Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, April 27, 2023
9:30 a.m. or Upon Adjournment of Session
1021 O. Street - Room 1100

Consultant: Timothy Griffiths & Diego Emilio J. Lopez

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

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ITEMS FOR VOTE ONLY

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

Issue 1: Staffing Expansion for Small Business Procurement Reporting

Governor's Budget Proposal. The Governor's Office of Business and Economic Development (GO-Biz) requests $391,000 ongoing General Fund and hiring authority for 3.0 positions for the California Office of the Small Business Advocate (CalOSBA) for the purpose of implementing AB 2019, Petrie-Norris, Ch. 730, Stats. 2022.

Background. CalOSBA describes its mission as supporting economic growth and innovation and ensuring that all California small businesses and innovative startups have the information and direct support they need to better navigate resources, programs and regulations. Moreover, CalOSBA states, it serves as the voice of small business, representing their views and interests across the state and advocating for equitable access to capital, markets, and networks so that all California small businesses successfully start, manage, grow and become more resilient. Among other things, CalOSBA administers grants, provides training and consultation services, conducts outreach and advocacy, and operates disaster preparedness and relief efforts for small businesses.

Of particular relevance to this request, CalOSBA is statutorily obligated to report annually to the Governor and to the Legislature regarding its activities and any small business-related policy recommendations that it has.

AB 2019 expanded the required content of this report to include two additional components:

(1) Details on CalOSBA's activities to support procurement participation by small businesses; microbusinesses; disabled veteran business enterprises (DVBEs); and businesses or microbusinesses owned by women, minorities or LGBTQ community members.

(2) Information on state agency compliance and implementation of "economic equity first" action plans and policies. AB 2019 required state agencies with $100,000 or more in annual contracting expenditures – estimated to be more than 250 agencies -- to have such plans, which are supposed to ensure that disadvantaged small businesses have access to the agency's procurement process.

CalOSBA states that, in order to report on these two new components as required, it will need to pursue extensive research, collaborate with hundreds of state agencies, and document a range of new metrics. This request is intended to enable CalOSBA to carry out these newly required functions.

Comparison to Appropriations Estimates. The amount requested is roughly consistent with costs estimates for AB 2019 considered by the Senate Appropriations Committee, which were "total ongoing costs of $500,000 to research, coordinate, and compile data with external agencies."

Staff Recommendation. Approve as budgeted.

Issue 2: Zero Emission Vehicles: Market Development Workload and Equity Advocate

Governor's Budget Proposal. The Governor's Office of Business and Economic Development (GO-Biz) requests hiring authority for 4.0 positions, $764,000 in Air Pollution Control Funds in 2023- 24 through 2027-28, and $534,000 in 2028-29 and ongoing in Air Pollution Control Funds for the Zero Emission Market Development Unit (ZEV Unit) to implement SB 1251, Gonzalez, Ch. 372, Stats. 2022 and to address increased workload.

Background. California is in the midst of a push to convert its transportation network to zero-emission vehicles. Within that effort, GO-Biz describes key duties of its ZEV Unit as follows:

- lead the state's ZEV Market Development Strategy;
- align state agency efforts related to ZEVs;
- work with the private sector to overcome barriers and expand new opportunities;
- advance permit streamlining; and
- accelerate infrastructure development.

According to GO-Biz, the ZEV Unit's newest challenge is supporting the development of Big ZEV markets. "Big ZEV" is a relatively new set of markets that includes class 3-8 trucks and buses, port infrastructure, and other hard-to-decarbonize technologies.

Due to the recent enactment of SB 1251, GO-Biz ZEV Unit also has new responsibilities to better integrate equity considerations into its work. Specifically, SB 1251 requires the ZEV Unit to hire a ZEV Equity Advocate tasked with overseeing the incorporation of equity planning and programming across state agencies involved in the development and support of California's ZEV vehicles and corresponding infrastructure. As described by GO-Biz, the ZEV Equity Advocate's duties will include:

- integrating equity principles and actions into ZEV market development activities;
- facilitating information flow, coordination, and partnerships between and among public private, and NGO partners;
- increase the transparency of ongoing ZEV equity efforts;
- establishing well-coordinated engagement with community-based organizations to continually improve interagency efforts to reach priority opportunities, incorporate feedback, and increase opportunities for those most in need to benefit from the transition to ZEVs;
- expanding ZEV equity communication and collaboration; and
- developing and implementing strategies and tools to deepen equitable access to ZEVs by identifying and addressing barriers.

This budget request is intended to address both general increased workload pressure on the ZEV Unit as well as implementation of SB 1251. GO-Biz breaks the request down into two components:

(1) Hiring authority for 4.0 additional positions, thus expanding the ZEV Unit to a 9-person team. (8.0 authorized + 0.6 blanket position).

(2) $100,000 ongoing General Fund for external contracting services.

GO-Biz explains that it needs money for external contracting services to respond to “unexpected developments or sudden shifts in expected developments” where “[t]he stakes are often high, with the consequences of inaction and incomplete action being lost investments, underdeveloped policies, or dramatic misalignments within or beyond state government.” GO-Biz asserts that the requested $100,000 would allow the ZEV Unit to contract out, on an as-needed basis, with external consultants, nonprofits, and other groups with ZEV-related expertise.

Comparison with Appropriations Estimates. The requested amounts for implementation of SB 1251 are roughly consistent with projections when the bill was under consideration before the Assembly Appropriations Committee’s, which were: “costs of at least $150,000 ongoing to GO-Biz to create the Advocate position and undertake the scope of work” and “one-time costs of approximately $55,000 to contract with third parties to assist in this collaborative process.”

Staff Recommendation. Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

Issue 3: Acquisition of Goods and Services-Alternative Contracting Procedures (SB 1422)

Request. The Governor's budget requests $481,000 in ongoing expenditure authority from the Service Revolving Fund and 3.0 positions, beginning in 2023-24, for the Department of General Services (DGS), Procurement Division (PD) to address workload required to support the implementation of SB 1422 (Hertzberg), Chapter 310, Statutes of 2022.

Background. The DGS-PD establishes Leveraged Procurement Agreements (LPAs), which gives the DGS Director the authority to consolidate the needs of multiple state agencies for goods, information technology and services, and establish contracts, master agreements, multiple award schedules, and cooperative agreements, including agreements with entities outside the state, and other types of agreements that leverage the state's buying power for certain acquisitions.

SB 1422 authorizes DGS-PD to use the existing LPA procedures established in statute for purchase/installation contracts of carpet, resilient flooring, synthetic turf, or lighting fixtures, notwithstanding any other law requiring the bidding on public works projects.

DGS anticipates an increase of approximately 25 contracts (or 303 LPAs) per year relating to carpet contract requests for LPAs for goods and services to support the installation, and/or purchase of carpet, resilient flooring, synthetic turf, or lighting fixtures in multiple LPA types. DGS requests three AGPAs to address the estimated increase in workload.

Staff Recommendation. Approve as budgeted.

Issue 4: California Building Standards Commission New Bill Mandates

Request. The Governor's budget requests a limited-term expenditure authority increase of $535,000 from the Building Standards Administration Special Revolving Fund for DGS, Building Standards Commission (CBSC) to fund 1.0 Supervising Architect and 1.0 Associate Architect for three years, beginning in 2023-24 to meet new legislative mandates enacted by AB 209, AB 1738, AB 2075, AB 2232, AB 2446, AB 2863 (Chapters 251, 687, 346, 777, 352, and 809 of the Statutes of 2022, respectively). Additionally, CBSC requests a one-time augmentation in expenditure authority in 2023-24 of $56,000 to reconfigure CBSC's existing office space.

Background. According to DGS, the requested positions will be used to carry out the legislative mandates of AB 209, AB 1738, AB 2075, AB 2232, AB 2446, and AB 2863, including the coordination with multiple other proposing and adopting agencies throughout the process of researching, developing, adopting, codifying, and publishing new building standards to enact their requirements.

The mandates require ongoing duties and responsibilities for CBSC staff. The requested positions are intended to support the CBSC's ability to continue meeting its ongoing obligations in administering the triennial and intervening code adoption cycles, reviewing code ordinances received from over 540 local jurisdictions for accepted filing, providing education and outreach programs for current building standards, and continuing the development and updating of building standards for occupancies within its authority while also meeting the new mandates and avoiding delays.

AB 209 (Committee on Budget), Chapter 251, Statutes of 2022 requires CBSC to consider for adoption specified refrigerant reference standards.

AB 1738 (Boerner Horvath), Chapter 687, Statutes of 2022 requires CBSC to research, develop, and propose building standards for EV charging stations in existing nonresidential developments when they undergo certain additions or alterations to existing parking facilities.

AB 2075 (Ting), Chapter 346, Statutes of 2022 requires CBSC to collaborate with the California Energy Commission and the California Air Resources Board in the development of EV charging infrastructure standards with an emphasis on the costs of compliance and the economic and fiscal impacts of the standards proposed.

AB 2232 (McCarty), Chapter 777, Statutes of 2022 requires CBSC to research, develop, and propose for adoption mandatory standards for carbon dioxide monitors and minimum ventilation rates for covered school classrooms.

AB 2446 (Holden), Chapter 352, Statutes of 2022 requires CBSC to consult with CARB and other stakeholders to develop a framework for embodied carbon in construction materials by July 1, 2025.

AB 2863 (Wilson), Chapter 809, Statutes of 2022 requires CBSC to research, develop, and propose for adoption revised mandatory building standards for bicycle parking at nonresidential occupancies independent of the number of vehicle parking spaces.

Staff Recommendation. Approve as Budgeted.

Issue 5: Clean Energy, Jobs, Affordability Act of 2022 (SB 1020)

Request. The Governor's budget requests $1.7 million General Fund, $203,000 in limited-term authority from the Service Revolving Fund, and 1.0 position for three years, beginning in 2023-24 for the DGS, Office of Sustainability to accelerate the deployment of clean energy at state facilities and manage the transition to 100 percent renewable energy at all state facilities pursuant to SB 1020 (Laird), Chapter 361, Statutes of 2022.

Background. SB 1020 requires that 100 percent of electricity be procured to serve all state agencies by December 31, 2035, from renewable energy and zero-carbon resources in California. While Chapter 312, Statutes of 2018 (SB 100, De León) already mandates the state electrical grid to be 100 percent carbon neutral by 2045, this law accelerates the requirement for state agencies by ten years.

<u>DGS' Office of Sustainability.</u> The Office of Sustainability (OS) is responsible for the overall coordination of state sustainability efforts and reporting through the Sustainable Buildings Working Group. OS is the statewide coordinator of Sustainability Roadmaps, which outline the progress and future plans to achieve sustainability goals set forth by executive orders, policies, and procedures for each department. OS manages assessments, studies, and the design and construction of clean, on-site generation and energy storage through power purchase agreements (PPAs), and other procurement methods. OS also oversees the planning, designing, and constructing of energy efficiency projects on behalf of state agencies. Finally, OS supports state departments through deployment of electric vehicle charging infrastructure for state facilities.

<u>The Process of Building On-Site Renewable Energy.</u> OS currently installs on-site zero-carbon renewable energy generation systems at state facilities using a contracting method known as Power Purchase Agreement (PPA). Wind and solar energy systems installed with a PPA are owned and managed by a third-party contractor. The energy produced is sold to the state agency at a lower price than is available from the local electric utility. This method allows the state to reduce greenhouse gas emissions without necessitating the purchase of, or installation costs for, the equipment. Many state facilities could benefit from PPAs, but OS is limited by available staffing in its ability to evaluate sites and prioritize them for PPA contracting.

According to DGS, given the expedited timelines set by SB 1020, OS would utilize $1.667 million per year of the requested three-year funding to support initial feasibility, planning, and surveying work for renewable energy, energy storage, and microgrid project opportunities that would maximize the yield of clean energy, cost savings, and energy reliability for state facilities. OS will also work with utilities and CCAs to procure renewable energy through their programs to meet the needs of state facilities and operations not able to obtain onsite renewable energy.

DGS is also requesting one Staff Services Manager II (Specialist) within the Office of Sustainability to be responsible for, among other things, researching available renewable energy programs, analyzing costs, implementation of SB 1020, and conveying these findings to state departments.

Staff Recommendation. Approve as budgeted.

Issue 6: Emergency Services Function #7 Emergency Workload Support

Request. The Governor's budget requests $2.01 million in ongoing expenditure authority from the Service Revolving Fund and 12.0 full time permanent positions beginning in fiscal year 2023-24 for the DGS Procurement Division (PD), Office of Risk & Insurance Management (ORIM), and Office of Fiscal Services (OFS) to support the increased ongoing demand for statewide emergency management functions and departmental services specific to statewide emergency planning, fiscal, and procurement services.

Background.

California Emergency Plan. In 2009, Cal OES developed the State of California Emergency Plan, establishing the California Emergency Service Functions (CA-ESF), which consist of 18 primary disciplines or activities essential to addressing the emergency management needs of communities in all phases of emergency management. The Government Operations Agency has assigned DGS primary mission responsibility of CA-ESF 3 – Construction, and Engineering, and CA-ESF 7 – Resources. During an emergency recovery response, CA-ESF 7 has the broadest responsibility in supporting and coordinating state-level activities to restore critical community functions within California. CAESF 7 provides support for other CA-ESFs, the response community, and emergency procurement.

According to the Administration, the frequency and severity of emergency events requiring ORIM, PD, and OFS support has increased, resulting in a lack of resources during activation and suspension of ongoing emergency management functions, which are critical to effectively prepare for future disasters. The past four years have proven these extended disasters are not subsiding. This trend of increasing complexity and duration of support is expected to continue.

DGS requests the following positions to support the increased demand for departmental statewide emergency management functions and enable DGS to fulfill its statutory roles in disaster preparedness, emergency recovery procurement services, and fiscal service:

PD Requested Positions:
- Two Staff Services Manager Is
- Seven AGPAs

ORIM Requested Positions:
- One AGPA

OFS Requested Positions:
- One Accounting Administrator I (Supervisor)
- One Research Data Specialist II

Staff Recommendation. Approve as budgeted.

Issue 7: Enterprise Technology Solutions Information Technology Workload Adjustment

Request. The Governor's budget requests $2.5 million in one-time authority from the Service Revolving Fund in 2023-24, $2.2 million in ongoing authority from the Service Revolving Fund beginning in fiscal year 2024-25, and position authority for 12.0 permanent positions beginning in fiscal year 2023-24 for DGS, Enterprise Technology Solutions (ETS) to comply with existing Cal-Secure requirements of cybersecurity, privacy and data governance, and the evolving needs of its customers.

Background. DGS serves as the State's business manager by providing services to other state agencies. ETS provides infrastructure, application, security, and privacy support for each of DGS' twenty-four (24) unique business lines that support other state agencies, California's businesses, and members of the public.

On October 22, 2021, the office of Governor Gavin Newsom issued the State Government Cybersecurity memo, officially adopting Cal-Secure as the state's multi-year strategy and roadmap for cybersecurity. This directed state entities to implement specific security requirements within specific timeframes.

The table below shows the phased order of priority of Cybersecurity Capabilities mandated by Cal-Secure.

Cal-Secure Mandated Capabilities				
Phase 1 (FY21-22)	**Phase 2 (FY22-23)**	**Phase 3 (FY23-24)**	**Phase 4 (FY24-25)**	**Phase 5 (FY25-26)**
• Anti-Malware Protection • Anti-Phishing Program • Multi-Factor Authentication • Continuous Vulnerability Management	• Asset Management • Incident Response • Continuous Patch Management • Privileged Access Management • Security and Privacy Awareness Training • Security Continuous Monitoring 24x7 • Cloud Security Monitoring	• Data Loss Prevention • Log Management • Network Threat Detection • Network Threat Protection • Threat Intelligence Program • Application Security • Operational Technology Security	• Disaster Recovery • Enterprise Sign-on • Mobile Device Management • Application Development Security • Application Whitelisting • Software Supply Chain Management	• Identity Lifecycle Management • Insider Threat Detection • Network Access Control • Enterprise Encryption • Mobile Threat Defense

Staff Recommendation. Approve as budgeted.

Issue 8: Facilities Management Division Position Authority

Request. The Governor's budget requests 2.0 permanent positions beginning in 2023-24 and ongoing for DGS, FMD to address existing workload related to its building maintenance program for buildings owned and operated by DGS. The cost of these positions will be absorbed within existing expenditure authority.

Background. FMD provides building management, maintenance, and repairs for a myriad of office buildings, warehouses, and parking facilities throughout the State. FMD is comprised of three branches: Project and Construction Management (PCM), Facility Operations, and Administrative Services. FMD is responsible for the safety and security of buildings under the jurisdiction of DGS and provides management, maintenance, trades, engineering, custodial, landscaping, and minor construction services. The DGS portfolio currently has $1.4 billion in deferred maintenance needs and systematically prioritizes repairs or full building renovations of DGS' most deficient buildings as resources are available to reduce this number and protect the State's real estate assets.

The positions requested in this proposal include:

- One Staff Services Manager (SSM) II and one SSM I to replace contracted staff in FMD's automated maintenance system program, also known as the Maximo program, an asset management, life cycle, and workflow process management system that also acts as a database that tracks the day-to-day operations of facilities maintained by FMD.

Staff Recommendation. Approve as budgeted.

Issue 9: Office of Administrative Hearings Workload Adjustment

Request. The Governor's budget requests $650,000 ongoing authority from the Service Revolving Fund, 5.0 positions, and a three-year limited-term extension of $11.45 million in authority from the Service Revolving Fund for DGS, Office of Administrative Hearings (OAH) to address Peace Officer Certification Hearings workload created by SB 2 (Bradford), Chapter 409, Statutes of 2021 and Cannabis Administrative Hearings Workload.

Background. OAH is a quasi-judicial tribunal that conducts mediations and hearings for over 1,800 state and local agencies. OAH operates as a central panel and, as such, is independent of any entities which appear before it.

<u>Peace Officer Certification Hearings.</u> SB 2 requires the Commission on Peace Officer Standards and Training (POST) to establish the Peace Officer Standards Accountability Division, within the Commission, to review serious misconduct investigations conducted by law enforcement agencies, and conduct follow up investigations, if necessary. The Division's findings may lead to grounds for suspension or revocation of an individual's peace officer certification. SB 2 also requires the creation of a nine member Peace Officer Standards Accountability Advisory Board no later than January 1, 2023, to make recommendations on peace officer decertification. SB 2 requires POST to notify any individuals subject to revocation or suspension of their certification in writing. Should the individual contest POST's findings, due process must be initiated, to include review and recommendation by the Advisory Board, review and decision by the POST Commission, and a final review and proposed decision by an OAH Administrative Law Judge (ALJ).

The impact on OAH focuses on the hearings and decisions regarding the suspension or revocation of the peace officer certifications. OAH met with POST regarding the statutory and regulatory scheme for POST as it had been developing, and POST's estimates of case volume and where cases were expected to arise across the state. OAH also observed the public hearings held by POST on May 25, 2022, regarding proposed regulations. OAH plans to continue to meet regularly with POST as the statutes and/or regulations continue to be developed to ensure OAH is kept apprised of information relevant to anticipated case volume.

<u>Cannabis Hearings.</u> The 2020 budget provided an extension of $11.45 million for cannabis license hearings workload through 2022-23. Over the past five years, OAH has received minimal number of cases due to delays in the licensing program implementation. However, OAH is expecting an increase in caseload due to the phase-out of provisional licenses, the implementation of annual licenses, and a pending Superior Court case in Alameda County challenging the alleged lack of due process in not having an appeal right for a denial of a provisional license. If the case results in a finding that applicants denied provisional licenses are entitled to an administrative hearing on any challenge of the denial, the number of cases referred to OAH would increase significantly starting in fiscal years 2023-2024.

Staff Recommendation. Approve as budgeted.

Issue 10: Office of Fleet and Asset Management Fleet Asset Management System Program State Fleet Policy and Compliance

Request. The Governor's budget requests $654,000 ongoing authority from the Service Revolving Fund and 4.0 positions for the DGS, Office of Fleet and Asset Management (OFAM) to implement a State Fleet Policy Development and Compliance Review program to support the Administration's accelerated fleet sustainability initiatives by continuing to establish green fleet policies, ensure state departments' compliance with these policies, and provide mandatory reporting on the results of these policies.

Background. OFAM's Fleet Asset Management System (FAMS) program is responsible for the development, implementation, and maintenance of policies and procedures governing the State's fleet acquisition, utilization, disposition, and for data collection, reporting and management.

According to DGS, the FAMS program has been growing in response to the Administration's continued adoption of fleet sustainability initiatives. FAMS workload has consistently increased and is anticipated to continue to increase rapidly. Increased workload with limited resources have resulted in high turnover rates among FAMS staff and managers. Staffing shortage result in limited program capacity to provide the most efficient and effective services to State departments. It also causes FAMS management to spend a significant amount of time hiring, onboarding, and training new staff.

DGS requests the following positions to support the Administration's accelerated fleet sustainability initiatives:

- One Staff Services Manager I
- Three Associate Governmental Program Analysts.

Staff Recommendation. Approve as budgeted.

Issue 11: Office of Human Resources Workload Adjustment

Request. The Governor's budget requests $395,000 in ongoing authority from the Service Revolving Fund and 6.0 positions for the DGS, Office of Human Resources (OHR) to support human resources administrative services and to bring technical, analytical, and professional staffing in line with the department's growth.

Background. OHR provides human resources services for DGS and ensures DGS operates in compliance with all personnel laws, rules, regulations, and all applicable bargaining unit contracts. OHR is responsible for analyzing and processing Requests for Personnel Actions (RPA) and handles approximately 1,700 requests per calendar year for actions related to filling new positions, refilling vacancies, position reclassifications, and temporary help appointments. OHR is also responsible for processing all payroll and benefits-related transactions for DGS, including but not limited to appointments, separations, disability benefits, responding to inquiries from control agencies, retirements, review of documents, and payroll accounts receivables. Additionally, OHR manages the upward mobility and mentorship programs and develops supporting documents for recruitments.

According to DGS, current staffing is not sufficient to provide the critical administrative and human resources services in a timely fashion or to meet state mandated requirements. This proposal is intended to address the increased workload resulting from RPAs, developing supporting documents for recruitments, processing payroll transactions, correcting payroll transactions, improving and modernizing critical business processes, providing personnel support and assistance to all DGS programs on a variety of human resources issues.

The table below notes the positions requested by DGS and their corresponding units.

OHR Unit	Classification	Number of Requested Positions
Blanket to Coded Positions		
Personnel Transactions Unit	Senior Personnel Specialist*	1.0
Personnel Transactions Unit	Associate Governmental Program Analyst*	1.0
Customer Resources Unit	Office Assistant (General)*	1.0
Examinations Unit	Associate Personnel Analyst*	1.0
Labor Relations Unit	Labor Relations Specialist*	1.0
Special Projects Unit	Staff Services Manager I (Specialist)*	1.0
TOTAL		**6.0**

Staff Recommendation. Approve as budgeted.

Issue 12: Office of Legal Services Internal Workload Adjustment

Request. The Governor's budget requests $636,000 in ongoing authority from the Service Revolving Fund and 2.0 permanent positions beginning in 2023-24 for the DGS, Office of Legal Services Internal (OLS-INT) to manage growing workload associated with legal support for complex real estate matters and supervisory work over the entire range of legal issues handled by DGS attorneys.

Background. OLS staffing currently includes eighteen Staff Attorneys, one Retired Annuitant Staff Attorney, two Assistant Chief Counsels, and a Chief Counsel. OLS-INT serves all 35 business lines within DGS and is tasked with providing advice and training to customer divisions within DGS. Services for external customer agencies include close to 8,000 contract reviews annually, contract advisory work, and 80-100 annual bid protests, which are a distinct and separate workload from the responsibilities placed on OLS-INT attorneys as in-house counsel.

DGS requests one Assistant Chief Counsel (ACC) and one Attorney IV in Real Estate and Public Works. According to DGS, the addition of the Real Estate Attorney IV is needed to improve its ability to advise on Public Works issues due to the growing number and complexity of DGS' real estate projects and litigation. The ACC is requested to improve the balance of workload across three, instead of two, supervisors, and to ensure greater supervisory focus on attorneys handling an increasing employment law workload.

Staff Recommendation. Approve as budgeted.

Issue 13: Office of State Publishing ScholarShare Postage Increase (Spring Finance Letter)

Request. The DGS, Office of State Publishing (OSP) requests $558,000 in expenditure authority from the Service Revolving Fund in 2023-24 and $380,000 in 2024-25 for DGS, Office of State Publishing (OSP) to fund postage for the ScholarShare Investment Board's initial notification mailings to eligible participants of the California Kids Investment and Development Savings Program.

Background. OSP is responsible for providing state printing and mailing services to state, federal, county, and city agencies by providing printing, communication and document management solutions through specialized knowledge, statewide perspective and coordinated public and private partnership. Services include printing, mailing, storage, and strategic marketing solutions as well as document remediation to ensure accessibility compliance with state and federal standards.

The State Investment Board (SIB) is the state agency responsible for overseeing ScholarShare 529, a state sponsored, tax-advantaged investment vehicle designed to help and encourage families to save for future education expenses. SIB also oversees CalKIDS, a program that gives children in California a jump-start on saving for college or career training. All participants of the program receive a seed deposit in a CalKIDS account to help pay for future education after high school.

According to DGS, OSP's existing postage will not be able to absorb the new costs for services with SIB. The requested resources are intended to fund postage for the ScholarShare Investment Board's initial notification mailings to eligible participants of the California Kids Investment and Development Savings Program.

Staff Recommendation. Approve Spring Finance Letter.

Issue 14: Real Estate Services Division California Military Department and California Highway Patrol Workload

Request. The Governor's budget requests $795,000 in ongoing authority from the Service Revolving Fund, and three permanent positions beginning in 2023-24 for the DGS, Real Estate Services Division to address new project management workload associated with the California Military Department and California Highway Patrol (CHP).

Background. According to DGS, the requested resources in this proposal are necessary to take on the increased workload of project management responsibilities related to capital outlay work returning to DGS from the California Military Department as well as the increased workload from the CHP.

In 2022-23, CHP received funding for five property acquisitions for their field office projects. In addition, the CHP is currently seeking site selection (first step in acquisition) for five more sites and two additional site procurements (last step in acquisition) for field office projects funded in previous years. According to DGS, the additional staff are needed to address the current acquisition phases and then subsequent phases of the project in future years.

Staff Recommendation. Approve as budgeted.

Issue 15: Recycle Products and High Road Job Contracts Implementation (AB 661 and SB 674)

Request. The Governor's budget requests $672,000 from the Service Revolving Fund in ongoing expenditure authority, 4.0 permanent positions, and a one-time expenditure authority increase of $100,000 from the Service Revolving Fund, beginning in 2023-24 for the DGS, Procurement Division (PD) to address an increasing workload to support the requirements of AB 661 (Bennet) Chapter 517, Statutes of 2022 and SB 674 (Durazo) Chapter 875, Statutes of 2022.

Background. AB 661 requires CalRecycle and DGS PD to update the list of recycled products, update the minimum recycle content requirements, and to assist the PD Policy Unit with incorporating the above noted updated information in the State Contracting Manual (SCM), the Financial Information System for California (FI$Cal), and the financial system of any department not utilizing FI$Cal. Additionally, this bill would require PD to consolidate the needs of multiple state agencies to establish new LPAs for any newly identified recycled products.

SB 674 requires DGS PD, in collaboration with the Labor and Workforce Development Agency (LWDA), to develop and establish policies, develop contract requirements for high road job standards, and review and analyze contractor reports to determine compliance to contract requirements for high road job standards annually.

Additionally, the bill mandates contracts awarded by DGS or the Department of Transportation (CalTrans) for the acquisition of zero-emission transit vehicles and electric vehicle supply equipment valued at $10 million or more, except as specified, to incorporate high road job standards. It also would require contractors to annually submit information necessary to demonstrate its compliance with the specified requirements before, and a final report before it receives final payment on a covered contract.

According to DGS, the requested resources are needed to 1) provide the required updated policies, procedures and guidance to state procurement professionals and contractors pursuant to SB 674, 2) develop procurement policy and training materials to implement provisions of AB 661, and 3) conduct research and contract administration for the acquisition of newly identified recyclable products and zero-emission transit vehicles and EVSE.

Staff Recommendation. Approve as budgeted.

Issue 16: Small Business Participation on Infrastructure, Investment and Job Act (IIJA) Contracts (AB 2974)

Request. The Governor's budget requests $162,000 in ongoing expenditure authority from the Service Revolving Fund and 1.0 permanent position, beginning in 2023-24 for DGS, PD to implement AB 2974 (Committee on Jobs, Economic Development, and the Economy) Statutes of 2022, Chapter 600 which requires state agencies and departments to set 25 percent small business participation goals and report DGS small business participation on contracts funded by the Federal Infrastructure Investment and Jobs Act.

Background. AB 2974 establishes a 25 percent small business participation goal for contracts financed, in whole or in part, with specified funding from the Federal Infrastructure Investment and Jobs Act (IIJA), and includes reporting requirements, as specified.

The law as amended requires a state agency that has awarded any contract financed with the proceeds of the IIJA to annually report to DGS statistics comparing the small business and microbusiness participation dollars for contracts funded by these federal dollars to the total contract dollar amounts. It also requires any state agency that did not meet its participation goal to include in its report a plan of action (improvement plan) to meet its SB participation goals during the current fiscal year, in a manner to be determined by DGS.

The requested resources will provide a dedicated position to carry out the ongoing training, monitoring, technical assistance, and reporting of departments using the IIJA funding.

Staff Recommendation. Approve as budgeted.

Issue 17: Statewide Procurement Disparity Study and Outreach (AB 2019)

Request. The Governor's budget requests a one-time expenditure authority increase of $4.109 million from the General Fund for the DGS, Procurement Division to conduct a statewide procurement disparity study in 2023-24. Additionally, the Procurement Division requests 1.0 permanent positions, 1.0 two-year limited term position, and a one-time retired annuitant starting 2023-24, plus the associated expenditure authority increase from the Service Revolving Fund of $425,000 in 2023-24, $325,000 in 2024-25, and an ongoing expenditure authority increase of $162,000 in 2025-26 to support the implementation of AB 2019 (Petrie-Norris) Chapter 730, Statutes of 2022.

Background. AB 2019 codifies a 25 percent small business state contract participation goal. The bill requires DGS to conduct a statewide procurement and contracting disparity study to provide guidelines for outreach strategies, state government program development, and improvement to contracting policies. Additionally, state agencies are required to adopt an "Economic Equity First" action plan and policy, including specified elements, designed to promote the participation of small businesses, including women, minority, and LGBTQ-owned businesses, in their contracts.

Per AB 2019, DGS is authorized to collect and publicly display information on FI$Cal for Small Business or Disabled Veteran Business Enterprises applicants or certified firms that voluntarily submit a declaration that the business is 51 percent owned, and under the management of an individual or group of individuals who identify as either minority-owned, women-owned, or LGBTQ-owned.

DGS notes that it is facing significant data gaps and minimal tools to clearly identify what types of businesses are contracting with the state. As such, DGS' disparity study will examine various types of data to include quantifiable procurement and contracting data, census data, and anecdotal data.

DGS estimates the required disparity study to cost up to $4.109 million for a variety of reasons. FY 2020-21 State Contracting and Procurement Registration System (SCPRS) data shows that Caltrans accounted for $0.3 billion of the total $35.3 billion statewide spend. Caltrans' $0.9 million disparity study was their third study and only focused on Caltrans contracting activity. Caltrans is required by Title 49, Code of Federal Regulations section 26.45, to capture race, ethnicity data and contracting participation every three years, whereas the state does not. Hence the state will need to start from scratch to develop and incorporate mechanisms to obtain that data. DGS anticipates a significantly higher price tag for a statewide disparity study that must look at a much larger contracting and procurement universe and the statewide pool of vendors, of which there are over 17,000 certified firms.

In addition to the disparity study, requested resources will go towards policy development, as well as certification and outreach for minority-owned, women-owned, and LGBTQ-owned businesses.

Staff Recommendation. Approve as budgeted.

8885 COMMISSION ON STATE MANDATES

Issue 18: Sexual Assault Evidence Kits Testing Mandate

Request. The Governor's budget requests $22.8 million General Fund in 2023-24 to reimburse local governments for the costs they incurred during the initial claiming period of 2019-20 to 2020-21 associated with complying with SB 22 (Leyva) Chapter 588, Statutes of 2019. The Governor's budget also includes $10.8 million ongoing General Fund to support such costs in the future.

Background. SB 22 requires city and county law enforcement agencies to perform activities relating to DNA testing of sexual assault forensic evidence within specified time periods. The requested resources are intended to reimburse local governments for the costs they incurred during the initial claiming period of 2019-20 to 2020-21 to ensure sexual assault evidence kits were tested within the statutorily required time frames while they were under review by the Commission. Funding the mandate would make local compliance with the above requirements mandatory in 2023-24 and the state responsible for the costs incurred by local governments.

Staff Recommendation. Approve as budgeted.

Issue 19: Racial and Identity Profiling Mandate

Request. The Governor's budget requests $50.5 million General Fund to reimburse local governments for the costs they incurred to comply with AB 953 (Weber) Chapter 466, Statutes of 2015 while they were under review by the Commission. The Governor's budget also includes $16.5 million ongoing General Fund to support such costs in the future.

Background. AB 953 increased law enforcement reporting requirements by requiring each state and local agency that employs law enforcement officers to report annually to the Department of Justice on all stops conducted by its officers for the preceding calendar year. Funding the mandate would make local compliance with the above requirements mandatory in 2023-24 and the state responsible for the costs incurred by local governments.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

Issue 20: California Competes Grant Program

Governor's Budget Proposal. The Governor's Office of Business and Economic Development (GO-Biz) requests $120 million in one-time General Fund for a third year of funding for the California Competes Grant program.

Background. As described by GO-Biz, the CalCompetes program provides financial incentives for businesses to move to California and to stay, grow, and create quality full-time jobs here. GO-Biz states that CalCompetes "remains the State's strongest 'deal-closing' tool to attract and retain job-creating firms, with an emphasis on diversity, inclusion, training, and upward mobility."

In the first several years after it was established in 2014, CalCompetes offered all of its financial incentives to businesses in the form of tax credits. Under this structure, CalCompetes offers businesses savings off of their future state income tax bills in exchange for agreements to make certain capital investments and hire a certain number of employees in California. If the business carries out the agreements, the business can utilize the tax credits to reduce or eliminate their state tax bill. If the business does not comply with its agreements, the state recaptures the credits and recycles them back into the CalCompetes program.

It turned out, however, that because many of the companies receiving CalCompete's incentives are relatively new, they generated relatively little income. Accordingly, their tax burden is relatively low. As a result, only some of the businesses have been able to take full advantage of the tax credits that CalCompetes gave them.

To better address situations like these, the state added a grant-based component to CalCompetes beginning in 2021-22. Specifically, in addition to offering $290 million in tax credit-based incentives that year, CalCompetes also offered $120 million in grants as an alternative. The same amount was made available for CalCompetes grants again last year. Under the grant-based programs, CalCompetes provides up-front funding to businesses in exchange for their promise to make investments and to hire in California. GO-Biz explains that grant based funding is advantageous for businesses.

As evidence of the program's overall success to date, CalCompetes reports that:

In 2020-21, GO-Biz received over $3.1 billion in grant requests resulting in 8 awards to businesses who collectively committed to creating over 7,600 full-time jobs and making $3.3 billion of capital investments over the next 5 years. In 2021-22, GO-Biz received over $2.7 billion in grant requests resulting in 7 awards to businesses who collectively committed to creating over 6,300 full-time jobs and making over $1.7 billion of capital investments in California over the next 5 years.

This request seeks a third year of funding for CalCompetes grants, once again in the amount of $120 million. GO-Biz states that such funding will:

(1) benefit companies that cannot receive the CalCompetes Tax Credit;
(2) grow California's semiconductor manufacturing industry by leveraging federal funds available through the CHIPS Act; and
(3) promote equity by recruiting firms from States that restrict reproductive and/or LGBTQ+ civil rights.

The last of these goals appears to align well with the BRIDGE proposal set forth in Senate President Pro Tempore Atkins SB 447. GO-Biz emphasizes, however, that promoting semiconductor production projects will be a key focus of this round of CalCompetes grants, if approved.

LAO Comments. After reviewing recent studies CalCompetes' economic impact, the LAO concludes that there is "fairly good evidence that California Competes encourages recipients to make new investments in California." However, the LAO cautions that "these findings do not allow the state to be confident the program will remain effective when expanded significantly."

As to the difference between tax credit-based incentives and grant funding, the LAO notes that:

> there were some good reasons to add a grants component to California Competes. The recent research, however, warrants revisiting the way the grant program has been structured over the last two years. In particular, given evidence supporting the effectiveness of the credits, it likely makes sense to align the structure of the grant program as closely as possible with the credit program. The grant program has most clearly deviated from the credit program on one dimension: the number and size of the awards. Because of the grant program's focus on businesses making big investment promises, significantly larger awards have been made to a much smaller number of businesses. Should the state maintain a grant program moving forward, relaxing or eliminating this focus on big investment promises could make sense.

Staff Recommendation. Hold open.

Issue 21: Increased Staffing for California Business Investment Services

Request. The Governor's Office of Business and Economic Development's (GO-Biz) Business Investment Services (CalBIS) requests 6.0 positions and $740,000 ongoing General Fund to address increased workload and preserve the team's ability to maintain current service levels effectively.

Background. According to GO-Biz, the CalBIS program has three primarily responsibilities:

(1) Provide services to employers, corporate executives, business owners, and site location consultants interested in investing or locating within California.

(2) Create and implement a process for convening teams aimed at attracting new businesses to California, mitigating the potential closure of large employers within California, or other important business development situations.

(3) Work collaboratively with local, regional, state, and federal entities, including public and private marketing institutions and trade organizations, in attracting, retaining, and helping businesses grow and be successful in California. (Gov. Code §12096.5).

GO-Biz indicates that it operates three units to execute these statutory responsibilities: the Permitting team (currently 3.0 positions, all permanent); the Business Investment Services team (13.0 positions, including 10.0 permanent and 3.0 limited-term); and the Community and Place-based Solutions team (20.6 positions, including 2.0 permanent and 18.6 limited-term). A Deputy Director oversees all three units.

According to GO-Biz, the requested resources would allow CalBIS to "fully and successfully" implement existing statutory requirements. Without these resources, GO-Biz asserts, service levels at CalBIS may deteriorate, resulting in "unfulfilled" business development opportunities across California and "unachieved" local, regional, and statewide business development goals.

Staff Comments. GO-Biz frames this request, in part, as a response to "hiring and retention challenges" confronting CalBIS. It states that hiring is especially difficult for CalBIS because CalBIS generally has to compete for talent against the private sector, which tends to pay considerably higher salaries. The Subcommittee may wish to inquire further into how expanding staffing will help to resolve this issue.

More generally, like much of GO-Biz' business development operations, evaluation of whether the cost of additional CalBIS activity is worth the benefit to the state depends on a "but-for" factor that is difficult to pin down. CalBIS reports conducting vigorous activities in support of statewide business development in California. CalBIS credits these activities with creating or retaining over 100,000 jobs and attracting more than $20 billion in project investments since, CalBIS states, many of these investments and jobs could have ended up elsewhere. In considering whether to increase CalBIS staffing further, however, the Subcommittee may wish to inquire whether some or even all of these jobs and investments might have come to California even absent intervention from CalBIS.

Staff Recommendation. Hold open.

Issue 22: International Trade Staff and Resource Augmentation

Governor's Budget Proposal. The Governor's Office of Business and Economic Development (GO-Biz) requests $327,000 ongoing General Fund and hiring authority for two positions to address increased workload for the International Affairs and Trade Unit.

Background. GO-Biz's International Affairs and Trade Unit is the lead state agency on international trade. Among other things, the Unit is supposed to promote exports and investment-based economic growth and to foster relationships with "international counterparts to help address barriers to trade, find business partners, and promote California's strengths abroad."

Within this broader mission, the Unit is responsible for running the State Trade Expansion Program (STEP) program. As described by GO-Biz, the California STEP program helps small businesses export and enter global markets and tap into the benefits of selling their products and services overseas. California STEP organizes trade missions, delegations, and California pavilions at overseas trade shows. California STEP also manages the California Export Voucher program. The Export Voucher program enables eligible California small businesses to apply for a reimbursement voucher to offset export-related expenses. Small businesses can receive up to $10,000 in funding for qualified export expenses.

California STEP was previously operated by the California Department of Food and Agriculture. It was recently transferred to GO-Biz and integrated into the International Affairs and Trade Unit.

This request seeks two additional positions:

(1) One to handle STEP program administration.

(2) One to respond to "growing demand among California small businesses and other external partners for more and better contacts, services, and networking opportunities."

LAO Comments. While the LAO states that the request for an additional STEP-related position "appears justified" in light of the program's recent transfer from the Department of Food and Agriculture to GO-Biz, the LAO see less evidence of a need for the other position requested. The LAO notes that "[t]he unit experienced a temporary surge in 2020, but inquiries have now returned to pre-2020 levels." Accordingly, the LAO suggests rejecting the proposed position that is not related to STEP.

Staff Recommendation. Hold open.

Issue 23: Increased Staffing for Administrative Services Division

Governor's Budget Proposal. GO-Biz requests 7.0 positions and $955,000 in ongoing General Fund to support the increased workload for the Administrative Services Division.

Background. GO-Biz describes its overall role as helping "drive economic inclusiveness, sustainability, and competitiveness by offering a range of resources and collaborations to businesses and other stakeholders in and beyond California."

GO-Biz reports that it currently operates 12 different program areas:

- California Infrastructure and Economic Development Bank (IBank)
- California Business Investment Services (CalBIS)
- California Film Commission (Film Commission)
- California Office of the Small Business Advocate (CalOSBA)
- Community and Local Equity Grants
- California Competes (CalCompetes)
- International Trade and Affairs Unit (International Unit)
- Zero Emission Vehicles Market Development Unit (ZEV Unit)
- Sustainable Freight and Supply Chain Development (Freight and Supply Chain)
- Climate and Energy Unit (Energy Unit)
- Travel and Tourism (Tourism)
- Executive, Legislative, Legal, and Communication Services

The role of the Administrative Services Division is to provide support to each and all of these programs. These support include:

- High-level coordination, including department-wide and interagency problem-solving.
- Information technology services, including internal client services and external grant portals.
- Business services, including procurement, records retention, and facilities management.
- Budget services, including budget development, fund management, and accounting services.
- Human resources services, including compliance, training, and retention planning.

According to GO-Biz, the last few budget cycles have resulted in a permanent gap between GO-Biz's overall responsibilities and GO-Biz's administrative capacity. GO-Biz states that the number of permanent programs it runs has grown dramatically in the last five years, rising from 18 ongoing programs in 2017-18 to 30 in 2022-23. Adding new and ongoing programs has resulted in a substantial broadening of GO-Biz's programmatic structure and, ultimately, its administrative needs.

Staff comments. This request is one of several GO-Biz requests for increased staffing. Each may have merit on its own, but the Subcommittee may also want to consider these requests in the context of the overall expansion of GO-Biz staffing.

Staff Recommendation. Hold open.

Issue 24: Made In California Program Relaunch

Governor's Budget Proposal. The California Office of the Small Business Advocate (CalOSBA), within the Governor's Office of Business and Economic Development (GO-Biz) requests $1.534 million General Fund in 2023-24, to be spent over three years, to relaunch the Made in California Program. Through proposed trailer bill language, CalOSBA also seeks statutory changes intended to increase program participation.

Background. The Made in California Program (CA Made) was meant to support in-state manufacturing by increasing consumer awareness of in-state production. Under the program, business can apply to have their products certified by an independent third party as being made in California provided the products meet specified criteria. Among other things, the products have to qualify for the Made in U.S.A. standards and the manufacturing process may be subject to inspections.

By GO-Biz' own assessment, CA Made has remained "underutilized and inaccessible for most businesses that might be interested in participating" since it launched in 2016. Despite marketing, community outreach and engagement and the establishment of a website (www.camade.ca.gov), GO-Biz reports that only two companies have applied for the CA Made certification to date.

Based on feedback from focus groups, Go-Biz attributes the lack of CA Made uptake to the costs and complexity of the third party certification process, as well as the potential for on-site inspections.

To breathe new life into the program, GO-Biz proposes significantly lowering the CA Made certification standard and then relaunching the program with what GO-Biz hopes will be a more robust group of participants.

In terms of lowering the CA Made standards, GO-Biz proposes three primary changes:

- Eliminate the requirement to comply with the Made in U.S.A. standard.
- Eliminate the requirement for independent, third-party certification of compliance with Made in California standards.
- Allow for self-attestation of compliance.

With regard to the relaunch of the program, GO-Biz proposes to:

- Recreate the CA Made website by starting over and allowing for a range of new functions including, among other things, receiving and processing applications and displaying and tracking approved applicants.
- Host conferences and other events to, among other things, promote CA Made, display CA Made products, and generate statewide interest in joining the program.
- Conduct marketing campaigns using online media and other avenues, and using successful applicants to raise awareness and generate interest in CA Made products and companies.

- Engage with current and potential businesses interested in CA Made to ensure the program is designed and run effectively and with a focus on maximizing benefits for California businesses, including by conducting market research and/or surveys.

LAO Comments. The LAO believes that "GO-Biz has not offered a convincing argument as to how consumers could be confident in a CA Made designation that is not verified by a neutral party." In light of the state's current fiscal outlook, the LAO suggests rejecting the Governor's proposal, saying:

> The state's prior efforts with CA Made have been unsuccessful. Further, as far as our office and the administration are aware, no other state or local government has successfully carried out a similar program. While GO-Biz's proposal to allow self-attestation for CA Made might increase business participation, the administration has not offered a compelling argument that such a designation would be meaningful to consumers. Overall, we think funding this effort would be a risky bet for the state.

Staff Recommendation. Hold open.

Issue 25: COVID Small Business Relief Grants Reduction

Governor's Budget Proposal. The Governor's Budget proposes to claim back approximately $92 million in General Fund from the California Small Business COVID-19 Relief Grant Program.

Background. Under the auspices of GO-Biz, the California Small Business COVID-19 Relief Grant Program provides micro grants ranging from $5,000 to $25,000 to eligible small businesses and nonprofits impacted by the COVID-19 pandemic and the related public health and safety restrictions. Some of the available funding is set aside specifically for grants to certain qualified nonprofit cultural institutions. The company Lendistry operates the program for GO-Biz pursuant to a contract.

Eligible uses for the grant funding include:

- All employee expenses including payroll costs, health care benefits, paid sick, medical, or family leave, and insurance premiums;
- Working capital and overhead, including rent, utilities, mortgage principal and interest payments (excluding mortgage prepayments), and debt obligations (including principal and interest) incurred before March 1, 2020 (i.e., in order to be an eligible debt obligation, the loan agreement, promissory note, etc., as applicable, must have been entered into before March 1, 2020);
- Costs associated with re-opening business operations after being fully or partially closed due to state-mandated COVID-19 health and safety restrictions and business closures;
- Costs associated with complying with COVID-19 federal, state or local guidelines for reopening with required safety protocols, including but not limited to equipment, plexiglass barriers, outdoor dining, PPE supplies, testing, and employee training expenses;
- Any other COVID-19 related expenses not already covered through grants, forgivable loans or other relief through federal, state, county or city programs;
- Any other COVID-19 related costs that are not one of the ineligible uses of funds (see below).

More specifically, grants can be used to pay:

- Human resource expenses for the State share of Medicaid
- Employee bonuses or severance pay
- Taxes
- Legal settlements
- Personal expenses or other expenses unrelated to COVID-19 impacts
- Expenses for repairs from damages already covered by insurance
- Reimbursement to donors for donated items or services

Originally, the state allocated $2 billion to fund the program. Go-Biz reports that as of December 2022, over 320,000 small businesses had received grants in an average amount of around $11,000 each.

After all program awards have been made to eligible businesses, the Administration expects there will be a remaining balance of around $92 million. The Administration proposes to recoup this money as savings in order to help offset the projected decline in General Fund revenues.

Staff Comment. Many small businesses were hit hard by the economic slowdown that accompanied measures instituted to limit public health harms from the COVID-19 pandemic. In light of that, the Subcommittee may wish to inquire about why $92 million in relief funding remains unclaimed.

Additionally, the California Small Business COVID-19 Relief Grant Program is only one of several pandemic relief funds which operate under GO-Biz. Now that the COVID-19 state of emergency has been lifted, the Subcommittee may want to inquire about the status of the other pandemic relief programs. Have all of the other funds been exhausted? If not, is there a case to be made for sweeping out the balance remaining at other funds?

Staff Recommendation. Hold open.

Issue 26: Update on Immigrant Integration Programming

Background. The 2022-23 state budget allocated $11.6 million in General Fund and $500,000 annually thereafter, to the Governor's Office of Business and Economic Development (GO-Biz) to support statewide coordination for immigrant integration and propel innovation including through enhanced services for immigrant communities at the state and local level, and supports for economic development activities, including at the California-Mexico border.

GO-Biz broke down the allocation into five components:

- *Local Government Investments.* The bulk of the allocation, $8.7 million, is directed toward competitive grants to local governments to start or expand positions to: 1) build trust with immigrant residents and 2) help immigrant populations navigate state and local services with priority on quality of life, workforce, and entrepreneurship supports. GO-Biz has three years to distribute the money. The grants are intended to help cities and counties seed and deploy best practices in immigrant support services with state provided technical assistance, including hiring a liaison or ombudsman to provide or expand support services across local government for immigrant communities, including small business owners, or establishing or maintaining a local office for immigrant services.

- *Export Training Network.* Another $2 million from the allocation is intended to support the statewide expansion of the export training network overseen by the International Affairs and Trade unit within GO-Biz. The Unit is supposed to distribute the funding through a request for proposals from service providers. These service providers are supposed to develop export training programs and curriculum aimed at underserved business owners, including immigrant entrepreneurs and small business operators. As part of these training programs, service providers are supposed to recruit business professionals to mentor immigrant and refugee entrepreneurs. The funding is targeted to seven regions: San Diego, Inland Empire, Orange County, Los Angeles, Central Valley, Bay Area, and Northern California.

- *Business Quick Start Guides & Translations.* Another $600,000 General Fund in 2022-23, and $200,000 ongoing is directed to expanding the number, availability, and translation of informational materials designed to empower individuals to launch their own business ventures. For example, the program is supposed to produce Business Quick Start Guides and translate those resources to priority languages, with annual updates, in coordination with the California Business Investment Services permitting unit and the California Office of the Small Business Advocate. The program is also supposed to partner with the Department of Consumer Affairs and immigrant serving organizations to develop guides to the professional licensing process in California in multiple languages. Finally, the program is supposed to synthesize website content and make it easier for individuals to access translated forms and navigate the online content.

- *Export Training Network.* An allocation of $150,000 is directed toward enhancing border region economic development activities and growing bilateral trade and investment between California and Mexico. Specifically, the funding is supposed to be used for four to five virtual or hybrid trade missions, effectively scaling a successful Baja-focused May 2021 virtual trade mission organized by GO-Biz. The CaliforniaMexico border region, commonly referred to as the Cali Baja Bi-National Mega-Region or CaliBaja, has a strong and diverse industrial center with plenty of opportunity for cross-border economic activity, particularly in the manufacturing arena. The trade missions are intended to advance the border region's strategic industries, enabling cross-border economic growth and development.

- *Immigrant–Focused Position.* The last part of the allocation provided $150,000 in ongoing funding to establish a new immigrant-focused position within GO-Biz. The new position is intended to support statewide coordination and direct resources for integration, including:
  - convening the Interagency Council on Immigrant Integration & Talent and supporting its engagement with business and immigration stakeholders;
  - providing technical assistance to state departments and agencies;
  - leading outreach to target populations regarding available services and working with business owners to identify policies that foster complete economic integration of foreign-born talent and sustained prosperity for all;
  - identifying programs and initiatives that can help support cross-border commerce;
  - facilitating support of immigrant entrepreneurs and workers, including supporting workplace based English language training and promoting citizenship; and
  - overseeing the provision of one-time funding to local governments to seed and enhance immigrant integration support services across the state and amplify the development and deployment of best practices.

Staff Comments. Conditions at California's southern border with Mexico are constantly evolving. Currently, federal policy regarding the admission of asylum seekers and other migrants attempting to enter the United States is in flux. For the last several years, many migrants have been turned away pursuant to federal policy known as Title 42, ostensibly because of risks associated with the COVID-19 pandemic. That policy is set to end on May 11, 2023. Depending on what policies and procedures the federal government adopts in its place, the end of Title 42 may result in additional immigrant arrivals in California.

GO-Biz' funding for immigrant integration effort is available statewide; it is not exclusive to the border region. Nonetheless, given the evolving nature of federal immigrant admissions policy described above, the resources recently allocated to GO-Biz for immigrant integration programming may take on particular importance in the coming months. The Subcommittee may wish to inquire with GO-Biz about the status of this programming. Have guidelines been created? Have any grants been awarded yet? If so, what is the status of those expenditures? What has the money been spent on so far and how much is left? How is the program responding to the specific needs of communities along the border? If the program has not been rolled out yet, is there a reason why not and when can communities expect to see these resources deployed?

Staff Recommendation. None. Information item only.

Issue 27: Update on GoBiz Workforce Development Programming

Background. GO-Biz coordinates with the Labor and Workforce Development Agency (LWDA) on a variety of programs with workforce development components, including the Employment Training Panel, the Division of Apprenticeship Standards, the Joint Venture Program, and California's Workforce Development Board. In most instances, however, LWDA is the primary administrator of these programs.

The primary workforce-development program operated by GO-Biz is the California Dream Fund. As described by GO-Biz, the Dream Fund provided microgrants of up to $10,000 to "seed entrepreneurship and small business creation in underserved small business groups that faced opportunity gaps." GO-Biz explains that "[t]he program was made available to eligible startups that have completed trainings and advisory services designed to accelerate business start rates and ensure successful business outcomes for participating small business." The Dream Fund was administered by the California Office of the Small Business Advocate (CalOSBA), with trainings and advisory services provided by the more than 100 technical assistance centers operating under the Technical Assistance Program (TAP).

Go-Biz states that the SB TAP network of centers are "specifically charged with expanding services to underserved business groups, which include women, minorities, veterans, as well as communities that are low-wealth, rural, and disaster impacted. In addition, CalOSBA works with an expanded network of small business support providers who bring extensive cultural and linguistic expertise in working with target populations that face significant barriers to employment and often seek entrepreneurship as a pathway to creating their own job by starting their own business."

GO-Biz reports that the Dream Fund had provided $28,824,874.00 to 4,170 newly formed businesses as of February 10, 2023 and was on track to expend all available funds. The program was oversubscribed, GO-Biz indicates, and as a result many businesses who participated in eligible startup trainings and would have been eligible candidates for a grant ended up on waiting lists.

Preliminary CA Dream Fund Data, For-Profit Awardees as of 2/10/2023 (Source: Lendistry)

Demographic	# Awards	% of Total Awards	Grant Amount
Woman-owned	2,830	67.9%	$ 18,515,000.00
Located in Rural Area	595	14.3%	$ 4,330,000.00
LMI Area	2,306	55.3%	$ 15,660,000.00
Low Wealth Area	553	13.3%	$ 3,855,000.00
Minority-owned	3,007	72.1%	$ 20,190,000.00

Race	# awards	% of Total Awards	Grant Amount
White	1,474	35.3%	$ 9,885,000.00
Other Pacific Islander	49	1.2%	$ 330,000.00
Other	792	19.0%	$ 5,355,000.00
Not Disclosed	215	5.2%	$ 1,560,000.00
Hawaiian Native	3	n/a	$ 15,000.00
Asian	526	12.6%	$ 3,655,000.00
American Indian	81	1.9%	$ 620,000.00
Alaskan Native	2	n/a	$ 15,000.00
African American	1,006	24.1%	$ 6,605,000.00

Top 10 Industries
Clothing and Clothing Accessories Retailers
Child Day Care Services
Beauty Salons
All Other General Merchandise Retailers
All Other Personal Services
Mobile Food Services
Administrative Management and General Management Consulting Services
Other Personal Care Services
Independent Artists, Writers, and Performers
Cosmetics, Beauty Supplies, and Perfume Retailers

Staff Comments. The Subcommittee may wish to inquire about the results from the Dream Fund grants as well as GO-Biz' workforce development related programming more generally. What outcomes have been achieved thus far? Does GO-Biz anticipate undertaking any further programming in this area? What strategies did GO-Biz using to ensure that Dream Fund resources reached the communities and populations most in need of expanded job opportunities in an equitable manner? What steps did GO-Biz take to connect the participants in these programs with newly emerging industries and opportunities?

Staff Recommendation. None. Information only.

0690 OFFICE OF EMERGENCY SERVICES
2720 DEPARTMENT OF THE CALIFORNIA HIGHWAY PATROL
7502 DEPARTMENT OF TECHNOLOGY
8940 MILITARY DEPARTMENT

Issue 28: California Cybersecurity Integration Center

Request. The Governor's budget requests $28.7 million General Fund and 17 new positions (14 at CalOES and 3 at the California Department of Technology) in 2023-24 and ongoing for the Office of Emergency Services, California Military Department, California Department of Technology, and the California Highway Patrol to address increased demand on Cal-CSIC for cybersecurity coordination, intelligence gathering and dissemination, and incident response. The proposal would also make permanent 23 existing positions approved in 2020-21 for three fiscal years (12 at CalOES, 8 at CMD, and 3 at CHP).

Background. The California Cybersecurity Integration Center (Cal-CSIC) is the lead entity for coordinating statewide information security (IS) activities; gathering and disseminating threat intelligence from the federal government, county and other local governments, and private companies to state entities; and responding to cybersecurity incidents. Cal-CSIC is a partnership between four state entities: the California Office of Emergency Services (OES), which administers Cal-CSIC; the California Department of Technology (CDT); the California Highway Patrol; and the California Military Department (CMD).

LAO Comments.

Merit in Augmentation of Cal-CSIC Funding and Positions… The LAO finds merit in Cal-CSIC's request to make existing positions permanent to meet statewide demand for coordination of IS activities, incident response (such as responding to incidents like those recently involving the Department of Finance and Los Angeles Unified School District), and threat intelligence gathering and dissemination. Increased cyberattacks and threats to state entities cited by the administration also support additional positions and resources to meet increased demand for existing services and address emerging areas of cybersecurity risk such as threats to critical infrastructure OT systems.

…But New Goals and Outcomes of Augmentation Warrant Oversight. However, the goals and outcomes provided by Cal-CSIC in support of this proposal suggest legislative oversight is warranted. This is to ensure the augmentation meets the increased demand for existing services, helps address emerging areas of cybersecurity risk, and achieves initiatives and technical capabilities in Cal-Secure. Cal-CSIC did provide supporting documentation that aligns each of the requested positions in the proposal with each of the gaps in Cal-CSIC's current capabilities based on their level of support, but currently there is no information about the plan and time line to close these gaps. Also, Cal-CSIC's supporting documentation establishes links between Cal-Secure and positions requested in the proposal, but the goals and success measures provided would require quantification and reporting to the Legislature to be useful. For example, one of the goals is to modernize cybersecurity procurement with an accompanying success measure of eliminating the use of unsecured technology. How procurement will be modernized and the number of devices, networks, and systems that are unsecured and need to be eliminated remains unclear. Clear, measurable goals and outcomes are critical for the Legislature to monitor whether increased Cal-CSIC resources are preventing increasing numbers of cyberattacks on and threats to state entities from becoming incidents.

Budget Problem Warrants Careful Scrutiny of Proposed General Fund Spending Augmentations. The LAO identifies a budget problem in the tens of billions of dollars in 2023-24 and projects a larger budget problem at May Revision by several billion dollars across 2022-23 and 2023-24. To address the budget problem, the LAO recommends the Legislature use specific criteria to evaluate which recent augmentations to maintain versus which ones to reduce or delay. One criterion is whether a proposal sets clear goals that are in alignment with legislative priorities. While improving the state's IS defenses and preparedness is a legislative priority, as evidenced by the Legislature's approval of numerous IS proposals across several budgets and the establishment of Cal-CSIC in statute, the proposal lacks clear goals and outcome measurements that are connected to the requested funding and positions.

High Vacancy Rate Suggests at Least Some Proposed Positions Could Remain Vacant. According to CalOES, the current vacancy rate for Cal-CSIC positions is 23 percent, which is several percentage points higher than the average vacancy rate for state entities. While CalOES expects to recruit and hire these positions more quickly based on current economic conditions in the technology sector and the increased number of applications received for some positions, some proposed positions (if approved) likely could remain vacant given ongoing vacancy challenges. Given the budget problem, possible vacancies might warrant some delays or reductions of funding.

<u>LAO Recommendations.</u>

Approve Funding for Existing Cal-CSIC Positions, but Direct Cal-CSIC to Prioritize New Funding and Positions. The LAO recommends the Legislature approve funding for Cal-CSIC to make permanent 23 existing positions approved in 2020-21. They also recommend that the Legislature direct Cal-CSIC, in consultation with its partners, to prioritize new funding and positions that are requested in its augmentation proposal. The current budget problem requires that even proposals that align with legislative goals must prioritize their activities, and the absence of prioritization makes discussions on the proposal more difficult. The Legislature could direct Cal-CSIC to report back to budget subcommittees before May Revision on what funding and which positions are most critical to furthering Cal-CSIC's mission. With this information, the Legislature could determine whether the requested augmentation might be reduced to make additional General Fund available to address the current budget problem.

Require Reporting on Goals and Outcomes for Any New Funding and Positions. The LAO also recommends the Legislature adopt provisional budget bill language for any new funding that requires Cal-CSIC to quantify its goals and outcomes, and requires a report to the Legislature on Cal-CSIC's progress towards these goals and outcomes. If the Cal-Secure implementation reporting recommended above is approved, the Legislature also could consider incorporating the Cal-Secure goals and success measures in this proposal into that annual report. This reporting would allow the Legislature to ensure its priorities to improve state entities' IS defenses and preparedness are achieved by Cal-CSIC.

Staff Recommendation. Hold Open.

0690 Office of Emergency Services
7502 Department of Technology
8940 Military Department

Issue 29: School Cybersecurity (AB 2355)

Request. The Governor's budget requests $5.4 million General Fund in 2023-24, $3.9 million General Fund annually in 2024-25 through 2026-27 and 17 positions (7 positions at OES, 5 positions at California Department of Technology, and 5 positions at the California Military Department) in 2023-24 through 2026-27 to implement AB 2355 (Salas) Chapter 498, Statutes of 2022.

Background. The California Cybersecurity Integration Center (Cal-CSIC) is the lead entity for coordinating statewide information security (IS) activities; gathering and disseminating threat intelligence from the federal government, county and other local governments, and private companies to state entities; and responding to cybersecurity incidents. Cal-CSIC is a partnership between four state entities: the California Office of Emergency Services (OES), which administers Cal-CSIC; the California Department of Technology (CDT); the California Highway Patrol; and the California Military Department (CMD).

AB 2355 requires 1) LEAs to report cyber-attacks that impact 500 or more staff or students to Cal-CSIC, 2) Cal-CSIC to establish a database to track LEA reports of cyberattacks, and 3) Cal-CSIC to annually report on January 1st the number and types of LEA cyberattacks and associated data breaches to the Legislature.

The bill did not specify requirements for Cal-CSIC, such as responding to each request for assistance from LEAs reporting to it. Assembly Bill 2355 remains in effect until January 1, 2027.

Legislative Analyst's Office (LAO) Comments.

Proposal Exceeds Requirements of AB 2355. Cal-CSIC's preliminary estimate of the resources needed to help LEAs goes beyond the specific requirements of AB 2355 in three key ways. First, the estimate assumes that the addition of requests from LEAs will result in a 100 percent increase in the total number of requests from all entities for assistance from Cal-CSIC and that Cal-CSIC responds to every request. Second, the estimate assumes Cal-CSIC will provide on-site incident response to any LEA, if requested. Third, the estimate assumes Cal-CSIC will establish data sharing agreements and software licensing arrangements with each LEA to integrate at least some LEA data into future automated solutions administered by Cal-CSIC. It is reasonable for Cal-CSIC to consider what additional resources might be needed to help LEAs in the event of a cyberattack or data breach, but none of these additional activities is required by AB 2355.

No Historical Data on Number of LEA Cyberattacks, Requests for Assistance, or Incidents Requiring Response. The new requirements of AB 2355 also mean Cal-CSIC's preliminary estimate is not informed by historical data on how many cyberattacks will be reported, how many requests for assistance will be submitted, and how many incidents will require Cal-CSIC to respond. The absence of these data makes it difficult to know, for example, how the level of support requested from Cal-CSIC will differ among LEAs. Some LEAs, particularly large LEAs, might first request assistance from their cyber insurance providers and other vendors before requesting Cal-CSIC's assistance. Other LEAs might meet the reporting requirements of AB 2355, but opt not to request any support from Cal-CSIC and instead use their internal IT staff to respond and remediate any deficiencies and vulnerabilities. Without historical data and/or information about how LEAs will respond to AB 2355, Cal-CSIC's preliminary estimate of the resources needed to assist LEAs is a "best guess."

Incremental Approach to Additional Funding and Positions Warranted. Given the specific requirements of AB 2355, the LAO finds the initial $951,000 and three positions necessary to plan, develop, and implement the database to be reasonable. However, any additional funding and/or positions in 2023-24 and future fiscal years, particularly within the context of the budget problem, should not be considered in the absence of LEAs' demonstrated need for additional assistance from Cal-CSIC.

<u>LAO Recommendations.</u>

Approve $951,000 and Three Positions to Meet Requirements of AB 2355. The LAO recommends the Legislature approve $951,000 and three ITS II positions from 2023-24 through 2026-27 for Cal-CSIC to plan, develop, and implement the database that will allow it to meet the specific requirements of AB 2355.

Reject All Remaining Proposed Funding and Positions That Go Beyond Meeting AB 2355 Requirements. Without a basis for assessing the LEAs' need for additional assistance from Cal-CSIC, the LAO recommends the Legislature reject the remainder of the funding and positions requested by Cal-CSIC to implement AB 2355: $4.4 million General Fund and 14 positions in 2023-24, and $2.95 million General Fund and 14 positions from 2024-25 through 2026-27.

Consider Approving Provisional Budget Bill Language That Allows Small Amount of Additional Funding Based on Experience With LEAs. Acknowledging the need for some level of Cal-CSIC funding to help LEAs with cyberattacks and data breaches, the LAO recommends the Legislature consider approving provisional budget bill language that would allow Cal-CSIC to request some small amount of additional funding, subject to notification of the Joint Legislative Budget Committee, based on its actual experience with LEAs' response to AB 2355. The LAO also recommends the language require Cal-CSIC to provide data on the number of reported cyberattacks, requests for assistance, responses to requests for assistance, incidents that warranted response, and descriptions of the level of response before DOF can authorize expenditure of the funding. These data would complement information that is expected to be in Cal-CSIC's first AB 2355 report on January 1, 2024, and provide the Legislature with an opportunity to assess whether additional resources are warranted.

Staff Recommendation. Hold Open.

0690 OFFICE OF EMERGENCY SERVICES

Issue 30: State and Local Cybersecurity Grant Program (Spring Finance Letter)

Request. The California Office of Emergency Services requests $400,000 in state operations and $7,600,000 in local assistance Federal Trust Fund authority to implement the new State and Local Cybersecurity Grant Program.

Background. The State and Local Cybersecurity Grant Program (SLCGP) is part of the federal 2021 Infrastructure Investment and Jobs Act also known as the Bipartisan Infrastructure Bill. The SLCGP awards grants to eligible entities to address cybersecurity threats and risks to information systems owned or operated by, or on behalf of, state, local, or tribal governments. The goal of the SLCGP is to assist state, local, or tribal governments to manage and reduce systemic cybersecurity related risks by meeting the following objectives:

- Objective 1: Develop and establish appropriate governance structures, including developing, implementing, or revising cybersecurity plans, to improve capabilities to respond to cybersecurity incidents and ensure continuity of operations.
- Objective 2: Understand their current cybersecurity posture and areas for improvement based on continuous testing, evaluation, and structured assessments.
- Objective 3: Implement security protections commensurate with risk.
- Objective 4: Ensure organization personnel are appropriately trained in cybersecurity, commensurate with responsibility.

SLCGP funding in the first year is limited to allowable administrative activities until a cybersecurity plan has been approved by the Department of Homeland Security. OES anticipates a plan to be developed and submitted by September 2023. The cybersecurity plan must be approved by a designated planning committee, selected by the state administrative agency, in conjunction with the Chief Information Officer of the state, and must consist of at least 50% cybersecurity professionals, and represent both urban and rural communities in the state. This plan, once approved, will delineate how funds will be provided to eligible state, local, or tribal entities.

OES, as the state administrative agency, is the only entity that is eligible to apply for this grant. The available funding is for the 2022 federal fiscal year and additional funding is anticipated in 2023, 2024, and 2025. The proposed resources only request the federal authority needed for the program. There is an additional 10 percent cost share for the state operations portion which will be funded through in-kind General Fund activities of current OES/Cal-CSIC staffing. Amounts for local matches will be established through the cybersecurity plan for allocation.

Staff Recommendation. Hold Open.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 31: Adaptive Reuse of Underutilized State Buildings (AB 2592)

Request. The Governor's budget requests $1 million General Fund in 2023-24 for the DGS, Real Estate Services Division/Asset Manage Branch to implement AB 2592 (McCarty), Chapter 439, Statutes of 2022.

Background. AB 2592 requires DGS, for the purposes of expanding affordable housing development and adaptive reuse opportunities, to prepare a streamlined plan to transition underutilized multistory state buildings into all types of housing, including, but not limited to, rental or ownership housing opportunities, and report this plan to the Legislature by January 1, 2024.

Adaptive reuse refers to the process of reusing an existing building for a purpose other than which it was originally designed for. It can be an effective tool for housing development if a given site meets necessary conditions. The most critical conditions are that the existing building must utilize the site to its development potential, and the dimensions of the building floorplates must fall within prescribed ranges that are suitable for housing conversion. DGS has conceptually evaluated sites for adaptive reuse options and have found very few to be suitable.

<u>Executive Order N-06-19.</u> Executive Order N-06-19 required DGS to review all state-owned property, identify excess properties that could be made available for affordable housing, develop an online inventory of excess sites and issue requests for proposals for long-term ground leases for affordable housing development.

Based on a visual review of each property, DGS identified approximately 500 sites that (1) appeared potentially suitable for housing, and (2) did not appear to be fully utilized by the departments having jurisdiction. After working with those departments to identify current uses, planned future uses, legal restrictions that would preclude redevelopment, and potential hazards, DGS was left with approximately 100 sites, which were declared excess pursuant to the executive order. (The number of excess sites in the program fluctuates as sites are eliminated or awarded and as departments declare additional properties to be excess.)

In accordance with the executive order, DGS publishes all solicitations for housing projects on its website, and all solicitations are sent out via listserv derived from Housing and Community Development's listing of developers and statewide affordable housing developer associations.

<u>Adaptive Reuse Assessment Tool.</u> DGS is finalizing an assessment tool to conceptually evaluate a building's suitability for adaptive reuse as housing. The tool leverages lessons learned from a recent DGS-commissioned consultant study of a state office building for adaptive reuse. It would consider technical factors such as building systems, status of repairs, configuration of the building core, and size of the floor plate, as well as factors such as adjacency to transit and amenities and the suitability of the surrounding neighborhood.

DGS is already pursuing the adaptive reuse of multistory state buildings, including in downtown Sacramento. The requested resources will be used to complete the report required by AB 2592. This would advance the state's efforts to leverage telework into housing solutions such as adaptive reuse.

Staff Recommendation. Hold Open.

Issue 32: Direct Digital Control Upgrades

Request. The Governor's budget requests $11.8 million limited-term authority from the General Fund for three years beginning in 2023-24, and $972,000 limited-term authority from the Service Revolving Fund and 4.0 limited-term positions for three years for the DGS, Facilities Management Division to upgrade the Direct Digital Control (DDC) systems in buildings managed by DGS to improve operations and energy efficiency.

Background. DDC systems offer control for building mechanical and electrical systems, and modern DDC systems have the capability to offer trends of data points on HVAC (Heating, Ventilation, and Air Conditioning) electrical equipment. An assessment of existing systems found that numerous DDC systems were obsolete and in need of upgrade or replacement as they could no longer fully communicate with the myriad of additional sensor and enunciation devices (alarms, strobes, etc.) that now interface with the Fire and Life Safety panel for code compliance. According to DGs, this communication is essential to minimizing the spread of fire and smoke during a fire event.

When a sensor is activated, communication is sent to the DDC system to close dampers, reduce or stop certain airflows, or engage the stairwell pressurization system to provide positive air pressure in the exit stairwells that prevents smoke intrusion. The absence of this communication could allow a small fire to spread and/or risk the possibility of the exit stairwells filling with smoke. As smoke inhalation is the major cause of loss of life in a fire event, having a reliable path that ensures occupants can be protected from this hazard is essential.

The requested $11.8 million annually from the General Fund for three years – a total of $35.4 million, would be used to complete the following projects:

DDC System Projects

Fiscal Year	Location	Building Name	Square Feet	Cost/ ft²	Estimated Cost
2023-24	Oakland	Elihu Harris	747,000	$15.00	$11,205,000
2024-25	San Diego	Mission Valley	250,000	$15.00	$3,750,000
2024-25	Van Nuys	Van Nuys State Building	153,698	$15.00	$2,155,470
2024-25	Marysville	CalTrans D3	208,000	$15.00	$3,120,000
2024-25	Sacramento	Rehabilitation (OB #10)	145,800	$15.00	$2,187,000
2025-26	San Diego	CalTrans D11	301,000	$15.00	$4,515,000
2025-26	Sacramento	OB #8	307,555	$15.00	$6,613,325
2025-26	Sacramento	Agriculture	127,010	$15.00	$1,905,150
Totals					**$33,450,945**

According to the Administration, in order to capitalize on energy savings projects and identify potential energy saving opportunities across the portfolio, FMD needs a Statewide Energy Management Program (SEMP) for building management and controls. To that end, DGS requests the following positions:

One Supervising Electrical Engineer to act as Statewide Energy Management Program (SEMP) manager perform field activities and site assessments, project planning and document review, and develop various types of reports. This position would oversee all aspects of energy use to maximize efficiency and serve as a single point of accountability for developing energy-saving goals and guide energy projects. The SEMP manager will also provide oversight of sustainable energy projects and contract management from development through closeout.

One Supervising Landscape Architect to act as an International Society of Arboriculture-certified tree arborist and a subject matter expert of tree health, hazard, and risk assessments. The incumbent will consult with Landscape Architects and Grounds Operations Managers to review landscape drawings and provide recommendations regarding tree placement to maximize building energy efficiency as well as provide specific tree species based on water conservation and local climates. The position will also be responsible for building energy conservation assessments and recommendations.

One Associate Governmental Program Analyst to provide administrative support including fiscal, contracting, procurement, and general administrative needs, including but not limited to analyzing and developing building energy reports, maintaining accurate records of contract needs and executed contracted services, and preparing monthly, quarterly, and annual reports.

Additionally, to further support FMD's building efficiency efforts, OS requests the following position:

One Staff Services Manager II (Specialist) (SSM II) to optimize the use of Building Management Systems at state-owned facilities. Buildings can realize 20 percent energy savings simply by optimizing the programming of existing building management systems. Facilities can earn revenue by using these systems to participate effectively in demand response programs. The SSMII will oversee a contract with a Demand Response Aggregator, perform outreach and enrollment of state facilities in the Demand Response Aggregator Program, and will assist departments in programming BMS systems for energy efficient operations and readiness to respond to energy emergencies.

LAO Comments. *Recommend Withholding Action on Proposal for Direct Digital Control Upgrades and Directing DGS to Report on Prioritization.* The Governor's budget proposes $11.8 million annually from the General Fund for three years—a total of $35.4 million—to upgrade direct digital control systems in eight buildings to improve operations and energy efficiency. Of the eight projects, a private firm assessed four as low priority. Accordingly, it is unclear if these systems need replacement. Additionally, the Governor's budget proposes to revert $92.5 million General Fund for deferred maintenance and direct digital control projects provided in past budgets, including for direct digital control projects assessed as high priority. This calls into question DGS' prioritization methodology. Given this, the LAO recommends the Legislature withhold action on the proposed funding for direct digital control projects and the reversion of funding related to high-priority direct digital control projects and require DGS to report at spring budget hearings on its prioritization methodology.

Staff Comments. Staff notes that in response to questions regarding the methodology in determining prioritization of building projects, DGS has provided a revised list of projects to be funded under this proposal. Estimated costs for individual projects will be further refined.

FY 23-24 BCP (Warm Shutdown Buildings Prioritized)						
Priority Number	**BMS System Projects Location**	**Building Name**	**Building Address**	**On Warm Shutdown List?**	**BCP/Non DGS/Renovation/New**	***Estimated Cost**
HIGH CATEGORY #1 BUILDINGS (2020 Enovity BMS Report)						
1	Los Angeles	Ronald Reagan Building (LA)	300 S. Spring St, Los Angeles, CA 90013	NO	22/23 BCP	$12,750,000
2	Oakland	Elihu Harris Building	1515 Clay Street, Oakland, CA 94612	YES	23/24 BCP	$11,205,000
3	San Francisco	Pat Brown CPUC	505 Van Ness Ave, San Francisco, CA 94102	YES	22/23 BCP	$5,752,545
4	Los Angeles	Junipero Serra Building (LA)	320 4th St, Los Angeles, CA 90013	YES	22/23 BCP	$8,250,000
5	Riverside	California Tower	3737 Main St, Riverside, CA 92501	NO	22/23 BCP	$2,430,000
6	San Diego	Mission Valley	7575 Metropolitan Dr, San Diego, CA 92108	NO	TBD	$1,400,000
7	Van Nuys	Van Nuys State Building	6150 Van Nuys Blvd, Van Nuys, CA 91401	NO	TBD	$2,155,470
					Total	**$43,943,015**

Staff Recommendation. Hold Open.

Issue 33: Facilities Management Division Fire Alarm System Deferred Maintenance

Request. The Governor's budget requests $20.4 million one-time General Fund in 2023-24 for DGS, Facilities Management Division (FMD) to address critical fire, life, and safety (FLS) issues relating to fire alarm systems.

Background. FMD requests $20.4 million one-time General Fund in 2023-24 to address critical FLS issues relating to fire alarm systems. According to the Administration, due to the buildings' aging infrastructure, changes in building code requirements, and evolution of technology, the current fire alarm systems are antiquated, prone to failing, and are comprised of obsolete parts. The requested resources will be used to bring eight buildings into full compliance with FLS regulations to avoid costly emergency response situations and risks to public health and safety.

<u>Fire Alarm Systems.</u> Early fire detection plays a significant role in protecting the safety of emergency response personnel as well as staff working in the building. Most alarm systems provide information to emergency responders on the location of the fire, speeding up the fire control process. Fire alarm and detection systems are designed and installed to detect and warn the occupants of a building during the incipient stage of the fire. These systems include fire alarm control panels (FACP), accessible pull stations, smoke detection systems, and accessible audio-visual announcement devices.

The table below shows the fire alarm system projects that this proposal would address:

Building Name	Address	Year Built	Number of Stories	Projected Cost
Agriculture Building	1220 N Street Sacramento	1936	4	1,105,000
East End Block (Building 225)	1430 N Street Sacramento	2002	6	4,340,000
East End Block (Building 171)	1501 Capitol Mall Sacramento	2003	6	3,984,000
East End Block (Building 172)	1500 Capitol Mall Sacramento	2003	6	1,626,000
East End Block (Building 173)	1615 Capitol Mall Sacramento	2003	7	2,005,000
East End Block (Building 174)	1616 Capitol Mall Sacramento	2003	7	2,267,000
Santa Rosa State Building	50 D Street Santa Rosa	1983	4	847,000
Junipero Serra Building	320 W. 4th Street Los Angeles	1914	10	4,245,000
Total				**20,419,000**

LAO Comments. *Reversion of $92.5 Million General Fund From Deferred Maintenance and Direct Digital Control Projects Approved in Prior Budgets.* The Governor's 2023-24 budget proposes to revert $92.5 million General Fund for deferred maintenance and direct digital control projects included in the 2021-22 and 2022-23 budgets. (The LAO notes this is about 61 percent of the total funding provided in those years.) DGS indicated that the department reduced spending on these projects given the deterioration in the state's budget condition.

Staff Recommendation. Hold Open.

Issue 34: Facilities Management Division New Buildings Operations and Support

Request. The Governor's budget requests $22.4 million in 2023-24 from the Service Revolving Fund and 149.0 positions with $29.867 million in ongoing authority from the Service Revolving Fund and 199.0 permanent positions beginning in 2024-25 for the DGS, Facilities Management Division (FMD) to manage, operate, and maintain the new Richards Boulevard Office Complex (RBOC) and the Joe Serna Jr. California Environmental Protection Agency (CalEPA) building, both located in Sacramento.

Background. The RBOC new office campus is comprised of approximately one million net usable square feet (1.3 million gross square feet) on state property at the corner of Richards Boulevard and North Seventh Street. The complex features four high performance, interconnected office buildings and a unique landscaping program. The project is designed to achieve zero net energy and zero net carbon for the entire site through state-purchased carbon-free green power. Construction of the RBOC began in Fall 2020 and is projected to be complete in March 2024, with anticipated tenant move in to begin in April 2024. Proposed tenants include the Department of Tax and Fee Administration and various Business, Consumer Services and Housing Agency departments.

The CalEPA Building is a tiered, 25-story structure on a 2.5-acre site, containing approximately 950,000 gross square feet with 776,000 net usable square feet. The building is LEED-EB (Leadership in Energy and Environmental Design for Existing Buildings) Platinum certified. DGS does not currently operate or maintain the CalEPA building; however, jurisdiction of the building is expected to transfer to DGS in May 2023.

The requested funds will provide DGS with resources to manage and operate the new RBOC and CalEPA buildings.

Staff Recommendation. Hold Open.

Issue 35: Legislative Office Building Roof Replacement (Spring Finance Letter)

Request. The Department of General Services, Facilities Management Division requests $5.9 million in one-time authority from the General Fund in 2023-24 to address critical repairs caused by water intrusion at various locations in the Legislative Office Building located at 1020 N Street in Sacramento. The building is experiencing water intrusion in multiple locations due to its aging infrastructure. The requested resources will be used to bring the Legislative Office Building into safe, functional, and operational compliance with local, state, and federal regulations, avoid costly emergency response situations, and the risk to public health and safety.

Background. Constructed in 1937, the Legislative Office Building located at 1020 N Street in Sacramento was built for use by a variety of state agencies and currently houses offices for the State Legislature. The building is composed of reinforced concrete with tall entrance pylons and parapet at the top level. A decorative banding encircles the building just below the parapet line. On each of the upper four stories, the building has large windows separated vertically by banding around the structure and narrow bands projecting above and below.

According to DGS, all building roof systems at the Legislative Office Building require replacement or major repair. FMD’s Direct Construction Unit (DCU) has been performing the less major repairs to date. The roof has not undergone a full replacement in 36 years, although in 2003 there was a refresh/repair project that performed minor repairs. The requested funds will allow DGS to repair and address the critically deficient elements listed in the table below:

Water Intrusion – Legislative Office Building

Location	Amount
Roof Replacement	$5,400,000
6th Floor Cafeteria Dining Areas	$250,000
Rooms 602 and 603	$250,000
	$5,900,000

Staff Recommendation. Hold Open.

Issue 36: Sacramento Region: New Richards Boulevard Office Complex

Request. The Governor's budget requests $402,000,000 General Fund to pay a portion of expenditures for the design-build phase of the Sacramento Region: New Richards Boulevard Office Complex project.

Background. The Richards Boulevard Office Complex project includes construction of a new office campus of approximately 1,250,000 square feet, comprised of four buildings between 11 and 7 stories, on land where the former State Printing Plant once stood. The project will be completed April 2024, with bonds for the project scheduled to be sold Spring 2024. Proposed tenants for this space include the Department of Tax and Fee Administration, Department of Healthcare Access and Information, Commission on Teacher Credentialing, and various departments in the Business, Consumer Services, and Housing Agency.

The project was authorized for total design-build funding in the amount of $1,014,598,000 through the Public Buildings Construction Fund (lease revenue bond financing) in the Budget Act of 2019. To finance projects funded by the Public Buildings Construction Fund, the State Public Works Board typically provides interim financing for the construction or design-build phases of a project, then issues tax-exempt lease revenue bonds as permanent project financing. Federal tax code for the issuance of tax-exempt bonds requires, among other things, that the bonds must be issued within three years of initial project expenditures. According to DGS, due to the nearly four-year construction schedule initially established for this project, a portion of expenditures fall outside of this three-year window and therefore those project expenditures no longer qualify for tax-exempt financing.

LAO Comments. *Governor's Budget Would Use a Combination of Cash and Lease Revenue Bonds for Capital Outlay Projects.* The Governor estimates that the state now faces a $22 billion General Fund budget problem. As a result, the Governor's 2023-24 budget proposes to switch financing for many capital outlay projects from cash to lease revenue bonds. (The Governor proposes other changes related to capital outlay projects—such as for the University of California and California State University—that the LAO analyzes in other budget reports.) The only projects that would use cash are three courthouses (Redding, El Centro, and Sacramento) and the Department of General Services' Richards Boulevard project. For these projects, a total of $491 million General Fund 2023-24 would be allocated to fund a portion of the cost. These projects would otherwise need to use taxable bonds to finance these costs because they exceed the three-year window required for tax-exempt bonds.

Staff Recommendation. Hold Open.

Issue 37: Office of State Publishing New Warehouse Operation

Request. The Governor's budget requests ongoing expenditure authority of $1.3 million from the Service Revolving Fund beginning in 2023-24 for the DGS, Office of State Publishing (OSP) to lease and operate a new warehouse facility located in West Sacramento and accommodate an increased supply level critical for print production operations.

Background. OSP is responsible for completing state printing jobs. OSP currently provides services to state, federal, county, and city agencies by providing printing, communication and document management solutions through specialized knowledge, statewide perspective and coordinated public and private partnership. Printing services include storage, mailing, and strategic marketing solutions. OSP also performs document remediation to ensure accessibility compliance with state and federal standards.

According to DGS, to maintain minimum inventory levels to avoid disruptions, OSP has leased approximately 80,000 square feet of additional warehouse space to store necessary paper and related commodities. The lease began July 1, 2022, and OSP requires the budgetary authority necessary to support these costs. This will allow OSP to respond swiftly to changing customer requirements, meet critical print jobs, and continuously provide good service delivery. The requested will be used to lease and operate a new warehouse facility in West Sacramento.

Staff Recommendation. Hold Open.

Issue 38: Office of Sustainability Electric Vehicle Service Equipment Infrastructure Assessment and Facility Development

Request. The Governor's budget requests a one-time budget augmentation of $35 million authority from the General Fund over three years for DGS, Office of Sustainability to support the DGS Five-Year Zero Emission Vehicles Infrastructure Investment Plan (2023-24 through 2027-28) to continue performing installations of electric vehicle service equipment (EVSE) at state-owned and leased facilities to meet California's clean transportation and greenhouse gas goals.

Background. EVSEs are classified as Level 1, Level 2, and Level 3. The amount of power an EVSE can supply to a vehicle increases with each level, which is significant because the amount of power supplied to an EV determines how long it takes to fully charge the vehicle. In general, a Level 1 EVSE can charge one vehicle per workday, while a Level 2 EVSE can charge two vehicles in the same amount of time. Therefore, the type of EVSE determines the number of vehicles it can charge in a single day. The goal of the program funded by this proposal is to service the vehicle charging needs of Fleet EVs as well as encouraging widespread EV adoption by employees by building capacity to make charging as available as possible.

Based on each department's historical purchasing practices, fleet makeup, vehicle miles traveled, and the new purchasing mandates, DGS has projected that approximately 4,250 fleet charging ports and 4,922 workplace charging ports are needed to meet the directives outlined and all fleet and workplace charging needs through 2027-28. Since 2017, DGS has built a small but expert team that has made significant progress in meeting the charging infrastructure goals. At the end of

2021-22, 2,473 charging ports were installed and by the end of 2022-23, an additional 1,480 port installations are expected to be completed, for a total of 3,953 anticipated completed installations by the end of 2022-23.

DGS anticipates a need to serve a combination of light-duty, medium-duty, and heavy-duty ZEVs with charging infrastructure. The department’s five-year plan includes:

- DGS expects to perform an estimated 5,627 EV charging station installation assessments over the next four years at a cost of $7.5 million.
- To meet the workplace and fleet charging needs for light-duty vehicles over the next five years DGS anticipates installing 5,644 L2 chargers at a cost of $165.6 million and anticipates installing 50 Level 1 charging ports at a cost of $562,000.
- To meet remote and other special circumstances where hardwired chargers are not appropriate, we anticipate purchasing 50 mobile, solar-powered Level 2 EV chargers of “EV Arcs” at a cost of $3 million.
- To meet the fleet charging needs for MD/HD vehicles over the next five years, DGS anticipates installing a combination of High-powered L2 and L3 DC fast charging to support 1,238 MD/HD vehicles at a cost of $90.5 million.
- The total five-year budget is $267.2 million.

LAO Comments. *Consider Funding Electric Vehicle Service Equipment Infrastructure Through Zero-Emissions Vehicle (ZEV) Package.* The Governor proposes $35 million from the General Fund to perform installations of electric vehicle service equipment infrastructure at state facilities in order to help the state transition its fleet to ZEVs. Separately, the previous two budgets committed significant funding across five years for a ZEV package to promote the purchase and use of ZEVs more broadly, such as by paying for privately owned vehicles and charging stations. While the intent of the Governor’s proposal has merit, it would commit the state to new discretionary General Fund spending. Given the General Fund condition and the fact that overseeing the state fleet is a core state responsibility, the Legislature may want to consider prioritizing funding for electric vehicle service equipment infrastructure at state facilities within the ZEV package over proposals to pay for activities that are not core responsibilities, such as for paying for privately owned vehicles and charging stations.

Staff Recommendation. Hold Open.

Issue 39: Procurement Division E-Marketplace Implementation

Request. The Governor's budget requests ongoing expenditure authority of $2.4 million ($2.2 million from the Service Revolving Fund and $224,000 in Reimbursements) and 2.0 permanent positions in 2023-24 for the DGS, Procurement Division (PD) to implement, maintain, and operate the statewide eMarketplace solution.

Background. FI$Cal is a statewide implemented system used by state departments and involving thousands of state businesses in its procurement functions. As the Business Manager for the State, part of PD's business management responsibility is to match vendors that provide goods and services at the best price for the state's business needs, which are best determined by what the State contracts for. To attract the appropriate suppliers to work with the State and to ensure that California can effectively leverage its purchasing power, suppliers need a way to know what the State is contracting for.

According to DGS, the proposed eMarketplace solution will be a cost-friendly and modernized system that will require vendors to submit electronic catalogs for viewing online. State agencies will have the ability to acquire the best goods and services available to serve customers along with a simplified selection of items for purchase orders and requisitions. Features of the system would also include reporting functionality, which will help DGS provide state agencies with sustainability information and assistance regarding environmentally preferable purchasing (EPP). The tool will provide a solution for buyers to identify and track information on environmental and social impacts, such as greenhouse gas emissions, global warming, energy and water consumption, life-cycle costs, and human health concerns related to goods and services procured. Having a searchable items catalog will also give state buyers more accessibility to products and broader searching capabilities for Small Business and Disabled Veterans Enterprises (SB/DVBE) certified suppliers.

As part of this proposal, DGS requests the following positions:

- One Information Technology Specialist II
- One Information Technology Specialist II (under and Interagency Agreement with FI$Cal)

Staff Recommendation. Hold Open.

Issue 40: Procurement Division Permanent Support for the California Pharmaceutical Collaborative

Request. The Governor's budget requests ongoing expenditure authority of $842,000 from the Service Revolving Fund beginning in 2023-24, as an extension of one-time funding provided in 7760-017-BCP-2020-GB, for the DGS, Procurement Division (PD) to continue funding 4.0 positions supporting ongoing workload of the Statewide Pharmaceutical Program's California Pharmaceutical Collaborative.

Background. The Statewide Pharmaceutical Program was established in 2002, and allows state and local governmental entities to access negotiated contracts that can provide substantial savings through bulk purchasing of pharmaceutical products and services.

The Governor issued Executive Order (EO) N-01-19 to create the largest single purchaser for prescription drugs and allow private employers to join the State in negotiating drug prices. Specifically, the EO required PD, in consultation with the CPC, to complete the following reports:

1. In March 2019, a list of prescription drugs was developed that could appropriately be prioritized for future purchasing initiatives or reexamined for potential renegotiation with the manufacturer.
2. In April 2019, the prioritized list was utilized to develop and implement purchasing arrangements for high-priority drugs and provide pro-active outreach to local governments to encourage participation in these arrangements.

3. In June 2019, a framework was developed for enabling private purchasers, including small businesses, health plans, and the self-insured, to opt into a state purchasing program to benefit from the State's pharmaceutical purchasing program.

DGS-PD provides manufacturer-pricing agreements to five counties and continues to work with additional counties to leverage state purchasing power to lower cost on prescription medications for participating counties. The existing positions carry out the required tasks and reporting requirements of the EO, while developing research, analyses, outreach, change management, relationship management, and pharmacoeconomic strategies to achieve savings on escalating prescription drug spending.

Table 1. Prescription Medication Contracts and Resulting Savings (to State)

Medication	Wholesale Acquisition Cost (WAC)[1]	Actual Invoice Cost[2]	Savings ($)
Epclusa	$284,411,960	$59,678,431	$224,733,529
Genvoya	$3,714,136	$2,716,755	$997,381
Harvoni	$1,512,000	$406,403	$1,105,597
Invega Sustenna	$16,551,287	$14,980,480	$1,570,807
Lantus	$13,686,874	$5,080,283	$8,606,591
Semglee	$98,240	$68,017	$30,223
Total	**$319,974,497**	**$82,930,369**	**$237,044,128**

[1] WAC is the wholesale reference price
[2] Invoice cost is how much participating pharmacies paid

Staff Recommendation. Hold Open.

Issue 41: Procurement Division Support for Small Business & Disabled Veterans Business Enterprises Program Compliance

Request. The Governor's budget requests ongoing expenditure authority of $320,000 from the Service Revolving Fund and 2.0 permanent positions beginning in 2023-24 for the DGS, Procurement Division (PD) to effectively staff the Small Business and Disabled Veteran Business Enterprise program to support training, communication, compliance, enforcement, and program abuse functions, for implementation of the 2018-114 State Audit recommendations and recently passed legislation.

Background. According to the California State Auditor's Report No. 2018-114 (Audit), released February 2019, "The Department of General Services has not adequately overseen the DVBE program, hindering its success. Specifically, this audit contained several recommendations to improve the DVBE compliance and program abuse effectiveness which equally apply to the State's SB/DVBE program." To minimize the occurrence of program abuse and ensure that program abuse cases are handled appropriately and consistently, the Audit recommended OSDS (1) conduct comprehensive statewide trainings and (2) develop procedures to help awarding departments identify whether a complaint constitutes program abuse, learn how to effectively track all complaints, and take the appropriate steps when investigating program abuse complaints. This audit also recommended that OSDS strengthen the enforcement of DVBE laws, regulations, and guidelines, and track complaints by including the type of program abuse, how it was reported or discovered, and the dates specific actions are taken on the case.

The requested staffing resources are intended to address compliance, enforcement, and program abuse activities:

- Investigate complaints regarding SB/DVBE certification status or eligibility and make recommendations to the Program Abuse/Compliance Manager for the appropriate course of action.
- Review certification denials to ensure consistent application of the statutes and regulations.
- Process appeals of certification decisions and preparing case or discovery materials for use in OAH hearings, as necessary.
- Investigate and research complaints of SB/DVBE program abuse and make recommendations to the Program Audit/Compliance Manager.
- Process sanctions, as necessary, for enforcement of the SB/DVBE program.
- Act as a statewide subject matter expert in OAH hearings for SB/DVBE program compliance and requirements pertaining to program abuse.
- Provide statewide training and support for state department SB/DVBE advocates and procurement staff regarding the SB/DVBE program requirements.
- Review, approve/deny, all DVBE subcontractor substitution requests on State contracts.
- Perform quality certification file reviews on internal OSDS processes to ensure consistency, accuracy, and compliance with program statutes and regulations.
- Perform quality certification file reviews on certifications that were approved online to ensure eligibility requirements are met and accurate supporting documents were submitted.

Staff Recommendation. Hold Open.

Issue 42: Ongoing Support for Diversity and Inclusiveness in State Contracting

Request. The Governor's budget requests ongoing expenditure authority of $3.51 million from the Service Revolving Fund and 21.0 permanent positions beginning in 2023-24 for the DGS, Procurement Division and the Office of Small Business and Disabled Veteran Business Enterprise Services and the Statewide Supplier Diversity Program (SSDP) to continue increasing diversity and inclusiveness in state contracting programs across all state departments, as well as acquire Learning Management Systems licenses for the Office of the Small Business. This request is an extension of an approved onetime General Fund appropriation in fiscal year 2022-23 (7760-115-BCP-2022-MR).

Background. According to DGS, the requested funds will help the state be successful in ensuring increased diversity in its pool of vendors and resulting contract awards including certified Small Business/Disabled Veteran Business Enterprises through the following:

- Train and provide direct one-on-one technical assistance to SB/DVBEs on bidding and participating in state contracting.
- Develop and carry out targeted outreach strategies in addition to its general ongoing outreach efforts.
- Adequately staff SSDP to ensure statewide polices and processes are developed and implemented related to supplier diversity.

- Support the statewide SB/DVBE Advocate network with the necessary training, education, and resources to help them carry out their duties and help departments not only meet their SB/DVBE participation goals, but also increase diversity and inclusiveness in their contracting programs.

Staff Recommendation. Hold Open.

Issue 43: Real Estate Services Division Affordable Housing Development Program Funding

Request. The Governor's budget requests $1.1 million in ongoing authority from the Property Acquisition Law Money Account beginning in 2023-24 for the DGS, Real Estate Services Division/Asset Management Branch. Additionally, DGS requests approval to create a multi-year operating reserve in the account retaining revenue from the sale of surplus state-owned real estate and from the lease of state-owned property. The reserve would support DGS' ongoing efforts to implement Executive Order N-06-19, which requires DGS to lease excess state property to affordable housing developers for the development of affordable housing.

Background. According to DGS, developing housing on state-owned property is a complicated process. Sites must be selected, real estate due diligence (title checks, environmental assessments, utility evaluations, housing feasibility analyses, etc.) needs to be conducted, solicitations need to be conducted (which generally require consultant support in evaluating proposals), and the complicated real estate transaction (multiple agreements, including Exclusive Negotiating Agreements, Lease Options, Ground Leases, and Regulatory Agreements) need to be drafted, executed, and enforced. Additionally, exchanging of parcels and receipt of gifts of real property from local governments are becoming increasingly common. These activities for the sites currently in the DGS portfolio have required an annual operating expense of approximately $700,000.

At present, the sale of state properties (not suitable for housing) and revenue from the lease of state properties are generally directed to either the Special Fund for Economic Uncertainties, the

Property Acquisition Law Money Account, or the General Fund, less administrative costs incurred by DGS. Leveraging this revenue to fund affordable housing projects on excess properties would be efficient, leverage existing administrative procedures, and would avoid General Fund subsidies to keep the program operational.

Trailer Bill Language. Complementary to this request, DGS requests trailer bill language that would provide DGS with the authority to deposit net proceeds of any real property disposition, including the sale, lease, exchange, or other means, into the Proposition Acquisition Law Money Account for the purposes of maintaining an operating reserve sufficient to continue redeveloping excess state properties as affordable housing. The language defines a sufficient operating reserve as an amount not to exceed three years of operating costs. According to DGS, this would amount to a $4.5 million-dollar operating reserve, which in turn would provide funding for Asset Management Branch staff, including: two positions that were approved in 2022-23 through trailer bill; internal and external consultant support; environmental assessments and remediation; and ongoing expenses.

Staff Recommendation. Hold Open.

Issue 44: State Surplus Property, Digital Inventory, Affordable Housing (SB 561 and AB 2233)

Request. The Governor's budget $516,000 in one-time expenditure authority from the General Fund and 1.0 permanent position in 2023-24, and $316,000 in ongoing expenditure authority from the General Fund beginning in 2024-25 to address the expansive codification of Executive Order N-06-19 (affordable housing) by SB 561 (Dodd) Chapter 446, Statutes of 2022 and AB 2233 (Quirk-Silva) Chapter 438, Statutes of 2022.

Background. Executive Order N-06-19 required DGS to review all state-owned property, identify excess properties that could be made available for affordable housing, develop an online inventory of excess sites, and issue requests for proposals for long-term ground leases for affordable housing development. SB 561 and AB 2233 were signed into law codifying the provisions of Executive Order N-06-19. In addition, the bills expanded upon the order by requiring DGS to repeat its property analysis every four years.

In 2019, when DGS undertook its initial analysis, the unit responsible for disposal of state property (and now is the unit focused on the development of affordable housing on state property) led the effort. According to DGS, this initiative required the redirection of over a dozen real estate officers from projects for other departments for a period of three months to conduct the analysis, and this method is currently not sustainable.

Requested resources will be used as follows:

- $250,000 in one-time funding to establish a screening methodology to automate the site evaluation process,
- $50,000 in ongoing funding to conduct property reviews, and
- $266,000 in ongoing funding for one Attorney position to provide legal support. According to DGS, a legal position is necessary to support the facilitation of ground leases to developers and provide generalist real estate legal advice as issues arise.

Staff Recommendation. Hold Open.