Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Stephen C. Padilla, Chair
Senator Roger W. Niello
Senator Lola Smallwood-Cuevas

Thursday, May 2, 2024
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 113

Consultants: Elisa Wynne, Timothy Griffiths & Diego Emilio J. Lopez

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

Public Comment

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ITEMS FOR VOTE ONLY

0845 DEPARTMENT OF INSURANCE

Issue 1: eDiscovery Software

Request. The Governor's budget is requesting $400,000 General Fund ongoing beginning in 2024-25, for the Department of Insurance, to support costs associated with its eDiscovery Software as a Service (SaaS) subscription.

Background. In the 2021-22 budget, the California Department of Insurance (CDI) received a triannual appropriation of $640,000 to support eDiscovery SaaS, starting in 2023-24 and reoccurring every three years thereafter to support the renewal of the subscription. The solution significantly cuts CDI attorney time on data processing, allowing more time for independent investigations into large-scale fraud and lead roles in joint prosecutions.

CDI recently conducted an eDiscovery SaaS renewal procurement for the Legal Branch – Fraud Liaison Bureau (FLB). Unfortunately, the renewal had to be cancelled, primarily due to the appropriation amount not being sufficient to secure the necessary contract. After consulting with the manufacturer of the software, CDI determined that the required services would cost $400,000 per year, resulting in a funding shortfall starting in 2024-25 if additional funds aren't provided.

CDI is seeking a restructuring/increase of $400,000 ongoing to avoid service disruptions critical to Qui-Tam case litigation. The augmentation is supported by resources received as a result of the commonly referred to "whistle-blower law," California Insurance Code (CIC) section 1871.7 which is part of the Insurance Frauds Prevention Act (IFPA) (Chapter 12, Article 1, Section 1871 et seq.). Enacted in 1992, CIC Section 1871.7 allows a whistleblower to file a civil lawsuit in the name of the State against any individuals or companies that are alleged to be involved in the submission of false or fraudulent claims to an insurer. These civil actions are also called "Qui Tam" actions.

Under the IFPA, the Commissioner is authorized to use CDI attorneys to handle this civil litigation. CIC Section 1871.7 incentives the Commissioner to intervene in meritorious cases by allowing CDI to recover (1) assessments and fees (the State is entitled to 60-70 percent of the proceeds and the remainder goes to the whistleblower) and (2) the recovery of attorneys' fees and costs. If assessments and fees are awarded, CIC Section 1871.7 (g)(1)(A)(iv) mandates the funds be paid to the GF and provides for the Legislature to appropriate these funds to the CDI for enhanced fraud investigation and prevention efforts.

Staff Recommendation. Approve as budgeted.

Issue 2: Fraud – Worker's Compensation Program

Request. The Governor's budget, for CDI, is requesting an increase in expenditure authority of $2,561,000 for Local Assistance in 2024-25 and ongoing to fund its workers' compensation fraud investigation and prosecution efforts.

Background. The Governor-Appointed Fraud Assessment Commission (FAC) meets annually to determine the level of funding necessary to support CDI's State Operations and California District Attorneys (DA) in their investigation and prosecution of workers' compensation insurance fraud. On September 13, 2023, the FAC voted to approve a 5 percent increase to the assessment for 2024-25, equivalent to $2,561,000 for the DAs.

These efforts are funded through the Workers' Compensation Fraud Program (WCFP) which was established by SB 1218 (Chapter 116, Statutes of 1991) pursuant to California Insurance Code (CIC) Section 1872.83. The funding for the WCFP is collected from insured or self-insured California employers.

Staff Recommendation. Approve as budgeted.

0850 STATE LOTTERY COMMISSION

Issue 3: Trailer Bill – Remove Department of Juvenile Justice from Lottery Statute

Request. The Governor's budget requests trailer bill language to remove references to the Department of Juvenile Justice from the statute governing disbursements from the California State Lottery Education Fund.

Background. In 1984, Proposition 37 amended the California Constitution to authorize the establishment of a statewide lottery. As an initiative statute, the California State Lottery Act (Act) of 1984 created the California State Lottery Commission and gave it broad powers to oversee the operations of a statewide lottery. The purpose of the Act was to provide supplemental monies to benefit public education. The Lottery is overseen by a five-person Commission appointed by the Governor and confirmed by the State Senate.

The Act initially required that 50 percent of total annual revenues be returned to the public in the form of prizes and at least 34 percent of total revenues be allocated to the benefit of public education. No more than 16 percent of total revenues were to be used for administrative costs.

In 2010, the Act was changed to allow the Lottery flexibility to pay out more money in prizes and reduce the administrative cost limit to 13 percent of total revenues. Along with that flexibility, the new law requires the Lottery to meet minimum levels of contribution to public education. Revenues to education are placed in a special fund, known as the California State Lottery Education Fund, which holds revenues until they are allocated on a per capita basis, using prior year certified Average Daily Attendance data, to the following categories: K-12 education, Community Colleges, the California State University, the University of California, and other educational entities, including the California Schools for the Deaf and Blind.

In the 38 years since sales began in October 1985 through June 30, 2023, the California State Lottery has raised $43.8 billion for public education, including approximately $2.2 billion in 2022-23.

The Department of Juvenile Justice (DJJ) ceased operations on June 30, 2023. According to the Administration, because of this, each remaining recipient's share is recalculated as part of the new total Average Daily Attendance amount.

Staff Recommendation. Approve as budgeted.

0890 SECRETARY OF STATE

Issue 4: Help America Vote Act - VoteCal

Request. The Governor's budget requests, for SOS, $11.3 million Federal Trust Fund authority in 2024-25 to cover the maintenance and operations vendor, data analysis consultant, Election Management Systems support and verification, data lines, and off-premises cloud costs for the VoteCal statewide voter registration system.

Background. The Secretary of State (SOS) is responsible for overseeing the administration of California elections. The statewide voter registration system, VoteCal, supports the registration of voters in California, administered by the SOS. The SOS ensures that state and federal elections laws are fairly and uniformly administered, that every eligible voter can participate in the electoral process, and that the process remains open and free from fraud. California's voter registration program is fundamental to that effort. Maintaining accurate records of all legally registered voters is critical to ensuring the integrity of all elections conducted in this state. To fulfill the purposes of the voter registration program, the state distributes voter registration cards through many channels, including local advocacy groups, other state and local agencies, and provides online access to registration materials.

VoteCal serves as the single system for storing and managing the official list of registered voters in the state. Additionally, HAVA mandates that the voter registration system utilize data that is contained in systems at the DMV, the California Department of Public Health (CDPH), and the California Department of Corrections and Rehabilitation (CDCR) for voter identification or verification and list maintenance purposes. The VoteCal system also interfaces with the Employment Development Department (EDD) to validate and correct address information against the U.S. Postal Service's National Change of Address system as required by state and federal law.

To ensure the ongoing success of California's statewide voter registration database, the SOS requests $11.3 million in one-time spending authority from the Federal Trust Fund to support the VoteCal maintenance and operations (M&O) vendor; data analysis consultant, security assessment, and Election Management System (EMS) support and verification contracts to analyze and support the VoteCal system for vulnerabilities and performance enhancements; increased connectivity costs with counties; and the maintenance of the VoteCal system on a California Department of Technology off-premise cloud environment.

Staff Recommendation. Approve as budgeted.

Issue 5: Help America Vote Act Spending Plan

Request. The Governor's budget requests, for SOS, one-time Federal Trust Fund expenditure authority in the amount of $15.01 million in 2024-25 to continue implementation of the statewide mandates of the Help America Vote Act of 2002.

Background. The requirements of HAVA include statewide modernization or replacement of voting equipment, education and training programs for election officials and poll workers, development, and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, and a statewide voter registration database.

On October 29, 2002, the President signed into law the Help America Vote Act of 2002 (P.L. 107-252) (HAVA). To date, California has received $476.6 million in federal funds to implement these mandates. Currently, including interest earned, total funds received equal $529.6 million. This amount includes the most recent appropriations in the Consolidated Appropriations Act of 2022 which was granted to the SOS in the amount of $5.827 million and the Consolidated Appropriations Act of 2023 which was granted to the SOS in the amount of $5.827 million.

The Administration requests one-time Federal Trust Fund expenditure authority in the amount of $15.01 million to continue implementation of the statewide mandates of the Help America Vote Act of 2002 (HAVA) (P.L. 107-252). The funding will support voter education and training programs for election officials and poll workers, development, and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, county assistance for improving voting systems, ensuring election assistance for individuals with disabilities, election auditing, and improving the secure administration of elections.

HAVA requires states and localities to meet uniform and nondiscriminatory election technology and administration requirements applicable to federal elections. Per the HAVA Spending Plan, expenditure authority (including re-authorization of funds not used in previous fiscal years) is requested in 2024-25 for the following activities:

HAVA Spending Plan for 2024-25

Activity	Amount	HAVA Citation
HAVA Activities		
Voting System Testing & Approval – Support	$ 700,000	HAVA Required – Section 301
Voter Education – Support	$ 500,000	HAVA Required – Section 302
Administration – Support	$ 1,509,000	HAVA Allowable – Sections 101, 251
Performance Measures – Support	$ 200,000	HAVA Allowable – Section 254
Ballot Tracking System	$ 1,100,000	HAVA Allowable – Sections 101, 251
Local Assistance - Support	$11,000,000	HAVA Allowable – Sections 101, 251
HAVA Activities Total	**$15,009,000**	

Staff Recommendation. Approve as budgeted.

1111 Department of Consumer Affairs

Issue 6: Business Modernization Cohort 2

Request. The Governor's budget requests, for DCA, an increase in expenditure authority of $3.0 million, from various special funds, in 2024-25 to continue implementation and support of Business Modernization Cohort 2.

Background. The DCA Business Modernization Cohort 2 (BMC 2) project received one-time funding of $3.5 million in 2023-24 and the Department is requesting an increase in expenditure authority of $3 million in 2024-25 to continue its project implementation for an additional year. BMC 2 programs provide professional licensure and regulatory oversight to their respective professions. The Department and its 36 boards and bureaus fill an important role in state government protecting Californians by making sure licensees adhere to established professional standards and educational requirements. BMC 2 addresses business and technology needs that will increase efficiency and accuracy of work activities for five programs that currently rely on legacy technology solutions.

The Department, including the programs in this request, have historically been required to use multiple outdated and inadequate information technology (IT) systems to meet statutory requirements and respective business needs. However, because the IT systems are antiquated and disjointed, excessive turnaround times for licensing and enforcement activities have impeded these programs from meeting their goals and objectives. The systems these programs used also lack an intuitive online public-facing portal that licensees and consumers can use to submit complaints, applications, and license renewals.

By upgrading current systems to allow for a more substantial online presence, the Department, and some of its boards and bureaus, are integrating functionality to allow applicants and licensees to pay fees using credit card payments. A few BMC 2 programs are funding credit card processing fees on behalf of users of credit card payments. These programs believe that by funding these fees more individuals will utilize the online transactions, which eliminates error, creates efficiencies, and expedites the processes.

Staff Recommendation. Approve as budgeted.

Issue 7: Osteopathic Medical Board - Attorney General

Request. The Governor's budget requests, for the Osteopathic Medical Board, an increase in expenditure authority of $347,000 Osteopathic Medical Board of California Contingent Fund in 2024-25 and ongoing to address increased costs for Attorney General services.

Background. According to the Administration, over the last five fiscal years, the Osteopathic Medical Board's (Board) enforcement workload has significantly increased due to the population of licensed osteopathic physicians and surgeons substantially increasing. The significant population growth generated more complaints and ultimately more cases referred to the Attorney General's (AG) office. Similar to the growth in the Board's licensee population, the Board's AG cases have increased from 25 cases to 53 cases in the same time span, which is a 112 percent increase in enforcement cases referred to the AG. The Board is requesting an increase in expenditure authority for AG services to keep up with its growing AG caseload.

The Board notes the following:

- Since 2005, the number of osteopathic colleges in the United States have increased from 23 to 38, which creates additional opportunities for individuals to enter the profession.
- Since 2016, the population of licensed osteopathic physicians and surgeons in California increased from 7,440 to 13,509, which is an 82 percent increase.

According to the American Osteopathic Association, osteopathic physicians and surgeons are one of the fastest growing segments of health care professionals. Nationally, the osteopathic medical profession has grown 300 percent over the past three decades and 63 percent in the past decade. In addition to the Board's growing AG caseload, in 2019-20, the AG raised its hourly rates for its services, which contributed to the significant cost increase to the Board's AG expenditures as illustrated below.

Workload History

AG Workload/Costs	2018-19	2019-20	2020-21	2021-22	2022-23[1]
AG Hours	1,304	1,512	2,172	2,692	2,904
AG Cases (Referred)	25	28	26	35	53
AG Expenditures	$213,411	$317,379	$474,548	$585,584	$633,190
Appropriation	$324,000	$324,000	$394,000	$394,000	$394,000
Surplus/Deficit	$110,589	$6,621	-$80,548	-$191,584	-$239,190
Cost Percentage Increase	7%	49%	50%	23%	8%

[1]Based on an average of actual Attorney General costs through Fiscal Month 11.

Source: Department of Finance

The requested resources are intended to fully fund enforcement-related costs to adjudicate cases where violations of the law and regulations have been found.

Staff Recommendation. Approve as budgeted.

Issue 8: Veterinary Medicine – Enforcement

Request. The Governor's budget requests, for the Veterinary Medical Board, an increase in expenditure authority of $807,000 in 2024-25 and $799,000 in 2025-26 for one Staff Services Manager II and four Associate Governmental Program Analysts to address the Board's increasing complaint workload.

Background. The Veterinary Medical Board (Board) is experiencing a significant increase in its complaint and investigative workload that cannot be sustained with existing resources. The Board's intake of complaints has increased by 34 percent since 2018-19 and while the Board added additional staff to address the enforcement workload in 2020-21, complaints continue to increase beyond the Board's ability to process them timely. According to the Administration, the Board lacks a dedicated Deputy Executive Officer (Staff Services Manager II or SSM II) that can provide focused management of the Board's enforcement unit and provide timely direction and decisions on enforcement actions in the Executive Officer's absence.

Workload History

Workload Measure	2018-19	2019-20	2020-21	2021-22	2022-23
Complaints Received	1,338	1,308	1,645	1,705	1,797
Complaints Referred for Investigation	1,311	1,330	1,626	1,632	1,717
Investigations Completed	516	621	560	1,297	1,976
Pending Investigations	1,779	2,418	3,545	3,885	3,706

Source: Department of Finance

Currently, the Board has 33.7 authorized positions across three programs: 1) Administration Services; 2) Licensing/Examinations; and 3) Enforcement/Probation to make certain the veterinary profession is properly and safely regulated in the state. The Executive Officer (EO) is the sole person responsible for overseeing all day-to-day operations of the board, including the Board's licensing, examination, administrative, and enforcement activities. In addition, the EO is responsible for all administrative duties related to managing four SSM I's. The Board does not currently have personnel with the appropriate authority to act on behalf of the EO position. This creates delays and potential decrease in productivity.

This proposal requests two-year limited-term funding to support one SSM II and four AGPA positions that the Board administratively established. This allows the Board to reevaluate its ongoing resource needs as more workload data becomes available.

Staff Recommendation. Approve as budgeted.

1701 Department of Financial Protection & Innovation

Issue 9: Broker Dealer Investment Advisor Workload

Request. The Governor's budget requests two positions and an increase in expenditure authority of $456,000 Financial Protection Fund in 2024-25 and $432,000 in 2025-26, for DFPI, for the review of continuing education requirements related to the Broker-Dealer and Investment Advisor Program.

Background. Pursuant to the Corporate Securities Law of 1968, the Broker-Dealer and Investment Adviser Program (BDIA or Program) of the Department of Financial Protection and Innovation (Department) is responsible for licensing and regulating broker-dealers (BD), broker-dealer agents (Agents), investment advisers (IA), and investment adviser representatives (IARs). Regulatory oversight, safeguards that the investing public is protected from unethical and fraudulent activities. Resources are required to oversee the implementation and monitoring of the new annual Investment Adviser Representative continuing education requirements, which are in the rulemaking process.

The North American Securities Administrators Association (NASAA) has approved a model rule on investment adviser representative continuing education requirements for adoption by state regulators. There are currently no continuing education requirements for IARs in California statute. Current state regulations require all IARs that conduct advisory business with California residents to be registered. IARs are tested for knowledge and must meet qualification requirements before they are registered, but there is no mechanism to verify that their level of knowledge and competence is maintained or expanded. By comparison, most other financial professionals are subject to continuing education requirements including broker-dealer agents, insurance agents, certified financial planners, and real estate agents. Currently, the NASAA model rule has been adopted by thirteen state securities regulators and many others have rulemaking in progress.

The model rule establishes an annual continuing education requirement of six credits of IAR Ethics and Professional Responsibility content and six credits of IAR Products and Practices content from authorized/approved content providers. Beginning January 1, 2023, the Financial Industry Regulatory Authority's (FINRA) current continuing education compliance period for registered representatives is an annual requirement instead of the previous two-year requirement. Individuals registered as broker-dealer agents in California are subject to FINRA's annual continuing education requirements. California has sole regulatory authority over IAs and IARs.

California is adopting the NASAA model rule. Rulemaking is in process and the Department anticipates the final rule will be adopted around mid-2024. California's proposed regulation includes protecting consumers who use investment advisers to manage their funds by verifying that IARs remain competent and knowledgeable about current industry regulations, developments, and best practices when handling their clients' life savings. The proposed regulations will verify that IARs are receiving continuous education on the ethical issues related to investment advising.

The Administration is requesting one Senior Financial Institutions Examiner (SFIE) and one Financial Institutions Examiner (FIE) to oversee the implementation and monitoring of the new annual Investment Adviser Representative continuing education requirements. Limited term resources will allow the Department to reevaluate its ongoing resource needs based on workload actuals. The table below is the Department's estimate of projected outcomes after rulemaking.

Table 3: BDIA IAR CE Projected Outcomes

Workload Measure	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Number of Investment Adviser Representatives	57,740	58,606	59,485	60,377	61,282	62,201
Number of reviews with 75% compliance	43,305	43,955	44,614	45,283	45,962	46,651
Number of reviews with 25% non-compliance	14,435	14,651	14,871	15,094	15,321	15,550

Staff Recommendation. Approve as budgeted.

8260 ARTS COUNCIL

Issue 10: Trailer Bill – Teen Poet Laureate

Request. The Governor's budget requests technical trailer bill language to rename the California Youth Poet Laureate to the California Teen Poet Laureate and additional conforming changes.

Background. Existing statute establishes the position the California Youth Poet Laureate, who is appointed by the Governor from a list of three nominees 13 to 19 years of age, inclusive, provided by the Arts Council garnered through a prescribed process.

The Administration is requesting technical changes to rename references to "Youth Poet Laureate" in statute due to copyright issues.

Staff Recommendation. Approve as budgeted.

8620 FAIR POLITICAL PRACTICES COMMISSION

Issue 11: Local Agency Ethics Training System

Request. The Governor's budget requests $234,000 General Fund in 2024-25, and $227,000 ongoing and one position, for the Fair Political Practices Commission (FPPC), to continue to support the local agency ethics training.

Background. The FPPC has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974, as amended by the voters and Legislature. The major objectives of the Commission are to:

- Provide education about the Act and its requirements to the public and the regulated community including public officials, candidates, and lobbyists, and assist with compliance.
- Ensure that election campaign contribution and expenditure data is fully and accurately disclosed so that the voters may be fully informed.
- Enforce the provisions of the Act and regulations fairly and with due process.
- Regulate the activities of lobbyists and disclose their finances.
- Provide for the disclosure of assets and income of public officials, which may affect their official actions, to avoid conflicts of interest or appearances of impropriety.

Cities, counties and special districts in California are required by law (AB 1234, Chapter 700, Statutes of 2005) to provide ethics training to their local officials. The law defines "local agency" and "local agency official" for these purposes and includes local agency officials (cities, counties, and special districts in California if the local agency provides monetary payments to the official).

To help local officials meet this essential ethics training requirement, shortly after the enactment of AB1234 in 2005, the Attorney General's Office, the Institute for Local Government, and the FPPC developed an online training course, the "AB 1234 Local Ethics Training" to satisfy the local officials ethics training requirement. Officials can use this course to satisfy their mandatory ethics training requirement on a cost-free basis if no additional training is required by their agency.

The FPPC has been hosting the Ethics Training System (ETS) with no additional resources provided. If an agency develops their own training, it must be done in consultation with the FPPC and the AG's office regarding the sufficiency an accuracy of the proposed course content to meet the requirements. The FPPC provides guidance on training requirements and has implemented Regulation 18371, which contains the local requirements to be included. In 2022, there were 14,249 individuals who used the FPPC free on-line training.

Workload History *(only include workload measures relevant to the request for resources.)*

Workload Measure	PY - 4	PY - 3	PY - 2	PY-1	PY	CY
e.g., Applications Received, Applications Processed, Call Volume, Site Visits, Audits, Stakeholder Meetings, Hearings, etc.	8,550	8,143	8,508	11,528	14,249	11,580 January – July

Source: Department of Finance

According to the Administration, the current ETS cannot meet today's security standards and staff have concerns about allowing the system to continue running as it stands. Additionally, the ETS cannot be updated to accommodate the increase in individuals anticipated to use the course to fulfill new law requirements. To continue providing mandatory ethics training on a cost-free basis for all local agencies, the FPPC concluded that the best solution is to replace the current ETS with a Learning Management System (LMS). The solution is to use a system-built application to achieve a training system that will meet security standards, be easy to use, more efficient to manage administrative tasks, support, and update the content of the training.

A replacement solution to the system would require a migration of the training to an LMS. This would allow for the appropriate infrastructure to support the local ethics training program. This proposal would add one permanent Information Technology Specialist position in the information technology unit to perform all functions necessary to develop and implement the new training platform since the number of users will increase drastically and to maintain the obligations under this new state mandate and annual subscription cost on procuring an LMS.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

0509 Governor's Office of Business & Economic Development

Issue 12: New Spending for CalCompetes Grant Program

Proposal: The Governor's January 2024 Budget proposes to allocate $60 million to the Governor's Office of Business and Economic Development (GOBiz) for an additional year of CalCompetes grants. The total allocation would consist of $50 million in new 2024-25 General Fund spending and $10 million left unspent from prior rounds of CalCompete grants.

Background: The CalCompetes program provides financial incentives to California businesses that might otherwise leave the state as well as to out-of-state businesses thinking about relocating here. GO-Biz states that "CalCompetes is the state's largest and strongest tool for attracting new and retaining existing employers in California."

In the first several years after it was established in 2014, CalCompetes offered all of its financial incentives to businesses in the form of non-refundable tax credits. Under the tax credit structure, CalCompetes gives businesses a reduction on their future state income tax bills in exchange for agreements to make certain capital investments and to 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 future state tax bills. If the business does not comply with its agreements, the state recaptures the credits and recycles them back into the CalCompetes program.

For some businesses, however, the non-refundable tax credit structure does not work optimally. Newer companies and those still struggling to make money often do not owe enough in taxes to be able to utilize their tax credits before the credits expire. Similarly, businesses that reinvest earnings back into the company can wind up owing less in taxes than their CalCompetes credits are worth.

To address situations like these, the state added a grant-based component to CalCompetes beginning in 2021-22. 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. Businesses that receive a CalCompetes Grant still have to carry out their investment and hiring agreements, but unlike what happens under the tax credit model, businesses that receive CalCompetes grants get their CalCompetes money even if they end up owing little or nothing in state taxes.

The 2021-22, 2022-23 and 2023-24 Budget Acts all included one-time allocations of $120 million to the CalCompetes Grant program. The 2022 Budget Act also directed GOBiz to prioritize making CalCompetes grant awards to companies in the semiconductor industry in order to capitalize on federal CHIPS Act funding, which requires some form of state-level match. According to the Legislative Analyst's Office (LAO), CalCompetes grants have been the state's "primary tool" in this area the last couple of years, with around one third of California Competes grants across 2022-23 ($30 million) and 2023-24 ($51 million) going to semiconductor companies.

The Governor's January 2024 Budget now proposes to extend the CalCompetes Grant program for another year but, in light of this year's shortfall, the proposal is limited to just $60 million for 2024-25. Of this amount, $50 million would come from new 2024-25 General Fund spending. The remainder is composed of prior year program savings that resulted when a CalCompetes grant applicant withdrew from contention late in the process.

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

> In the last three rounds, CalCompetes awarded 23 businesses grants in exchange for their commitments to create over 18,000 new, quality, full-time jobs and make over $6.5 billion of capital investments in California over the next 5 years.

LAO Comments: The LAO recommends rejecting the Governor's proposal or considering alternatives. Although independent academic research showed that the CalCompetes tax credit model can be effective, the LAO characterizes the grant program as comparatively "new" and "unproven." Thus, the LAO concludes that in the current budget environment, further investment in the CalCompetes grant model is "not prudent."

In response to the potential concern that rejecting further expenditures on CalCompetes grants might harm California's ability to draw down federal CHIPS money for semiconductor manufacturing, the LAO suggests that "given the state's current fiscal situation, it makes sense for the state to look to other existing programs to provide incentives to CHIPS Act projects," including options like the CalCompetes tax credits, New Employment tax credits, Research and Development tax credits, and the California Alternative Energy and Advanced Transportation Financing Authority's sales and use tax exclusion program.

Alternatively, the LAO suggests that the Legislature could set up a contingent funding mechanism. Under this concept, GOBiz could provide grants to semiconductor businesses seeking to draw down federal CHIPS funding, but only after demonstrating that the business has sought funding through all other available sources without success.

Staff Recommendation. Hold open.

Issue 13: Potential Savings from Unused CalCompetes Tax Credits

Issue: The CalCompetes Tax Credit program currently receives an annual allocation of $180 million each year through 2027-28. When these tax credits go unused, they are recycled back into the program. This year, due to accumulated underallocation, underutilization, and recapture of prior awards, the CalCompetes Tax Credit program had $492 million available to award to businesses. Reverting some of this amount back to the General Fund could result in budget savings over the next several years.

Background: As explained in the previous agenda item, the CalCompetes program provides financial incentives for business to remain in, or relocate to, California. Under the tax credit program, CalCompetes gives businesses a reduction on 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.

Since 2018, the state budget has allocated $180 million in tax credits to GOBiz for award through the CalCompetes program. The state's current commitment is to maintain that level of funding through 2027-28.

Not all of the $180 million in CalCompetes tax credits gets used each year. CalCompetes tax credits can go unused in at least three different scenarios: underallocation; underutilization, or recapture. Underallocation happens when GOBiz awards fewer tax credits in a given year than were allocated to it in the budget. Underutilization takes place when a business' tax burden is too low for it to make use of all of the CalCompetes tax credits that were awarded to it. Recapture occurs when a business fails to comply with the investment or hiring agreements that were the prerequisites for obtaining the CalCompetes tax credit award.

The CalCompetes tax credit program is currently structured to recycle any underallocated, undertutilized, or recaptured tax credits back into the program. In other words, any CalCompetes tax credits that go unused one year become available for award again the following year.

This year, as the accumulated result of underallocation, underutilization, and recapture, GOBiz announced that the CalCompete Tax Credit program had over $492 million available to award. Of this amount, CalCompetes awarded $33.8 million in November 2023 and around $130 million in late April 2024. The final round of CalCompetes tax credits will be awarded in June 2024. GOBiz forecasts that it will award roughly $150 million in tax credits at that time, leaving a balance of approximately $180 million in unused tax credits.

If no action is taken, this balance will get recycled back into the CalCompetes Tax Credit program for award next year. Alternatively, the unused amounts could be treated, in effect, as savings, thus helping to address the budget shortfall. Such savings could be achieved without making any reduction to the annual expected allocation to the CalCompetes tax credit.

The precise impact of restricting the amount of recycling in the CalCompetes tax credit program is unknown, as it would depend on future tax credit utilization and recapture rates among other things. However, the Legislative Analyst's Office reached the following preliminary estimated impact if, beginning in 2024-25, CalCompetes tax credits were no longer recycled back into the program:

Revenue gain (millions)				
2024-25	2025-26	2026-27	2027-28	Ongoing
$5	$15	$25	$40	$45

Staff Comments: GOBiz points out that the existing recycling effect provides a larger pool of tax credits to award each year, thus enabling it to offer financial incentives to more businesses to relocate to, or stay in, California. $492 million goes a lot further than $180 million.

GOBiz also notes that since the maximum award to any one business is limited to 20 percent of the overall amount available for award, the bigger pool enables GOBiz to dangle larger incentives in front of companies. If the overall pool consisted of the annual allocation alone, the maximum grant would be just $36 million. This year's pool, including unused tax credits from prior years, allows GOBiz to offer individual companies up to the $98.4 million.

While both of GOBiz' points may be valid, the Subcommittee may wish to inquire whether they are consistent with the Legislature's original and ongoing intent for this program. When the Legislature set the annual CalCompetes tax credit allocation at $180 million, for example, it presumably intended the program to operate at approximately that scale each year. Due to the recycling effect, the program could instead dole out 2.7 times that amount this year. Similarly, in setting the maximum tax credit award to any one business at 20 percent of the total amount available for award, the Legislature presumably imagined that would mean 20 percent of roughly $180 million or $36 million. Instead, as previously referenced, the recycling effect means that CalCompetes can actually award up to $98.4 million in tax credits to any individual business this year. The Subcommittee may wish to ask whether a subsidy of that size to any individual business is desirable and consistent with the original design of the program.

Staff Recommendation. Hold open.

Issue 14: Recapitalization of IBank's Infrastructure State Revolving Fund

Proposal: The Governor's January 2024 Budget requests one-time spending of $50 million in 2024-25 General Fund to infuse additional capital into the Infrastructure State Revolving Fund (ISRF) Loan Program at the California Infrastructure and Economic Development Bank (IBank) within the Governor's Office of Business and Economic Development (GOBiz).

Background: The ISRF provides relatively low-interest loan financing to local governments for public infrastructure projects. Some examples of ISRF-financed projects include:

- A $40 million loan to the City of San Diego in 2024 to finance the Miramar Greenery organic waste processing facility that will assist the city in complying with state requirements to divert organic material from landfills.

- A $35 million loan to the City of Fresno in 2019 to finance construction of a parking garage at the Fresno/Yosemite International Airport.

- A $4 million loan to the City of Ukiah in 2017 to finance traffic and pedestrian improvements.

- A $3 million loan to the City of Alameda in 2015 to finance replacement of the former fire station with a new state of the art firehouse and to construct the a stand-alone Emergency Operations Center.

ISRF is able to finance these loans by leveraging a pool of capital provided by the state. Specifically, upon establishing the ISRF in 1999, the state provided an initial investment of $162 million. Since then, the ISRF has repeatedly leveraged that initial capital by selling revenue bonds and then loaning out the proceeds. By maintaining an excellent credit rating, the ISRF can issue these loans at rates that fall below what its borrowers would ordinarily pay on the open market. In this way, the ISRF reports issuing over $1 billion in loans, supporting over 100 projects and creating over 24,000 new jobs since its inception.

There is an outer limit on how far the ISRF can stretch its original capital, however. Without the infusion of further capital, the ISRF will eventually reach a point where it must either stop lending or risk the possibility that the bond markets will begin to view it as over-extended and downgrade its credit-rating accordingly. If the latter happened, the ISRF's increased borrowing costs would force it to charge higher rates to its local government customers.

The ISRF now projects that it has reached or is coming very close to the limit past which it can no longer stretch its original capital. Accordingly, the Governor's January 2024 Budget seeks an additional infusion of $50 million in capital for the ISRF. GOBiz projects that this amount will be sufficient to enable the ISRF to meet loan demands for another two years.

LAO Comments: The Legislative Analyst's Office (LAO) recommends rejecting this proposal. The LAO believes that ISRF could continue normal operations in 2024-25 without the additional infusion of capital, though it concedes that there is a possibility that the terms of ISRF loans might become slightly less favorable to the public agencies that depend on them. The LAO assesses that:

> Without this proposal, IBank currently anticipates having around $60 million in ISRF funds available to loan to public agencies in 2024-25. ISRF loans have exceeded $60 million multiple times in recent years ($95 million in 2018-19 and $86 million in 2022-23), which points to a need for additional cash, perhaps around $50 million, should they wish to avoid turning away eligible borrowers in 2024-25. Traditionally, IBank would meet this need by selling revenue bonds. IBank, however, has expressed reservations about selling revenues bonds at this time. They are concerned that their low cash on hand will prevent them for receiving the lowest possible borrowing costs on their bonds and, therefore, have requested $50 million General Fund to boost their cash on hand and ensure favorable borrowing terms. The extent to which IBank's concerns about selling revenue bonds are well founded is unclear to us. Regardless, taking the concerns as given, the primary consequence of selling revenue bonds without an additional $50 million General Fund cash cushion likely would be modestly higher borrowing costs. This, in turn, would result in slightly less favorable terms on ISRF loans to public agencies. In light of the state's fiscal situation, we do not view this consequence as significant enough to warrant a General Fund allocation in 2024-25.

Staff Comments: Measured against many other pressing demands for basic health, housing, and human services needs, it is difficult to prioritize a more indirectly beneficial budget item like recapitalization of a low-interest public infrastructure loan program. Yet, since each dollar of capital given to the ISRF effectively results in six times that amount in loans that back public infrastructure investments, this proposal extends the public purse in important and valuable ways. Moreover, the community benefit extends beyond the resulting public infrastructure improvements themselves; the projects create jobs and open up new economic opportunities.

In addition, while it is tempting to put off recapitalizing the ISRF in light of the current budget shortfall, the ISRF will eventually need a further infusion of capital in order to keep lending even if it can skate by this year by further leveraging its existing resources. Given that current projections forecast deficits in the next several years, postponing recapitalization of the ISRF now may simply be an exercise in delaying the inevitable. If that is the case, then the wait may not be worth the risk to ISRF's strong credit rating and the resulting low interest rates it is able to offer to its borrowers.

With all of these considerations in mind, the Subcommittee may wish to inquire:

- How does GOBiz respond to the LAO's suggestion that the ISRF could probably continue normal operations without this recapitalization proposal? Does GOBiz agree with the LAO's assessment that the primary risk is "slightly less favorable terms on ISRF loans to public agencies?"

- To what degree will public agencies be able to migrate to alternative sources of financing in the event that ISRF were to reduce its lending and/or charge higher rates?

- If the ISRF were forced to raise its rates, would the result be slightly higher costs for local agencies, or would they simply be unable to undertake the projects at all?

Staff Recommendation. Hold open.

Issue 15: Partial Delay of Downtown Fresno Infrastructure Funding

Proposal: The Governor's January 2024 Budget maintains $250 million in General Fund for the City of Fresno's Public Infrastructure plan, but it proposes to delay disbursement of $100 million of that amount by one year.

Background: The City of Fresno's Public Infrastructure Plan calls for investment in a high speed rail station, parking, green space, walkability, and water projects in the downtown area. Among other things, this infrastructure the City of Fresno expects these improvements to facilitate significant new residential housing development.

The 2023 Budget Act included an allocation of $250 million in General Fund to support implementation of this Plan, distributed according to the following schedule: $50 million in 202-24; $100 million in 2024-25; and $100 million in 2025-26.

The Governor's January 2024 Budget maintains the $50 million in 2023-24 spending as well as the overall total. In order to achieve 2024-25 General Fund savings, however, the Governor's proposal would push back the distribution schedule by one year, so that $100 million would be disbursed in 2025-26 and the final $100 million would go out in 2026-27.

Staff Comments: In light of the spending reductions proposed for other housing and related infrastructure programs, such as the Regional Early Action Planning (REAP 2.0) and Infill Infrastructure Grants (IIG), the Subcommittee may wish to inquire why only a delay, but no reductions, are proposed for the City of Fresno downtown project. At the same time, the Subcommittee may want to ask how the proposed delays will impact the project.

Staff Recommendation. Hold open.

0890 SECRETARY OF STATE

Issue 16: CAL-ACCESS Replacement System (CARS) Project

Request. The Governor's budget requests, for the Secretary of State (SOS), $16.8 million General Fund in 2024-25 to support the CARS Project and replace the outdated CAL-ACCESS system for electronic reporting of campaign finance and lobbying activities mandated by the Political Reform Act.

Background. The SOS requests continued funding for 33 prior approved positions to support both the second fiscal year of CARS Project planning activities and the Political Reform Division's backfill staff recruited to support ongoing program activities. The objective of the CARS Project is to replace the outdated CAL-ACCESS for electronic reporting of campaign finance and lobbying activities mandated by the Political Reform Act (SB 84 and SB 1349).

More specifically, continued funding is requested for 21 positions approved in 2022-23 (11 CARS Project staff and 10 non-project positions to backfill PRD program staff), and 12 CARS Project positions previously approved as ongoing in 2021-22. SOS estimates total costs of $22.2 million for 2024-25 to support the CARS Project—$5.4 million of which has been authorized by previously appropriated ongoing funding and an additional $16.8 million General Fund is needed to cover the remaining cost.

CAL-ACCESS is the state's current campaign and lobbying information system where candidates, political committees, and lobbyists file detailed financial disclosures. The SOS proposes to improve service to the public by replacing CAL-ACCESS with a modern and flexible architecture. The current mission critical system is a conglomeration of component applications developed at different times using multiple coding languages, platforms, and technologies (most of which are now obsolete).

Several factors make replacing CAL-ACCESS imperative, including:

- Program business operations are negatively affected by lack of data integrity.
- Program business operations are at risk due to an old, unsupported information technology platform.
- The SOS Political Reform Division (PRD) and stakeholders have limited information access and reporting capabilities.

In 2016, SB 1349 (Chapter 845, Statutes of 2016) required the development of an automated campaign and lobbying reporting and disclosure system to replace the then nearly 20-year-old CAL-ACCESS. SB 1349 created legislative oversight and reporting requirements for the original CARS Project. SB 1239 (Chapter 662, Statutes of 2018) required additional legislative changes needed for the CAL-ACCESS replacement system implementation. In 2019, SB 84 (Committee on Budget and Fiscal Review, Chapter 30, Statutes of 2019) established a deadline of February 2021 for deploying the new system. As the launch date neared, it was clear that the system needed more customization than anticipated and was not ready for production. In June 2021, the project was placed on hold for reevaluation. In partnership with the California Department of Technology (CDT), an independent third-party assessment of the CARS Project was completed in December 2021 that identified findings for a project restart that has guided the SOS in a new project effort.

The first full year of project execution in 2024-25 includes onboarding of the prime vendor, development of prime vendor project plans and schedule, requirements reconfirmation, technical architecture development, joint application design sessions, and start of the program increments in which the application modules are developed and tested. Design and development activities include external stakeholder data retrieval interfaces and application programming interfaces for the campaign finance and lobbying software vendor stakeholders to electronically file disclosure information with the SOS. This request is based on the current estimated project schedule and covers the first full year of the project execution phase.

The table below provides an overview of previously approved positions that would be funded by this request.

(Dollars in Thousands)

Personal Services Request on Previously Approved Positions	Cost
Political Reform Division	
3 Permanent Program Staff	$228
10 Temporary Program Staff (Non-Project PRD backfill positions) *	$759
Information Technology Division	
17 Permanent IT Staff (Project Management & IT)	$2,114
Management Services Division	
1 Permanent IT Staff (Contract Services)	$116
Executive Office	
2 Permanent Program Staff (Legal & Office of Risk Management)	$228
Subtotal Personal Services	**$3,445**
Total Benefits	**$2,033**
Total Staff Operating Expenses and Equipment (OE&E) **	**$396**
Total Personal Services, Benefits, & OE&E	**$5,874**

*The 10 temporary program staff are non-project PRD backfill positions whose salary, benefits, and staff operating expenses and equipment costs are not reflected on the CARS Project Financial Analysis Worksheets (FAWs).
**Staff operating expenses and equipment costs for software are located under Information Technology costs.

Source: Department of Finance

Staff Recommendation. Hold Open.

Issue 17: Notary Automation Program Replacement Project (NAP 2.0)

Request. The Governor's budget requests, for SOS, $4.02 million Business Fees Fund in 2024-25 for the continuation of the Notary Automation Program Replacement Project (NAP 2.0).

Background. The SOS is responsible for the appointment of California notaries public. Prior to appointment, a notary public applicant must complete an education course and pass both a notary public examination and a background investigation from both the California Department of Justice and the Federal Bureau of Investigation.

The SOS currently utilizes a legacy NAP system to store and maintain notary public commission data and process apostille requests. The system is approximately 30 years old and needs replacing. It was developed utilizing the PowerBuilder application which makes it very difficult to update and to find qualified information technology (IT) staff or vendors to support the application. Current technology has evolved significantly since the system was created, thus integration of the legacy system with current and future technology, and possibly third-party systems, will be challenging. Creating a new system – NAP 2.0 - will allow the SOS to streamline business processes and offer more efficient online services to notaries and the public. In addition, updating the system will allow for easier amendments in the future should the notary laws change.

The SOS requests $4.019 million Business Fees Fund in 2024-25 for the continuation of the Notary Automation Program Replacement Project (NAP 2.0) for the following:

- $1.48 million for six new positions and continued funding for two existing positions approved in 2023-24
- $800,000 for continuing vendor and new vendor costs
- $325,000 in goods for planning resources
- $889,000 for California Department of Technology (CDT) services and fees and Department of General Service (DGS) fees
- $528,000 for temporary staff (and the corresponding DGS fees) to backfill staff positions redirected to the project.
- An additional $1.72 million in project costs will be funded with existing resources for a total project cost of $5.74 million

Staff Recommendation. Hold Open.

0950 State Treasurer's Office

Issue 18: Additional Funding for Banking Operations Item Processing Software Service

Request. The Governor's budget requests, for the State Treasurer's Office, $135,000 ($81,000 General Fund (GF) and $54,000 Central Service Cost Recovery Fund (CSCRF)) in 2024-25 and annual increases ongoing per the terms of the new eight-year contract signed with the vendor of STO's Item Processing software service. The STO also requests budget bill language (BBL) to facilitate vendor associated procurements related to the Treasurer's constitutional and legislative banking and investment responsibilities.

Background. The STO relies upon the FIS Image Vision Item Processing software to facilitate its daily check processing activities. The current version of the software employed by the STO had reached its designated end-of-life stage, and the vendor announced its end of support on December 31, 2022. In response, the STO secured an extension of support by a span of one year, extending the support until December 31, 2023. This extension aligns with the ongoing transition to an upgraded version. The cost increase is due to the shift of the vendor's operational paradigm from the on-premises legacy framework to a cloud-based architecture. This transition has a transformative alteration in the licensing model, moving to a volume-based annual subscription framework. This shift has entailed an increase in the annual maintenance and support cost, reflected in the revised licensing structure.

The vendor further increased the price after the original pricing information was provided to the STO in early 2022. Although inflation peaked in mid-2022 and rebounded in early 2023, the notable inflation trend was cited as a primary reason for the price increase. The vendor was firm on the new pricing during the license negotiations with the STO that started in August 2023. As a result, the cost of unit processing was raised, leading to a clear rise in the annual subscription and support expenses. After diligent attempts to negotiate costs down through the extension of the contract duration, the anticipated annual expense, based on the estimated processing volume of checks and warrants, has surpassed the previously estimated 2022 figure by a margin ranging from $135,000 to $340,000.

Budget Bill Language. The Governor's January budget included trailer bill language (TBL) to exempt STO from certain statewide contracting requirements overseen by the Department of General Services (DGS). The TBL was intended to address the challenges the STO has encountered with newer DGS purchasing requirements that slowed the STO's process of completing time-sensitive contracts with vendors that supply critical, daily data to them.

In recent discussions with DGS, it was learned that DGS will be developing and implementing a more permanent administrative solution for certain electronic subscription purchasing processes in the next year or two that will help not only the STO, but all departments. Therefore, instead of the proposed TBL, DOF has coordinated with DGS and STO on an alternative BBL proposal that limits the contracting exemption to two years (in effect until July 1, 2026) or upon implementation of an suitable updated purchasing process by DGS, whichever is sooner, and a per-contract dollar cap ($300,000). This short-term BBL, would provide the STO the flexibility to ensure the timeliness of these electronic subscription contracts and DGS the time to develop/implement their updates to the electronic subscription purchasing process.

Proposed new Budget Bill Language - Provision 3 is added to Item 0950-001-0001:

3. Notwithstanding any other law, the Treasurer may enter into agreements for proprietary economic data, financial market data, credit ratings, research and risk analysis as required in connection with the Treasurer's duties pursuant to Section 16480.3 of the Government Code. The total amount of any single agreement shall not exceed $300,000. This provision shall remain in effect through July 1, 2026, or shall become invalid upon implementation of a suitable updated electronic subscription purchasing process by the Department of General Services, whichever date is sooner.

Staff Recommendation. Hold Open.

0981 CalABLE

Issue 19: Administration of the California Achieving a Better Life Experience Act Board

Request. The Governor's Budget requests budget bill language to extend the repayment date of the General Fund loans made to the California Achieving a Better Life Experience (CalABLE) through June 30, 2032. In addition, CalABLE requests a waiver of interest fees, pursuant to Government Code Section 16314.

Proposed provisional language is as follows:

Notwithstanding Provision 1 of Item 0981-011-0001, Budget Act of 2016 (Ch. 23, Stats. 2016), Budget Act of 2017 (Chs. 14, 22, and 54, Stats. 2017), Budget Act of 2018 (Chs. 29 and 30, Stats. 2018), Budget Act of 2019 (Chs. 23,55, 80, and 363, Stats. 2019), Budget Act of 2020 (Chs. 6,7, and 40, Stats. 2020), or Item 0981-001-8101, Budget Act of 2021 (Chs. 21, 69, and 240, Stats. 2021), the loans to the California ABLE Administrative Fund shall be repaid to the General Fund when sufficient revenue is available, but no later than June 30, 2032. To the extent there is sufficient revenue, a loan repayment will be made each fiscal year based on the receipt of annual revenue. The Director of Finance may waive interest fees pursuant to subdivision (e) of Section 16314 of the Government Code.

Background. The federal Achieving a Better Life Experience Act of 2014 (ABLE), allowed individuals who become blind or disabled before reaching age 26 to create tax-free savings accounts. ABLE accounts generally follow the same rules as 529s: individuals can make nondeductible cash contributions to an ABLE account in the name of a specified beneficiary, and with tax-free earnings. ABLE account distributions are also not included in the beneficiary's income if they are used for qualified services for the beneficiary and distributions do not exceed the cost of those services. The ABLE Act directs states to establish one ABLE account for each eligible beneficiary. SB 324 (Pavley), Chapter 796, Statutes of 2015, and AB 449 (Irwin) Chapter 774, Statutes of 2015, implemented the ABLE Act in California and directed the CalABLE Board to administer ABLE accounts on behalf of qualified Californians. The ABLE Act, for taxable years beginning on or after January 1, 2015, encourages and assists individuals and families to save private funds for the purpose of supporting persons with disabilities to maintain their health, independence, and quality of life by excluding from gross income distributions used for qualified disability expenses by a beneficiary of a Qualified ABLE Program established and maintained by a state, as specified.

CalABLE has operated with GF loans, totaling $4.8 million since its inception, starting with the Budget Act of 2016 authorized the Board to receive up to $1.5 million as a General fund loan to support startup and administrative costs ($850,000 for 2016-17 and $650,000 for 2017-18).

General Fund Loan Amounts by Fiscal Year			
Loan #	**Fiscal Year**	**Loan Amount**	**Loan Term**
#1	2016/17	$850,000	June 30, 2022
#2	2017/18	$650,000	June 30, 2022
#3	2018/19	$1,750,000	June 30, 2023
#4	2019/20	$1.070,000	June 30, 2024
#5	2020/21	$500,000	June 30, 2025
	TOTAL	**$4,820,000**	

*General Fund loans are due by June 30, 2025.

Most recently, in July of 2021, AB 128 (Chs. 21, Stats. 2021) authorized a General Fund appropriation and extended the General Fund loans repayment until sufficient revenue is available, but no later than June 30, 2025, with interest calculated at the rate earned by the Pooled Money Investment Account at the time of transfer. In May 2023, the Board approved the collection of a new state administrative fee of 0.28% of account assets as a fee that is both affordable for participants while positioning the Board to repay its General Fund loans as quickly as possible.

In addition, commencing January 1, 2026, AB 339 (Irwin) Chapter 324, Statutes of 2023 raised the eligibility age limit for the onset of disability from age 26 to age 46 which would enable more disabled Californians to qualify for a CalABLE account.

The Program launched for public enrollment in December 2018. As of March 31, CalABLE had 11,104 accounts, with a total of $140,944,310 in assets under management. Under current growth and budget assumptions, CalABLE is expected to reach self-sustainability (revenue exceeds operating expenditures) when it reaches approximately 20,500 accounts.

The request notes that in 2024-25, CalABLE will work with the Department of Finance and the State Controller's Office to initiate a transfer of $1.2 million from the CalABLE Administrative Fund to the General Fund. The payment will reduce the balance of $4.82 million in General Fund loans to $3.62 million. Thereafter, CalABLE will continue to make annual payments to the extent there is sufficient revenue available.

Government Code 16314 refers to the establishment of interest charges on short term loans of state funds by the Pooled Money Investment Board. Stature specifically provides the Director of Finance with authority to waive interest charges on short-term loans of state funds when, among other things, loans are to cover temporary shortages of funds where anticipated reimbursements have not been forthcoming, or where the agency cannot recover interest charges in the reimbursement.

Staff Recommendation. Hold Open

0984 CalSavers Retirement Savings Board

Issue 20: CalSavers Retirement Savings Program – Additional Start-Up Loan Support

Request. The Governor's Budget includes a proposal to provide the CalSavers Retirement Savings Board (Board) with a General Fund loan of $12,000,000 total ($2,000,000 annually for fiscal years 2024-25 through approximately 2029-30), to provide resources for the Board and the CalSavers Retirement Savings Program (Program) to continue to operate, including funding for existing staff, employer compliance enforcement services through the Franchise Tax Board (FTB), external consultants, and marketing, administrative, and overhead costs

Background. The CalSavers Retirement Savings Program (CalSavers or Program) is overseen by the CalSavers Retirement Savings Board (Board) and provides a retirement savings program for private-sector workers who lack access to an employer-sponsored retirement savings plan. Employers that do not offer a qualified retirement plan, and have at least five employees are required to facilitate CalSavers for their employees by specified deadlines or face penalties for noncompliance. The Program is voluntary for employees, but is operated on an automatic enrollment opt-out basis. Chapter 734, Statutes of 2012 (SB 1234) and Chapter 737, Statutes of 2012 (SB 923) established the Board for evaluating the financial and legal feasibility of the Program. The Board retained Overture Financial LLC (Overture) to complete a Market Analysis and Feasibility Study, and submitted a final report to the Legislature in March 2016, paving the way for legislative approval in September 2016.

To date, loan funding of $16.9 million was been drawn down to support the program. CalSavers is currently in its rollout and scaling-up phase, and General Fund support of the program was anticipated when the program was initiated. The request notes that program growth depends on employer compliance and since its inception, a number of factors have slowed implementation, including legislative expansion of the program in 2022 to include employers with as few as one employee, an employer compliance deadline extension, a postponement of the imposition of employer penalties for non-compliance, and slower than anticipated growth due to the COVID-19 pandemic and other factors.

As the Program scales up to meet the needs of the quickly growing population of employers and participants, staffing and resource needs may change dramatically. Because program costs and revenue will be determined by the number of employers participating in the Program, the number of employees participating in the Program, the contributions made by participants into the Program, and the investment return earned on those contributions, the Board cannot determine with certainty the total Program funding needs for the early years of operation and will continue to reassess support needs. The most recent projections from CalSavers, shown below, provide for continuous growth over the loan period as employers come into compliance, and employees opt-in to the program.

Projected Outcomes

Workload Measure	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Employers Registered	140,000	182,000	236,600	307,580	400,000	400,000
Employers Fully Onboarded	65,000	84,500	109,850	142,805	186,000	200,000
Funded Accounts	600,000	780,000	1,000,000	1,300,000	1,690,000	1,800,000
Assets Under Management	$1,000,000	$1,900,000	$2,900,000	$3,700,000	$4,800,000	$6,240,000

Note: These projections are under development and will change as staff refines modeling.

The requested funds would specifically support the existing 13 Full-time Equivalents (FTEs), including one new analyst position, as well as provide the option to expand as needed. The funding will also support operational costs and contracts with external vendors and partners, including enforcement services through the Franchise Tax Board (FTB). The Program rollout is still underway, following legislative expansion of the program in 2022 to include employers with as few as one employee, an employer compliance deadline extension, a postponement of the imposition of employer penalties for non-compliance, and slower than anticipated growth due to the COVID-19 pandemic and other factors. This loan drawdown is necessary for the continued operation of the CalSavers Program.

Staff Recommendation. Hold Open.

1111 DEPARTMENT OF CONSUMER AFFAIRS

Issue 21: BreEZe System Maintenance and Credit Card Funding

Request. The Governor's budget requests, for the Department of Consumer Affairs (DCA), an increase in expenditure authority of $14.7 million, from various special funds, in 2024-25 and ongoing for the continued support of BreEZe's maintenance and operations. Of the total amount requested, $5.7 million in 2024-25 and ongoing will fund credit card processing fees on behalf of users of credit card payments.

Background. The DCA BreEZe system received funding in the amount of $12.7 million in 2022-23 and 2023-24 for maintenance and operations (M&O). This request provides permanent, ongoing resources in the amount of $14.7 million to support the Department's costs to operate and maintain the BreEZe system.

DCA protects Californians by providing oversight and administrative support to 36 licensing and regulatory programs, which regulate and license more than 100 business types, over 300 professional categories, and over 3.4 million licensees in the state. The programs fill an important role in state government and protect Californians by making sure licensees adhere to established professional standards and educational requirements. The Department's staff of legal, technical, and administrative professionals provide support services to the programs. The Department's Office of Information Services is responsible for maintaining and updating the primary licensing and enforcement information systems of the Department: The Applicant Tracking System, Consumer Affairs System, Connect, and BreEZe.

The BreEZe project began with approval of a Feasibility Study Report (FSR) on November 30, 2009, and a subsequent Special Project Report (SPR) 1 approval on July 20, 2011. The project was proposed to be completed in three separate releases (Release 1, 2 and 3). The Department submitted several SPRs through the course of the project, and the final SPR, 3.1, was approved by the California Department of Technology (CDT) on January 22, 2015. With the approval of SPR 3.1, the project was ended upon the completion of Release 2, and the third planned release was removed from the scope of the BreEZe project. The project team completed a Post Implementation Evaluation Report (PIER) in June 2017 that evaluated the project's degree of success, using the business objectives provided in the FSR and SPRs.

BreEZe supports applicant tracking, licensing, renewal, enforcement, monitoring, cashiering, and data management requirements for 18 programs within the Department. BreEZe continues to offer significant business process efficiencies through its online application portal.

In 2021-22, 95 percent of all revenue received for the program's using BreEZe was accepted via the online application portal. Renewal applications, one of the highest volume application types, represent one of the most significant efficiencies of the BreEZe system. Only in exceptional circumstances would an online-submitted renewal application require manual staff review. Approximately 95 percent of online renewal application submissions in any given period are processed in less than one day.

The Administration requests $9.0 million to support 37 positions and software purchases, which makeup the core M&O services of business requirement analysis, configuration, development, testing, and software release management. This is the same level of staffing that has been supporting BreEZe M&O since July 2019.

This proposal also requests ongoing funding of $5.7 million for payment of credit card processing fees on behalf of users of credit card payments. BreEZe interfaces with third party payment processors that provide DCA the ability to accept electronic payments while meeting compliance with Payment Card Industry (PCI) Security Standards. This request also incorporates funding for two programs not currently on BreEZe that have implemented an interim online payment solution in advance of their business modernization efforts.

Staff Recommendation. Hold Open.

Issue 22: Pharmacy – Enforcement and Compounding Workload

Request. The Governor's budget requests, for the State Board of Pharmacy, five positions and an increase in expenditure authority of $1,265,000 in 2024-25 and $1,225,000 in 2025-26 and ongoing, Pharmacy Board Contingent Fund, Professions and Vocations Fund, to address increased workload related to desk investigations, sterile compounding renewals, and growth in program operations.

Background. The California State Board of Pharmacy (Board) is experiencing an increase in workload in sterile compounding renewals and a growth in program operations. The Board is requesting additional pharmacy inspector positions to meet statutorily mandated inspection requirements for facilities performing sterile compounding for California consumers.

The Board's sterile compounding program was initially established in 2014-15. At that time, the Board was provided expenditure authority for four positions. In response to actual workload, the Board transitioned two inspectors from other areas to the sterile compounding program in January 2015. The Board received two additional staff in 2018-19 and one additional staff in 2020-21 to address program growth. Regulation in sterile compounding has proven very dynamic over the years with the Federal Food and Drug Administration (FDA) becoming very active in oversight, continuously referring matters to state boards to investigate, and issuing guidance on its expectations regarding provisions of federal law and rulemakings. During the past five years, the Board experienced a 25 percent increase of compounding licensees on probation for violating state and federal law and placing consumers at risk. Currently, the board has eight compounding probationers, and each requires quarterly inspections by the Board's inspectors. Growth in this area is expected to continue as there are several cases pending final resolution at the Office of the Attorney General (AG) and additional investigations are pending.

Further, national standards have undergone significant revision and new standards have been developed. These new standards became effective on November 1, 2023, and the Board will be promulgating regulations to implement the new standards in California. The changes in national standards and the Board's clarifying regulations will fundamentally change many aspects of nonsterile and sterile compounding, hazardous compounding, and the compounding of radiopharmaceuticals. With these foundational changes, the Board needs to have the appropriate resources to provide oversight of compounding facilities to confirm compliance and prevent harm to patients.

In addition to the changes described, the Board has also realized overall growth in the number of sterile compounding inspections it performs annually. This increase is attributed to joint inspections with other agencies including the FDA, investigations of facilities, probation monitoring activities as well as inspections performed as part of the licensing and renewal process. To address this program growth, the Board is currently redirecting inspectors from its compliance, drug diversion and fraud, probation, prescription drug abuse and outsourcing inspection teams to the sterile compounding program. Redirection comes at a cost, most notably, preventing redirected staff from inspecting and investigating Board licensees in other areas of pharmacy compliance.

Furthermore, the Board has seen an increase in desk investigation review times that has impacted enforcement operations. The Board is requesting additional to take full management responsibility of reviewing desk investigations in order to decrease review times.

Below is the list of requested positions:

- Sterile Compounding Inspector Staff – Three Inspectors and One Supervising Inspector
- Enforcement Manager – One Staff Services Manager II

The requested resources and positions are intended to address this increased workload related to desk investigations, sterile compounding renewals, and growth in program operations.

Staff Recommendation. Hold Open.

1701 DEPARTMENT OF FINANCIAL PROTECTION & INNOVATION

Issue 23: Continuation of California Consumer Financial Protection

Request. The Governor's budget requests, for the Department of Financial Protection and Innovation (DFPI), requests an increase in expenditure authority of $14.0 million Financial Protection Fund in 2024-25 and in 2025-26 to continue funding for 55 positions for the implementation of the California Consumer Financial Protection Law (CCFPL).

Background. AB 1864 (Chapter 157, Statutes of 2020), established the California Consumer Financial Protection Law (CCFPL), which expanded the Department of Financial Protection and Innovation's (Department) authority to oversee financial products and services previously not regulated by the Department. The 2020 Budget Act included $8.3 million Financial Protection Fund and 44 positions in 2020-21 and the 2021 Budget Act included $9 million and 45 positions in 2021-22, growing to $12.1 million and 55 positions in 2022-23, and $12 million and 55.0 positions in 2023-24. The Department requests an increase in expenditure authority of $14 million Financial Protection Fund in 2024-25 and in 2025-26 to continue funding for 55.0 positions for the implementation of the California Consumer Financial Protection Law.

The CCFPL gives the Department broad authority over covered persons, as defined in Financial Code section 90005(f), engaged in the business of offering and/or providing consumer financial products or services. Pursuant to Financial Code section 90009, the Department is allowed to prescribe rules regarding registration requirements for specified covered persons. Meaning, while the Department has authority over a larger universe of covered persons, only some will be subject to registration under the CCFPL. Covered persons required to register will be identified through consumer complaint analysis, market monitoring and research, and stakeholder input. The Department has the authority to investigate, examine, and require annual reporting for both registered and non-registered covered persons. The Department can also require an annual assessment or registration fee for registrants. The Supervision and Registration of New Covered Persons (NCP) program has been established to implement the CCFPL and perform these supervisory functions.

With the implementation of the CCFPL, the Department was authorized resources for the following:

- The Financial Technology Innovation Office, which is to encourage innovative financial products and services.
- The Consumer Financial Protection Division, which is focused on research, education, and outreach.
- The New Covered Person program, which is to register and supervise new classes of covered persons offering financial services to Californians.
- The Office of the Ombuds, which is to make certain complaints about the Department receive a confidential, full, and impartial review and resolution.
- Enhancements to the Department's enforcement, legal, public affairs, administrative and information technology divisions to support the CCFPL.

According to the Administration, the requested two years of limited-term funding will allow the Department to further reevaluate the program's workload and resource needs based on additional years of registration and enforcement data. The table below provides an overview of the positions related to this request.

Positions Overview

Classification	Existing Authorized Positions	Current Request	Change
Deputy Commissioner – NCP (CEA)	1.0	1.0	0.0
Deputy Commissioner – Sec and Fran Reg (CEA)	1.0	0.0	-1.0
Financial Institutions Manager	1.0	2.0	1.0
Senior Financial Institutions Examiner	2.0	2.0	0.0
Financial Institutions Examiner	4.0	4.0	0.0
Program Total	**9.0**	**9.0**	**0.0**
Research Data Manager	1.0	1.0	0.0
Research Data Specialist III	5.0	5.0	0.0
MMCRIA Total	**6.0**	**6.0**	**0.0**
Deputy Commissioner (CEA B)	1.0	1.0	0.0
Attorney IV	0.0	1.0	1.0
Attorney III	1.0	0.0	-1.0
Research Data Specialist III	1.0	1.0	0.0
Associate Governmental Program Analyst	1.0	1.0	0.0
OFTI Total	**4.0**	**4.0**	**0.0**
Staff Services Manager II (Managerial)	1.0	1.0	0.0
Ombuds Total	**1.0**	**1.0**	**0.0**
Attorney V	1.0	1.0	0.0
Attorney III	1.0	1.0	0.0
Investigator	1.0	1.0	0.0
Enforcement Total	**3.0**	**3.0**	**0.0**
Attorney IV	0.0	2.0	2.0
Attorney III	5.0	3.0	-2.0
Legal Total	**5.0**	**5.0**	**0.0**
Information Officer II (Specialist)	1.0	1.0	0.0
Information Officer I (Specialist)	1.0	1.0	0.0
Staff Services Manager II (Supervisor)	1.0	1.0	0.0
Staff Services Manager I (Specialist)	6.0	6.0	0.0
Associate Governmental Program Analyst	2.0	2.0	0.0
OPA Total	**11.0**	**11.0**	**0.0**
Associate Governmental Program Analyst (BOO)	2.0	2.0	0.0
Business Services Assistant (BOO)	1.0	1.0	0.0
Accounting Officer (FMO)	1.0	1.0	0.0
Senior Accounting Officer (FMO)	1.0	1.0	0.0
Associate Budget Analyst (FMO)	1.0	0.0	-1.0
Senior Personnel Specialist (HRO)	2.0	2.0	0.0
Staff Services Manager I (HRO)	0.0	1.0	1.0
Associate Personnel Analyst (HRO)	2.0	2.0	0.0
Administration Total	**10.0**	**10.0**	**0.0**
Information Technology Specialist II	3.0	3.0	0.0
Information Technology Specialist I	3.0	3.0	0.0
Information Technology Services Division Total	**6.0**	**6.0**	**0.0**
Total	**55.0**	**55.0**	**0.0**

Source: Department of Finance

Staff Recommendation. Hold Open.

Issue 24: Continuation of Debt Collector Licensing and Regulation

Request. The Governor's budget requests an increase in expenditure authority of $11.8 million Financial Protection Fund in 2024-25 and 2025-26, for DFPI, to support 51 positions authorized to license, regulate, and examine debt collectors pursuant to SB 908 (Chapter 163, Statutes of 2020), the Debt Collection Licensing Act (DCLA).

Background. DFPI is continuing the implementation of the Debt Collection Licensing Act (DCLA), which became effective January 1, 2021, and requires the Debt Collector Program (Program) to license, regulate, and examine debt collectors. The 2021 Budget Act included $10.2 million Financial Protection Fund in 2021-22 and 43.0 positions, $10.7 million in 2022-23 and 51.0 positions, and $10.6 million in 2023-24 and 51.0 positions to support the Program. While the funding for the initial years of the program is limited-term, the position authority for the 51.0 positions is ongoing. The first years of the Program were based on an estimated 3,500 licensees, which the Department projected based on data from industry experts and other states. While implementing the program, the Department identified additional key functions that were not included in the initial proposal and some areas where position needs are lower than anticipated. The Department requests $11.8 million Financial Protection Fund in 2024-25 and 2025-26 to support 51 positions authorized to license, regulate, and examine debt collectors. The position classifications and reporting areas have been adjusted in the first three years of the Program based on operational need as outlined in this BCP, but the requested funding will continue to support a total of 51 authorized positions. Limited-term resources will allow the Department to further reevaluate the program's workload and resource needs based on additional years of licensing and enforcement data.

It was expected the initial 3,500 anticipated applications would be processed within the first three fiscal years and the primary funding source would come from assessments beginning in 2022-23. Delays resulting from issues with access to background checks have impacted the ability to process applications and initiate assessments. Some delays also impacted the number of applications submitted. To date 1,400 of the expected 3,500 applications have been received. The Program continues to anticipate an increase in applications as regulations are implemented to clarify licensing requirements. Based on the most recent estimates, the adjusted licensee count is expected to be 2,150. This estimate is based on the number of applications received to date, the average number of applications received per month, the number of unlicensed activity cases waiting to be investigated, and the number of inquiries received regarding pending regulation. The most significant impact will occur with the finalization of the regulation package which will provide clear definitions of which entities need to be licensed.

Due to the lack of specificity of the DCLA, the Department was denied access to Federal Bureau of Investigation background checks, which was required to approve applications. As a temporary solution, AB 156, (Chapter 569, Statutes of 2022) allowed the Department to conditionally approve applicants to operate pending approval or denial of their application as the Program works to resolve the background check issue. The long-term solution required a legislative change which was approved. The Department has applied for approval with the NMLS and should be able to start implementation in February 2024.

Without the ability to approve applications for the first twelve months, the Program experienced a backlog. As of December 31, 2023, there are 1,053 approved licensees and 264 applications in the backlog that still need to be processed. Program projects to have the backlog cleared by March 2024 based on 100 applications processed per month including the on-average ten new applications that are received per month. This backlog has subsequently resulted in a delay in examinations as all resources have been redirected to application review. In addition, the delay in application approval is a contributing factor in not being able to initiate assessments to provide the expected income for the Program. The next obstacle with the assessment is the need to define the terms from 3 the original legislation associated with the assessment. An additional rule making package is in process to define the terms of the assessment and the first assessment invoices are planned for September 2024.The table below is an overview of previously authorized positions and those currently requested.

Overview of Positions

Positions	2021-22 Authorized	(2021-22 – 2023-24) Established	(2024-25 – 2025-26) Requested Resources	Change from 2021-22 Authorized
Calculation	**A**	**B**	**C**	**C-A**
Program	-	-	-	-
Deputy Commissioner (CEA B)	1	1	1	0
Regional Deputy (CEA A)	2	0	0	-2
Financial Institution Manager	2	3	4	2
Senior Financial Institution Examiner	8	6	10	2
Financial Institution Examiner	13	13	9	-4
Associate Governmental Program Analyst	4	4	4	0
Executive Secretary	1	1	0	-1
Office Technician	1	1	0	-1
Program Total	**32**	**29**	**28**	**-4**
Enforcement	-	-	-	-
Assistant Chief Counsel	1	1	1	0
Attorney IV	2	2	2	0
Attorney III	4	4	4	0
Senior Financial Institutions Examiner	0	2	2	2
Financial Institutions Examiner	1	0	0	-1
Supervising Special Investigator I	1	1	1	0
Investigator	1	1	1	0
Legal Analyst	1	1	1	0
Enforcement Total	**11**	**12**	**12**	**1**
Legal	-	-	-	-
Legal Analyst	1	1	1	0
Assistant Chief Counsel	1	1	1	0
Attorney III	1	1	1	0
Attorney IV	1	1	1	0
Attorney V	1	1	1	0
Legal Total	**5**	**5**	**5**	**0**
Consumer Services Office	-	-	-	-
Associate Governmental Program Analyst - Intake	0	1	1	1
Associate Governmental Program Analyst - Resolution	0	1	1	1
Consumer Services Office Total	**0**	**2**	**2**	**2**
Administration	-	-	-	-
FMO – Senior Accounting Officer	1	1	1	0
HRO - Associate Governmental Program Analyst	1	1	1	0
HRO - Staff Services Manager I	1	1	1	0
ITSD – Information Technology Specialist I	0	0	1	1
Administration Total	**3**	**3**	**4**	**1**
Total	**51**	**51**	**51**	**0**

Source: Department of Finance

Staff Recommendation. Hold Open.