- $4.14 million (General Fund) and 52.2 positions in Budget Year 2015-16 and $6.44 million (General Fund) and 70.1 positions ongoing.
- $602,000 (General Fund) in Budget Year 2016-17 and $700,000 ongoing.

Background: In 2008, the Legislature approved the construction of a new veterans home in Fresno. Construction began in May 2010, and was completed in April 2012. Due to the ongoing fiscal constraints, the Budget Act of 2011 delayed the opening of the veterans home and eliminated all funding and positions related to its activation. The Budget Act of 2012 took a similar approach, providing CalVet with enough support to maintain the facility, but not enough to activate it. Funding was provided in the Budget Act of 2013 to open the veterans home, continue the staffing ramp-up, and begin the first year of resident admission.

Staff Comment: This request for staffing and resources for the remaining years of admissions is projected to take the total census to an estimated 174 by the end of FY 2014-15, 268 by the end of 2015-16, and full occupancy of 300 in the fall of 2016. The requested resources reflect the request submitted in the U.S. Department of Veterans Affairs construction grant.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 4 – County Veteran Service Officer (CVSO) Auditor

Governor's Budget Request: The Governor's 2014-15 budget includes a request for $52,000 (General Fund) and one position for a county subvention program auditor and database coordinator.

Background: The CalVet County Subvention Program reimburses counties for a portion of their administrative costs and for workload units on a semi-annual basis. Funds are distributed on a pro-rata basis. Auditing the county submissions is a function that has been performed by a retired annuitant.

Recent changes in accordance with SB 1006 (Budget and Fiscal Review Committee), Chapter 32, Statutes of 2012, modified the workload unit computation process. The computation is now based on a performance-based formula that incentivizes CVSOs to maximize the amount of federal dollars received by a veteran. Additionally, SB 1006 modified reporting requirements of CalVet to offer more comparative statistics and best practices in their reports.

Staff Comment: This request will allow CalVet to fulfill a legislative requirement and eliminates a service contract to perform audits of the county subvention program.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5 – State Cemeteries Perpetual Maintenance Funding

Governor's Budget Request: The Governor's 2014-15 budget includes a request for a $10,000 augmentation of the Northern California Veterans Cemetery Perpetual Maintenance Fund for operational and maintenance purposes.

Background: The Northern California Veterans Cemetery Perpetual Maintenance Fund provides funding for the maintenance of the Northern California Veterans Cemetery at Igo and the Yountville Veterans Home Cemetery.

Initial funding levels were established in 2005 and have not been adjusted. There have been a total of 3,882 burials at the Northern California Veterans Cemetery and total acreage has increased from 1.75 acres to 13.5 acres.

Staff Comment: The Northern California Veterans Cemetery Perpetual Maintenance Fund anticipated FY 2014-15 revenues of $64,000 and authorized expenditures of $55,000, the resources to provide this augmentation to the Northern California Veterans Cemetery and the Yountville Veterans Home Cemetery are available.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 6 – Investigative Services

Governor's Budget Request: The Governor's 2014-15 budget includes a request for $96,000 (General Fund) and two permanent positions to investigate claims of elder abuse, hostile work environment complaints, and other miscellaneous employment-related matters.

Background: Currently, CalVet does not have any staff dedicated to investigating claims related to civil litigation, workplace violence complaints, personnel matters, and claims of elder abuse. When necessary, CalVet has been required to contract out investigative-related activities, and is currently expending $97,000 in resources annually for investigative services.

Staff Comment: According to CalVet, providing their Legal Affairs Division with investigative staff would facilitate a more cost-effective and expedient legal process. When not occupied by active investigations, the Legal Affairs Division intends on utilizing the investigator to support attorneys with trial preparation for ongoing litigation files, which will allow for a more efficient use of staff attorney time, as well.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 7 – Central Coast State Cemetery

Governor's Budget Request: The Governor's 2014-15 budget includes a request for $8.217 million ($1.42 million Central Coast State Veterans' Cemetery at Fort Ord Operations Fund and $6.797 million Federal Trust Fund Authority), to begin construction of the Central Coast State Veterans Cemetery at Fort Ord.

Background: AB 3035 (Laird), Chapter 291, Statutes of 2006, authorized the construction of a cemetery to be located at the former site of Fort Ord. The Central Coast Cemetery will support the burial needs of approximately 177,000 veterans living within six surrounding counties: Alameda, Monterey, San Mateo, Santa Cruz, San Benito, and Santa Clara. The United States Department of Veterans Affairs, through its National Cemetery Administration State Cemetery Grants program will reimburse 100 percent of allowable costs for the design and construction of the cemetery.

When complete, this project will include 5,000 columbaria sites an administration building with public information space and restrooms; a maintenance yard and building; a committal shelter; and a memorial area.

Staff Comment: Funds for completion of project design were included in the 2013 Budget Act.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 8 – Claims Case Management Software Maintenance Fees

Spring Finance Letter: The Governor has submitted a spring finance letter requesting an increase of $84,000 (Veterans Service Office Fund) to pay for increased costs associated with the maintenance of the statewide veterans claims case management system.

Background: CDVA utilizes a software platform (VetPro) to audit the submissions that county veteran service officers (CVSOs) submit for reimbursement of administrative costs associated with filing a veterans claim. VetPro is utilized by CDVA to identify the quantity, quality, and success rate of claims being filed at the county level.

Annual maintenance fees associated with VetPro have remained constant since 2008; however, these fees are projected to increase by $1,500 per county in FY 2014-15. This increase totals $84,000 when spread across the 56 county veteran service offices that are subject to maintenance fees.

Staff Comment: The fund source for this request, the Veteran Service Office Fund, has adequate resources to support the additional $84,000 requested in the spring finance letter.

Staff Recommendation: Approve spring finance letter request.

Vote:

Issues Proposed for Discussion / Vote

0845 DEPARTMENT OF INSURANCE

Issue 1 – Office of the Patient Advocate

Governor's Budget Request: The Department of Insurance requests an increase of special fund authority of $163,000 in FY 2014-15 and $150,000 in 2015-16 and 1.5 positions to support implementation activities of AB 922 (Monning), Chapter 552, Statutes of 2011.

Background: AB 922 transferred the Office of the Patient Advocate (OPA) from the Department of Managed Health Care to the California Health and Human Services Agency (CHHSA) in 2012 in order to provide assistance to individuals, including those served by health care service plans regulated by the Department of Managed Health Care and the CDI. AB 922 also requires the CDI to do the following:

- Provide assistance to OPA to develop informational guides for consumers
- Receive complaints referred by OPA
- Develop reports related to health consumer complaints
- Receive and handle referrals from OPA regarding studies and investigations
- Provide transfers of money from the Insurance Fund, as needed for OPA

In FY 2012-13, CDI's Consumer Services Division was responsible for handling over 10,000 health-related complaints and responding to over 14,000 health-related telephone calls. CDI projects that the number of written complaints for FY 2014-15 will remain at approximately 10,000 and the number of phone calls will increase to over 16,000.

Staff Comment: In accordance with Health and Safety Code 136000(d)(2) CDI is required to public report on information related to problems faced by consumers in obtaining care and coverage, the office shall analyze data on consumer complaints and grievances resolved by these agencies, including demographic data, source of coverage, insurer or plan, resolution of complaints and other information intended to improve health care and coverage for consumers. However, CDI has yet to produce this report. Staff recommends that the requested positions only be approved if CDI agrees to comply with Health and Safety Code 136000(d)(2) and generate a report related to the data required by law.

Staff Recommendation: Approve as budget, with agreement from CDI that they will be in compliance with Health and Safety Code 136000(d)(2).

Vote:

Issue 2 – Enhanced Fraud Investigation and Prevention

Spring Finance Letter: The Governor has submitted a spring finance letter requesting that $4,585,000 (General Fund) be directed to the CDI fraud investigation and prevention efforts.

Background: This proposal requests an annual General Fund appropriation of $4,585,000 for a four-year period. The appropriation would provide $3,585,000 in state operations for up to 32 four-year limited-term positions for enhanced anti-fraud efforts. Additionally, this proposal would provide $1 million for local assistance for a four-year period for local district attorneys to investigate and prosecute disability and healthcare insurance fraud.

Staff Comment: On November 4, 2013, the CDI successfully litigated an anti-fraud case resulting in a settlement payment of $46 million.

Staff Recommendation: Approve spring finance letter.

Vote:

Issue 3 – Menu Modernization Project

Spring Finance Letter: The Governor has submitted a spring finance letter requesting a one-time $1.329 million (Insurance Fund) increase in expenditure authority, and 4.5 one-year limited-term positions, in order to support CDI's efforts to complete the first-year procurement phase of a five-year information technology project.

Background: The CDI menu was originally developed in 1992, and supports nearly all of the mission-critical applications for CDI. The technology that supports the CDI menu is antiquated, and CDI staff has been required to build "work around" solutions in order to maintain functionality of the software platform. Additionally, the vendor that supports the platform will no longer provide that support f after June 2017. CDI submitted a Feasibility Study Report (FSR) to the Department of Technology, which was approved on April 1, 2014. According to the FSR, total project costs associated with the CDI menu modernization project total $21.391 million.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve spring finance letter request.

Vote:

Issue 4 – Human Resource Information System Replacement Project

Spring Finance Letter: The Governor has submitted a spring finance letter requesting an increase of the CDI budget by $142,000 (Insurance Fund) to fund the use of the State Controller's California Leave Accounting System and Oracle's Financial Human Resource module that will replace the Human Resource Information System (HRIS), scheduled to sunset on June 30, 2014.

Background: HRIS is an online system that automates personnel-related functions such as attendance tracking, leave balance, and position management. Its legacy application, which was written over two decades ago and is currently used by seven state agencies, will sunset on June 30, 2014. The Technology Department has informed all agencies employing the system to find viable replacements.

HRIS customers were scheduled to transition to the MyCalPays system, but that project has been suspended. Upon completing a cost/benefit analysis, CDI elected to purchase the Oracle Financials HR module. CDI identified one-time resources to cover implementation in FY 2013-14 but will need ongoing resources to cover future years.

Staff Comment: This request also includes budget bill language that stipulates that the requested resources would not be available until after the Technology Department has approved the Feasibility Study Report (FSR) associated with this project. The budget bill language will ensure that the FSR submitted to the Department of Technology is approved before resources are allocated for this project. The FSR is currently pending review.

Staff Recommendation: Approve spring finance letter.

Vote:

Issue 5 – Health Care Coverage Market Reform

Governor's Budget Request: The CDI requests $1.01 million (Insurance Fund) in expenditure authority in 2014-15 to fund a total of 9.0 positions, to address the workload associated with AB2 X1 (Pan), Chapter 1, Statutes of 2013, which amended and added several statutes to the California Insurance Code necessary to conform with federal guidelines established by the Federal Affordable Care Act (ACA).

Background: Consumers of health insurance fall into one of three categories: individuals, small groups/businesses, and large groups or businesses with more than 50 employees. The majority of the regulation conducted by the CDI is of health insurance companies that cover individuals or small group/businesses. It is estimated that this represents approximately 12 percent of the state's regulated health insurance providers. The Department of Managed Health Care is responsible for the remaining portion.

AB2 X1, which conformed state regulations with federal healthcare guidelines, has created a more complex health insurance market, added 2.7 million new insured individuals to the health insurance market, and increased the number of inquiries and complaints received by CDI's consumer services division. According to CDI, the consumer services division anticipates an increase in the number of complaints received via telephone and in writing.

Staff Comment: Assembly Budget Subcommittee No. 4 approved the request as budgeted. The positions were approved on a permanent basis.

Staff Recommendation: Approve as budgeted to conform to an action taken in Assembly Budget Subcommittee No. 4.

Vote:

0911 CITIZENS REDISTRICTING COMMISSION

Issue 1 – Continued Funding

Governor's Budget Request: The Governor has requested $20,000 in General Fund (GF) to support the Citizens Redistricting Commission for FY 2014-15.

Background: Proposition 11, the Voters FIRST Act, was approved by the voters on the November 4, 2008 general election ballot. Proposition 11 changed the state's redistricting process by establishing a 14-member Citizens Redistricting Commission (commission) to draw the new district boundaries for the State Assembly, State Senate, and Board of Equalization beginning with the 2010 Census and every ten years thereafter. Proposition 11 specifies that a minimum of $3 million in funding be provided, or the amount appropriated for the previous redistricting plus the Consumer Price Index, whichever is greater.

Pursuant to the requirements of Proposition 11, the 2009-10 budget appropriated $3 million GF for Proposition 11 implementation costs over a three-year period for the commission, State Auditor, and Secretary of State. Additionally, the 2010-11 budget included provisional language to provide an expedited request process should the commission demonstrate it required funding greater than the $2.5 million (the amount that remained from the 2009-10 $3 million GF appropriation) for its costs from January 1, 2011 to June 30, 2011.

Proposition 20 was approved by the voters on the November 2, 2010 general election ballot, requiring changes and expansions to the 2008 amendments to the California Constitution. The 2010 amendments added California's 53 Congressional Districts to the commission's redistricting responsibilities and expanded the criteria for the district mapping process. The amendments also shortened the completion date for all four maps and supporting reports to no later than August 15, 2011, thereby reducing the time allowed for the commission's mandatory submission of the four maps to the Secretary of State by one month. These amendments were made with no additional appropriation of funds to support the expanded responsibilities and requirements.

The requested funds will support two activities for the Commission: $15,000 to support an interagency agreement between the commission and the DGS to support fiscal services and human resources related activities and $5,000 to access external legal advice as necessary. The commission's FY 2013-14 budget totals $71,000 and 0.5 PY's. The commission is utilizing existing resources to fund the currently authorized part-time position and funding.

LAO Recommendation: The commission's 2013-14 budget stems from a decision the Legislature made a year earlier to provide the commission one half-time position to serve as a point of contact for commission matters and litigation. The commission's workload has not increased since that time. Thus, the LAO can see no reason to increase the commission's budget. In addition, the LAO finds DGS's proposal to charge $15,000 to administer a budget of $71,000 to be excessive. Accordingly, the LAO recommended the Legislature direct the Department of Finance and the commission to develop a plan to allow the commission to operate within its 2013-14 budgetary appropriation. Such a plan could include (1) negotiating lower cost contracted services with DGS, (2) reducing or eliminating proposed contract legal services, (3) reducing the time base of the commission's authorized position, and/or (4) shifting the commission's position from a manager classification to a less expensive analyst classification.

Staff Comment: This item was previously heard in this subcommittee. During that hearing, the Commission noted that the costs are expected to decrease in subsequent fiscal years. This subcommittee may wish to approve the requested resources only for FY 2014-15.

Staff Recommendation: Staff recommends approving the requested funds on a one-time basis. Approve requested $20,000 for FY 2014-15.

Vote:

0950 STATE TREASURER'S OFFICE

Issue 1 - Trailer Bill Language Relating to the Local Agency Investment Fund Reimbursement Cap (April Finance Letter # 1)

The STO proposes to amend Government Code Section 16429.1 to increase the maximum amount that may be deducted for the costs incurred in carrying out the administration of the Local Agency Investment Fund (LAIF) to eight percent, if the 13-week daily Treasury Bill rate on the last day of the state's fiscal year is below one percent. If it is above one percent, then the cap would revert back to five percent, consistent with existing law.

Background: The LAIF program is a voluntary program that offers local agencies the opportunity to invest idle funds and earn a competitive yield using the investment expertise of the STO's investment staff at no additional cost to the taxpayer. The LAIF has grown from 293 participants and $468 million in investments in 1977, when the program began, to 2,594 participants and $19.9 billion at the end of December 2013.

The LAIF's costs are based on the person hours required to administer the program and remain fairly constant from one billing period to the next. In 2010-11, the cap was increased from up to one-half of one percent of the LAIF earnings to up to five percent of the LAIF earnings. However, the reimbursement formula under the current limitation/cap does not allow for the actual budgeted costs to administer LAIF to be fully recovered.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Adopt placeholder trailer bill language to increase the Local Agency Investment Fund Reimbursement cap.

Vote:

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

Department of Fair Employment and Housing: The Department of Fair Employment and Housing (DFEH) is responsible for protecting the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence. The Department's jurisdiction extends to individuals, private or public entities, housing providers, and business establishments within the state.

The Governor's Budget proposes total spending of $21.9 million ($16 million General Fund) for the department in 2014-15, nearly identical to the resources provided to DFEH in FY 2013-14. The proposed staffing totals 189 personnel years (PYs), which is also nearly identical to FY 2013-14 PY's.

Department of Fair Employment and Housing 2014-15 Budget Overview

Fund Source	2012-13	2013-14	2014-15
General Fund	$10.30	$13.03	$16.04
Federal Trust Fund	$4.74	$5.33	$5.54
National Mortgage Special Deposit Fund	$2.99	$3.00	$ --
Total Expenditures	$18.03	$21.57	$21.58
Positions	157.3	189.8	189.8

***Dollars in millions**

Issue 1 – Department Oversight

Background: On December 18, 2013, the Senate Office of Oversight and Outcomes (SOOO) issued a report reviewing, among other things, DFEH's role in administering the Fair Employment and Housing Act (FEHA), which is considered to be one of the strongest anti-discrimination laws in the nation. In their report, the SOOO noted that since FY 2007-08 the overall budget for DFEH has decreased by approximately ten percent. DFEH is also performing a higher number of investigations, and is using approximately ten percent less investigators to perform investigative functions for DFEH.

In the report, the SOOO noted that budgetary constraints may have played a role in the state's inability to enforce FEHA, which is similar to the conclusion noted in a 2010 study conducted jointly by the RAND Corporation and the UCLA School of Law. Enforcement is undoubtedly no small task; the DFEH receives more than 20,000 new discrimination claims annually. Due to budgetary constraints, DFEH was forced to do more with less. However, as noted by the SOOO, underfunding the agency responsible for the enforcement of state's anti-discrimination laws diminishes DFEH's enforcement capacity and dilutes the effectiveness of the state's anti-discrimination laws.

While fiscal constraints are not unique to DFEH, there are other actions highlighted in the SOOO report that also raised concern. The report noted that DFEH's decision to divert resources away from housing investigations damaged a long-standing relationship with the federal Department of Housing and Urban Development (HUD). For nearly twenty years DFEH conducted investigations on behalf of HUD, which are reimbursable at $2,600 per claim. Concerns raised by HUD regarding the quality of discrimination investigations, coupled with the threat of losing the contract with HUD; compelled DFEH to hire additional investigators for housing claims.

Staff Comment: In accordance with Government Code Section 12930(k), DFEH is required to submit a written report of its activities and of its recommendations on an annual basis. However, it appears that the most recent available report is from 2010. In order to determine whether or not additional resources would address the issues raised in the report conducted by the Senate Office of Oversight and Outcomes, and the joint study conducted by the RAND Corporation and the UCLA School of Law, some additional information may be required.

Staff Recommendation: Adopt Supplemental Reporting Language requiring that the DFEH report the following information in a sortable spreadsheet format for both employment cases and housing cases, reported separately for public and private entity respondents since January 1, 2011:

- Number of complaints filed, by each alleged basis of discrimination.
- The following information for complainants: race, sex, age, primary language and zip code of residence.
- For employment cases, the annual rate of pay or salary of the position at issue in the following ranges: less than $20,000; $20,000 to $49,999; $50,000 to $74,999; $75,000 and higher.
- The date on which the complainant requested a right to sue, if any.
- Whether the complaint was drafted by the department before being served on respondent.
- Whether the department received an answer to the complaint from respondent.
- Whether the case was "graded" by the department before receiving an answer to the complaint from the respondent.
- The time between date of complaint and the date of answer. If no answer filed, the time between date of complaint and date of closure.
- Whether the complainant was provided with a copy of the respondent's answer before case grading or closure.
- Whether the complainant was interviewed in-person by a department investigator.
- Whether the complainant was interviewed by telephone by a department investigator.
- Whether the alleged discriminatory individual(s) was interviewed in-person by a department investigator.
- Whether the alleged discriminatory individual(s) was interviewed by telephone by a department investigator.
- Whether all relevant witnesses identified by complainant, respondent, and other witnesses or documents were interviewed by a department investigator.
- Whether corroborating information or documentation was obtained from complainant.
- Whether corroborating information or documentation was obtained from respondent.
- Whether an on-site inspection was performed by a department investigator.

- Whether the complaint was referred to mediation before receiving answer from the respondent.
- Whether the complaint was settled by department-conducted mediation.
- Whether the complaint was settled by some method other than department-conducted mediation.
- The amount paid in settlement, if any.
- The amount of attorney's fees obtained in settlement for the complainant, if any.
- Whether any other type of relief was obtained (non-monetary) in settlement, and if so the type of relief obtained.
- Whether the department found that the complaint had merit.
- Whether the department issued an accusation.
- Any other reason for case closure, other than settlement or accusation.
- Whether the department filed suit.
- Whether department-filed litigation resulted in a court judgment, and if so the terms of the judgment.
- Whether any settlement included release of claims outside of the jurisdiction of the department.
- Amount of attorney's fees awarded in favor of the department.
- Amount of attorney's fees awarded against the department.
- Average number of allegations per year assigned to each investigator, and the number per year assigned to each attorney.
- Average number of complaints closed per investigator per month.
- Percentage of cases closed within 100 days of filing.
- Percentage of cases closed within 365 days of filing.
- Percentage of cases in which conciliation or settlement was attempted.

Vote:

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 1 – Housing Related Parks Program

Governor's Budget Request: The Governor's budget includes a request to adjust the baseline budget for the Department of Housing and Community Development by an increase of $25 million to fund awards under the Proposition 1C Housing Related Parks Program.

Spring Finance Letter: The Governor submitted a spring finance letter that requests an increase of $62.5 million, in addition to the $25 million included in the Governor's January proposal, for a total of $87.5 million for the Housing Related Parks Program.

Background: In 2006, voters approved Proposition 1C, authorizing the largest housing bond in the nation. The bond measure authorized an additional $2.85 billion, most of which was used to support affordable housing efforts. The Housing-Related Parks Program, funded through Proposition 1C, was designed to encourage the construction of low-income housing units by providing funding to cities and counties that can be used for the development and renovation of parks for each qualified housing permit they issue. As of January 30, 2014, there is an estimated $116 million available for award.

While voters approved Proposition 1C in November 2006, the bond required the Legislature to adopt subsequent legislation to implement the Housing-Related Parks Program. AB 2494 (Caballero), Chapter 641, Statutes of 2008, established the Housing-Related Parks Program, under the administration of the Department of Housing and Community Development.

It was originally anticipated that HCD would make roughly $25 million in awards per year, beginning in the 2009 calendar year. However, local governments only qualified for $8.8 million in awards in 2010. HCD issued a Notice of Funding Availability (NOFA) again for the 2011 calendar year, and local governments qualified for only $11.3 million**.**

AB 1672 (Torres), Chapter 779, Statutes of 2012, broadened the Housing Related Parks Program eligibility to include units substantially rehabilitated, preserved or acquired for low or very low income households. HCD expects that this will greatly increase the total amount of awards issued annually.

Based on the applications from the most recent NOFA for 2013-14, HCD received $77.5 million in requests for the $25 million appropriated in 2013-14. Since the NOFA is oversubscribed, HCD stated that without any changes the law requires funds to be distributed proportionally to all eligible applicants.

Staff Comment: This item was originally heard in Senate Budget Subcommittee No. 4 on March 13th. HCD has noted that the modifications made by AB 1672 have increased the applicant pool substantially. And, in accordance with statute, the funds will have to be distributed proportionally to all eligible applicants.

Staff Recommendation: Approve Governor's budget request with modifications requested in spring finance letter, which totals $87.5 million for the Housing Related Parks Program.

Vote:

Issue 2 – Fund Eliminations

Governor's Budget Request: The Governor's budget includes a request for the elimination of three funds administered by the Department of Housing and Community Development that are no longer active. Under the Governor's proposal fund balances will either be returned to the Housing Rehabilitation Loan Fund or the General Fund. These funds are:

- School Facilities Fee Assistance Fund (0101)
- California Housing Trust Fund (0843)
- Rural Community Facility Grant Fund (0984)

Background: HCD has determined that these funds are no longer necessary and would like to eliminate the funds. The Governor has proposed trailer bill language that would allow for the elimination of the three funds listed above.

School Facilities Fee Assistance Fund (0101) – The School Facilities Fee Assistance Fund was created to provide down payment assistance to offset developer impact fees for affordable housing. The assistance was provided as a grant if the housing remained owner-occupied for a qualifying period of five years. Funding support was provided by the General Fund in 1998-99 through 2001-02, totaling $140 million. The Department of General Services (DGS) originally administered the program, but subsequently DGS contracted with the California Housing Finance Agency (CalHFA) to run the program. The program was sunset in 2002.

Proposition 46 of 2002 allocated an additional $50 million to the fund, and HCD, as the administrator of housing bonds for the state, assumed administrative responsibility of the fund. All funds allocated via Proposition 46 have been exhausted and the fund balance is currently less than $100,000 dollars. If approved, the proposed language would designate the General Fund the successor fund for any loan repayments received on loans from the General Fund and funds that were loaned with Proposition 46 dollars would revert to the Housing Rehabilitation Loan Fund.

California Housing Trust Fund (0843) – The California Housing Trust Fund was created in 1985 for the purpose of funding housing to serve low-income households. One of the primary revenue sources for the Housing Trust Fund was tideland oil revenues for transfer to the Emergency Housing Trust Fund to provide grants for emergency shelter operating costs. When tideland oil revenue transfers to housing ceased, the Emergency Housing Trust Fund received General Fund support.

In 2006, authority for the California Housing Trust Fund was amended in anticipation of making an endowment to provide a permanent financing source for affordable housing. Despite the change in law, there has not been an appropriation. Rather, voters approved general obligation housing bonds (Proposition 46) to assist the state's affordable housing efforts. There is currently $2.5 million in loan receivables due to this fund, but those loans are not due until 2019. HCD has proposed retaining these repayments within the Housing Rehabilitation Loan Fund, which would serve as the successor of this fund. The Housing Trust Fund currently has a balance of $68,000, which would also be transferred to the Housing Rehabilitation Loan Fund.

Rural Community Facility Grant (0984) – The Rural Community Facility Grant Fund was created to provide a funding source for technical assistance to rural and low-income communities in obtaining public financing to develop public or mutual water systems, or publicly operated waste water systems. The Rural Community Facility Grant Fund received a $500,000 transfer from the California Housing

Finance Fund in 1983 and a $500,000 transfer from the Rental Housing Construction Fund in 1987. There has been no program activity since FY 1988-89.

Staff Comment: Assembly Budget Subcommittee No. 4 approved the Governor's January proposal

Staff Recommendation: Adopt proposed trailer bill language.

Vote:

Issue 3 – Proposition 41: Veterans Bond Act of 2014

Spring Finance Letter: The Governor has submitted a spring finance letter requesting additional resources in advance of the passage of Proposition 41, slated for the June 2014 ballot. Specifically, this request includes the following:

- $1.231 million in state operations to fund nine positions and one existing position.

- $75 million in Local Assistance to provide expenditure authority for Proposition 41 programs including provisional language to allow the Director of Finance to increase the appropriation amount and liquidation period.

- A reduction of $146,000 and one position in state operation expenditures from the Proposition 1C Multi-Family Housing Program.

Background: In 2008, California voters approved Proposition 12, the Veteran's Bond Act of 2008, providing $900 million to help veterans purchase single-family homes, farms, and mobile homes through the CalVet Home Loan Program. As a result of the housing downturn and the economic recession, the program has not experienced the demand that was originally projected.

In 2013, AB 639 (Perez), Chapter 727, Statutes of 2013 restructured the Veteran's Bond Act of 2008 authorizing $600 million in existing bond authority to fund multi-family housing for veterans where at least 50 percent of the units were for extremely low-income veterans.

Staff Comment: Assembly Budget approved the requested spring finance letter, and adopted placeholder provisional language to ensure that there is a proper notification process to the Joint Legislative Budget Committee. Staff recommends that this subcommittee take a conforming action to approve the requested spring finance letter and adopt placeholder budget bill language to ensure that there is an adequate notification process to the Legislature.

Staff Recommendation: Approve spring finance letter, adopt provisional budget bill language.

Vote:

Issue 4 – Office of Migrant Services

Spring Finance Letter: The Governor has submitted a spring finance letter requesting trailer bill Language to allow up to $11 million of disencumbered funds in the Joe Serna Farmworker Housing Grant Program to be used for rehabilitation or construction at the existing 24 state-owned Office of Migrant Services housing centers to address the health and safety deficiencies.

Background: HCD is responsible for maintaining the housing in a manner that is safe for farmworker tenants. A recent inspection and assessment of the OMS housing centers revealed that there are issues that pose significant risks to the health and safety of residents. If repairs are not made, this could be a potential liability to the state.

Over the past 10 years, the OMS facilities have experienced significant deferred maintenance. The funding provided through Proposition 46 housing bonds, the General Fund and federal grants have resulted in improvements to the OMS centers. HCD has invested $24.2 million in rehabilitation and reconstruction of OMS Centers, with 47 percent of the funds coming from Proposition 46.

Staff Comment: The proposal allows up to $11 million in funding; currently Proposition 1C provides $6.5 million.

Staff Recommendation: Approve spring finance letter, adopt proposed trailer bill language.

Vote:

8940 CALIFORNIA MILITARY DEPARTMENT

Issue 1 – National Guard Armories

Background: In a prior hearing this subcommittee directed the CMD to develop a plan that will begin to address the California Army National Guard's infrastructure needs in FY 2014-15.

In accordance with direction provided by this subcommittee, the CMD has developed a plan that will accelerate the construction of the San Diego Readiness Center. The Military Department has proposed accelerating the pre-construction phases of the project forward by two fiscal years. The proposed plan would require that the Military Department's 2014-15 budget be augmented by $790,000 to begin the pre-construction phase of the San Diego Readiness Center.

Current Governor's 5-year infrastructure plan

		2014-15	2015-16	2016-17	2017-18	2018-19	Total
8940	MILITARY DEPARTMENT						
	Advance Plans and Studies	$0	$252	$0	$0	$0	$252
	Latrine Renovations (Statewide Minors)	$0	$1,539	$0	$0	$0	$1,539
	Consolidated Headquarters Complex - Phase I	$7,354	$40,388	$1,961	$0	$0	$49,703
	San Diego Readiness Center Renovation	$0	$0	$790	$872	$9,264	$10,926
	Kitchen Renovations (Statewide Minors)	$0	$1,556	$0	$0	$0	$1,556
	Military Department Total	**$7,354**	**$43,735**	**$2,751**	**$872**	**$9,264**	**$63,976**

*dollars in thousands

Proposed Governor's 5-year infrastructure plan

		2014-15	2015-16	2016-17	2017-18	2018-19	Total
8940	MILITARY DEPARTMENT						
	Advance Plans and Studies	$0	$252	$0	$0	$0	$252
	Latrine Renovations (Statewide Minors)	$0	$1,539	$0	$0	$0	$1,539
	Consolidated Headquarters Complex - Phase I	$7,354	$40,388	$1,961	$0	$0	$49,703
	San Diego Readiness Center Renovation	$790	$872	$3,008	$3,008	$3,008	$10,686
	Kitchen Renovations (Statewide Minors)	$0	$1,556	$0	$0	$0	$1,556
	Military Department Total	**$8,144**	**$44,607**	**$4,969**	**$3,008**	**$3,008**	**$63,736**

*dollars in thousands

Staff Comment: Under the Military Department's proposed five-year infrastructure plan the overall cost will remain the same. The proposed plan would also spread the construction phase of the San Diego Readiness Center into a three- year period. The previous plan would have displaced the unit that occupies the Readiness Center. Breaking it into three phases will allow the wings that are not under construction to absorb the personnel that have been displaced due to construction.

Staff Recommendation: Augment the Military Department's 2014-15 budget by $790,000 (General Fund) in order to begin addressing the Military Department's infrastructure needs in FY 2014-15.

Vote:

Issue 2 – California Cadet Corps

Spring Finance Letter: The Governor has submitted a request for a redirection of $500,000 (General Fund) and 3.0 positions to support the California Cadet Corps Program.

Background: The Cadet Corps is a school-based, applied leadership program conducted within a military framework designed to improve the growth and leadership of cadets. The Cadet Corps is composed of students ranging from elementary school to high school. Historically, the Cadet Corps was run by an all-volunteer force that was scattered throughout the state. However, as an all-volunteer force, there was limited accountability for the quality of instruction and the use of equipment. In FY 2011-12, the Legislature approved the redirection of $300,000 and 2.0 positions to support the Cadet Corps. The two positions still support the program.

The CMD has noted that three redirected positions included in this proposal will support statewide level activities, support statewide competitions for athletics, marksmanship, drill, and ceremony. Also, the requested positions will provide additional resources to CMD to vet and support the adult volunteer cadre that work with the cadet corps.

Staff Comment: The CMD notes that the requested redirection of resources and positions will allow the California Cadet Corps to grow to approximately 6,750 cadets statewide.

Staff Recommendation: Approve spring finance letter request.

Vote:

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Norma Torres
Senator Tom Berryhill

Thursday, May 8, 2014
9:30 AM or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultants: **Farra Bracht and Brady Van Engelen**

Item Number and Title

0690	Office of Emergency Services
0845	Department of Insurance
0911	Citizens Redistricting Commission
0950	State Treasurer's Office
0971	California Alternative Energy and Advanced Transportation Finance Authority
0985	School Finance Authority
1700	Department of Fair Employment and Housing
2240	Department of Housing and Community Development
8940	California Military Department
8955	California Department of Veterans Affairs

(See Table of Contents on pages 1 and 2 for a More Specific Listing of Issues)

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

AGENDA – VOTE ONLY ITEMS

(Please see summary chart on Page 4)

AGENDA – DISCUSSION / VOTE ITEMS

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Tom Berryhill
Senator Norma Torres

Wednesday, May 21, 2014
9:00 a.m.
Room 2040

Consultant: Farra Bracht

AGENDA - PART A

STATE FINANCE AND ADMINISTRATION

PROPOSED VOTE-ONLY

PROPOSED DISCUSSION/VOTE

ITEMS PROPOSED FOR VOTE-ONLY

Statewide Item

Item 1: Elimination of Control Section 9.45 (Governor's Budget Proposal)

Proposal. The Administration proposes to eliminate Control Section 9.45.

Background. According to the Administration, Control Section 9.45 was removed from the Governor's proposed budget because it is rarely, if ever, used by departments. Under Control Section 9.45, a reporting requirement to the Department of Finance and the Legislature existed if all of the following criteria were met:

- Prop 40, Prop 50, or Prop 84 funds were to be used directly or through a grant for the acquisition, restoration, or rehabilitation of a project.
- The funds being used were for a grant or project not appropriated in statute.
- Total expenditure (not limited to Props 40, 50, and 84) exceeds $25 million.

Other considerations that factored into the decision to remove the language included the public review processes required in Public Resources Code 5096.513 and Government Code 15853 (Property Acquisition Law). Both statutes require information to be made public prior to a public hearing for acquisitions. Additionally, it is unlikely that funding would be provided for a grant or project where the total expenditure is in excess of $25 million, but has not been appropriated in statute.

The Control Section language previously included in the budget act is as follows:

(a) Any state agency, department, board, or commission shall provide notification to the Department of Finance and the Joint Legislative Budget Committee not less than 30 days prior to committing funding from Proposition 40 (California Clean Water, Clean Air, Safe Neighborhood Parks, and Coastal Protection Act of 2002), Proposition 50 (Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002), or Proposition 84 (Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006), if all of the following criteria apply:

(1) The funds will be used, either directly or through a grant, for the purchase of interests in or the restoration or rehabilitation of property.

(2) The funds will be used for a grant or project that is not appropriated in statute by name or description.

(3) The total expenditure for the project, including, but not limited to, Proposition 40, 50, or 84 funds is in excess of $25,000,000.

(b) The notification shall include a detailed description of the portion of the project being funded and a detailed description of the whole project. For the purposes of this section, the criteria set forth in subdivision (a) shall apply to both single transactions and cumulative transactions that involve the purchase of properties near or adjacent to each other. (c) For purchases and grants meeting the criteria set forth in subdivision (a), the state agency, department, board, or commission may take public actions and hold public meetings prior to 30 days following notification only if such actions are expressly approved pending the completion of the 30-day review by the Department of Finance and the Joint Legislative Budget Committee, or not sooner than whatever lesser time the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may in each instance determine. The seller or grantee shall be explicitly notified in writing of this condition 10 days prior to any action taken.

Staff Comment. Staff is concerned that the re-appropriation of unexpended bond funds could result in potentially significant amounts of bond funds being available for expenditure, and if this language were removed, the Administration would not have to report to the Legislature on the expenditure of these funds which could exceed $25 million. Removing this language would reduce legislative oversight. The removal of Control Section 9.45 could be revisited next year after assessing how much in bond funding from Props 40, 50, and 84 might be available for re-appropriation.

Staff Recommendation. Reject the elimination of Control Section 9.45.

Vote.

Item 2: Amendment to Control Section 12.00 (Governor’s May Revision)

Proposal. The Administration requests that the budget bill be amended to reflect the updated change in the State Appropriations Limit (SAL), as required by the State Constitution. The revised limit of $89.902 billion is the result of applying the growth factor of 0.48 percent. The revised 2014-15 limit is $564 million below the $90.466 billion estimated in January.

Staff Comment. Staff has no concerns with this technical change.

Staff Recommendation. Approve the revision to the State Appropriations Limit.

Vote.

9600 Debt Service, General Obligation Bonds, and Commercial Paper

Item 1: Reduction in General Obligation Bond Debt Service Costs (Governor's May Revise Proposal)

Proposal. The Administration proposes a reduction in budget year debt service requirements of $82 million General Fund from the Governor's budget to a total of $5.8 billion. The decrease is due to reduced General Obligation debt service costs ($5.2 billion) and no change in lease-revenue bond debt service costs ($610 million). The decrease is primarily due to a 1) smaller spring bond sale, 2) lower interest rates and fees, and 3) savings related to bond refinancings this spring.

In addition, current year debt service will decrease by $113 million, for a total of $5.4 billion. This amount includes $4.8 billion General Obligation debt service costs and $576 million lease-revenue bond debt service costs. The General Obligation debt service savings stem from a 1) projected increased premium generated from spring 2014 bond sales, 2) savings related to bond refinancings, and 3) reduced interest rates and fees.

Staff Comment. Staff has no concerns with this proposal.

Staff Recommendation. Approve the May Revision budget request.

Vote.

ITEMS PROPOSED FOR DISCUSSION AND VOTE

Statewide Items

Item 1: Trailer Bill Language Relating to Departments' Cash Needs (Governor's January Budget)

Background and Detail. The Financial Information System for California (FI$Cal) Project is a partnership of four control agencies: the Department of Finance, the State Controller's Office, the State Treasurer's Office, and the Department of General Services. FI$Cal is expected to provide the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. This "Next Generation" project, through the adoption of best business practices, is expected to reengineer business processes; improve efficiency; enhance decision making and resource management; and provide reliable, accessible, and timely statewide financial information allowing the state to be more transparent.

Currently, departments can spend from accounts that are funded by reimbursements prior to the department collecting those reimbursements. Once FI$Cal is implemented, departments will need to have funds in an account that is to be funded by reimbursements prior to spending from that account.

To address this limitation created by the implementation of FI$Cal, the Administration proposes trailer bill language that would allow the Department of Finance to authorize a short-term cash loan from the General Fund or from other funds administered or used by the requesting department. This type of loan is considered a cash flow loan for temporary cash shortages and shall not constitute a budgetary loan, revenue, or expenditure. The language also directs departments to make every reasonable effort to promptly collect reimbursements or amounts payable from other funds, or collect the amounts in advance, so as to minimize the use of these types of loans.

In 2014-15, the following departments are in the first wave of the implementation of FI$Cal:

- Agricultural Labor Relations Board
- California Arts Council
    - California State Summer School for the Arts
- Department of Aging
    - California Commission on Aging
- Department of Alcoholic Beverage Control
    - Alcoholic Beverage Control Appeals Board
- Department of Fair Employment and Housing
- Department of Finance
- Department of Justice
- Office of Environmental Health Hazard Assessment
- San Francisco Bay Conservation and Development Commission

- State Board of Equalization
- State Controller's Office
- State Treasurer's Office
    - Contracted Organizations

Staff Comment. It is unclear why a statutory change is needed and if this language potentially gives the Administration authority beyond that needed to work around limitations of FI$Cal. The language does not limit state departments' borrowing to address cash shortages to situations created by the implementation of FI$Cal. Instead, the language broadly applies to any state department that is unable to collect reimbursements as needed, and, as a result, encounters a temporary cash shortage.

According to the Administration, the same purpose could be accomplished with a Control Section in the Budget Act, similar to provisional language which is adopted each year for some departments to allow for short-term cash borrowing within the fiscal year. For the first wave of departments affected by the implementation of FI$Cal, budget control language could be adopted and then the adequacy of that language to address the problems anticipated by the Administration assessed by the Department of Finance (DOF) and reported on to the Legislature during next year's budget subcommittee hearings. The DOF has indicated that it anticipates continuing the practice of proposing budget bill language for short-term loans, but that that may change in the future.

Questions.

1) Under this proposed language, what happens when reimbursements do not come in as anticipated? Does this become a General Fund obligation?

2) What happens when a short-term cash loan from the General Fund is not repaid within the fiscal-year?

3) Why doesn't the language limit this authority to cash flow needs created by departments using FI$Cal?

Staff Recommendation. Reject the proposed trailer bill language and direct staff to work with the Department of Finance to develop budget control language to address the problem related to short-term cash needs created by the implementation of FI$Cal.

<u>Vote.</u>

Item 2: Trailer Bill Language Relating to the State Public Works Board and Reserve Funds (Governor's May Revise Proposal)

Proposal. The Administration proposes amendments to delete the statutory requirement that excess construction reserve bond proceeds be used to pay debt service.

Background and Detail. The State Public Works Board (Board) is authorized to issue lease-revenue bonds to finance authorized capital outlay project costs, as well as other associated costs, including a reasonable construction reserve, capitalized interest, and other issuance costs. The Board has historically used Pooled Money Investment Account (PMIA) loans to fund short-term project costs through the majority of the construction phase, with long-term bonds issued at that time to repay the PMIA loan and fund the balance of project costs, if any. When issuing bonds toward the end of construction, there are generally fewer unforeseen cost issues, thus not requiring a large reserve. Because of the small amount of funds that have traditionally remained upon project completion, the statutory requirement that funds remaining in the construction reserve be used to pay debt service has not been a significant issue until recently.

The Pooled Money Investment Board (PMIB) revised its lending policy for the PMIA in the fall of 2008 in response to General Fund cash flow concerns and to help the state meet its obligations. Initially, all new loans from the PMIA were halted. The PMIB eventually approved a $500 million limit for critical, court-ordered projects. As a result, the Board has issued bonds for many projects ineligible for PMIA loans prior to the start of construction, which increases the need for a larger construction reserve to ensure sufficient funds are available should unforeseen conditions be encountered, such as high construction bids, large change orders, or weather delays.

Projects that were financed as described above are now complete or close to being complete, with excess funds in the construction reserve that are currently only available to offset debt service. While the payment of debt service with excess construction reserve funds is allowed under federal law, the extent may vary based on the facts of a particular bond issue. The proposed trailer bill language would provide additional flexibility for the Board to use these proceeds to fund other legislatively-authorized project costs. Using the excess reserve funds in this manner would not only be more fiscally efficient, by eliminating duplicate issuance costs, it would allow greater flexibility for compliance with complex federal, post-issuance compliance laws. Therefore, this proposal allows for more cost-effective project financing and increased flexibility for compliance with federal tax law.

Staff Comment. This proposed change would provide the Administration with greater flexibility to manage excess bond funds and thereby reduce borrowing costs. According to the Administration, the State Treasurer's Office is supportive of this proposal. In addition, the DOF has committed to providing a report to legislative staff on the use of these funds by July 1, 2015.

Questions.

1) How do the proposed changes to state law enable the Administration to finance state infrastructure projects more cost-effectively?

Staff Recommendation. Approve the proposed amendments to Government Code sections 13332.11 and 13332.19 to delete the statutory requirement that after completion of the project, excess construction reserve funds must be used to pay debt service.

Vote.

9600 Debt Service, General Obligation Bonds, and Commercial Paper

Item 1: Commercial Paper Program Technical Amendments (Governor's May Revise Proposal)

Proposal. The Administration proposes trailer bill language be added to cap qualified expenses on the state's commercial paper (CP) program and clarify eligible expenditures.

Background and Detail. State law permits the issuance of CP Notes for the General Obligation (GO) bond program. The STO issues CP Notes which enable the state to fund departments cash needs for projects and provide "just-in-time funding". This approach has many benefits because it 1) allows the state to achieve lower overall financing costs by limiting the amount of undisbursed bond funds from long-term debt obligations, 2) provides the state flexibility, and 3) CP Notes can be issued more quickly than long-term bonds. In order to issue CP Notes, the STO incurs a variety of expenses.

The State Attorney General's Office, as the issuer's counsel for the state's GO bond program, recently advised the STO to seek an amendment to the Government Code which provides an unlimited appropriation for the payment of expenses on GO Bond CP Notes.

The purpose of the proposed amendment is to specify the amount of the appropriation for costs incurred for CP Notes and to comply with the requirement that an appropriation from the General Fund must include both a specific amount (or formula for determining the maximum amount) and a designated purpose.

The proposed cap for expenses associated with issuing CP Notes would be three percent of the maximum principal amount of the CP Notes that could be purchased and outstanding at any one time and a cap of 0.25 percent for other costs not tied to a specific agreement.

Staff Comment. Staff has no concerns with this proposal.

Staff Recommendation. Adopt proposed placeholder trailer bill language.

Vote.

9620 Cash Management and Budgetary Loans

Item 1: Reduction in Borrowing Costs (Governor's May Revise Proposal)

Proposal. The Administration proposes a reduction in the budget for the payment of debt service on cash flow borrowing. The proposal would reduce the amount necessary for interest costs on internal cash flow borrowing by $30.0 million, from $60.0 million to $30.0 million, and for interest costs on external borrowing by $30.0 million, from $60.0 million to $30.0 million. These reductions are made possible by the expectation of continued low prevailing interest rates in the financial markets and a reduced need for cash flow borrowing. A minor increase also is proposed for interest on budgetary loan repayments from $54.0 million in January to $54.4 million for the May Revision.

Staff Comment. Staff has no concerns with this proposal.

Questions.

LAO

1) Please provide your assessment of the proposed borrowing costs and any recommendations regarding these costs.

Staff Recommendation.

Vote.