AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION

ASSEMBLYMEMBER WENDY CARRILLO, CHAIR

TUESDAY, APRIL 11, 2023

1:30 PM – STATE CAPITOL, ROOM 447

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We encourage the public to provide written testimony before the hearing. Please send your written testimony to: BudgetSub4@asm.ca.gov. Please note that any written testimony submitted to the committee is considered public comment and may be read into the record or reprinted.

To provide public comment, please call toll-free number: ***877-692-8957 / Access Code: 131 54 47***

VOTE-ONLY CALENDAR

ITEMS TO BE HEARD

VOTE-ONLY CALENDAR

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

VOTE-ONLY ISSUE 1: FRANCHISE APPLICATION AND COMPLAIN WORKLOAD AB 676

The Governor's budget includes an increase in expenditure authority of $1.3 million (Financial Protection Fund) in 2023-24 and $1.2 million in 2024-25 and ongoing, and 5.0 positions for the Department of Financial Protection and Innovation (DFPI) to implement the provisions of AB 676 (Holden), Chapter 728, Statutes of 2022.

BACKGROUND

California was the first state to regulate franchises in 1971. Franchising is a method of conducting business that consists of a franchisor—who establishes a brand's trademark and business system—that is paid by a franchisee who does business under the franchisor's trademark using the system after entering into a franchise agreement.

The state has enacted two major laws governing the franchisor-franchisee relationship. The Franchise Investment Law (FIL) provides ground rules for the marketing of franchise opportunities and the formation of the franchise relationship (offer and sale of a franchise). The Franchise Relations Act (FRA) governs the ongoing relationship between the franchisor and the franchisee to prevent unfair practices in the renewal, transfer, or termination of a franchise domiciled or operated in California.

Among other changes, AB 676:

- Closes a loophole that franchisors used to avoid requirements to register with DFPI.
- Prohibits franchisors from interfering with the sale of existing franchise businesses.
- Adds criteria upon which DFPI can issue a stop order or deny or revoke a registration, such as a franchise agreement that contains a provision that is contrary to state law.

The Enforcement Division requests 3.0 positions (Attorney IV, Senior Financial Institutions Examiner (Examiner), and Investigator) and the Franchise Unit requests 2.0 positions (Attorney III and Senior Legal Analyst) to meet the anticipated increase of franchise registrations, complaints, and investigations resulting from the implementation of AB 676.

STAFF COMMENTS

The resources are consistent with the Appropriations analysis, staff has no concerns.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 2: INFORMATION TECHNOLOGY SYSTEM DEVELOPMENT WORKLOAD

The Governor's budget requests an increase in expenditure authority of $1.7 million in 2023-24, and $1.6 million in 2024-25, and ongoing from a variety of fund sources and 9.0 positions to augment information technology (IT) staff to meet the department's increased system development workload and to align the Information Technology Office's (ITO) project methodology with the state's recommendations.

BACKGROUND

The Department of Financial Protection and Innovation provides protection to consumers and services to businesses engaged in financial transactions in the State of California. The Department regulates a variety of financial services, products, and professionals consisting of over 400,000 licensees.

Between 2013-14 and 2022-23, along with a continually expanding role in regulating the state's financial sector, the Department's size increased from 582 employees to 804 employees, a 38 percent increase. This expansion started on July 1, 2013, as part of the Governor's Reorganization Plan 2 (GRP2), when the Department of Business Oversight (DBO) was created by merging two existing departments into a single entity. In 2020-21, due to AB 1864 (Limon), Chapter 157, Statutes of 2020, the California Consumer Financial Protection Law (CCFPL), the DBO became Department of Financial Protection and Innovation. The CCFPL, along with SB 908 (Wieckowski), Chapter 163, Statutes of 2020, the Debt Collection Act (DCA), further expanded the Department's mission to include a new Consumer Financial Protection division, with two new programs (Debt Collectors and New Covered Persons); a new Financial Technology Innovation Office; and new Market Monitoring, Consumer Research, Insight and Analytics Office.

As the Department's role has expanded, existing ITO resources have been unable to meet the demand for systems to support the Department's mission.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as Budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

VOTE-ONLY ISSUE 3: SB 1422 IMPLEMENTATION - ACQUISITION OF GOODS AND SERVICES: ALTERNATIVE CONTRACTING PROCEDURES

DGS requests $481,000 in ongoing expenditure authority from the Service Revolving Fund and 3.0 positions, beginning in fiscal year 2023-24, to address workload required to support the implementation of SB 1422 (Hertzberg, Chapter 310, Statutes of 2022) which enables DGS' procurement division to consolidate the needs of multiple state agencies for the installation, and/or purchase of carpet, resilient flooring, synthetic turf, or lighting fixtures.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 4: VARIOUS BILL IMPLEMENTATION: CALIFORNIA BUILDING STANDARD COMMISSION

The Department of General Services, California Building Standards Commission (CBSC) requests a limited-term expenditure authority increase of $535,000 from the Building Standards Administration Special Revolving Fund to fund 1.0 Supervising Architect and 1.0 Associate Architect for three (3) years, beginning in fiscal year 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, DGS requests a one-time augmentation in expenditure authority in fiscal year 2023-24 of $56,000 to reconfigure CBSC's existing office space.

These new statutes require CBSC to research, develop, and propose for adoption building standards for a variety of green initiatives, including consider for adoption specified refrigerant reference standards, EV charging standards for both new construction and existing buildings, uptime reporting for EV charging stations funded by state initiatives, standards for carbon dioxide monitor and minimum ventilation rates, framework for embodied carbon in construction materials, bicycle parking standards that are independent of vehicle parking spaces, barriers to building electrification, and EV charging best practices. Additionally, CBSC requests a one-time augmentation in expenditure authority in 2023-24 of $56,000 to reconfigure CBSC's existing office space, which is already at capacity.

Requested resources will provide additional positions that will carry out the legislative mandates, 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 requirement

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 5: EMERGENCY SERVICES FUNCTION #7 EMERGENCY WORKLOAD SUPPORT

DGS 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 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. Requested resources will provide DGS with permanent staffing to support increased demand for departmental and statewide emergency management functions and enable DGS to fulfill its statutory roles in disaster preparedness, emergency recovery procurement services, and fiscal service.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 6: ENTERPRISE TECHNOLOGY SOLUTIONS INFORMATION TECHNOLOGY WORKLOAD ADJUSTMENT

The Department of General Services, Enterprise Technology Solutions (ETS), requests $2.5 million in one-time authority from the Service Revolving Fund in fiscal year 2023-24, and $2.2 million in ongoing authority from the Service Revolving Fund beginning in fiscal year 2024-25. DGS also requests position authority for twelve (12.0) permanent positions beginning in fiscal year 2023- 24 to enable DGS to comply with existing Cal-Secure requirements of cybersecurity, privacy and data governance.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 7: FACILITIES MANAGEMENT DIVISION POSITION AUTHORITY

DGS' Facilities Management Division (FMD), requests 2.0 permanent positions beginning in fiscal year 2023-24 and ongoing for 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 and does not impact any funds.

STAFF COMMENTS

Staff does not have any concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 8: OFFICE OF ADMINISTRATIVE HEARINGS WORKLOAD ADJUSTMENT

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

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.

SB 2 requires 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.

Finally, the legal cannabis industry is anticipated to undergo significant changes, with a gradual phase-out of provisional cannabis licenses until January 1, 2026, after which provisional licenses will be prohibited and only annual licenses will be issued. DGS anticipates increased workload as part of this transition.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 9: OFFICE OF FLEET AND ASSET MANAGEMENT: FLEET ASSET MANAGEMENT SYSTEM PROGRAM STATE FLEET POLICY AND COMPLIANCE

DGS' Office of Fleet and Asset Management requests $654,000 ongoing authority from the Service Revolving Fund and 4.0 positions to implement a State Fleet Policy Development and Compliance Review program to support the state's accelerated fleet sustainability initiatives. Requested resources will provide positions to develop and implement a statewide fleet policy to ensure the state meets its fleet sustainability goals through fleet rightsizing, ZEV adoption and distribution, and petroleum reduction; ensure that state departments comply with state fleet policies and mandates; and procure a fleet data management and reporting system.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 10: OFFICE OF HUMAN RESOURCES WORKLOAD ADJUSTMENT

DGS' Office of Human Resources Office of Human Resources requests $395,000 in ongoing authority from the Service Revolving Fund and 6 positions to support human resources administrative services. DGS notes that its scope of responsibility and program complexity have expanded broadly in recent years, necessitating additional human resources support. Requested resources will support personnel transactions, customer resources, examinations, labor relations, and special projects within DGS' HR office.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 11: OFFICE OF LEGAL SERVICES INTERNAL WORKLOAD ADJUSTMENT

DGS' Office of Legal Services requests $636,000 in ongoing authority from the Service Revolving Fund and 2.0 permanent positions, which includes 1.0 Attorney IV and 1.0 Assistant Chief Counsel (ACC) beginning FY 2023-24 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, including contract reviews, contract advisory work, and annual bid protests.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 12: OFFICE OF STATE PUBLISHING NEW WAREHOUSE OPERATION

DGS' Office of State Publishing (OSP), requests ongoing expenditure authority of $1.3 million from the Service Revolving Fund beginning in fiscal year 2023-24 to lease and operate a new warehouse facility located in West Sacramento and accommodate an increased supply level critical for print production operations. OSP currently provides services to state, federal, county, and city agencies by providing printing, communication and document management solutions. Printing services include storage, mailing, and marketing solutions. OSP also performs document remediation to ensure accessibility compliance with state and federal standards.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 13: REAL ESTATE SERVICES DIVISION: CALIFORNIA MILITARY DEPARTMENT AND CALIFORNIA HIGHWAY PATROL WORKLOAD

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

Requested resources in this proposal will allow DGS to manage a capital outlay project for CMD's Consolidated Headquarters Campus project, and well as assisting CHP in various property acquisitions for field office projects.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 14: AB 661 AND SB 674 IMPLEMENTATION - RECYCLE PRODUCTS AND HIGH ROAD JOB CONTRACTS IMPLEMENTATION

DGS' Procurement Division (PD) requests $672,000 in ongoing expenditure authority from the Service Revolving Fund, 4.0 permanent positions, and a one-time expenditure authority increase of $100,000 from the Service Revolving Fund, beginning in fiscal year (FY) 2023-24 to address an increasing workload to support the requirements of Chapter 517, Statutes of 2022 (Assembly Bill (AB) 661) and Chapter 875, Statutes of 2022 (Senate Bill (SB) 674).

AB 661 requires CalRecycle and DGS PD to update the list of recycled products subject to Public Contract Code, 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 Leveraged Procurement Agreements 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.

Requested resources will provide positions to conduct additional procurements and conduct research and contract administration for the acquisition of newly identified recyclable products and zero-emission transit vehicles and EVSE.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 15: AB 2974 IMPLEMENTATION – SMALL BUSINESS PARTICIPATION ON INFRASTRUCTURE, INVESTMENT AND JOB ACT CONTRACTS

The Department of General Services (DGS), Procurement Division (PD) requests $162,000 in ongoing expenditure authority from the Service Revolving Fund (SRF) and 1.0 permanent position, beginning in FY 2023-24 to implement Statutes of 2022, Chapter 600 (Assembly Bill (AB) 2974), which requires state agencies and departments to set 25 percent small business (SB) participation goals and report DGS SB participation on contracts funded by the Federal Infrastructure Investment and Jobs Act (IIJA).

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 COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

3100 EXPOSITION PARK

VOTE-ONLY ISSUE 16: ADA COMPLIANCE

The California African American Museum is requesting is requesting $50,000 in 2023-24 and $25,000 ongoing from the Exposition Park Improvement Fund to support legal compliance with the Americans with Disabilities Act. Funding will cover contracting costs to assess the museum's current accessibility and provide recommendations for improving both ADA compliance and provide a roadmap for best practices in the museum with special focus on improving access. Funding is inclusive of future implementation plans, which may include but are not limited to providing closed captions and audio description features for all media on view in the museum and providing a sign-language interpreter for public programs.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 17: CALIFORNIA HIGHWAY PATROL CONTRACT SALARY INCREASE

The Office of Exposition Park Management (OEPM) requests $208,000 ongoing from the General Fund to account for the cumulative 10% general salary increases from the current Bargaining Union 5 contract (2019 – 2023). Bringing the total appropriation from $2,075,000 to $2,283,000 for the inter-agency agreement with the California Highway Patrol (CHP) to continue to provide personnel for public safety support to Exposition Park.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 18: ELECTRONIC PAYMENT ACCEPTANCE FEES AUGMENTATION

The Office of Exposition Park Management (OEPM) requests an ongoing increase of $100,000 from the Exposition Park Improvement Fund for a total appropriation of $200,000 for fees associated with electronic payment acceptance. The original appropriation was established in the 2018 Budget Act. Since then, the Park has seen a significant increase of debit/credit card transactions versus cash payments for parking fees. In addition, service fees for debit/credit card processing have also increased.

STAFF COMMENTS

Staff does not have concerns with this proposal

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 19: PARKING SERVICES MANAGEMENT AUGMENTATION

The Office of Exposition Park Management (OEPM) requests an ongoing increase of $800,000 from the Exposition Park Improvement Fund to support the growing parking needs at Exposition Park. Currently, the OEPM's Parking Services Management has an appropriation $1,000,000 to support parking services. According to OEPM, costs have reached a $1,500,000 threshold. The department has been reallocating funds from its budget (mostly salary savings) to meet the difference, but the department will no longer be able to absorb these costs via budget savings. Additionally, the Park anticipates significant increases to parking services and revenue due to the opening of the Lucas Museum of Narrative Art, the Science Center Samuel Oschin Air and Space Center and the Natural History Museum's Commons project.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

0855 GAMBLING CONTROL COMMISSION

VOTE-ONLY ISSUE 20: TRIBAL VENDOR REIMBURSEMENTS

The California Gambling Control Commission (Commission) requests a one-time transfer from the Gambling Control Fund (GCF) to the Indian Gaming Special Distribution Fund (SDF) of $6,005,000 to reimburse the SDF for the fees and deposits previously collected and deposited into the GCF from Gaming Resource Suppliers (Tribal Vendors). The Commission also requests provisional language to authorize the one-time transfer from the GCF to the SDF.

The Commission and Bureau receive an appropriation from the SDF to support the costs associated with the Tribal Vendor application and background workload. The Tribal Vendors pay application and background fees. As such, the fees received directly from the Tribal Vendors should be deposited into the SDF, not any other funding source, to replenish the initial SDF appropriation. To correct the deposits made into the GCF during FY 2013-14 through November 30, 2022, and to realign the Tribal Vendor fees into the appropriate funding source, approval to conduct a one-time transfer is required.

STAFF COMMENTS

Staff does not have concerns with this technical proposal.

Staff Recommendation: Approve as Budgeted

7501 DEPARTMENT OF HUMAN RESOURCES

VOTE-ONLY ISSUE 21: AB 923 IMPLEMENTATION: TRIBAL CONSULTATION TRAINING

Chapter 475, Statues of 2022 (AB 923) requires the Department of Human Resources (CalHR) to develop training by June 1, 2024, regarding the required elements of government-to-government consultations with California Native American Tribes. It also requires designated state officials to complete the training by January 1, 2025, and for officials appointed after that date to do so within six months of their appointment. All designated officials are required to retake the training annually.

CalHR is requesting $100,000 in General Fund for fiscal year 2023-24 for consulting services for the design, development and delivery of the required training, and $10,000 in General Fund for fiscal year 2024-25 and ongoing for all related annual update activities and ongoing administrative and maintenance functions.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 22: CALHR PRIVACY OFFICER

The Department of Human Resources (CalHR) is requesting 1.0 permanent position and $172,000 ($65,000 General Fund, $71,000 Reimbursement, $22,000 Central Service Cost Recovery, $2,000 Flex, and $12,000 Deferred Comp) for fiscal year 2023-2024, and $165,000 ($63,000 General Fund, $68,000 Reimbursement, $21,000 Central Service Cost Recovery, $1,000 Flex, and $12,000 Deferred Comp) ongoing to establish a dedicated Privacy Officer to develop and manage the department's, policies, procedures, and compliance with California requirements on privacy laws and standards.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 23: PERSONNEL MANAGEMENT DIVISION STRATEGIC WORKLOAD SUPPORT

The Department of Human Resources (CalHR) is requesting 2.0 positions and $428,000 ($256,000 General Fund and $172,000 Central Service Cost Recovery Fund) in fiscal year 2023- 2024, and $412,000 ($246,000 General Fund and $166,000 Central Services Cost Recovery Fund) in 2024-2025 and ongoing to provide the Personnel Management Division workload support. Positions include a staff services manager to lower the manager-to-staff ratio, and a personnel program advisor dedicated to policy project management.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 24: PSYCHOLOGICAL SCREENING PROGRAM ADMINISTRATIVE SUPPORT ADJUSTMENT

The Department of Human Resources (CalHR) is requesting reimbursement authority of $116,000 and permanent position authority to transition 1.0 limited-term position within the Medical and Psychological Screening Division.

The Medical and Psychological Screening Division (MPSD) provides medical evaluations and pre-employment psychological screenings in accord with state law and in accordance with Peace Officer Standards and Training (POST) Commission regulations. The Psychological Screening Program (PSP) conducts psychological screenings which are intended to identify those individuals who because of mental or emotional conditions and/or maladaptive personality characteristics, are unable to perform peace officer duties in a safe and effective manner. In addition, they are responsible for reviewing diagnostic assessment data, psychological history questionnaires and background investigation data, as well as analyzing and summarizing relevant medical and psychological treatment records. These documents are then used by PSP psychologists who schedule face-to-face clinical interviews for each candidate. Based on the oral interviews and review of supporting documentation, a final decision to approve or withhold is submitted.

Recently PSP has undergone efforts to streamline the pre-interview workload process. During this process it was found that files received from hiring departments were incomplete, resulting in duplicative work by PSP staff prior to the interview. To mitigate this duplicative workload, comprehensive file reviews are now being completed by one analyst, upfront to ensure all required documentation is submitted before scheduling the psychological screening interviews. With these implemented changes, PSP is seeing a decline in cancelled interviews of potential candidates. While this process was being evaluated, PSP hired a limited-term person to process candidate files and schedule psychological interviews. CalHR notes that is has become apparent that the workload is ongoing, and that the program would benefit from making this position permanent.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

8955 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS

VOTE-ONLY ISSUE 25: CALIFORNIA CENTRAL COAST VETERANS CEMETERY OPERATIONS

The California Department of Veterans Affairs (CalVet) requests 1 position and $95,000 General Fund in 2023-24 and $89,000 General Fund annually thereafter, to support operational requirements at the California Central Coast Veterans Cemetery.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 26: MINORITY VETERANS UNIT WORKLOAD

The California Department of Veterans Affairs (CalVet) requests 1 position and $156,000 General Fund in 2023-24, and $150,000 annually thereafter to support the Minority and Underrepresented Veterans Division. The Division advocates for approximately 47 percent of the total state veteran population who identify as ethnic minorities, and of that, over 136,000 identify as Lesbian, Gay, Bisexual, Transgender, Queer (LGBTQ) veterans. In the last 11 years, the Division reports that it was unable to carry out sufficient projects or programs that addressed the changing unique needs of minority veterans. Additional staffing will be responsible for personnel management in the Division and alleviate workload.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 27: WOMEN VETERANS UNIT WORKLOAD

The California Department of Veterans Affairs requests 1 position and $156,000 General Fund in 2023-24 and $150,000 annually thereafter to support the Division for Women Veterans Affairs. The additional position will be responsible for the day-to-day supervisor of the Division and evaluate Division programs and data to make program and policy recommendations. The SSM I will identify geographical areas where more targeted outreach is needed for underserved women veterans and their families to ensure rural veterans receive proper advocacy, education, training, and benefits.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 28: WEBSITE DEVELOPMENT TO ENHANCE DIGITAL COMMUNICATIONS

CalVet requests $1,000,000 General Fund in 2023-24 for contractor services to implement a new website and content management system.

In 2014, CalVet implemented a new public website on the Microsoft SharePoint platform. SharePoint On-Premise is entering end of life support. As of September 1, 2024, mainstream support for the platform will end. CalVet notes that any support call will cost additional resources and incident reporting will no longer be included in any licensing program. Additionally, there will be no ability to request non-security patches. CalVet's IT staff do not have sufficient staff to maintain the SharePoint servers.

Requested resources will cover one-time services of a contractor can provide implementation of a new web-based platform. Maintenance and operations will be addressed in a future budget change proposal.

STAFF COMMENTS

Staff does not have concerns with this proposal.

Staff Recommendation: Approve as Budgeted

ITEMS TO BE HEARD

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

The Department of Financial Protection and Innovation oversees financial service providers; enforces laws and regulations, promotes innovation and fair and honest business practices; enhances consumer awareness; and protects consumers by preventing potential marketplace risks, fraud, and abuse. The Department has a budget of $156.8 million with 845 authorized positions.

ISSUE 1: RESOURCES FOR EXAMINATION WORKLOADS

The Governor's budget includes two requests for resources to address growth at the Department for examinations workloads related to the Residential Mortgage Lending Act and Escrow law. This item discusses both requests.

PANEL

- Sophia Smith, Deputy Commissioner, Administration, Department of Financial Protection and Innovation
- Nicole Hisatomi, Deputy Commissioner, Legislation, Department of Financial Protection and Innovation
- Jared Sippel, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Amy Asencio, Finance Budget Analyst, Department of Finance
- Charlene Manning, Principal Program Budget Analyst, Department of Finance

BACKGROUND

1. **California Residential Mortgage Lending Act Examination Workload.** The Governor's Budget includes 8 positions and $1,839,000 in 2023-24, and $1,753,000 ongoing to address growth in loan volume and licensee locations, additional examination hours necessary to comply with pandemic anti-foreclosure efforts, and changes to federal regulations that drive state-level workload associated with carrying out the California Residential Mortgage Lending Act (CRMLA).

2. **Escrow Law Examination Workload.** The Governor's budget includes 5 positions and $1,127,000 in 2023- 24 and $1,072,000 ongoing to address growth in licensee locations and consumer funds managed, expand internet escrow services, reduce examination backlog, and assist in carrying out the statutory requirements of the California Escrow Law.

1. The Department's CRMLA Program is responsible for protecting California's mortgage borrowers by monitoring the safety and soundness of mortgage lenders and servicers through a comprehensive program of regulatory oversight and on-site examinations of licensees. The CRMLA program conducts examinations to identify all levels of improper business practices that could result in fee overcharges, unnecessary foreclosures practices and to verify that borrowers did not experience any level of consumer harm.

   The Department regulates residential mortgage lenders and servicers under the CRMLA. The CRMLA requires the Department to examine each CRMLA licensee at least once every 48 months, or as the Commissioner deems necessary and appropriate. Licensees with a history of noncompliance with CRMLA may be examined more often as a special examination. To maintain Department accreditation with the Conference of State Bank Supervisors (CSBS), the CRMLA program must maintain examination review of all our licensees.

   According to the Department, the mortgage origination industry has experienced continued growth over the past two years. In 2020, at the start of the pandemic, home prices increased which provided homeowners a significant amount of equity, while the lending rates were low. This caused a record high number of refinances in the California mortgage industry market.

   Workload history shows the number of CRMLA licensees increased by 6 percent between 2017-18 and 2021-22, from 409 to 432. In addition, the total number of branch locations has increased by 25 percent between 2017-18 and 2021-22. According to the Department, this is important to note as exams are conducted based on the number of branch locations and volume of branch activities. While the industry has grown and prospered during the past three years, program resources were not increased to meet rising operational needs. As a result, program continued to conduct the examination process without performing special examinations which would concentrate on the licensees' risk portfolio or conducting business outside of current regulatory processes, thus not adhering to federal laws and practices.

2. The Department's Escrow Law Program is responsible for administering the Escrow law. The program administers the escrow law and regulations by licensing and examining escrow licensees which are the central hub for real estate or personal property transactions. The program also provides services to the public such as guidance for businesses seeking escrow licensure in California, educating the public about escrow processes, and assisting consumers in resolving complaints against escrow licensees.

The escrow industry has experienced steady growth over the past few years. Since the COVID-19 pandemic began, a variety of factors in the real estate market, such as low interest rates and limited housing supplies in California, have created growth in the escrow industry. In 2019, the consumer funds managed by the industry were approximately $23 billion. In 2020 and 2021, the funds grew to approximately $26 billion and $36.2 billion respectively, a 57 percent increase over the last two years.

During the first half of 2022, there were signs of market adjustments in real estate due to inflation and rising interest rates. However, there are currently no signs that housing supplies will outpace demands in the very near future in California. While the refinance boom is expected to subside due to increasing mortgage interest rates, the passing of the new California Accessory Dwelling Unit (ADU) law in 2021 is expected to stimulate the construction of ADUs and create opportunities for the escrow industry to service ADU escrow transactions.

STAFF COMMENTS

1. According to the Department, at the start of the pandemic, home prices increased which provided homebuyers a significant amount of equity, while the lending rates were low. This resulted in a record high number of refinances in the California mortgage industry market. These resources will allow the Department to protect consumers by ensuring that residential mortgage lenders are complying with state and federal laws.

2. Similar to the mortgage industry, the escrow industry has grown since the start of the pandemic. The Subcommittee may wish to ask the Department to comment on how resources will address diversification licensing issues?

Staff Recommendation: Approve as budgeted.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The Governor's Office of Business and Economic Development (GO-Biz) provides a single point of contact for economic development, business assistance and job creation efforts. The GO-Biz works with companies and organizations across the nation to market the benefits of doing business in California, recruit new businesses, retain businesses, and support private sector job growth. The GO-Biz serves as the Governor's lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, economic growth, export promotion, permit assistance, innovation and entrepreneurship.

The GO-Biz proposed budget for 2023-24 is $426.9 million with 168.3 authorized positions.

ISSUE 2: ADDITIONAL STAFFING

The Governor's budget requests an increase of 15 positions through three budget change proposals in the Administrative Services Division, California Business Investment Services and International Trade. This item will address all three proposals.

PANEL

- Lauren Greenwood, Deputy Director of Legislation, Governor's Office of Business and Economic Development (GO-Biz)
- Chris Dombrowski, Chief Deputy Director, GO-Biz
- Emily Desai, Deputy Director of International Affairs and Trade, GO-Biz
- Kaina Pereira, Senior Advisor for Business Development, GO-Biz
- Brian Uhler, Deputy Legislative Analyst: Economy, Taxes, and Labor, Legislative Analyst's Office
- Charles LaSalle, Finance Budget Analyst, Department of Finance
- Emma Jungwirth, Assistant Program Budget Manager, Department of Finance

BACKGROUND

1. **Administrative Services Division.** The Governor's budget includes 7.0 positions and $955,000 ongoing to support the increased workload for the Administrative Services Division.

   The number of permanent GO-Biz programs is now 67 percent greater than it was five years ago; GO-Biz ran 18 ongoing programs in 2017-18 and runs 30 ongoing programs in 2022-23. GO-Biz's 12 recently-added permanent programs reflect a wide range of policy aims and program designs.

Administrative Services is already experiencing service delays and drops in service quality because of recent increases in GO-Biz's overall responsibilities and programmatic structure. To address and prevent service issues, and thus avoid program implementation issues, GO-Biz has planned and begun implementing a two-year reorganization of Administrative Services.

In late 2021-22 and early 2022-23, GO-Biz began the reorganization by overhauling the HR Team. This involved hiring a new position provided in the 2022 Budget Act; reclassifying 3.0 positions; and redirecting 1.0 position from elsewhere. The result is a substantial expansion of GO-Biz's HR expertise and capacity. The focus now is on Business Services, IT, and division-wide management. In 2022-23, for example, GO-Biz is expanding capacity for Business Services by reclassifying 1.0 position and hiring 2.0 limited-term positions and, in 2023-24, GO-Biz plans to further expand Business Services capacity by reclassifying 2.0 additional positions.

This request is for 7.0 permanent positions, 2.0 of which already exist as limited-term Business Services staff. The total ongoing cost of funding these 7.0 positions and of reclassifying 7.0 additional positions (4.0 for HR and 3.0 for Business Services) is $1.4 million. GO-Biz has identified internal cost savings and redirected internal funding to cover $408,000, or 30 percent, of this total amount. GO-Biz also plans to cover the cost of 1.0 new position (the CEA position) and all costs associated with reclassifying the HR and Business Services Teams. However, GO-Biz does have not have the additional resources necessary to support the other needed positions. Therefore, GO-Biz requests $955,000 ongoing General Fund, which is needed to cover 6.0 of the requested positions. Combined, these organizational changes will add much-needed capacity and stability

2. **California Business Investment Services.** The Governor's budget includes resources for the Business Investment Services (CalBIS) including 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.

   Existing law requires CalBIS to fulfill three cross-cutting, high-level responsibilities. The first is providing services to employers, corporate executives, business owners, and site location consultants interested in investing or locating within California. The second is creating and implementing 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. The third is working 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.

   In 2019, the Administration launched Regions Rise Together, supported by GO-Biz, OPR, and the Labor and Workforce Development Agency (LWDA). The initiative focused on learning from inland California about their economic development needs and supporting capacity building exercises to increase investment and resources into regions such as the North State, Central Valley. Central Coast and Inland Empire. The COVID-19 Pandemic presented challenges, but through CERF and other initiatives the Administration remains focused on addressing California's geographically uneven economic development.

In recent years, both the Administration and the Legislature have also fostered a new emphasis on making sure business and economic development is inclusive across historically disadvantaged groups and communities. The 2022 Budget Act included $20 million one-time for allowing the Inclusive Innovation Hubs (I-Hubs) program, which is overseen by the California Office of the Small Business Advocate (CalOSBA) within GO-Biz, to expand to 13 regions in alignment with CERF. It also included $25 million one-time General Fund to allow CalOSBA to establish the California Regional Initiative for Social Enterprises. Both investments are intended to help make business and economic development more inclusive.

The BIS team currently helps leverage these and other investments aimed at inclusive growth by linking specific entrepreneurs, businesses, and investors with CalOSBA and by developing local and regional development strategies designed to leverage as many existing and forthcoming state and federal resources as possible.

In response to hiring and retention challenges faced by the BIS team, CalBIS is currently reorganizing the team's classification structure. Completing the planned reorganization requires new forms for authority to adjust the appointee positions as well as additional resources to cover the minor cost increases associated with these position changes.

3. **International Trade Workload.** The Governor's budget includes $327,000 ongoing (General Fund) and 2 positions to address increased workload for the International Affairs and Trade Unit resulting from the State Trade Expansion Program (STEP) and from an increasing number of businesses seeking assistance from the Unit.

California is a major player in global trade. In 2021, state exports totaled $175 billion and reached 225 countries and territories around the world, helping ensure that California remains the largest state exporter in the United States for 26 industries, including agriculture. The size and diversity of California trade means that the state's social and economic strength depends on the success of exports and imports. Across all industries, one in four California jobs are estimated to be rooted in trade activity and, in agriculture, 114,000 jobs are supported by California exports.

In recent years, however, trade disputes, the COVID-19 pandemic, and other dynamic factors have made it increasingly difficult to maintain global competitiveness. California's share of the nation's merchandise export trade in November remained well below pre-pandemic levels, according to a Beacon

Economics' analysis of U.S. trade statistics released this morning by the U.S. Census Bureau. The state's share of the $170.691 billion in U.S. merchandise exports in November 2022 was 8.6%, down from an 8.7% share in October. In November 2021, the state accounted for 9.5% of all U.S. merchandise exports. In pre-pandemic 2019, California's share was as high as 10.7%. At the same time, 39 other states have seen higher rates of export growth through the first eleven months of 2022.

The International Affairs and Trade Unit began with 3.0 permanent staff; added 3.0 permanent staff in 2019-20; and added another 1.0 permanent staff and 2.0 limited-term staff in 2021-22. The need for 1.0 limited-term staff stemmed from an agreement in which GO-Biz and CDFA transferred the administration of the State Trade Expansion Program (STEP)—which is funded by federal grants via a competitive process that is repeated every year—from CDFA to the GO-Biz International Affairs and Trade Unit. The need for the other 1.0 limited-term staff stemmed from a combination of STEP-related workload and growing demand among California small businesses and other external partners for more and better contacts, services, and networking opportunities.

The additional positions will enable GO-Biz to address new and ongoing international trade workload; leverage federal State Trade Expansion Program funds and implement a long-standing statewide federal program; expand California's ability to draw down additional federal funds and benefit more California agricultural businesses.

LAO COMMENTS

International Trade Workload Comments:

Some Increased Workload for the Unit in Recent Years…GO-Biz offers some evidence of increased workload for the unit in recent years. GO-Biz is now fully responsible for administering STEP, whereas California Department of Food and Agriculture previously had been the primary administrative agency. GO-Biz also reports that a notable uptick in external inquires to the unit started in 2016. As shown in the table below, after an initial ramp up, inquires seemed to level off leading into 2020. The unit experienced a temporary surge in 2020, but inquires have now return to pre-2020 levels.

Table 2: Customer Service Tickets Address by GO-Biz International Affairs and Trade

2016	2017	2018	2019	2020**	2021	2022
5	158	97	67*	418	150	107

…But Also New Staff. Commensurate with the apparent rise in interest in the services of the unit, GO-Biz received 3 new permanent staff for the unit as part of the 2019-20 budget.

Recommend Approving One Position. Given the transition of the STEP, the requested position related to this program's administration appears justified. However, GO-Biz has not provided adequate evidence of an incremental increase in workload for the unit since 2019-20 that would justify additional staff beyond the 2019-20 increase. We, therefore, suggest rejecting the other proposed position.

STAFF COMMENTS

1. Absent mention in the above BCPs are workload issues associated with the GO-Biz Energy Unit authorized in the 2021 Budget. This Unit was authorized to accelerate planning, financing, and execution of critical energy projects for the State. In various reports, the Administration has cited that work by this unit includes facilitating the Tracking Energy Development interagency task force and working with local governments to reduce permitting delays. The Subcommittee may wish to ask GO-Biz for specifics on successful outcomes achieved by the Energy Unit to date and its staff resource sufficiency.

2. For the CalBIS BCP, the Subcommittee may wish to ask GO-Biz how the additional positions will address the hiring and retention challenges at CalBIS. Additionally, the Subcommittee may wish to ask why the resources are ongoing versus limited term?

3. For the International trade BCP, the Subcommittee may wish to ask Go-Biz to comment on the workload justification for the positions.

Staff Recommendation: Hold Open.

ISSUE 3: LEGISLATIVE RESOURCES

This item will cover two budget changes proposals to implement bills that were enacted during the 2022 legislative year. Together these requests include an increase of 7.0 positions.

PANEL

- Lauren Greenwood, Deputy Director of Legislation, GO-Biz
- Tara Lynn Gray, Office of Small Business Advocate, GO-Biz
- Gia Vacin, Deputy Director of Zero Emission Vehicle Market Development, GO-Biz
- Brian Uhler, Deputy Legislative Analyst: Economy, Taxes, and Labor, Legislative Analyst's Office
- Charles LaSalle, Finance Budget Analyst, Department of Finance
- Emma Jungwirth, Assistant Program Budget Manager, Department of Finance

BACKGROUND

1. **California Office of the Small Business Advocate Procurement Reporting Team (AB 2019).** The Governor's budget includes $391,000 ongoing (General Fund) and 3.0 positions to implement AB 2019 (Chapter 730, Statutes of 2022).

   Before AB 2019, CalOSBA was required to provide an annual report to the Governor and Legislature detailing program activities and potential small business-related recommendations. There were no requirements that CalOSBA provide detailed or comprehensive information on the procurement practices of any or all state agencies.

   AB 2019 now requires:
   - All state agencies with $100,000 or greater in annual contracting expenditures must have a designated small business advocate. (The Department of General Services is currently tracking at least 250+ such agencies.)
   - Small business liaisons/advocates must develop an "economic equity first" action plan to ensure disadvantaged small businesses have access to the agency's procurement process.
   - CalOSBA must expand its annual report to include 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.

- CalOSBA must also expand its annual report to include information on state agency compliance and implementation of “economic equity first” action plans and policies.
- All state agencies (meaning the 250+ agencies identified by DGS) must provide information on their equity plans and activities to CalOSBA upon request.

The result is that CalOSBA must provide new and substantially higher levels of service to fulfill statutory annual reporting requirements, including by pursuing extensive research, review, and collaboration across hundreds of state agencies and by documenting a range of new metrics.

2. **Zero Emission Vehicle Market Development Workload and Zero Emission Vehicles Equity Advocate (SB 1251).** The Governor’s budget includes 4.0 positions and $764,000 (Air Pollution Control Fund) in 2023- 24 through 2027-28, and $534,000 in 2028-29 and ongoing (Air Pollution Control Fund) to address increased workload, implement SB 1251 (Chapter 372, Statutes of 2022), contract with outside specialists to conduct market research and stakeholder engagement, and support a ZEV Equity Advocate position established in SB 1251.

   One position for SB 1251 for the ZEV Equity Advocate within GO-Biz. The ZEV Equity Advocate will conduct day-to-day activities, at the ongoing direction of the Deputy Director of ZEV Market Development, that include integrating equity principles and actions into ZEV market development activities.

   .

   Two Staff Services Managers to conduct day-to-day activities, at the ongoing direction of the Deputy Director.

   One Staff Services Analyst to conduct day-to-day activities, at the ongoing direction of the Deputy Director and in coordination with the SSM1s, that include: supporting the coordination of region-wide economic recovery activities of stakeholders representing federal, state, regional, and local governments, as well as interested parties such as industry groups, providing dedicated cross-unit administrative support to ZEV Market Development, Climate & Clean Energy, Sustainable Freight & Goods Movement, and Senior Advisor of Clean Infrastructure and Mobility.

   $100,000 for the ZEV Unit ongoing (General Fund) for external contracting services. The ZEV Team is routinely tasked with responding quickly and decisively to unexpected developments or sudden shifts in expected developments. The 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.

STAFF COMMENTS

1. The resources included in the BCP to implement AB 2019 are lower than the resources estimated in the Appropriation analysis as the bill was moving through the policy process. The Subcommittee may wish to have Cal-OSBA comment on the costs.

2. On SB 1251, when does GO-Biz expect to complete the required ZEV equity action plan and will that require an update to the ZEV market development strategy? How does GO-Biz work with other departments with expertise in ZEVs when creating the market development strategy? Is Go-Biz duplicating work already in this space?

3. GO-Biz is requesting $100,000 for the ZEV unit for external contracting, the Subcommittee may wish to ask GO-Biz how often they are currently using external contracting?

4. Given the role GO-Biz has assumed as interagency coordinator on ZEV market development and ZEV equity, when GO-Biz produces the mandatory ZEV equity action plan, how will GO-Biz compare success and identify duplication between actions by different state agencies, as currently reported to GO-Biz in their action plan reports?

5. When GO-Biz assesses statewide progress toward the ZEV equity action plan across so many varying programs by different agencies and departments, how will GO-Biz produce metrics, as well as quantify funding levels, vehicles and infrastructure deployed, and communities served (including DACs and low-income communities) when some are administered by third parties (e.g. utilities) or only indirectly incentivize or induce activity? Likewise, how will GO-Biz assess with metrics how multi-year funding programs are targeting DACs with severe air pollution, that lack EV infrastructure, EVs, or transit?

6. What is GO-Biz's plan, in producing the ZEV equity action plan, to partner with community organizations, local entities, and other relevant public and private stakeholders?

Staff Recommendation: Hold Open.

ISSUE 4: CALIFORNIA COMPETES GRANT PROGRAM

The Governor's budget includes $120 million one-time (General Fund) for a third year of funding for the California Competes Grant Program.

PANEL

- Scott Dosick, Deputy Director for CalCompetes, GO-Biz
- Kaina Pereira, Senior Advisor for Business Development, GO-Biz
- Brian Uhler, Deputy Legislative Analyst: Economy, Taxes, and Labor, Legislative Analyst's Office
- Peter Abahazi, Finance Budget Analyst, Department of Finance
- Colby White, Principal Program Budget Analyst, Department of Finance

BACKGROUND

In 2014, GO-Biz launched California Competes (CalCompetes) as a tax credit. The credit incentivizes businesses to move to California and to stay, grow, and create quality full-time jobs here, and it 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 both the 2021 and 2022 Budget Acts, GO-Biz received $120 million one-time General Fund to support the CalCompetes Grant program as a way of supporting additional firms and making the State even more competitive. 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.

According to GO-Biz, the additional funding will focus on three goals:

1. **Benefit Companies that cannot receive the tax credit.** The CalCompetes Grant program benefits two types of businesses: (1) companies that reinvest profits into their business, generating either significant research and development tax credits and/or net operating losses resulting in little to no tax liability; and (2) startups with little to no tax liability. The CalCompetes Tax Credit is non-refundable. If a business earns a credit (by achieving its contractual milestones) in a particular tax year and the earned credit exceeds the business' current year tax liability, then the business receives no immediate benefit from the excess credit, but the excess credit can be carried forward to offset taxes in six subsequent tax years. The CalCompetes Grant program thus provides an immediate infusion of capital.

2. **Grow the Semiconductor Industry by leveraging federal funds.** California is home to roughly 45,000 semiconductor jobs and almost half of the country's 1,300+ semiconductor companies. A recently approved federal law creates a new federal framework for supporting the development and/or expansion of facilities for testing, manufacturing, and developing semiconductors, and makes obtaining federal incentives contingent on receiving state incentives. Businesses interested in leveraging these federal incentives currently have options emerging in other states but no direct state-level incentives in California. The 2022 Budget Act added language to prioritize CalCompetes Grant program funds for semiconductor manufacturing and research and development and made changes to allow potential applicants to leverage the incentives to seek and obtain federal incentives.

3. **Promote equity by recruiting firms from States that restrict reproductive and/or LGBTQ+ civil rights.** The 2022 Budget Act added language to allow GO-Biz to consider whether an applicant to the Grant program was proposing to relocate to California from a state that restricts reproductive and/or LGBTQ+ rights. However, these provisions are not effective until 2023-24.

STAFF COMMENTS

1. The Subcommittee may wish to ask GO-Biz to explain what the benefits to the state are with the grant program over the tax credit?
2. The grant program creates a defacto "refundable credit" for Cal Competes by allowing business with no tax liability to receive grants. The Subcommittee may wish to ask GO-Biz how they ensure that they hold companies accountable for five years and what mechanisms GO-Biz has to claw back grant funding through the grant program?
3. A recent article Bay Area tech layoffs widen with cuts by chipmaker and streaming titan (mercurynews.com) discusses tech jobs leaving the bay area and cutting jobs Does Go-Biz believe that the grant program with the goal of attracting the semiconductor industry will keep these jobs in CA?
4. How does Go-Biz determine the amount of the grants and how do they spread the awards of these grants to economically disadvantaged parts of the state?
5. What businesses does Go-Biz believe it will bring to California with their objective to promote equity?
6. Since the last two grant rounds for a total of $240 million have only been awarded to 15 companies – how will the goals outlined by GO-Biz be evaluated? Does Go-Biz envision that all the awards will got to semiconductor businesses in order to draw down federal funding?

Staff Recommendation: Hold Open

ISSUE 5: MADE IN CALIFORNIA PROGRAM

The Governor's budget includes $1.534 million (General Fund) and statutory changes in 2023-24, to be spent over three years, to pilot the implementation of Made in California Program (CA Made).

PANEL

- Tara Lynn Gray, Office of Small Business Advocate, GO-Biz
- Brian Uhler, Deputy Legislative Analyst: Economy, Taxes, and Labor, Legislative Analyst's Office
- Charles LaSalle, Finance Budget Analyst, Department of Finance
- Emma Jungwirth, Assistant Program Budget Manager, Department of Finance

BACKGROUND

Established in 2013 by Chapter 541, Statutes of 2013 (SB 12), CA Made aims to support in-state manufacturing by increasing consumer awareness of in-state production.

Since launching in 2016, CA Made has remained underutilized and inaccessible for most businesses that might be interested in participating. GO-Biz advertised the program, conducted community outreach and engagement, and established a website (www.camade.ca.gov), but interest remained low. To date, two firms have applied for the CA Made certification; both received approval.

Focus groups conducted soon after the launch of CA Made revealed that firms were deterred by the third-party certification requirement and the potential of on-site visits. Surveys conducted in 2019 also clarified that the costs and complexity of certification—which have been $1,800 to secure third-party certification, plus travel fees—remain barriers to participation. The requirement that certified businesses be able to align with Made in U.S.A. standards is also a barrier. Global supply chains make it hard for California-based firms to pay for and/or track their own production process to ensure that 90 or 95 percent is based in the United States.

LAO COMMENTS

Prior Efforts Unsuccessful. GO-Biz launched CA Made in 2016. Since then, two businesses have applied for CA Made certification. GO-Biz attributes this lack of interest to the fact that the program requires third-party certification that products are actually made in California.

GO-Biz Proposes to Loosen Certification Requirements. To address apprehension about third-party certification, GO-Biz proposes to allow businesses to self-attest that their products meet program standards. 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.

Given State Budget Situation, Now Not a Good Time to Pursue Unproven Ideas. 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. Given the state's budget situation, we do not think now is an appropriate time to allocate funds for this purpose.

STAFF COMMENTS

The Subcommittee may wish to ask GoBiz the following:

1. What is the value of CA Made program? Why is Go-Biz seeking to relaunch the program this year?
2. Will loosening the requirements of CA Made really equate a true CA Made product?

Staff Recommendation: Hold Open.

7760 DEPARTMENT OF GENERAL SERVICES

OVERVIEW

The Department of General Services is the state department responsible for providing a variety of services to other state entities. These services include procurement, acquisition solutions, real estate management and design, transportation and fleet management, professional printing, design and web services, administrative hearings, legal services, oversight of structural, fire, and life safety, and more.

The subcommittee will receive an update on the state's telework policies enacted during the pandemic, as well as review various budget change proposals in the areas of housing, facilities, maintenance, sustainability efforts, and procurement.

ISSUE 6: UPDATE ON STATE TELEWORK POLICIES

This subcommittee will receive an update on the state's telework policies that were enacted during the COVID-19 pandemic.

PANEL

- Jacqueline Campion, Chief Financial Officer, Department of General Services
- Ann Baaten, Chief, Telework Compliance Unit, Department of General Services
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Jared Sippel, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

The COVID-19 pandemic pushed California to adopt telework policies for state employees. In March of 2020, Governor Newsom declared a state of emergency in response to the COVID-19 pandemic. To limit the spread of the virus in state offices and operations, the administration directed all non-essential telework eligible staff to transition to telework as a public health protective measure.

Although existing law provides a framework for telecommuting, the pandemic brought additional challenges to set up remote work environments at a statewide scale – including tracking staff, equipment, monitoring operational impacts, and ensuring employees understood telework responsibilities when working from home.

Revised Statewide Telework Policy. In October of 2021, the Administration introduced a revised Statewide Telework Policy (also known as State Administrative Manual Section 181), which established broad goals and directives for telework policies. Generally, it allowed individual state departments and agencies to design their own telework policies, as long as they complied with the statewide standards. This approach enables departments and agencies to tailor their telework policies to their specific needs, while adhering to the broader goals and directives established by the Administration.

The goals of the Statewide Telework Policy include:

- Encourage participation of eligible employees;
- Reduce required state office space;
- Improve employee retention and recruitment;
- Maintain or improve employee productivity;
- Reduce state environmental impacts, such as traffic congestion;
- Maintain or improve customer service.

When creating telework policy, state departments and agencies must follow, among other items, the following directives:

- Consider telework for all positions in which telework can promote effective and efficient business operations. This includes analyzing which positions do not require physical or public presence, nature of work performed, or impact on ability to provide customer service.

- Establish a Telework Coordinator, responsible for developing, reviewing, and retaining telework agreements with each state employee. Telework agreements must document the arrangement with each teleworking employee with management.

- Establish department-specific technology policies, such as standards for communication and collaboration tools, security requirements for state-owned and employee-owned computers, and data protection.

Available data to date. DGS has created a State Hybrid Workforce Dashboard capturing various telework metrics in state government. As of January 2023, 104 state departments and agencies have provided data, representing 188,975 state staff (of note, there is a total of 142 state departments and agencies and a total of approximately 232,934 state employees).

Of the data contributed by state departments and agencies, as of January 2023, it is estimated that:

- 49.3% of employees are **not eligible** for telework
- 38.7% of employees are **remote-centered** (teleworking more than half of the working day)
- 8.2% are **office-centered** (teleworking less than half of the working day)
- 3.8% are eligible for teleworking but **choose not to**.

DGS' dashboard also provides datapoints on the benefits of teleworking. Information includes savings in driving distance and driving time, savings on vehicle expenses and gas. A snapshot of January 2023 data as provided by the dashboard is included below. Of note, cumulative savings are based on submitted data since October 2021.

Teleworker Average Savings for Jan 2023	Monthly Savings Estimates for Jan 2023		Cumulative Savings Estimates	
34.9 miles Daily driving distance	51,900,000 miles Commutes saved	$30,400,000 Vehicle expenses saved	447,000,000 miles Commutes saved	$261,000,000 Vehicle expenses: total
52.0 minutes Daily driving time	1,290,000 hours Time saved in hours	$9,700,000 Vehicle expenses: gas	17,942.2 times Around the Earth	$100,000,000 Vehicle expenses: gas
$353 per month Vehicle expenses: total	53,800 days Time saved in days	18,918 metric tons CO2 avoided	935.1 times Round trips to the Moon	18,300,000 gallons Gas saved
$113 per month Vehicle expenses: gas	2,130,000 gallons Gas saved		11,200,000 hours Time saved in hours	162,726 metric tons CO2 avoided
			1,279.0 years Time saved in years	211,333 acres/year Carbon absorbed by US forest

Teleworking and Office Space. With a wider adoption of teleworking policies across state departments, the Administration has identified opportunities to save on rent and building leases. The Governor's budget states that the Administration is working with 40 state departments to consolidate space across 132 individual leases, resulting in 1.16 million square feet of office space relinquished and annual savings of approximately $35 million. These savings are primarily achieved by reducing leased spaces without incurring termination penalties, or consolidating spaces due to telework reducing the need for physical offices.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) With the COVID-19 state of emergency ending, what is the Administration's long-term goal for its statewide teleworking policy? For example, will the focus be on encouraging broader adoption of telework, or push for a return to physical office spaces?

2) What are the estimated cost-savings that have been achieved by reducing or consolidating state leases? Is there ongoing analysis, or future planned efforts, to further reduce or consolidate state leases?

3) Will all state departments and agencies eventually report their teleworking data to DGS?

Staff Recommendation: This item is presented for information only.

ISSUE 7: HOUSING INITIATIVES

The subcommittee will review three budget change proposals and a trailer bill related to various housing initiatives under DGS.

PANEL

- Jacqueline Campion, Chief Financial Officer, Department of General Services
- Jim Martone, Chief, Asset Management Branch, Real Estate Services Division, Department of General Services
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Jared Sippel, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

BCP 1: AB 2592 Implementation: Adaptive Reuse of Underutilized State Buildings
The Department of General Services' Real Estate Services Division/Asset Management Branch requests $1 million in one-time expenditure authority from the General Fund in order to expand affordable housing development and adaptive reuse opportunities. Requested resources will be used to complete the report mandated by AB 2592 (McCarty, Chapter 439, Statutes of 2022). AB 2592 requires DGS 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 generally refers to reusing or redeveloping an existing building for a purpose other than which it was originally build or designed for. In recent years, and in the context of DGS, adaptive reuse has focused on transforming office spaces into housing. Opportunities for adaptive reuse increased as telework reduced the state's need for physical office space.

DGS is finalizing an assessment tool to conceptually evaluate a building's suitability for adaptive reuse as housing. This assessment tool 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. However, adaptive reuse is not feasible in all office buildings. While DGS has an understanding of the likely impacts of telework to its office building portfolio, not all buildings that may be subject to vacating could be suitable for housing. According to DGS, an analysis of the buildings for suitability is necessary to not only decide whether adaptive reuse is possible, but to help inform which buildings to prioritize or select for disposal.

Requested resources will fund consultant studies for additional state buildings for potential adaptive reuse as housing. Per AB 2592, these studies would be incorporated for the Legislature detailing a streamlined plan to transition underutilized multistate state buildings into housing.

BCP 2: SB 561 and AB 2233 Implementation: State Surplus Property, Digital Inventory, Affordable Housing

DGS requests $516,000 in one-time expenditure authority from the General Fund and 1.0 permanent position in fiscal year 2023-24, and $316,000 in ongoing expenditure authority from the General Fund beginning in fiscal year 2024-25 to implement bills related to state surplus property and affordable housing.

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 (Dodd, Chapter 446, Statutes of 2022) and AB 2233 (Quirk-Silva, Chapter 438, Statutes of 2022) 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.

BCP 3: Real Estate Services Division Affordable Housing Development Program Funding

DGS requests $1.1 million in ongoing authority from the Property Acquisition Law Money Account beginning in fiscal year 2023-24 to continue funding efforts to lease excess state property to affordable housing developers for the development of affordable housing.
In 2019, the Governor directed DGS to conduct a comprehensive survey of all state-owned land, identify properties not currently needed by the state, and offer those properties suitable for affordable housing for long-term lease. DGS subsequently redirected real estate personnel from other functions and reviewed more than 44,000 parcels of state property. As a result, 92 properties suitable for affordable housing were identified and declared excess. As of March 2022, DGS has offered 16 properties for long-term lease, which is estimated to provide more than 5,000 units of affordable housing to Californians. An additional 76 properties have not been offered yet to developers due to staffing constraints.

DGS outlines some of the costs of developing housing on state-owned property: 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 real estate transaction (multiple agreements, including Exclusive Negotiating Agreements, Lease Options, Ground Leases, and Regulatory Agreements) need to be drafted, executed, and enforced. While existing staff have been redirected to support the program, DGS anticipates the for need additional operating funds. For example, $380,000 will be needed annually, due to the addition of two new Senior Real Estate Officers, and DGS expects the need for an additional $400,000 annually to study and implement adaptive reuse projects and address simple site cleanups for environmental conditions.

Trailer Bill: Real Estate Services Division Affordable Housing Development Program Funding

Related to the budget change proposal above, DGS is requesting trailer bill language that would allow DGS to deposit net proceeds from real property disposition (sale, lease, exchange) into the Property Acquisition Law Money Account for the purposes of maintaining an operating reserve sufficient to continue redeveloping excess state properties as affordable housing. The trailer bill defines sufficient operating reserve as an amount not to exceed three years of operating costs. DGS notes that this translates into a $4.5 million-dollar operating reserve, which will provide the necessary funding for DGS Asset Management Branch staff, including two positions that were approved in fiscal year 2022-23; internal and external consultant support; environmental assessments and remediation; and ongoing expenses.

Budget Requests Under Consideration

- The subcommittee has received a budget request from the Office of Assemblymember Haney that would allocate $400 million to create and fund the Office-to-Housing-Act. The proposal would automatically approve office-to-housing conversions, as specified.

- The subcommittee has received a budget request from the Office of Assemblymember McCarty that would allocate $15 million General Fund to support the DGS Adaptive Reuse planning process for 73 buildings and an ongoing review process for state-owned properties.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) DGS notes that it has conceptually evaluated various sites for adaptive reuse options and has found very few to be suitable. What are the primary barriers preventing office spaces from being transformed into housing units?

2) DGS has identified 76 additional state properties that could be offered to developers for housing development. If the resources requested were authorized, what is DGS' anticipated timeline to act on those excess sites?

Staff Recommendation: Hold Open

ISSUE 8: FACILITIES BUDGET PROPOSALS

The subcommittee will review two budget change proposals related to the new Richards Boulevard Office Complex.

PANEL

- Jacqueline Campion, Chief Financial Officer, Department of General Services
- Jim Martone, Chief, Asset Management Branch, Real Estate Services Division, Department of General Services
- Jemahl Amen, Deputy Director, Facilities Management Division, Department of General Services
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Jared Sippel, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

BCP 1: Sacramento Region: New Richards Boulevard Office Complex

The Department of General Services requests $402,000,000 General Fund to pay a portion of expenditures for the design-build phase of the Richards Boulevard Office Complex.

The Richards Boulevard Office Complex is the 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.

BCP 2: Facilities Management Division New Buildings Operations and Support

The Department of General Services (DGS), Facilities Management Division (FMD), requests $22.4 million in fiscal year 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 fiscal year 2024-25 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.

Of note, DGS does not currently operate or maintain the CalEPA building; however, jurisdiction of the building is expected to transfer to DGS in May 2023, until which time DGS will work closely with the current building managers and tenants in preparation to assume operations. Requested funding will provide DGS with appropriate resources to provide full-service operations and maintenance in both buildings.

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 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 COMMENTS

The subcommittee may wish to ask the following questions:

1) Given the budget shortfall, why has the administration decided to pay the remaining Richards Boulevard Office Complex' expenditures with General Fund instead of bond financing?

2) What is DGS' methodology to determine the appropriate level of staffing to manage and operate large buildings like the CalEPA building or the Richards Boulevard Office Complex?

Staff Recommendation: Hold Open

ISSUE 9: OFFICE OF SUSTAINABILITY BUDGET CHANGE PROPOSALS

The subcommittee will review two budget change proposals under DGS' Office of Sustainability.

PANEL

- Jacqueline Campion, Chief Financial Officer, Department of General Services
- Matt Henigan, Deputy Director, Office of Sustainability, Department of General Services
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Jared Sippel, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

BCP 1: SB 1020 Implementation: Clean Energy, Jobs, Affordability Act of 2022

The Department of General Services (DGS), Office of Sustainability (OS), requests $1.7 million authority from the General Fund, $203,000 in limited-term authority from the Service Revolving Fund, and 1.0 position for three years, beginning in fiscal year 2023-24 to accelerate the deployment of clean energy at state facilities and manage the transition to 100 percent renewable energy at all state facilities. These resources will implement the provisions of SB 1020 (Laird, Chapter 361, Statutes of 2022)

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. DGS' Office of Sustainability plans to use $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. DGS will also work with utilities providers to procure renewable energy through their programs to meet the needs of state facilities and operations not able to obtain onsite renewable energy.

DGS also requests one position that will be responsible for researching available renewable energy programs, analyzing costs, implementation of SB 1020, and conveying these findings to state departments. They will also be responsible for data tracking, organizing findings, and tracking progress toward meeting renewable energy targets, including soliciting and tracking information, and publishing reports. This position will manage a public-facing website and perform a variety of tasks including complex statistical work, data analysis, and research to identify emerging trends and patterns.

BCP 2: Office of Sustainability Electric Vehicle Service Equipment Infrastructure Assessment and Facility Development

The Department of General Services Office of Sustainability requests a one-time budget augmentation of $35 million authority from the General Fund over three years 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 at state-owned and leased facilities to meet California’s clean transportation and greenhouse gas goals.

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. At the end of 2021-22, DGS reports that 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 long-term EV charging plan includes the following:

- 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, DGS anticipates 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 Medium Duty / Heavy Duty 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 COMMENTS

The subcommittee may wish to ask the following questions:

1) Will DGS provide regular reports on its progress transitioning state facilities to 100% renewable energy?

2) Given the budget shortfall, has the Administration considered alternative funding sources other than the General Fund for the electric vehicle infrastructure proposal?

3) What is the total projected number of charging stations that will be built by the end of the Five-Year Zero Emission Vehicles Infrastructure Investment Plan?

Staff Recommendation: Hold Open

ISSUE 10: DEFERRED MAINTENANCE

The subcommittee will review DGS' deferred maintenance funding, and two budget change proposals related to fire, life, and safety systems, and digital control upgrades.

PANEL

- Jacqueline Campion, Chief Financial Officer, Department of General Services
- Matt Henigan, Deputy Director, Office of Sustainability, Department of General Services
- Jemahl Amen, Deputy Director, Facilities Management Division, Department of General Services
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Jared Sippel, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

Deferred Maintenance. Deferred maintenance refers to routine maintenance activities that are delayed or that do not occur. In 2022-23, DGS identified a deferred maintenance backlog of $581.5 million. Past budgets have repeatedly provided General Fund on a one-time basis to support DGS deferred maintenance needs. Specifically, from 2020-21 to 2022-23, the state provided a total of $216.6 million General Fund to help DGS address its backlog, including projects for elevators and fire, life, and safety systems. 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. (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. However, the Governor's budget includes two budget change proposals to partially address some deferred maintenance issues.

BCP 1: Facilities Management Division Fire Alarm System Deferred Maintenance
DGS requests $20.4 million one-time General Fund in 2023-24 to address critical fire, life, and safety (FLS) issues relating to fire alarm systems.

The table below shows the fire alarm system projects to be addressed:

Table 1 – Proposed Fire Alarm System Projects

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**

Fire alarm systems include fire alarm control panels (FACP), accessible pull stations, smoke detection systems, and accessible audio-visual announcement devices. The existing fire alarm systems require replacement for several reasons, including increased failure rates of system components and the inability of manufacturers to provide replacement parts for antiquated systems.

BCP 2: Direct Digital Control Upgrades

DGS 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 to upgrade the Direct Digital Control systems in buildings managed by DGS to improve operations and energy efficiency.

Direct Digital Controls (DDC) 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. A third-party assessment found that numerous DDC systems in state buildings 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, Life and Safety panel for code compliance. According to DGS, this communication is essential to minimize 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 requested funding will allow DGS to address sustainable and critical DDC deficiencies in buildings owned and operated by DGS as follows:

Table 1: 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**

LAO COMMENTS

Approve Proposed Funding for Fire, Life, and Safety Systems. Ideally, DGS would have set rental rates such that the Service Revolving Fund, rather than the General Fund, could support the projects proposed to replace fire, life, and safety systems. However, given (1) the immediate need for these projects (as they are at or nearing the end of their useful life) and (2) the amount of time it would take for rental payments to generate sufficient revenue to pay for the projects, this is not a feasible option. Accordingly, we recommend that the Legislature approve the proposed funding for the fire, life, and safety systems.

Approve Portion of Proposed Reversion. The LAO recommends the Legislature approve $71.6 million of the $92.5 million proposed for reversion. This would revert all the proposed funds except those associated with the high-priority direct digital control projects for the California Tower, Governor Edmund G. "Pat" Brown Building, and Ronald Reagan State Building. As discussed next, the LAO recommends that the Legislature weigh whether these projects are of greater priority than some of the direct digital control projects proposed for funding.

Withhold Action on Proposal for Direct Digital Control Upgrades, Direct DGS to Report on Prioritization. The LAO recommends that the Legislature withhold action on the proposed funding and positions for direct digital control upgrades and require DGS to report at spring budget hearings on those projects that are in critical need of replacement. This is important given that DGS is proposing to revert funding for some projects that have been identified as high-priority replacement, while proposing funding for others identified as low priority. This information would help the Legislature determine which projects are the most critical, urgent projects and thus merit approval for 2023-24. Less urgent projects should generally be planned for in advance and funded over a period of time through DGS' rates structure. This approach would more fairly apportion building costs across various funds and also create better incentives for DGS to be a good steward of its buildings.

Adopt Provisional Language to Limit Use of Funding to Specific Projects. The LAO notes that it is reasonable to think that the proposed direct digital control projects could cost less than estimated by DGS, such as if some project costs are closer to the firm's lower estimate in its report. Accordingly, the LAO recommend that the Legislature adopt provisional language that limits the use of any funding it chooses to provide to the specific facilities and projects it chooses to approve. This will ensure that, if the specific projects that the Legislature approves are ultimately less costly than proposed, the unused funds would return to the General Fund rather than allowing DGS to use the funds on other projects that may be of less urgency.

Require DGS to Develop a Plan for Adjusting Rates to Address Deferred Maintenance Backlog and Reflect Actual Costs. The LAO recommend requiring DGS to provide a plan to the Legislature by January 10, 2024 on how it will adjust rental rates going forward to incorporate building maintenance and needs. As part of this plan, DGS should propose how to address the existing backlog of deferred maintenance projects. The Legislature can then consider how to move DGS toward more appropriately funding its maintenance needs through rental rates while addressing its considerable deferred maintenance backlog.

STAFF COMMENTS

The subcommittee may wish to ask the following:

1) What methodology has DGS used to prioritize direct digital control upgrades?

2) Does DGS have a long-term plan to address deferred maintenance issues?

Staff Recommendation: Hold Open

ISSUE 11: PROCUREMENT BUDGET CHANGE PROPOSALS

The subcommittee will review five budget change proposals related to procurement.

PANEL

- Jacqueline Campion, Chief Financial Officer, Department of General Services
- Angela Shell, State Chief Procurement Officer, Department of General Services
- Gary Renslo, Chief Information Officer, Department of General Services
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Jared Sippel, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

BCP 1: AB 2019 Implementation – Statewide Procurement Disparity Study and Outreach

DGS requests a one-time expenditure authority increase of $4.109 million from the General Fund to conduct a statewide procurement disparity study in 2023-24. Additionally, DGS 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 FY 2023-24, $325,000 in FY 2024-25, and an ongoing expenditure authority increase of $162,000 in FY 2025-26 to support the implementation of AB 2019 (Petrie-Norris, Chapter 730, Statutes of 2022).

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.

BCP 2: Procurement Division Ongoing Support for Diversity and Inclusiveness in State Contracting

DGS requests ongoing expenditure authority of $3.51 million from the Service Revolving Fundand 21.0 permanent positions beginning in fiscal year 2023-24 for the Office of Small Business and Disabled Veteran Business Enterprise Services (OSDS) 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 (LMS) licenses for the Office of the Small Business. This request is an extension of an approved one-time General Fund appropriation in fiscal year 2022-23.

BCP 3: Procurement Division Support for Small Business and Disabled Veterans Business Enterprises Program Compliance

DGS requests ongoing expenditure authority of $320,000 from the Service Revolving Fund (SRF) and 2.0 permanent positions beginning in fiscal year 2023-24 to effectively staff the Small Business (SB) and Disabled Veteran Business Enterprise (DVBE) program to support training, communication, compliance, enforcement, and program abuse functions, for implementation of recommendations by the State Auditor.

Among its various responsibilities, the Office of SB and DVBE Services (OSDS) within DGS ensures compliance with all applicable SB and DVBE program requirements. This includes processing certification requests and issuing certifications to eligible businesses, as well as initiating disciplinary and enforcement actions against firms who fail to comply with SB and DVBE program laws, rules, and regulations. OSDS conducts periodic certification reviews and investigates complaints involving the SB and DVBE program in efforts to ensure compliance. Fraudulent activity is the primary cause for sanctions as disciplinary actions. Sanctions can include certification revocation and suspensions that prohibit firms from doing business with all State entities for a predetermined period. In some instances, the penalty for a suspension case can include monetary sanctions. When monetary sanctions are deemed appropriate, OSDS provides recommendations that are submitted to the Attorney General's Office pursuant to the program statutes.

In February 2019, the State Auditor found that "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.

Requested resources will provide additional staffing resources 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 (maintaining, withdrawal, discontinuance to certification).

- Review certification denials to ensure consistent application of the statutes and regulations.

- Process appeals of certification decisions, including copying, printing, and preparing case or discovery materials for use in OAH hearings, as necessary

- Process sanctions, as necessary, for enforcement of the SB/DVBE program.

- 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.

BCP 4: Procurement Division E-Marketplace Implementation

DGS 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 fiscal year 2023-24 to implement, maintain, and operate the statewide eMarketplace solution.

The eMarketplace is an effort to modernize the state's procurement process, by creating a statewide online public-facing marketplace that will improve data accuracy, timely decision making and transparency into government spending. DGS proposes to deploy a State of California-hosted online e-commerce marketplace that interfaces with the Financial Information System for California (FI$Cal) PeopleSoft system and utilizes PeopleSoft's advanced functionality on a broader scale. The goal is to transform the statewide procurement PeopleSoft user experience by enhancing state buyers' ability to find and order directly from approved supplier online catalogs through the FI$Cal PeopleSoft application in a more "Amazon" like shopping environment, as well as electronically accept, evaluate, and award bids in a standardized and fully confidential way.

Requested resources will provide staffing and cover contracting costs for software licenses to establish the e-marketplace.

BCP 5: Procurement Division Permanent Support for the California Pharmaceutical Collaborative

DGS requests ongoing expenditure authority of $842,000 from the Service Revolving Fund beginning in fiscal year 2023-24, as an extension of one-time funding provided in 2020, to continue funding 4.0 positions supporting ongoing workload of the Statewide Pharmaceutical Program's (SPP) California Pharmaceutical Collaborative. The program, administered by DGS, was established to work with pharmaceutical manufacturers and service providers to address the rising cost of prescription medications for mandated departments (e.g., California Department of Corrections and Rehabilitation (CDCR), Department of State Hospitals (DSH), California State University (CSU) and government entities (e.g., counties). SPP allows state and local governmental entities to access pharmaceutical pricing agreements that provide cost savings on high-cost prescription medications.

To date, DGS is providing 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.

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

Requested resources will fund permanent positions to continue supporting the program.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) What is the current Small Business / Disabled Veteran Business Enterprise participation rate into state contracting?

2) When is the projected launch date of the e-marketplace solution should all resources be granted?

3) Have other counties expressed interest in joining the Pharmaceutical Collaborative?

Staff Recommendation: Hold Open

7502 DEPARTMENT OF TECHNOLOGY

OVERVIEW

The California Department of Technology is the state department responsible for delivering government digital services. CDT provides Information Technology strategic planning, project delivery, procurement, policy and standards, and enterprise architecture. CDT is tasked with securing statewide information assets by providing oversight and infrastructure for many state departments and serves as the custodian of information for various state business applications. Through its State Data Center, CDT also provides infrastructure services for government customers that include on-premises and cloud-based services.

The subcommittee will review various reductions proposed in Governor's budget impacting information technology investments. The subcommittee will also review various budget change proposals submitted by the Department.

ISSUE 12: MODERNIZATION AND STABILIZATION FUND REDUCTIONS

This subcommittee will review proposed investment reductions in the Technology Modernization Fund (TMF) and the Technology Stabilization Fund (TSF) included in the Governor's proposed budget.

PANEL

- California Department of Technology: TBD
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Brian Metzker, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

The Technology Modernization Fund and Technology Stabilization Fund were created to enable the Department of Technology to partner with various state agencies to improve the efficiency and effectiveness of Information Technology services. The TSF program assists departments in preventing costly unplanned downtime, while the TMF program funded various modernization proposals offered by various state departments. In 2022, CDT has partnered with 9 departments and agencies through the Stabilization program and has approved 11 projects and over $11 million in funding for TMF efforts.

The projects below provide a sample of TSF and TMF funded programs:

Technology Stabilization Fund:

- Department of Industrial Relations (DIR): ensure stability with the state worker's compensation case management and payment service.

- California Office of Emergency Services (CalOES): review the capabilities and provide alternatives to managing emergency response through legacy technology.

- California Department of Human Resources (CalHR): provide recommendations to improve efficiencies on the Examination and Certification Online System (ECOS) that provides employment opportunities for civil service.

- State Land Commission (SLC): assessment of their legacy technology that tracks regulation and inspection of marine oil terminals.

- California Department of Transportation (Caltrans): assessment of the system that manages lane closures and construction throughout the state.

Technology Modernization Fund:

- California Department of Food and Agriculture's (CDFA): Implemented the Registered Service Agents Project, enabling Agencies and Registered Service Agents to interact and conduct business digitally with the CDFA through this new portal.

- Department of Consumer Affairs (DCA): Implementing an online system with application, processing, and payment functionality for 13 licenses administered by the Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board.

- Department of Managed Healthcare (DMHC): Enhancing the capabilities to schedule and track financial and operational examinations of managed health care plans.

- California Environmental Protection Agency (CalEPA)L Developing a geospatial data system for the California a Unified Program Agencies (CUPA), which aims to protect Californians from hazardous waste.

TMF Funding. The *2021-22 Budget Act* appropriated $25 million General Fund one-time in 2021-22 (available for either encumbrance or expenditure until June 30, 2024) for CDT to fund technology modernization solutions proposed by state entities. The *2022-23 Budget Act* appropriated an additional $25 million one-time in 2022-23 (available for either encumbrance or expenditure until June 30, 2028) for the same purpose. Provisional budget bill language adopted in both fiscal years provides a list of the eligible uses of the fund, limits the total cost of any effort and/or solution to no more than $5 million, requires that CDT submit a prioritized list of efforts and/or solutions to the Department of Finance for review and approval prior to expenditure of any funds, and requires semiannual reporting on the uses of the fund to the Legislature.

TSF Funding. The 2021-22 budget package provided $11.4 million General Fund in 2021-22, $9.4 million General Fund in 2022-23, and $6.4 million General Fund in 2023-24 and ongoing to fund critical system assessment and stabilization efforts. The *2022-23 Budget Act* appropriated an additional $30 million General Fund one-time in 2022-23 (available for either encumbrance or expenditure until June 30, 2026) for the same purpose.

Governor's 2023-24 Budget Reduces Balance of Both Funds in 2022-23. The Governor's 2023-24 budget proposes to reduce the balance of the TMF by $21 million and the TSF by $17.5 million in 2022-23 to address the budget problem. According to CDT, the remaining balances of the TMF and TSF will be encumbered by March and June 2023, respectively, and expended some time thereafter. TMF staff will assist approved projects through completion and gather lessons learned, while TSF staff will continue to assess critical systems and identify stabilization issues that will be remediated with funding requested through the budget process. These stabilization issues are expected by CDT to be prioritized for remediation in a list available by July 2023.

LAO COMMENTS

Fund Balance Reductions Reasonable and Opportunity for Oversight. Given the budget problem, the LAO finds the TMF and TSF reductions in the *2023-24 Governor's Budget* to be reasonable. Additionally, the LAO recommend the Legislature use the winding down of these programs to perform oversight of the funding. The Legislature could direct CDT to include in its next required report on TMF in July 2023, as required by provisional budget bill language, to summarize the lessons learned and how these lessons will be incorporated into IT project approval and oversight processes (if at all). Also, the Legislature could direct CDT to provide a list of critical IT systems identified and a list of stabilization issues to be prioritized for remediation to inform future legislative oversight of budget requests for associated IT efforts.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) Will the proposed reductions impact any ongoing projects currently funded by the TMF or TSF?
2) Regarding stabilization projects, what will be CDT's method to identify and prioritize stabilization issues to be remediated?

Staff Recommendation: Hold Open

ISSUE 13: RATE REASSESSMENT, CENTRALIZED SERVICES RENEWAL AND OFFICE OF TECHNOLOGY SERVICES

The subcommittee will receive an update on CDT's rate reassessment process, and review two related budget change proposals on centralized services and CDT's Office of Technology Services (OTech).

PANEL

- California Department of Technology: TBD
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Brian Metzker, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

CDT, Cost-Recovery, and Rate Development Process. The California Department of Technology is primarily funded through cost recovery – that is, billing for IT services it provides to state entities and using revenues from those services to cover most of its expenditures. To calculate the rates CDT charges to its customers, CDT goes through a rate development process. In this rate development process, CDT generally divides the direct costs (for example, hardware and software) and indirect costs (internal CDT administration) of a service by its projected demand. The department might consider other factors when setting service rates such as how costs are distributed across state entities (for example, to equitably distribute costs across entities with different budgets) and how simple the billing for, and collection of, revenues is for the department and state entities. As the projected costs of and demand for services change, CDT re-calculates its service rates and submits them annually to the Department of Finance for approval. For example, if demand for a service is projected to decrease but the costs of the service are projected to stay the same, CDT likely will propose an increase in the service rate.

Of note, the Technology Services Revolving Fund, or TSRF, is CDT's primary cost recovery fund.

2022-23 Budget: Legislature Appropriated $54.6 Million General Fund One-Time With Trailer Bill Language on State Data Center Rate Reassessment Process. Over the past few years, CDT has seen several customers migrating out of the state's IT infrastructure to cut costs. To address revenue losses and dampen potential increase in service rates, the Legislature appropriated $54.6 million General Fund one-time in 2022-23 to (1) shift $41.1 million in expenditures and 205 positions at CDT from its cost recovery fund to the General Fund to reduce State Data Center IT service rates by an estimated 10 percent; (2) provide $3.1 million to cover external consulting costs and internal positions to work on statewide strategic initiatives, such as CDT's development of a statewide Information Technology Strategic Plan; and, (3) cover $10.5 million in short-term net revenue losses from state entities migrating some of their business applications and IT services from the State Data Center to private vendors. The Legislature also adopted a trailer bill to outline the State Data Center rate reassessment process, and create a long-term solution to make CDT's chargeback model more sustainable.

Over the three fiscal years of the rate reassessment process, the intent of this funding is to retain State Data Center customers by lowering IT service rates. Once the process is completed, CDT expects IT service rates will be lower on an ongoing basis with no additional funding necessary to cover the shifted positions or revenue losses. Annual legislative reporting on the progress of the rate reassessment process also is required.

2023-24 Budget Change Proposals: CDT Requests $53.5 Million General Fund in 2023-24 and $4.9 Million General Fund in 2024-25. Although it was anticipated that there would be a need for General Fund support in the second and third years of the rate reassessment process, the Legislature approved only one year of funding in 2022-23. This would allow the Legislature to evaluate the requested level of General Fund support annually as relevant information is gleaned from the rate reassessment process. Accordingly, the Governor's 2023-24 budget requests $53.5 million General Fund one-time in 2023-24 to shift similar expenditures and positions from cost-recovery fund to the General Fund ($42.3 million and 216.5 positions), fund the same statewide strategic initiatives work ($3.1 million), and cover an estimated $8.2 million in additional State Data Center revenue losses. (The increase of $1.2 million requested in 2023-24 to fund the shift of expenditures and positions from TSRF to General Fund is attributable to year-over-year increases in staff benefits, salaries, and wages.) An additional $4.9 million General Fund is requested in 2024-25 to cover estimated State Data Center revenue losses.

2023 Annual State Data Center Services Rate Methodology Reassessment. In March of 2023, CDT submitted its annual state data center services rate methodology reassessment. CDT contracted with Gartner, an IT industry consultant, as an independent third party to benchmark CDT's data center service offerings against 14 peer entities within four industries using consensus models that offer similar technology services. The next steps identified in the reassessment report include the following:

- CDT will streamline its service catalog by simplifying the rate structure and addressing customer rate concerns. This effort will also reassess and revise service costs to ensure they remain cost efficient and account for unforeseen increases in operating expenses. Moreover, CDT will coordinate rate changes with budgeting cycles to allow customer departments to make appropriate adjustments

- CDT will work closely with customer departments to analyze service demand, identify additional opportunities to reduce expenses, eliminate cost-inefficient services, and develop plans to move customers away from services identified for elimination. CDT is also collaborating with Finance on a three-year plan to optimize the data center operating model, which includes onboarding new revenue-generating services and reducing operating expenses where appropriate.

- CDT will continue to monitor service utilization trends and identify ways to increase revenue and reduce operating expenses to address any imbalance.

- CDT will review policies, procedures and strategies that affect data center services and propose policy revisions to enhance the effectiveness of certain service(s) and suggest revisions to make them more viable.

LAO COMMENTS

Recommend Withholding Action on BCPs Until Rate Reassessment Process Report Allows Legislature to Reevaluate Proposals. The LAO recommend the Legislature withhold action on both of the proposals until the first rate reassessment process report is submitted and analyzed. Then, the LAO recommends that the Legislature evaluate the report to determine whether the General Fund augmentations in these proposals address, for example, legislative goals and priorities. At time of writing, the LAO and committee staff are reviewing the rate reassessment report.

STAFF COMMENTS

Committee staff are currently reviewing the rate methodology reassessment submitted by CDT.

The subcommittee may wish to ask the following questions:

1) What are the factors that have been impacting CDT's operating expenses and CDT's ability to effectively cost recover services?

2) Based on the rate reassessment report, does CDT anticipate further request for General Fund support to lower service rates and backfill revenue losses?

Staff Recommendation: Hold Open

ISSUE 14: CYBERSECURITY ISSUES

The subcommittee will review four budget change proposals related to cybersecurity.

PANEL

- California Department of Technology: TBD
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Brian Metzker, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

BCP 1: California Cybersecurity Integration Center
The Office of Emergency Services (Cal OES), California Military Department (CMD), California Department of Technology (CDT), and the California Highway Patrol (CHP) are jointly requesting $28.7 million General Fund ongoing and 17 positions to continue limited-term resources authorized in 2020-21 (including 23 of the 24 previously authorized positions) and enhance resources to support the responsibilities of the California Cybersecurity Integration Center (Cal-CSIC). According to the Administration, these resources will allow the Cal-CSIC to lead state efforts to identify and mitigate current and ever-evolving cyber threats, including providing enhanced (1) threat detection, assessment, and research; (2) gap testing and remediation; and (3) incident analysis and response.

Cal-CSIC was created in 2018. By law, Cal-CSIC include representatives from Cal OES (including the State Threat Assessment Center (STAC), CDT, CHP, CMD, the Office of the Attorney General (AG), and the California Health and Human Services Agency (CHHS), as well as other stakeholders from state and federal governments and the private sector. Statutes further requires the Cal-CSIC to coordinate with the California State Threat Assessment System (STAS) and the United States (U.S.) Department of Homeland Security (DHS), to establish a cyber-incident response team and safeguard the privacy of individuals' sensitive information. Finally, statute requires the establishment of a Cyber Incident Response Team to serve as California's primary unit to lead cyber threat detection, reporting, and response in coordination with public and private entities across the state.

As a result of the codification of the Cal-CSIC in 2018, Cal OES was able to redirect existing Homeland Security Grant Program (HSGP) and General Fund resources equivalent to eight positions to support the initial steps to get the Cal-CSIC started. According to the Administration, this redirection is not sustainable as federal HSGP funding has continued to decline since 2018. Cal OES, CHP, CDT and CMD jointly requested 24 positions and ongoing funding in 2020-21. These positions were authorized, but with only three-year limited-term funding that will expire June 30, 2023.

The breakdown of these positions and the 2022-23 requested funding is as follows:

- Cal OES 12 positions and $8,084,000 General Fund
- CHP 4 positions and $925,000 General Fund
- CMD 8 positions and $1,232,000 General Fund
- CDT 0 positions and $1,268,000 General Fund (the equivalent of six positions)

BCP 2: AB 2135 Implementation – Information Security

CDT requests 7.0 new positions and $1.495 million in General Fund authority in Fiscal Year 2023-24 and on-going to support the workload implementation of AB 2135 (Irwin, Chapter 773, Statutes of 2022).

AB 2135 would require state agencies not under CDT's information security purview to adopt and implement information and security and privacy policies, standards, and procedures based on National Institute of Standards and Technology and Federal Information Processing Standards; require those agencies to perform comprehensive independent security assessments every two years; allow those agencies to contract with CMD for those assessments; require the agencies to certify annually by February 1 to the Senate Pro Tempore and Assembly Speaker their compliance and needed corrective actions; and make such certification confidential except to members of the Legislature and legislative employees at the discretion of the Senate Pro Tempore and Assembly Speaker.

Currently, CDT does not have the resources necessary to accommodate the influx of requested independent security assessments and audits, or the anticipated requests for state policy and standards guidance, that will be required to implement AB 2135.

Requested resources will enable CDT to conduct additional security assessments that are required under the Legislative parameters of AB 2135. The approved positions and GF authority will also be utilized to provide mission-critical pre-audit and post-audit support on a statewide basis.

BCP 3: OIS Intrusion Detection Prevention

CDT requests $2.96 million in General Fund Authority in 2023-24 to upgrade the State's Intrusion Detection (IDS) and Intrusion Prevention Systems (IPS). In addition, CDT also requests $1.93 million in on-going General Fund authority to maintain these systems beginning in FY 2024-25. According to CDT, these system upgrades and maintenance are necessary for the State to continue to provide a frontline defense against malicious actors.

BCP 4: OIS Supply Chain and Third Party Risk

CDT requests $250,000 in General Fund beginning in Fiscal Year 2023-24 to enhance the State's supply chain security and 3rd party risk validation methodology. This will enable CDT's Office of Information Security (OIS) to implement a Software as a Service

(SaaS) security solution that will be available to all State Chief Information Security Officers (CISO), their staffs, and statewide security operations teams.

LAO COMMENTS

Governor's Budget Includes 26 Information Security (IS) Proposals Totaling $64.4 Million ($70.6 Million General Fund). Of the 26 total proposals, the Governor's 2023-24 budget includes two major proposals to augment funding and positions for the California Cybersecurity Integration Center (Cal-CSIC) ($28.7 million) and to implement AB 2355 on school cybersecurity ($5.4 million).

Legislative Oversight of IS Activities and Budget Support Information Merited. Limited oversight of the state's first five-year IS roadmap—Cal-Secure—along with a lack of standardized disclosure of IS information in support of budget proposals merits oversight from the Legislature. We also find merit in both Cal-CSIC proposals, but the proposed funding and position augmentations would benefit from measurable goals and outcomes.

Recommend Reporting to Legislature, Prioritization of New Cal-CSIC Funding. The LAO recommends the Legislature direct the administration to report to the Legislature on Cal-Secure implementation and its evaluation of options for standardized disclosure of information in support of IS proposals. We also recommend the Legislature direct Cal-CSIC to prioritize the funding and positions requested in its augmentation proposal, and require reporting on goals and outcomes for any new funding.

Staff Recommendation: Hold Open

ISSUE 15: OTHER CDT BUDGET CHANGE PROPOSALS

The subcommittee will review two additional budget change proposals requested by the California Department of Technology.

PANEL

- California Department of Technology: TBD
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Brian Metzker, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

BCP 1: CA.gov Resource Renewal
CDT requests a renewal of 5.0 positions and $1,316,000 in General Fund (GF) in Fiscal Year (FY) 2023-24 and on-going to continue focusing on the development and evolution of the digital transformation initiatives, including the CA Design System, incorporating UX (User Experience) disciplines into our digital efforts, and reimagining the CA.gov web portal.

In 2019, CDT partnered with the Office of Data and Innovation (ODI) to envision and prototype the future state that the CA.gov web portal could become. This "Alpha" site served as a proof of concept for re-imagining how California residents could connect and interact with the state based upon their individual need, organizing content around the needs of the public and offering multiple services from multiple state entities that could all be accessed directly from the CA.gov site.

While this effort was paused due to shifting priorities related to the COVID-19 pandemic, the Office of Digital Services (ODS) and ODI have recently re-initiated their CA.gov collaboration in anticipation of building out a staffing and project plan for the development of the "Beta" CA.gov website. In 2021-22, CDT received 10.0 positions and $2,252,000 in GF to build a dedicated team to focus on the development and continued evolution of the re-imagined CA.gov web portal and expand the CAWeb team to increase capacity and reduce time required for onboarding partner agency websites into the state's web enterprise platform.

Requested resources will provide permanent staff resources to continue the CA.gov project and associated efforts. Funding will also cover costs associated with consulting fees, software licenses and focus group testing.

BCP 2: Digital Identification Continuation
In 2021-22, CDT received two positions and $1,111,000 in General Fund through FY 2022-23 to deploy a Digital Identification (ID) ecosystem for an initial subset of state

services that would provide a consistent, secure, privacy-enabled, reliable, and consent-based method to authenticate and verify the identity of California residents when they access the subset of digital state services.

Since 2021, CDT's Digital ID program has engaged a set of pilot partners, evaluated, and selected a vendor platform, and launched the first pilot integration into a production environment.

CDT requests a renewal of 2.0 positions and $1.2 million in General Fund (GF) in Fiscal Year (FY) 2023-24 and FY 2024-25, to launch and maintain planned and existing pilot partner integrations, evaluate and implement additional requested features, scale the solution to additional state agencies, and engage with other public entities and the external developer community to provide a blueprint for privacy-centered services.

STAFF COMMENTS

The subcommittee may wish to ask the following:

1) What is CDT's projected timeline for project readiness and rollout for its CA.gov and Digital ID initiatives?

2) How is CDT prioritizing privacy and information security in its Digital ID initiative?

Staff Recommendation: Hold Open

1703 CALIFORNIA PRIVACY PROTECTION AGENCY

ISSUE 16: BUDGET CHANGE PROPOSAL AND UPDATE ON REGULATORY ACTIVITY

The subcommittee will review a budget change proposal requested by the California Privacy Protection Agency and receive an update on the Agency's regulatory activities.

PANEL

- Ashkan Soltani, Executive Director, California Privacy Protection Agency
- Maureen Mahoney, Deputy Director of Policy and Legislation, California Privacy Protection Agency
- Nelson Richards, Assistant Chief Counsel, California Privacy Protection Agency
- Charlene Manning, Department of Finance
- Andrew Hoang, Department of Finance
- Brian Metzker, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

California Privacy Rights Act. In November of 2020, voters approved Proposition 24, the California Privacy Rights Act (CPRA). Among other items, CPRA made changes to data privacy laws, which businesses will be required to meet to comply with state consumer data privacy requirements. CPRA also provides new consumer privacy rights, such as limitation on sharing personal data, correction of personal data, and limitation on the use of sensitive personal data. CPRA also created a new state agency, the California Privacy Protection Agency (CPPA), tasked with overseeing and enforcing the state's consumer privacy laws. The CPPA is governed by a five-member board, which was inaugurated in March 2021, and overseen by an Executive Director. The CPPA's responsibilities include engaging in rulemaking, investigating violations, assessing penalties, cooperating with other jurisdictions, and promoting public awareness including providing guidance to consumers and businesses on complex matters relating to online privacy, cybersecurity, and automated decision making. Of note, the CPPA is required to adopt final regulations as mandated by CPRA by July 1, 2022, with enforcement of those regulations to begin July 1, 2023.

Establishment of the CPPA. To implement the law, Proposition 24 directly appropriated from the General Fund $5 million for 2020-21 and $10 million per fiscal year thereafter, for expenditure to support the operations of the CPPA. To startup the new agency, CPPA had entered in interagency agreements with the Department of General Services and the Department of Consumer Affairs to provide temporary services for human resources, finance and budget, and information technology services. The Business, Consumer Services and Housing Agency also provided extensive logistical support. In September of 2021, the Office of the Attorney General began providing legal services and limited administrative services on a fee-for-service basis.

2022 Budget Act. The 2022 budget authorized funding for CPPA's initial staffing. This included 34 positions for fiscal year 2022-23, funded by the existing annual appropriation of $10 million General Fund provided through Proposition 24.

2023 Budget Change Proposal: Consumer Privacy Implementation. The CPPA is requesting 7.0 positions in 2023-24 and ongoing to allow the Agency to start enforcement activities and continue to fulfill its statutory responsibilities. The Agency is responsible for the implementation and administrative enforcement of the nation's first comprehensive consumer privacy law. This proposal will provide the necessary positions to continue developing the Agency and will utilize its existing ongoing $10 million General Fund appropriation. Requested resources include enforcement attorney positions, and IT related positions.

Update on Regulatory Activities. On March 30, 2023, the CPPA finalized its first substantive rulemaking package to further implement the California Consumer Privacy Act. The rules cover a wide range of regulatory topics, including dark patterns, opt-out preference signals, notice, requests to correct and limit, third-party contracts, targeted advertising, and enforcement.

The CPPA is currently working on its next regulatory package. The Agency has recently issued an invitation for preliminary comments on proposed rulemaking related to cybersecurity audits, risk assessments, and automated decision-making.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1. With the recently approved set of regulations, when will regulatory enforcement activities begin? What stakeholder outreach activities have been conducted to date to ensure impacted entities have time to come into compliance with the new regulations?

2. What is the anticipated timeline to complete the next set of regulations?

3. The budget change proposal is requesting attorney positions for the Agency's enforcement division. How does CPPA's enforcement activities interface with enforcement resources under the California Department of Justice?

Staff Recommendation: Hold Open

8260 CALIFORNIA ARTS COUNCIL

ISSUE 17: OVERVIEW OF ARTS FUNDING AND PROPOSED REDUCTIONS TO THE CULTURAL DISTRICTS PROGRAM

The California Arts Council establishes general policy and approves program guidelines and allocations for arts funding in the state. The Council accomplishes its mission through programs and partnerships that aim to support California's arts non-profit and cultural sector. Among its responsibilities, the Council promotes the employment and workforce development of artists, culture bearers, and cultural workers in both the public and private sectors; encourages artistic awareness, participation, and expression among Californians; collaborates with other state agencies to strengthen arts and creativity in all sectors throughout California; and administers grants to artists and arts organizations throughout the state.

The subcommittee will receive an update on arts funding under the California Arts Council, and review reductions to the cultural districts program proposed under the Governor's budget.

PANEL

- Jonathan Moscone, Executive Director, California Arts Council
- Ayanna Kiburi, Deputy Director, California Arts Council
- Kristin Margolis, Director of Programs Services, California Arts Council
- Emma Jungwirth, Department of Finance
- Charles Lassalle, Department of Finance
- Jared Sippel, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

Overview of 2023-24 Arts Funding

- The Governor's 2023-24 budget proposes allocating $26,055,000 in funding for local assistance. This baseline funding enables the Council to support various arts programming across the state.

- The 2021 Budget Act included $60 million one-time General Fund implement the California Creative Corps pilot program. This program is a media, outreach, and engagement campaign designed to increase: (1) public health awareness messages to stop the spread of COVID-19; (2) public awareness related to water and energy conservation, climate mitigation, and emergency preparedness, relief, and recovery; (3) civic engagement, including election participation; and (4) social justice and community engagement. In August of 2022, announced that it has selected 14 organizations to administer Creative Corps funding. Applications timelines and funding windows are dependent on the administrative organization.

- The Council also reports that it will begin issuing $40 million in funding will for school-related grant programs.

- The Governor's budget also includes $8 million in General Fund, transferred from the California Department of Corrections and Rehabilitation (CDCR), for the Council to administer the California Arts in Corrections Program. In partnership with CDCR, the California Arts Council has contracts with various organizations to provide rehabilitative arts services in state correctional facilities. Arts in Corrections includes wide array of rehabilitative arts programming led by professional artists, including the arts disciplines of theater, creative writing, audio journalism, painting/drawing, songwriting, choral singing, and more.

Cultural Districts Program

The Budget Act of 2022 provided $30 million one-time General Fund to be spent over three years, to support the existing 14 cultural districts and to expand the cultural districts program to serve traditionally underserved communities. The Governor's budget proposes to reduce the Cultural District funding by $20 million.

Budget Request Under Consideration

The subcommittee has received a budget request from the Office of Assemblymember Carrillo that would allocate $1 million to establish a workgroup to create a strategic cultural equity plan for California's creative workforce to collect and analyze data on the state's current creative economy. This workgroup would develop a strategic plan to improve the creative economy with cross agency, legislative, tribal, community and business representatives.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) Can the Council provide a timeline for when Creative Corps and school-related grant program funding are anticipated to go out?

2) What is the anticipated impact of the proposed reduction in the Cultural Districts Program?

3) How is the Arts in Corrections program administered?

Staff Recommendation: Hold Open

3100 EXPOSITION PARK

ISSUE 18: EXPOSITION PARK BUDGET CHANGE PROPOSALS

The subcommittee will review three budget change proposals related to the administration of Exposition Park.

PANEL

- Exposition Park: TBD
- Michael McGinness, Department of Finance
- Helen Kerstein, Legislative Analyst's Office

BACKGROUND

BCP 1: Minimum Wage Increase and Wage Compression Impact

The Science Center is requesting an ongoing baseline budget adjustment of $723,000 General Fund beginning 2023/24 to address the state's minimum wage increase and wage compression impact to its direct charge contract with the Foundation. The direct charge contract is for specialized functions that are not generally available in state civil service. These contracted services include exhibit maintenance, educational and guest services, and horticultural and animal care. Many of these functions are provided by staff that earn minimum wage. According to the Science Center, these resources are needed to comply with the State of California minimum wage increase of $15.50 effective January 1, 2023, address wage compression, and ensure that the services provided under the direct charge contract for specialized functions continue at an appropriate level.

Trailer Bill: Related to the budget change proposal above, the Science Center requests trailer bill language to provide the Science Center the ability to request augmentation of its operating budget to mitigate the impact of any future state minimum wage ordinances, subject to approval by the Department of Finance.

BCP 2: Parkwide Surveillance System

Exposition Park requests $500,000 General Fund for the working drawings phase of the project to implement a parkwide surveillance system that will allow Exposition Park's Department of Public Safety to patrol the grounds more efficiently, and allow for more proactive safety operations for visitors of the Park.

Park Wide Surveillance total project costs are estimated at $8,003,000. The current project schedule estimates the working drawings ($500,000) are estimated to begin in August 2023 and will be completed in November 2024 and construction ($7,125,000) is scheduled to begin in December 2024 and will be completed in November 2025. Preliminary plans were $378,000 and approved in the 2022 Budget Act.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) Given the budget shortfall, has the Administration considered alternative sources of funding or a potential project delay for the parkwide surveillance system?

2) Will all future budget adjustment related to minimum wage increases be funded out of the General Fund?

Staff Recommendation: Hold Open

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

ISSUE 19: ADMINISTRATIVE SUPPORT FOR EVOLVING PROGRAM OPERATIONS

The subcommittee will review a budget change proposal requested by the Department of Alcoholic Beverage Control.

PANEL

- Eric Hirata, Director, Department of Alcoholic Beverage Control
- Randall Deems, Administration Division Chief, Department of Alcoholic Beverage Control
- Charlene Manning, Principal Program Budget Analyst, Department of Finance
- Amy Ascencio, Finance Budget Analyst, Department of Finance
- Jared Sippel, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

ABC Is Primarily Funded Through Licensing Fee Revenues Deposited in the ABC Fund. Currently, ABC has about 95,000 licensees across the state, including businesses such as winegrowers, liquor stores, and restaurants. ABC is supported primarily by its special fund, the ABC Fund, which receives revenue almost entirely from fees charged to these licensees. Licensing fees generally fall into two categories: (1) annual renewal fees (the most significant source of revenue) and (2) application fees for new licenses, license transfers, daily licenses for events, caterer's permits, and other miscellaneous fees.

Pandemic Impacted Licensees Resulting in Revenue Decline and Expenditure Reduction. The COVID-19 pandemic negatively impacted many ABC licensees and resulted in a decrease in licensing revenue. For example, as a result of public health orders restricting large gatherings, there were fewer events requiring daily licenses, such as festivals. Prior to the start of the pandemic, ABC projected that its licensing fee revenues would be $83.7 million in 2019-20. However, actual revenues collected in 2019-20 were $77.5 million, or about 7.4 percent lower than expected. In response to the reduced revenues, ABC took several steps to reduce expenditures, including reducing hiring and various program expenditures. For example, in 2021-22, ABC reduced the Alcohol Policing Partnership grant program from $3 million to $1.5 million. This program provides grants to local law enforcement agencies to address the crime and public nuisance associated with problem alcoholic beverage outlets.

State Temporarily Waived Fees and Backfilled ABC Fund to Provide Licensees Relief. In order to provide licensees relief, the state temporarily waived license fees through February 2023 for restaurants, bars, and other specified ABC licensees impacted by health and safety restrictions imposed in response to the pandemic. Licensees had to self-certify that they met the eligibility requirements for the waiver, which include that the licensee had an eligible license type that was active from March 1, 2020 to December 21, 2020, and that the licensed premises' primary operation was disrupted by health and safety restrictions imposed in response to the pandemic. The state also backfilled the resulting loss in revenue to the ABC Fund. Specifically, the 2020-21 budget package made available up to $93 million from the General Fund through 2022-23 to backfill the ABC Fund. The budget package authorized the Department of Finance to transfer funds, as needed, to backfill the ABC Fund for revenue lost as a result of license renewal fee waivers that occurred from March 2021 through February 2023.

The $93 million appropriation was provided based on the assumption that all eligible licensees would apply for the renewal waiver; however, a substantial number did not. Specifically, ABC estimates that $48.5 million will remain unspent from the appropriation, which will revert to the General Fund at the end of the 2022-23 budget year under current law. The department surveyed a sample of licensees to ask why they did not apply for the waiver and they reported various reasons, including not being aware of the waiver, not wanting to take the extra step to self-certify that they were eligible, or that they did not need the relief because their businesses were doing well.

ABC Increased License Fees in 2023 and Plans Further Fee Increases in 2024. Under current law, ABC has the authority to administratively increase fees up to the growth in the Consumer Price Index (CPI) each year. Specifically, each year, ABC may increase its license fees by the annual growth in the CPI occurring 17 months prior to the effective date of the increase. Most recently, on January 1, 2023, ABC increased its licensing fees by 4.7 percent, reflective of annual CPI growth that occurred between August 2020 and August 2021. Because ABC has already used its authority in the current year, the department will not be able to adjust the fee further until next year, which ABC recently notified the Legislature of its intent to do. Specifically, ABC will increase its licensing fees by 7.5 percent, effective on January 1, 2024, which is reflective of the CPI growth between August 2021 and August 2022.

Increases Funding for New Positions to Support ABC Programs. The Governor's budget proposes 16 new permanent positions in 2023-24—increasing to 19 positions in 2024-25—to support ABC's licensing, enforcement, and education program. The proposed budget includes $2.8 million from the ABC Fund in 2023-24—increasing to $3.2 million annually in 2024-25—to support these positions. The proposed positions in 2023-24 include:

- An Office of Equity with an Equity Officer to evaluate ABC laws, policies, and practices to identify and address any instances in which ABC's programs are creating disparate outcomes.

- A Deputy Director of Public Affairs to support external and internal communication, media and press relations, social media, the ABC website, public outreach, and education.

- A Senior Personnel Specialist to alleviate workload from existing staff and create capacity in ABC's Human Resources Branch.

- An Accountant Trainee to address increased workload from manager and server online registrations and new online payment options.

- Twelve information technology (IT) and information security personnel in 2023-24 (increasing to 15 beginning in 2024-25). The IT personnel would provide IT support in areas where ABC has yet to modernize or has needs as a result of recent changes, including the introduction of telework, the modernization of public-facing services, and the proposed Office of Equity, among others. The information security personnel would address a variety of information security issues from ABC's introduction and expansion of its public-facing services and automation tools due to teleworking, among other things.

The above funding also includes a $50,000 request for a marketing budget in the Office of Public Affairs for translation services and social media to support ABC's outreach and education.

Transfers Unspent General Fund From Renewal Fee Waiver Program to Support New Expenditures and Ensure ABC Fund Solvency. In order to support the proposed increase in positions and expenditures (as described above) and ensure the ABC Fund remains solvent, the Governor proposes to transfer the unspent balance of $48.5 million General Fund—which was previously appropriated for renewal fee waivers—over three years to the ABC Fund. Under the proposal, $20.5 million would be transferred in 2023-24, $16 million in 2024-25, and $12 million in 2025-26.

In addition, ABC has indicated that if the above transfer is approved, it would also bring the Alcohol Policing Partnership grant program funding back to its authorized funding level of $3 million.

LAO COMMENTS

Proposed Positions Have Merit, but Do Not Fill Critical Need and Exacerbate Potential ABC Fund Insolvency. The additional positions proposed by the Governor would support various activities that generally appear worthwhile to implement. However, the ABC Fund is currently structurally imbalanced—that is, the expenditures out of the fund exceed the revenues deposited into the fund. The Governor's proposed increase in expenditures would likely result in the ABC Fund being insolvent in 2023-24. As such, increasing expenditures from the ABC Fund should be reserved for positions and activities that seek to fill a critical, immediate need at this time to maintain existing service and program levels. We find that the proposed positions do not meet this criteria.

Reject Proposed Positions. We recommend that the Legislature reject the proposed positions because they do not fill an immediate or critical need to maintain existing service or program levels. Doing so would keep expenditures from the ABC Fund lower as revenues recover and annual increases to licensing fees can potentially bring the fund into balance. To the extent the ABC Fund stabilizes in the future, as is currently projected, the department could submit a proposal for the additional positions to the Legislature at that time.

Reject Proposed General Fund Transfer. We recommend that the Legislature reject the proposed General Fund transfer, given our above recommendation to reject the proposed positions. Moreover, given the state's budget problem, the proposed transfer would come at the expense of previously identified General Fund priorities.

Adopt Provisional Language Authorizing Loan to Keep Fund Solvent if Need Arises. As we discussed, under a certain set of assumptions, the ABC Fund remains solvent in 2023-24. However, if employee compensation increases are higher or if revenues are lower than projected, the ABC Fund could become insolvent. In recognition of this possibility, we recommend that the Legislature adopt provisional language that would allow the Department of Finance—with 30-day notification to the Joint Legislative Budget Committee—to authorize a loan up to a certain amount to keep the ABC Fund solvent if revenues are lower than projected or costs to maintain existing service and program levels exceed estimated amounts. The Legislature could direct ABC to report at budget hearings on its estimates for a loan size that would be sufficient to maintain its existing service levels in 2023-24 and cover any uncertainty in revenue or employee compensation increases. In the event that the ABC Fund continues to face insolvency in 2024-25, the administration can return to the Legislature with a proposal to address it that can be considered through the budget process next year.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) The pandemic undeniably had an impact on the Department's revenues. With the end of the COVID-19 state of emergency, does ABC anticipate revenue to climb back up?

2) ABC has noted to committee staff that several, currently unknown factors, such as employee compensation negotiated through the collective bargaining process, will have an important impact on ABC's fund condition for 2023-24. Are there other factors creating uncertainty about ABC's immediate fiscal outlook?

Staff Recommendation: Hold Open

0855 GAMBLING CONTROL COMMISSION

ISSUE 20: OVERVIEW AND UPDATE OF GAMBLING COMMISSION FEES

The subcommittee will receive an overview and update on the fees established by the California Gambling Commission.

PANEL

- Stacey Luna Baxter, Executive Director, California Gambling Control Commission
- Rebecca Kirk, Deputy Director, Legislative and Regulatory Affairs Division, California Gambling Control Commisison
- Kevin Clark, Staff Finance Budget Analyst, Department of Finance
- Mark Jimenez, Principal Program Budget Analyst, Department of Finance
- Anita Lee, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

The California Gambling Control Commission (Commission) has regulatory authority over gambling establishments, third-party providers of proposition player services (TPPPS), and certain aspects of Tribal casinos, pursuant to its authority under state law and Tribal-State Gaming Compacts. The Commission also has jurisdiction over gaming policies, regulations, criteria, and standards.

Of note, a TPPPS is a business that provides services in and to a gambling establishment that include playing as a participant in any controlled game that has a rotating player-dealer position. A Third-Party Proposition Player, sometimes referred to as "props," is an employee of a TPPPS whose job it is to fill open spots in card rooms to keep a game going.

State Auditor Findings

In May of 2019, the State Auditor conducted an audit of both the Bureau of Gambling Control (a separate entity under the Department of Justice) and the Gambling Control Commission. Among its findings, the Auditor determined that the regulatory fees that were charged did not align with the actual costs incurred by the Bureau and Commission when performing oversight activities. This resulted in fees that were determined to be much higher than necessary, raising significant fairness concerns. The state auditor subsequently recommended that the Bureau and the Commission conduct cost analyses of their oversight activities, and that the Bureau and Commission work to adjust their fees to reflect the actual costs of the oversight activities they actually perform.

In response to these audit findings and recommendations, the Commission contracted with MGT Consulting Group (MGT), a third-party consulting company, to complete a cost and fee study. The study provided fee recommendations to better align the fee revenue collected and deposited into the Gambling Control Fund (GCF) with the costs of the activities the fund supports.

2022 Budget Action on Commission Fees

Based on the MGT report, the Commission worked in 2021 to adjust specific fees it was able to adjust via emergency regulations. However, certain fees specific to cardrooms were at the time established in statute, which the Commission did not have the authority to adjust. This fee structure was based on the number of tables the cardroom was licensed to operate or the gross revenue of the cardroom, as specified.

The 2022 Budget included a trailer bill that eliminated the fee schedule from statutes, and instead provided that the fees be determined by the commission via regulations. Language in the trailer bill provides that the amount of fees collected must be limited to the reasonable regulatory expenditures of the department and the commission. In addition, the Commission is required to provide a report every two years to the budget and policy committees of the Legislature detailing the fee levels established by the commission through regulations.

Fee Calculation

Based on the MTG report, the Commission's first annual fee analysis included the review of all cardrooms and TPPPS functions and related state regulatory costs within the Commission and the Bureau, which were then divided into "cost pools" to identify which part of the industry, the Cardroom and/or TPPPS, was driving the workload. The sum of the cost pools represents the total statewide annual fee necessary to adequately cover state regulatory costs. A review of each business licensee's three-year average gross revenue was used to identify each licensee (cardroom or TPPPS) as licensed, but non-operational; operational with a three-year average gross revenue under $1.5 million; or operational with a three-year average gross revenue of $1.5 million or more. A base annual fee amount was determined by identifying the total annual fee costs attributed to the cardrooms and TPPPS, divided by their respective three-year average Commission actions. The base annual fee amount was charged to the operational entities with a three-year average gross revenue under $1.5 million. An amount equal to half of the base annual fee was charged to those entities that remain licensed, but are non-operational. The total three-year average gross revenue of those business licensees identified as operational entities with $1.5 million or more in three-year average gross revenue was used to equitably distribute the total remaining annual costs to be recovered. Specifically, the remaining total statewide annual fee necessary to adequately cover state regulatory costs (after accounting for the base annual fee amounts paid by non-operational entities and operational entities with a three-year average gross revenue under $1.5 million) was divided by the total three-year average gross revenue of all entities with $1.5 million or more in three-year average gross revenue, to determine an equitable percentage of gross revenue to be paid by entities with $1.5 million or more in three-year average gross revenue.

Based on those calculations, the Commission established the following annual fee amounts for TPPPS and cardroom licensees.

Type of TPPPS Business Licensee	Annual Fee
Surrendered or Revoked Licensee	$0
Non-Operational Licensee	$2,035
Active Licensee – 3-Year Average Gross Revenue Under $1.5 Million	$4,069
Active Licensee – 3-Year Average Gross Revenue of $1.5 Million or More	1.54% of the 3-Year Average Gross Revenue

Cardroom Business License Annual Fee Amounts (California Code of Regulations, Title 4, Division 18, Chapter 7, Article 1, Section 12368.2):

Type of Cardroom Business Licensee	Annual Fee
Surrendered or Revoked Licensee	$0
Non-Operational Licensee	$5,237
Active Licensee – 3-Year Average Gross Revenue Under $1.5 Million	$10,473
Active Licensee – 3-Year Average Gross Revenue of $1.5 Million or More	1.29% of the 3-Year Average Gross Revenue

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) The new fee calculation no longer takes into account the number of tables a cardroom was licensed to operate. Is using a 3-year average gross revenue a better metric to determine the Commission's annual fees?

2) How often will the Commission review and revise its fee schedule?

3) How has the new fee methodology impacted TPPPS and cardrooms in terms of fee levels?

Staff Recommendation: This item is presented for information only.

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

ISSUE 21: PERS UNFUNDED LIABILITIES PAYMENTS

The California Public Employees' Retirement System (CalPERS) administers retirement benefits for active employees and retirees of state and local agencies in California. Benefits include retirement, disability, and survivor retirement benefits. CalPERS also provides health benefits for active and retired state, local government, and school employees and their family members. CalPERS develops, negotiates, and administers contracts with health maintenance organizations, group hospitals, and medical insurance plans. In addition, CalPERS administers a long-term care program for members and eligible individuals.

The subcommittee will receive an update on the state contributions to CalPERS and the schedule of supplemental payments under Proposition 2.

PANEL

- Aston Tennefoss Staff Finance Budget Analyst, Department of Finance
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

BACKGROUND

The Governor's budget allocates $8,473,681,000 for the statutorily required annual state contribution to CalPERS for state pension costs, based on the CalPERS actuarial valuation projected contribution rates as of June 30, 2021. Out of this total dollar amount, $4,720,525,000 is from the General Fund. The Administration notes that the total contribution is $255 million higher than the 2022 Budget Act due to payroll growth and the normal progression of amortization bases, including the 7.4-percent investment loss in 2021-22.

The Governor's budget also includes $1,862,000,000 in Proposition 2 Supplemental Payment. Out of this total figure, $1,182,000,000 is proposed to pay down state employee pensions unfunded liabilities, and $390,000,000 is proposed to fund retiree health benefits. The full breakdown of Proposition 2 payments is included below.

Attachment II

Debts and Liabilities Eligible for Payments Under Proposition 2

2023-24 Governor's Budget

(Dollars in Millions)

		Outstanding Amount at Start of 2023-24 [2/]	Proposed Use of 2023-24 Pay Down	Proposed Use of 2024-25 Pay Down	Proposed Use of 2025-26 Pay Down	Proposed Use of 2026-27 Pay Down
State Retirement Liabilities						
1	State Retiree Health	95,510	390	400	410	420
2a	State Employee Pensions—SB 84 Loan from SMIF		290	836	590	556
2b	State Employee Pensions	43,639	1,182	447	734	874
3	Teachers' Pensions [1/]	60,136	0	0	0	0
4	Judges' Pensions	2,299	0	0	0	0
	Total	**$201,584**	**$1,862**	**$1,683**	**$1,734**	**$1,850**

[1/] The state portion of the unfunded liability for teachers' pensions is $13.065 billion.

[2/] For retiree health and pensions, the amounts reflect latest actuarial report available.

Staff Recommendation: Hold Open

7920 STATE TEACHERS' RETIREMENT SYSTEM

ISSUE 22: STRS UNFUNDED LIABILITIES PAYMENTS AND BUDGET CHANGE PROPOSALS

The California State Teachers' Retirement System (CalSTRS) provides pension benefits, including disability and survivor benefits, to California full-time and part-time public school teachers from pre-kindergarten through community college and certain other employees of the public school system. CalSTRS administers a defined benefit plan, two defined contribution plans, a post-employment benefit plan, and a fund used to account for ancillary activities associated with various deferred compensation plans and programs.

The subcommittee will review the state contributions to STRS and two budget change proposals requested by the System.

PANEL

- Julie Underwood, Chief Financial Officer, CalSTRS
- Ryan Weinberg, Staff Finance Budget Analyst
- Angela Short, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

BACKGROUND

The Governor's budget includes $3,930,118,043 for the statutorily required annual state contribution to CalSTRS. The Administration notes that the amount is roughly a $218 million increase from the 2022 Budget Act due to higher-than-anticipated growth in creditable compensation from 2020-21 to 2021-22.

BCP 1: Enterprisewide Strategic Support

CalSTRS requests $17,348,000 in 2023-24 and ongoing from the Teachers' Retirement Fund to fund various support resources and technology service contracts. Requested funding could cover the following:

- $8.6 million to add 56 permanently authorized positions to CalSTRS' workforce. Workload for these positions is primarily associated with enhanced member services, compliance and risk management, administrative and operational support, and CalSTRS Collaborative Model investment administrative support functions.
- $3.3 million for 23 positions across four CalSTRS business areas: benefits and services, general counsel, financial services, and audit services
- $2.5 million for 14 positions for compliance and risk management, including procurement compliance, various tax research and reporting and litigation caseload.
- $2 million for 14 positions for administrative and operational support
- $800,000 for 5 positions for technology services and human resources

- $8.7 million for technology service contracts to support ongoing maintenance and operation costs for CalSTRS' cloud data center platform, member call center system, back-up power supply units, and cybersecurity tools.

BCP 2: Pension Solution Project

CalSTRS requests $87,173,000 one-time funding from the Teachers' Retirement Fund to continue implementation activities of CalSTRS' pension administration modernization effort, also known as the Pension Solution Project. This requested funding would add to existing funding of $334.8 million, bringing the total project budget to $422 million. Under this proposal, funding will be effective July 1, 2023, and will be available for encumbrance or expenditure through June 30, 2025, and for liquidation through June 30, 2027. Additionally, this proposal includes an extension of the existing Pension Solution Project appropriations through June 30, 2025, for encumbrance or expenditure and through June 30, 2027, for liquidation. Of note, CalSTRS new system is called BenefitConnect.

Project History

In 2007, CalSTRS recognized the need to address operational risk associated with CalSTRS' existing legacy systems, including its pension administration system, START. In October 2007, the Teachers' Retirement Board directed CalSTRS to begin the process of replacing its aging technology infrastructure. The Pension Solution Project was then initiated in order to address significant technology and cost concerns with operating the legacy START system, all of which continue to exist today. According to CalSTRS, as START's underlying technology has aged, expertise has become increasingly scarce and expensive to recruit and retain. CalSTRS notes that it continues to rely on a shrinking pool of external contractors for critical maintenance and development. CalSTRS is obligated to make ongoing changes to pension administration technologies and processes in order to conform to continuously evolving state and federal law and to meet critical employer and member needs. Given the scarce expertise and the reliance on external contractors, any updates to CalSTRS' complex, custom solution have become very costly and difficult to maintain.

The planned new system, BenefitConnect, aims to offer enhanced services to members, beneficiaries, employers and staff in a more modern platform. CalSTRS contracted with an original system integrator (OSI) to configure and implement the new pension administration system. Despite meeting several project milestones, CalSTRS notes significant challenges and delays with the project, including decreasing pass rates of contractor acceptance testing of the OSI software code, greater than expected defects and low pass rates of functionality passed to user acceptance testing.

As a result of the project challenges, in July 2022, the OSI and CalSTRS mutually agreed that the OSI would transition the remaining portion of the project to another technology vendor at the conclusion of their contract term on June 30, 2023. CalSTRS notes that it has executed a transition plan to ensure knowledge transfer occurs.

2023 Budget Request

CalSTRS explains that the requested $87.2 million is based on a review and analysis of historical data for internal staff and contract labor as well as vendor services. The review and analysis included an assessment of historical information for equivalent services and activity levels, and the number of internal staff and contractor hours required to complete various scopes of work and service functions. In addition, standard escalation factors were applied to account for inflationary adjustments.

CalSTRS notes that it will continue integration of additional internal resources in addition to acquiring a new system implementation vendor(s) to complete the project. Once a new system implementation vendor(s) is acquired, and costs are refined, CalSTRS will have sufficient information to develop and establish an updated project schedule and quantify the impact on the budget. Upon completion of these activities, CalSTRS will submit a budget change proposal during the 2024–25 budget cycle. As part of the 2024–25 budget change proposal, CalSTRS will true-up any changes to the 2023–24 one-time cost estimate of $87.2 million as part of the budget to complete the project.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) When does CalSTRS anticipate onboarding a new system implementation vendor for BenefitConnect?

2) How will CalSTRS ensure its Pension Solution Project stays on track and does not experience additional delays?

Staff Recommendation: Hold Open

7501 CALIFORNIA DEPARTMENT OF HUMAN RESOURCES

OVERVIEW

The California Department of Human Resources, or CalHR, is the state department responsible for issues related to employee salaries and benefits, job classifications, civil rights, training, exams, recruitment and retention. CalHR is also the lead entity representing the Administration during the collective bargaining process for state employees.

The subcommittee will receive a briefing on the state's existing practices to recruit and hire bilingual staff and review two budget change proposals.

ISSUE 23: INCREASING THE STATE'S BILINGUAL WORKFORCE

The subcommittee will receive a briefing on existing requirements for state employees to be certified into a bilingual position. The subcommittee will also discuss opportunities to increase the state's bilingual workforce.

PANEL

- Mario Guerrero, Deputy Director, Legislation, CalHR
- Natalie Griswold, Finance Budget Analyst, Department of Finance
- Nick Schroeder, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

Bilingual positions in state service. With over 200 languages and dialects spoken in California, bilingual and multilingual state employees provide critical services by ensuring effective communication between government and constituents. Bilingual state employees bridge an important language gap for limited-English and non-English speaking communities, by providing equal access to essential state services and resources.

When hiring state employees, departments and agencies may designate a position as bilingual. Bilingual positions must meet specific criteria, including an attestation that the position requires the use of bilingual skills 10 percent of the time. In addition, positions must be in a setting where there is a demonstration that bilingual skills are clearly needed. For example, the language skills may be used to meet the needs of the public in a direct public contact position; or a hospital or institution setting dealing with patient or inmate needs; or performing interpretation, translation, or other specialized bilingual tasks for the department and its clients.

Bilingual examinations. In order for state employees to be designated into a bilingual position, they must pass a fluency test. State departments and agencies may directly, or by contract, develop and provide language proficiency testing. When administering language proficiency testing, state departments and agencies must ensure that examination development, maintenance, and testing are conducted in accordance with ASTM International standards (ASTM was formerly known as the American Society for Testing Materials). The ASTM standards describe best practices for the development and use of language tests in the modalities of speaking, listening, reading, and writing. As every state department has different language needs, the fluency examination may differ: some bilingual positions would only require a verbal test, while others may also require a written test.

Bilingual pay differential. State employees who are certified bilingual are eligible for a pay differential. These pay differentials are agreed upon through the collective bargaining process. Generally, the pay bonus ranges between $100 and $200 per month, depending on the department and respective bargaining unit.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) During previous hearings focused on language access, this subcommittee noted that state departments were facing challenges in hiring bilingual staff, particularly in languages such as Cantonese, Mandarin, Vietnamese, or Tagalog. Does the Department have insights as to what may create barriers in finding candidates or applicants?

2) What resources does CalHR provide to state departments and agencies to highlight, promote, or advertise bilingual positions?

3) Does CalHR track the pass / fail rate of the fluency exams that are administered for bilingual positions?

4) Is the ASTM International the only standard available to test language competency in the context of public service?

5) How often is the bilingual pay differential adjusted through the collective bargaining process?

Staff Recommendation: This item is presented for information only.

ISSUE 24: OTHER CALHR BUDGET CHANGE PROPOSALS

The subcommittee will review an additional budget change proposal and trailer bill requested by CalHR.

PANEL

- Mario Guerrero, Deputy Director, Legislation, CalHR
- Stephan Higginbotham, Fiscal Program Manager, CalHR
- Aston Tennefoss, Staff Finance Budget Analyst, Department of Finance
- Natalie Griswold, Finance Budget Analyst, Department of Finance
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

BACKGROUND

BCP: Communications Office and Content Management System Replacement

The Department of Human Resources is requesting 2 positions and $1,352,000 ($994,000 General Fund, $74,000 Central Services Cost Recovery, $5,000 FlexElect, $40,000 Deferred Comp, and $239,000 Reimbursements) in fiscal year 2023-2024 and $563,000 ($214,000 General Fund, $72,000 Central Services Cost Recovery, $5,000 FlexElect, $39,000 Deferred Comp, $233,000 Reimbursements) in fiscal year 2024-2025 and ongoing to 1) research and plan for the replacement of the CalHR Web Content Management System (CMS), and 2) research, plan and develop an improved communication service to the public, state, and employees.

CalHR's public facing website, CalHR.ca.gov, uses SharePoint 2016 as its CMS. The site provides services for job seekers, state employees, state supervisors/managers, state HR professionals, and state retirees. In July 2026, CalHR's CMS, Microsoft SharePoint Server 2016 (SharePoint 2016), will reach end-of-extended-support, discontinuing security and reliability updates, bug fixes and break-fix assurance. CalHR requests $775,000 one-time for consulting services that will assist in finding a platform to replace SharePoint 2016.

Based on the Administration's California Leads as an Employer Implementation (CalLeads), CalHR seeks to begin research and design to implement improved communication services such as coordinated outreach, engagement, branding, paid/earned media, marketing, and research. Requested resources will go to consulting services for a marketing / PR contractor, as well as dedicated staff for event planning, communications support, and development of materials.

Trailer Bill: Retirement Rate Adjustment for Excluded Employees

CalHR requests trailer bill language that would provide the Department with flexibility to adjust retirement rates for excluded employees. Currently, changes to excluded employee retirement rates depend on the associated bargaining unit. For example, statutory language the Director of CalHR discretion to retroactively adjust retirement rates for associated excluded employees of specific bargaining units. For others, adjustments are not possible prior to the date CalPERS receives a notification of change. According to CalHR, this creates timing challenges, especially when bargained Memoranda of Understanding include retroactive changes for rank-and-file members and the Administration wishes to mirror the change for associated excluded employees.

CalHR explains that the proposed changes will align statutory language for excluded employees across the various bargaining units, ensure employees in the same bargaining unit are contributing equally based on actuarially determined rates, and provide CalHR with the flexibility to adjust rates without restrictions on timing.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) What is the target audience for CalHR's communications efforts outlined in the budget change proposal?

2) What metrics CalHR will use to gauge success of the outreach, engagement, branding, and marketing efforts that are described?

Staff Recommendation: Hold Open

0840 STATE CONTROLLER

ISSUE 25: SCO BUDGET CHANGE PROPOSALS

The subcommittee will receive review two budget change proposals submitted by the State Controller's Office.

PANEL

- An-Vi Ching, Budget Officer, State Controller's Office
- Jim Doyle, Department of Finance
- Ann Hollingshead, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

BCP 1: Broadcom Computer Associates (CA) Integrated Database Management System (IDMS) Software Licensing

The State Controller's Office (SCO) requests $4,877,000 [$2,610,000 General Fund (GF), $1,571,000 Central Service Cost Recovery Fund (CSCRF), and $696,000 Special Fund (SF)] in 2023-24 through 2027-28. The funding is expected to fully support the contracted costs for Broadcom Computer Associates (CA) Integrated Database Management System (IDMS) software, including licensing fees, annual maintenance fees, Central Processing Unit (CPU) upgrade fees, associated with the product and any applicable administrative fees related to maintaining the software.

The IDMS is a database management system for mainframes. The IDMS software is still currently used by SCO's applications running on the mainframe at the California Department of Technology (CDT). The SCO notes that it is entirely dependent on this IDMS system to conduct its fiduciary activities, including personnel administration, payroll, audits, and various fiscal functions.

Through a 2018-19 Budget Change Proposal (BCP), SCO received funding to support costs of maintaining the IDMS, and for 4.0 permanent positions and 1.0 limited-term position, to develop a migration pilot project to remove five core systems from operating on the IDMS.

SCO has already successfully removed (i.e., decommission or transitioned) eight other systems from IDMS including the Lottery Education Apportionment System, the Lottery Payment System, the Warrant Control Database System, the Medi-Cal Payment Reimbursement System, the PERS Care/PERS Choice/PERS Select System, the Warrant Control Database System, the Tape Claims System, and the Garnishment System.

However, several systems remain on IDMS and rely on the technology. SCO notes that it is unable to continue to support these systems without the funding requested in this budget change proposal. Requested resources would be used to lock in the negotiated rate and allow SCO to continue operating IDMS-dependent systems while working to shift to other technologies.

BCP 2: AB 2280 Implementation: Unclaimed Property Voluntary Compliance Program

The State Controller's Office (SCO) requests $318,000 in 2023-24 and $295,000 in 2024-25 and ongoing from the Unclaimed Property Fund (UPF) to support 3.0 permanent positions for the implementation and operation of a Voluntary Compliance Program (VCP) pursuant to Chapter 282, Statutes of 2022 (Assembly Bill (AB) 2280).

Requested resources will enable the Controller to administer the new program, including program advertisement, holder education and enrollment, preparation of educational materials, development of forms, and correspondence with enrolled holders. SCO's VCP is expected to operate out of the Unclaimed Property Division, Outreach and Compliance Unit (OCU).

STAFF COMMENTS

The subcommittee may wish to ask when the SCO anticipates transitioning the remaining systems out of IDMS.

Staff Recommendation: Hold Open

8955 DEPARTMENT OF VETERANS AFFAIRS

ISSUE 26: CALVET BUDGET CHANGE PROPOSALS

CalVet is the state entity responsible for ensuring that California veterans are connected to and have access to a broad range of state and federal benefits. This includes providing the state's aged or disabled veterans with rehabilitative, residential, and medical care and services in a home-like environment through California Veterans Homes; facilitating homeownership through direct low-cost loans; and representing veterans and families with their claims and appeals for benefits before the U.S. Department of Veterans Affairs.

The subcommittee will review 5 budget change proposals requested by CalVet.

PANEL

- Patty Ingram, Assistant Deputy Secretary, California Department of Veterans Affairs
- Emma Jungwirth, Department of Finance
- Anthony Franzoia, Department of Finance
- Nick Schroeder, Legislative Analyst's Office

BACKGROUND

BCP 1: Administrative Support
CalVet requests 10 positions and $1,426,000 General Fund in 2023-24, and $1,368,000 General Fund annually thereafter, for administrative support in the areas of accounting, budgets, and human resources

BCP 2: CalVet Electronic Health Record Project: Additional Activities and Scope Increase
CalVet requests $2,548,000 General Fund in 2023- 24 for the fourth year of implementation of a new long-term care electronic health record system in the Veterans Homes of California and Headquarters

BCP 3: Clinical and Operational Workload
CalVet requests 15.5 positions and $3,030,000 General Fund in 2023-24, and $2,953,000 General Fund annually thereafter, to improve oversight and coordination of clinical and operational initiatives in the Veterans Homes of California.

BCP 4: Veterans Services Division District Office Support
CalVet requests 9 positions and $1,332,000 General Fund in 2023-24, and $1,282,000 General Fund annually thereafter, for staffing at the Veterans Services Division three District Offices.

BCP 5: Yountville Roof Replacement

CalVet requests $15,857,000 General Fund in 2023-24 for the replacement of five roofs at Veterans Home of California (VHC)-Yountville. The request includes construction costs and DGS project management costs and associated fees.

STAFF COMMENTS

The subcommittee may wish to ask the following questions:

1) When does CalVet expect full functionality of the Electronic Health Records Project across all Veterans Homes?

2) Is there an anticipated life expectancy or life cycle for the proposed Yountville Roof Replacement? Are there anticipated maintenance costs?

Staff Recommendation: Hold Open