AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR

TUESDAY, MARCH 29, 2016
1:30 P.M. - STATE CAPITOL ROOM 447

VOTE-ONLY CALENDAR

ITEMS TO BE HEARD

VOTE-ONLY CALENDAR

0840 STATE CONTROLLER

VOTE-ONLY ISSUE 1: ACA AND PEPRA LEGISLATION WORKLOAD

The State Controller's Office (SCO) requests $961,000 ($548,000 [General Fund], and $413,000 Central Service Cost Recovery Fund [CSCRF]) in 2016-17, and $927,000 ($528,000 GF and $399,000 CSCRF) in 2017-18, for 8.4 positions to support the major changes to the SCO's Uniform State Payroll System (USPS), the Affordable Care Act Database System (ACAS), and associated business processes as a result of mandated state and federal legislation.

BACKGROUND

Since 2010, two pieces of legislation have been enacted that continue to have a significant impact on how the State of California and the SCO conduct business. These include the California Public Employees' Pension Reform Act (PEPRA) and the Federal Patient Protection and Affordable Care Act (ACA).

PEPRA. On September 12, 2012, the State of California enacted pension reform legislation that went into effect as of January 1, 2013. However, certain provisions were not effective until the expiration and negotiation of the collective bargaining agreements occurring between the 21 state civil service bargaining units and the California Department of Human Resources (CalHR) in June 2013. On July 1, 2013, CalHR issued a formal request to the SCO to implement the PEPRA requirements for employee retirement contribution rate changes to begin July 1, 2013.

PEPRA creates a need for two categories of retirement members: new and classic. The USPS is a complex legacy system that was not designed to distinguish two different types of retirement members (classic vs. new) as required by the PEPRA legislation. Implementing the system changes to support PEPRA are extremely complex requiring SCO staff to analyze and identify impacts to current processes and programs and coordinate those changes to the USPS and other downstream programs/processes.

Prior Budget Actions. In 2014-15, SCO received 1.5 two-year limited-term positions to support PEPRA workload. Along with the 1.5 positions, the Personnel Payroll Services Division **(**PPSD) redirected 4.0 positions in 2014-15.

ACA. The Patient Protection and Affordable Care Act (ACA) was signed into law in March 2010, and was litigated by 26 of the 50 states. On July 2, 2013, the federal government issued a notice acknowledging the complexity of the legislation and their delay in publishing rules to implement employer and insurer reporting requirements for all medium and large employers, such as the State of California.

In June 2015, the United States Supreme Court upheld key provisions of the ACA in relation to the taxpayer subsidy. This decision allowed implementation of the ACA to proceed. In July 2015, the Trade Preferences Extension Act of 2015 was signed into law. This legislation doubled many of the financial penalties (particularly in the area of reporting) contained within the ACA legislation. Beginning January 1, 2015, a number of aspects of the ACA were implemented by the State of California.

To implement the Employer Shared Responsibility Provisions of the ACA and provide the required reporting, the SCO determined that the State of California needed to collect data that was not currently available in the USPS or other state automated systems. Therefore, the SCO initiated efforts to collect the required data beginning January 1, 2015.

Prior Budget Actions. In 2014-15, the SCO received 1.5 two-year limited-term positions to support these ACA workloads. Along with the 1.5 positions, PPSD redirected 11.6 positions in 2014-15.

2016-17 Budget Request. To implement the additional PEPRA and ACA changes, the SCO is requesting two-year limited-term funding to support 8.4 resources in 2016-17 and 2017-18.The workload generated by PEPRA will continue in 2015-16 and beyond. The SCO anticipates making significant business process and/or system changes to the USPS beginning in 2015-16 and continuing into future years. SCO now has both a support and maintenance responsibility for the ACA, as well as a project analysis, development and implementation responsibility related to new ACA provisions and reporting requirements.

STAFF COMMENTS

This workload is necessary to ensure PEPRA and ACA compliance. Staff has no concerns with the requested resources.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 2: PERSONNEL AND PAYROLL TRANSACTION WORKLOAD

This proposal requests $325,000 ($186,000 [GF] and $139,000 Central Service Cost Recovery Fund [CSCRF]) in 2016-17, and $287,000 ($164,000 GF and $123,000 CSCRF) in 2017-18, and ongoing for 4.0 positions to improve a 46 percent call answer rate, and dedicate staff to complete production work.

BACKGROUND

The Personnel Payroll Services Division (PPSD) administers the Uniform State Payroll System (USPS), audits and processes all personnel and payroll transactions for state civil service and exempt employees and the CSU system. The PPSD is responsible for providing information required to manage the personnel resources of the State and to properly account for salary and wage expenditures.

If calls are not answered, Human Resources (HR) offices will not have the right information to process transactions correctly and/or complete documents required to be sent to the SCO for processing. When HR offices are unable to complete the transactions accurately, documents are returned for correction, causing a time delay in processing. This results in an employee's payroll continuing to be incorrect, causing a refund to the employee or more likely, an accounts receivable.

The Personnel/Payroll Operations Bureau (PPOB), within PPSD, is responsible for processing transactions to ensure employees are paid correctly. It is also responsible for providing answers to department and CSU HR offices. PPOB receives and processes about 435,000 documents annually from department and CSU HR offices. A single document can require one or many transactions to correct pay or employment history. All transactions processed by PPOB require manual intervention because they are exceptions or actions that cannot be automated. Most transactions are for one or several retroactive pay periods, which make them significantly more complex.

Currently staff in each business area split the workload of processing transactions, answering phone call and responding to email inquiries. It is important to answer all calls received so that HR offices can process transactions and accurately complete documents sent to the SCO. Errors in either result in time lags and incorrect pay for employees. The existing Automatic Call Distribution (ACD) and staff resources are insufficient with the majority of calls being routed to voicemail or being abandoned entirely. From 2012-13 through 2014-15, only 46 percent of calls were answered, 38 percent went to voicemail and 16 percent were abandoned.

STAFF COMMENTS

Staff has no concerns with this proposal. The additional resources will increase the call answer rate and provides departments and CSU with increased assistance.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 3: UNCLAIMED PROPERTY FRAUDULENT CLAIMS PREVENTION AND DETECTION PROGRAM

The SCO requests $986,000 in 2016-17 through 2018-19, for 9.0 positions, and $1,351,000 in permanent funding for 8.0 positions in 2016-17 and ongoing from the Unclaimed Property Fund for the continued support of the SCO's Unclaimed Property Fraudulent Claims Prevention and Detection Program.

BACKGROUND

The SCO is responsible for safeguarding unclaimed property until it is returned to its rightful owner. The Unclaimed Property Division (UPD) of the SCO reunites owners with their lost or abandoned property when the owner files a paper claim following a search for property on the SCO's website or after calling the SCO to request a claim form. Claims are also generated from owners receiving a notice from UPD.

The UPD makes every effort to ensure that property is returned to its rightful owner. Claimants are required to submit documentation to substantiate their claims. When information reported is incomplete, staff are required to contact the holder to obtain additional information.

Fraudulent claims have increased in recent years. In 2010-11, UPD identified that claims totaling $2.8 million had been previously paid, and concerns grew that more fraudulent claims were being paid that the UPD was unable to identify. In 2011-12, additional steps were implemented to review process in an effort to detect and prevent fraud. The additional steps caused the claim inventory to rise, and thereby not allowing UPD's to render decisions on claims within the 180-day timeframe.

The 2013 Budget Act included 17.9 positions for the Fraudulent Claims Prevention and Detection Program on a two-year limited term basis to address the increase in fraudulent claims. The 2014 Budget Act included 16 two-year limited-term positions and $2.095 million (Unclaimed Property Fund) for FY 2014-15 and $2.082 million in FY 2015-16 to continue this work.

STAFF COMMENTS

The resources provided in this BCP are consistent with past actions of the subcommittee.

Staff Recommendation: Approve as budgeted.

7730 FRANCHISE TAX BOARD

VOTE-ONLY ISSUE 4: ACCOUNTS RECEIVABLE MANAGEMENT PROGRAM

The FTB requests 101 permanent positions to replace 101 expiring two-year limited-term positions and $8.2 million (General Fund) in 2016-17 to help manage the Accounts Receivable (AR) Inventory.

BACKGROUND

FTB's tax collection activities involve collection against an AR inventory that is established by the department's self-assessment, audit, settlement and filing enforcement activities. Both an automated billing system and collection staff administers collection activities. The automated system supports the collection process by issuing billings, notices, liens, levies, attachments of assets and, when further action is necessary, routing accounts to collectors. Manual collection efforts are conducted by the department's collection staff to ensure that taxpayers pay the proper amount owed.

In 2014-15, the Accounts Receivable Management Division was authorized for Tax Program expenditures of $95 million and 1,246 positions. FTB's collection activities resulted in the receipt of $2.82 billion General Fund revenues. Tax collection revenue has grown by 28 percent in four years, from $2.25 billion in 2010-11, to $2.87 billion in 2014-15. For 2015-16, collection revenue is projected to be $2.82 billion.

FTB was granted the following limited term resources to maximize collection efforts and reduce the AR inventory and balance:

- In 2010-11, FTB was granted 111 two-year limited term positions through to address the ongoing increase of the AR inventory.
- In 2012-13, the 111 two-year limited term positions were reestablished for an additional two years.
- In 2014-15, the 101 limited-term positions were extended for an additional two years; these positions expire on June 30, 2016.

The limited term positions have played a significant role in generating revenue and in stabilizing the AR Inventory. The additional positions have allowed FTB to manage the inventory, reducing prior year receivables and timely processing new cases as they enter the collection program. The positions are also a critical component in the department's plan to meeting its revenue goals.

STAFF COMMENTS

The resources are reasonable and staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 5: E-COMMERCE INFRASTRUCTURE REFRESH

FTB requests $3.4 million (General Fund) and $149,000 (Special Funds) in 2016-17, $1.8 million (General Fund) and $81,000 (Special Funds) in 2017-18, and $163,000 (GF) and 7,000 (Special Funds) in 2018-19, and ongoing to refresh and expand the internet network infrastructure, which is reaching its end of life (EOL).

BACKGROUND

The E-Commerce Portal Infrastructure Feasibility Study Report was developed and approved by the Department of Finance on January 10, 2007, to provide Internet network infrastructure and tools to manage, maintain, and grow FTB's internet network platform.

FTB programs rely on this infrastructure to connect all California taxpayers to taxpayer information on our systems. This infrastructure also allows taxpayers to securely fulfill their tax obligations using self-service filing and payment options available on FTB's website. FTB received 15.1 million electronic returns and processed 4.4 million electronic payments in 2014. This is an increase of 7 percent and 10 percent, respectively, over the prior year.

FTB's internet network infrastructure is nearing EOL and will no longer be supported beginning February 2017. FTB's ability to conduct business is at risk. Without having a secure network, FTB's systems will be vulnerable, jeopardizing security of taxpayer data. As access to internal and external systems relies on the internet network infrastructure, failure would result in enterprise-wide work stoppage until a replacement could be completed.

The refresh will update FTB's enterprise internet network infrastructure through 2023 to meet the work demands, receive updates and patches, and have access to replacement equipment components. In order to reduce resource constraints, minimize impacts to current FTB network environments, and reduce filing season moratorium constraints, FTB will use a phased approach to refresh the internet network.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

VOTE-ONLY ISSUE 6: ADMINISTRATIVE WORKLOAD – HUMAN RESOURCES BUSINESS SERVICES AND PROCUREMENT

The Governor's Office of Business and Economic Development (Go-Biz) requests ongoing budget authority for four positions and $309,000 (General Fund) to provide administrative support services to the Human Resources, Business Services, and Contracts and Procurements Units. The proposal will provide funding for three positions and GO-Biz will absorb the cost of one position.

BACKGROUND

GO-Biz has seven full time administrative positions to cover information technology, human resources, facilities, business services, procurement, contracts, and budgets for the entire department of 98 authorized positions and seven temporary help positions. Due to many of the programs within GO-Biz growing, additional resources are needed to support the additional workload being created in areas of Human Resources, Business Services, Contracts and Procurement.

In the 2014-15 budget, GO-Biz received four additional administrative support positions. Four new positions are being requested for the following work:

- One Staff Services Manager I (SSM I) position and one Management Services Technician for the Business Service Unit.

The contracting and procurement needs of the department have increased with the California Competes Program, Capital Infusion Grant Program, the changing needs of the Infrastructure and Economic Development Bank (IBank) and the Film Commission. The SSM I will be responsible for supervising and directing the daily activities of both the support and analytical staff performing the business service functions for the department. The additional duties of the SSM I will be the most complex and technical contracts, writing and implementing departmental contracting and procurement policy, departmental travel expense claim approvals in CalATERS, working with property management to resolve issues at all GO-Biz locations, and departmental telecommunications.

The Business Services Unit currently has no support staff to assist with data entry into legacy systems and FI$CAL, tracking purchases, creating files, disseminating documents to internal and external customers, and compiling information for reports. Not having appropriate staff levels increases efficiency checks, which in turn slows down processing times, thus leaves the Business Services Unit with a backlog of approximately four weeks with new contracts, purchase orders, and acquisitions needing to be started.

- One Staff Services Manager I (SSM I) and one Staff Service Analyst (SSA) for Human Resources.

The human resource needs of the department also have increased with new positions and program expansions. The SSM I will be responsible for supervising and directing the daily activities of the Human Resources Office. The SSM I will be able to provide relief to the Administrative Manager by handling the most sensitive HR issues and projects.

The Human Resources unit is in need of a manager devoted only to the unit so that when other highly sensitive administrative projects arise, the Administrative Manager can focus on that, while the SSM I can continue to provide managerial support to Human Resources. The SSM I also will be responsible for representing GO-Biz at statewide human resources forums, which GO-Biz staff have been unable to attend due to high volumes of workload and backlog. Finally, the SSM I also will be in charge of ensuring that the proper policies and procedures for the Human Resources unit are written and completed.

The SSA will be responsible for backing up the current Associate Personnel Analyst and will assist in the areas of recruitment and exams. The current Associate Personnel Analyst requires assistance with collecting job applications, analyzing them for completeness and eligibility, setting up interviews for the whole department and also sitting on interview panels. This will allow the Associate Personnel Analyst to focus on more complex issues like progressive discipline, classification and pay, and labor relations.

Human Resources is currently not equipped enough to give state exams. Two programs within GO-Biz (IBank and the CFC) both utilize departmental specific classifications. GO-Biz is in need of giving exams for these classifications as the current eligibility lists are about to expire. With the addition of these two positions, the department can begin to better assess the department's needs and begin developing exams.

STAFF COMMENTS

Staff has no concern with the increase in resources. The administrative resources will allow GO-Biz to run more efficiently.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 7: ZERO EMISSION VEHICLE INFRASTRUCTURE PROJECT MANAGER TEAM EXTENSION

This proposal requests to extend funding for one position and increase reimbursement authority by $150,000 in 2015-16, and $150,000 in 2016-17. This request provides resources to allow the state to meet the requirements of several federal and state air quality and emission reduction mandates by the mid-2020s.

BACKGROUND

The Governor's 2013 Zero Emission Vehicle Infrastructure (ZEV) Action Plan details actions that state agencies are taking to help accelerate the market plug-in electric vehicles. The ZEV Action Plan targets the creation of an "Ombudsman" for streamlining the permitting of hydrogen stations.

The California Energy Commission (CEC) Business Committee determined that GO-Biz was the appropriate entity to house the Ombudsman positions and approved funding for GO-BIZ for one two-year limited term position. The ZEV Infrastructure Project Manager was established in 2013. The funding from the interagency agreement now extends to October 30, 2017.

Since the Ombudsman position was established in 2013, significant improvements in the hydrogen station development process have been achieved. As of September 1, 2015, seven stations are open, five are fully constructed, 13 are under construction, six are approved to be built, three have planning approved, and 20 are moving through the permitting process. In recognition of the position's impact, In June 2015, the CEC Business approved funding to GO-Biz to extend the ombudsman position for two additional years.

The priorities of the position include working with individual communities and station developers to get hydrogen fueling stations permitted, and working with stakeholders to ensure the state is doing everything it can do to ensure a robust hydrogen fueling network is developed.

The anticipated outcome for the ZEV Infrastructure Project will be the successful permitting and development of the 45 currently CEC funded hydrogen fueling station projects. The stations will be permitted and functioning for the roll out of the hydrogen fueled vehicles in the 2015 through 2017 timeframe.

STAFF COMMENTS

A similar request was included in last year's budget proposal. An approval is consistent with past actions.

Staff Recommendation: Approve as budgeted.

0968 TAX CREDIT ALLOCATION COMMITTEE

VOTE-ONLY ISSUE 8: COMPLIANCE MONITORING STAFF AUGMENTATION

This proposal requests four permanent full-time Associate Government Program Analyst positions for performing federal compliance monitoring services. There is no General Fund impact since the Tax Credit Allocation Committee (TCAC) has the authorization to establish and collect fees to pay for administrative costs.

BACKGROUND

The TCAC administers both federal and state Low Income Housing Tax Credit (LIHTC) programs. Both programs encourage private investment in rental housing development for low and very low-income families and individuals.

TCAC has helped fund the construction of over 272,630 total units since its inception, including more than 10,000 last year. California is the largest user nationwide of the LIHTC program. Developers rely on federal, state, and local funding sources to build affordable housing and annually over 300 applications are submitted. TCAC must perform various federally-mandated compliance monitoring functions.

TCAC's property portfolio currently contains over 3,300 properties (excluding 507 in the preliminary reservation stage). Of these, 2,475 properties have received an allocation of tax credits within the last 15 years and 905 are in the extended use portfolio. With increased portfolios, the amount of monitoring continues to increase. Currently, TCAC adds about 220-240 projects per year, a 6.27 percent growth rate.

Current workload projections show that in calendar year 2015, TCAC has a deficit of 4.19 PYs. On average, the compliance section receives over 3,000 phone calls, emails and correspondence from numerous users of the program. This workload, in addition to the in-house office time working on their pre-and-post inspection workloads, has caused a backlog of monitoring work.

Additionally, the program requires review time both in the office and out in the field for projects seeking additional tax credits or resyndication projects. TCAC has about 300 resyndication properties creating additional workload.

Further, there are two on-going pilot programs, one each at the state and federal levels. These two pilot programs require more staff in-house trainings to understand new monitoring protocols. The state pilot program was entered into for a test period with the Department of Housing and Community Development (HCD), whereby, TCAC compliance staff would monitor for the provisions of their Multi-family Housing program (MHP) while monitoring federal code in the state tax credit files. A new worksheet was developed in conjunction with HCD for TCAC staff to use to capture MHP information.

The federal pilot is mandated by the Obama administration and is related to physical inspections of housing units. The federal pilot started four years ago and in 2015, California entered the pilot with five projects that contained funding from HUD in combination with tax credits.

Lastly, TCAC has seen an influx of about 100 requests per year from projects seeking approval to be sold, have a partial ownership transfer, transfer of limited partners, general partners, or seeking refinancing of bank loans. This workload is typically associated with projects after they have been in service for about 15 years. TCAC must perform due diligence on each project requesting these types of changes. The process takes about 4-6 weeks.

TCAC is also required to collect and report on data related to various federal mandates. Current workload demands and resource availability shows that TCAC does not have sufficient resources to complete federally mandated calendar year 2016 initial use portfolio property inspections; and continue the federally mandated monitoring of the extended use portfolio properties.

A total of 1,031 initial and extended use portfolio properties need to be inspected during 2016. Based on the workload analysis tool provided by the consultant firm, TCAC staff will only be able to inspect about 800 of these properties.

STAFF COMMENTS

Staff has no concerns with the resources included in the proposal.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 9: DEVELOPMENT SECTION STAFF AUGMENTATION

TCAC requests three Associate Governmental Program Analyst positions for the Development Section to carry out core functions and to administer the federal and state mandates of the Low Income Housing Tax Credit (LIHTC) program. There is no General Fund impact since TCAC has the authorization to establish and collect fees to pay for administrative costs.

BACKGROUND

TCAC is responsible for administering the allocation of federal and state LIHTCs for the development of low-income housing. Each year the amount of federal LIHTCs allocated by the Internal Revenue Service (IRS) is based on the product of a per capita factor and the state's population. Annual increases in the per capita factor and state population continues to increase the amount of annual federal LIHTCs from $63.8 million in 2004 to $89.3 million in 2015 (a 40 percent increase) available for allocation to develop low-income housing projects. In addition, the total state tax credits has continued to increase from approximately $74 million in 2004 to $93.8 million in 2015 (a 27 percent increase).

Changes to the project requirements, such as sustainability and accessibility, has resulted in more complex reviews and additional technical assistance from staff. The review of applications at the Placed-in-Service (PIS) stage has a large backlog due to the increased number of applications and the added complexity due to project requirements. Failure to issue these tax forms in a timely manner can result in tax consequences to the owner and the overall viability of the projects.

The final step of the development stage is the PIS review, which culminates in the issuance of the IRS tax forms to the developer and for the investor. Issued tax forms induce in the investor's final equity payment and allow the taking of the tax credits. Increased workload has resulted in a significant backlog of the PIS reviews. The timely issuance of the tax forms is critical for investors to filing tax returns and claiming the tax credits for that year. Adverse impacts of the backlog and delay of the tax forms can result in amended tax returns, increased fees, and delayed equity pay-in schedules that are not being met.

TCAC has explored other options to eliminate the backlog, which includes re-evaluating the review process, streamlining submittal requirements, and updating checklists. The increased workload associated with ongoing changes and issues include different forms of data analyses, surveying project data, and stakeholder consultation.

In 2015, the State Treasurer's Office emphasized the increase in production of affordable units by utilizing non-competitive four percent federal low income housing tax credits. TCAC conducted listening sessions with the stakeholder community to discuss possible changes to the regulations to promote the increase in applications. In July, TCAC proposed regulations changes that is expected to increase the number of applications requesting non-competitive four percent federal low-income housing tax credits. The increase in applications would increase the current workload as well as the workload in future years since each application requires a review at the preliminary stage and at the PIS stage.

Due to the current workload, TCAC Development Section staff worked over 400 overtime hours in the last fiscal year and is continuing to do so this fiscal year. With the ongoing increase in the workload, there has only been one additional position increase for the Development Section of TCAC in at least the last 10 years.

STAFF COMMENTS

The three positions will enable TCAC Development Section to perform their required tasks. Staff has no concerns with the proposal.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD

0840 STATE CONTROLLER

ISSUE 1: 21ST CENTURY LEGAL EFFORTS

The State Controller's Office requests $4,832,000 ($3,860,000 Special Funds and $972,000 reimbursements) in 2016-17, for one-year limited-term funding to support eight positions for 6 months to support on-going legal activities as a result of the 21st Century Project.

BACKGROUND

In 2004, the SCO proposed the 21st Century Project, a new IT project to replace the existing statewide human resources management and payroll systems used to pay state employees. The new system was designed to replace the "legacy systems" which were developed more than 30 years ago. Known as MyCalPAYS, the project was intended to manage payroll, benefits, and timekeeping in a more central and cost efficient manner than the legacy systems.

The SCO is responsible for issuing pay to the state's 294,000 employees statewide, and therefore responsible for the implementation and management of the new system. The SCO developed a two-phase procurement process that would allow the agency to first contract to purchase commercial software and second to contract with a vendor to modify the software to meet the state's systems integration needs. The project had delays early on that extended the schedule by two years and increased project costs from $130 million to $180 million. In 2009, SCO terminated the original integration services contract.

In 2010, a new integration services contract was procured and project schedule and costs were revised. The schedule was extended to October 2012, and the total costs rose from $180 million to $283 million. Implementation of the project was supposed to occur in five phases, or pilots. These early pilots were designed to integrate a small number of employees into the system in order to test the system prior to the full launch of the system. A number of challenges occurred with the early pilots and as a result SCO sent a cure notice to the primary vendor in order to make changes. Once again, the project costs increased to $373 million and the schedule of completion moved to September 2013.

In February 2013, the SCO terminated its contract with the vendor citing inaction by the vendor in response to the cure notice and a lack of confidence that the vendor could complete the project. The Department of Technology suspended further work on the project until a new plan could be created. For now, the SCO has reverted to using the legacy system to administer payroll processing.

In June 2013, the budget included additional funding for legal fees and for the SCO to work on reconciling the issues that were created from the launch of the first phase. In November 2013, the SCO filed a lawsuit against SAP Public Services, Inc. (SAP), the vendor for numerous issues including failure to respond to the cure notice. The lawsuit is still pending. The 2013 Budget Act provided the SCO with $1 million for legal support.

The 2014 and 2015 Budget Acts included multiple segments, including funding for legal expenses, additional limited-term positions, the extension of trailer bill language, and budget bill language all related to ongoing legal efforts for the project.

In April 2014, SAP countersued the SCO. Pre-litigation activities during the discovery phase included responding to SAP discovery requests, preparation for depositions for trial. The legal team is focused on deposing SAP personnel and defending depositions of state staff involved with the project, as well as reviewing projects artifacts and SAP documents not provided to the SCO during the project. The discovery phase is anticipated to last until September 30, 2015. From October 2015 through May 2016, the legal team will prepare the case for trial. The case is scheduled for trial on May 23, 2016.

Due to the increased legal costs, the SCO submitted a Provision 14 request for $2.918 million in October 2015. Over the lifespan of the 21st Century Project, $299.5 million has been expended.

Proposed Trailer Bill Language. Existing law authorized the Controller to assess special funds within the state treasury for costs attributable to the replacement effort of the payroll disbursement system.

The provisions in this section were originally set to expire on June 30, 2011. They were extended by three years through AB 119 (Chapter 31, Statutes of 2011) to June 30, 2014. The 2014 Budget Act extended these provisions by one year. Similar to last year, the proposed trailer bill language would extend these provisions by another year to June 30, 2017.

Provisional Budget Bill Language. In previous years, the SCO requested provisional budget bill language that authorizes additional expenditures for legal costs. The provisional items would allow for further augmentation from all fund sources to fund litigation and related support efforts related to the 21st Century project throughout the year. The same provisional budget bill language is proposed for the budget.

LAO COMMENTS

The LAO position on the provision language remains unchanged from the 2014-15 analysis where they stated that the state should budget a reasonable estimate of anticipated costs. The budget process allows the administration to later submit a request for contingency funding under item 9840 of the annual budget act or a supplemental appropriation for overruns and therefore the provisional language is unnecessary.

STAFF COMMENTS

The request for legal costs are consistent with past actions taken by the Subcommittee.

The Subcommittee may wish to ask about the upcoming trial and timeline. Will the trial be complete in the next six months? If that is the case, does it make sense to continue to include the provisional budget bill language to add ongoing resources for the SCO when there are other budget tools for the augmentation if needed?

The Subcommittee may also with to ask, what comes next? Has the SCO started to look forward about a future payroll system and assessment?

Staff Recommendation: Approve the requested funding, approve the trailer bill language and reject the provisional budget bill language.

ISSUE 2: PERSONNEL PAYROLL SERVICES DIVISION (PPSD) SYSTEMS SUPPORT

This request includes $1,126,000 (General Fund) in 2016-17, and $1,011,000 (General Fund) in 2017-18 and 2018-19, for 7.9 positions to support payroll and personnel mainframe-based systems known as the Uniform State Payroll System (USPS).

BACKGROUND

The SCO administers the USPS, audits and processes all personnel and payroll transactions for employees and the state civil service, California State University (CSU), and Judicial Council. The SCO also provides information and data required to manage the personnel resources for the State and to properly account for salary and wage expenditures as well as provides data to the retirement systems to calculate employee retirement benefits.

Until 2012-13, the SCO was in the process of developing a new integrated payroll system, the 21st Century (TFC) project to replace the legacy systems. During the development phases of the project, many new laws affecting the payroll system were handled through short-term alternative workarounds. System enhancements that would increase the efficiency of the PPSD were also suspended.

The Information System Division (ISD) serves the SCO through technology solutions and services and is responsible for application development, maintenance, and infrastructure support of the USPS. When TFC was suspended, ISD began developing and implementing several deferred-maintenance requests. The service requests are processed based on PPSD's assignment priority and ISD's resource availability. Currently, PPSD has identified and prioritized about 30 requests that are considered backlogged mandated work. ISD has completed an analysis of the backlogged requests and identified 28 requests requiring application development work.

Backlogged Requests by Level of Effort

	Small	Medium	Medium-Large	Large	Complex	Total
Hours	480	840	1,420	2,000	4,400	9,140
# of Requests	1	7	11	4	5	28
Workload Hours	480	5,880	15,620	8,000	22,000	51,980

2016-17 Budget Request. To support the maintenance and operations workload and address the backlog, ISD needs to increase staffing levels in the areas of application development, database administration, information security administration, and project management. ISD requests three-year limited-term funding to support 7.9 resources in the four areas:

Application Development:
- 1 Data Processing Manager II
- 3.9 Senior Programmer Analysts (Specialists)

Database Administration
- 1 Systems Software Specialist II (Technician)

Information Security Administration
- 1 Staff Information Systems Analyst

Project Management
- 1 Staff Information Systems Analyst

STAFF COMMENTS

In the absence of the 21st Century Project, it is important to provide resources to support the payroll and personnel mainframe-based systems. The resources to address the backlog are provided on a limited-term funding basis. Staff does not have any concerns with this proposal.

Staff Recommendation: Approve as budgeted.

ISSUE 3: SCO FI$CAL SYSTEM SUPPORT

The SCO requests $1,699,000 ($968,000 General Fund and $731,000 Central Cost Recovery Fund [CSCRF]) in 2016-17 and $1,599,000 ($911,000 General Fund and $688,000 CSCRF) in 2017-18 and 2018-19, for 13 positions to support new workloads resulting from the FI$CAL project.

BACKGROUND

As agreed in the Partnership Agreement and Memorandum of Understanding, the SCC in partnership with Department of Finance, State Treasurer's Office and the Department of General Services are engaged in an effort to develop, implement, utilize and maintain an integrated financial management system, known as the FISCal Project.

The FI$Cal System is a custom off the shelf Enterprise Resource Planning tool and is planned to be implemented in waves. Currently, the Fi$Cal Project has deployed Waves 1 and 2, with the most recent deployment occurring in December 2015. The workload and associated resources requested within this BCP are based upon a revised Project timeline for the release of Waves 3 and 4 as identified within the FI$Cal Project SPR 6. It is expected that SCO control agency functionality in Wave 3 will not be deployed until July 2017; it is also expected that Wave 4 will not be released until July 2018.

Waves 1 and 2 introduced new workloads within the Information Systems Division (ISD). Waves 3 and 4 will have a critical bearing and significant impact in ISD's ability to support the existing financial systems and also create the need to develop, build, and implement the required functionality to support the FI$Cal system on an interim basis until it is fully deployed. Additionally, there are approximately 18 agencies slated as deferred or exempt from the FI$Cal System. Until an implementation plan is provided by the FI$Cal Project for these agencies, the existing financial systems will need to remain operational and the decommissioning timeline cannot be determined. Currently, the FI$Cal Project has not identified all the financial sub-systems which are not migrating to the new system. These actions are necessary to ensure both the SCO financial systems and the new FI$Cal system provides the same services, data, and security for those departments not migrating to the new system.

2016-17 Budget Request Resources:

- Governance Risk and Compliance (GRU) Unit – 5 positions.
  This work focuses on ensuring compliance and segregation of duties be enforced, as well as ensure compliance of all business processes impacting the use of FI$Cal. The unit will ensure all changes in the system performed by data administrators comply with the policies of the FI$Cal system.

- SCO's Information System Division (ISD) Legacy System Support – 8 positions.
  Waves 3 and 4 will have a significant impact on the ISD's ability to maintain and support the existing financial systems, but also create the need to develop, build, and implement the required functionality to support the FI$Cal system on an

interim basis until it is fully deployed. The workload to create and test nine new interfaces and conversions is significant. Wave 3 shifts the Accounting Book of Record from the SCO legacy system to FI$Cal while continuing to maintain the payments out of the legacy systems.

STAFF COMMENTS

The positions included in the request will support SCO in their role with FI$Cal in the areas of security, compliance, analysis and ISD support.

The Subcommittee may wish to ask about the legacy systems with regard to their vulnerabilities. The 21st Century project was to move away from the vulnerable legacy systems, do the new added requirements from FI$Cal put stress onto these systems?

Will the SCO explore using the FI$Cal platform as a future payroll system?

Staff Recommendation: Approve as budgeted.

ISSUE 4: STATEWIDE PERSONNEL/PAYROLL TRAINING

This proposal requests 2.1 limited-term funding for 2016-17 and 2017-18, and 7.4 positions in 2016-17, 2017-18, and ongoing to meet the needs for statewide personnel and payroll training as follows:

- Limited-term funding consists of $307,000 ($175,000 General Fund and $132,000 CSCRF) in 2016-17, and $235,000 ($134,000 General Fund and $101,000 CSCRF) in 2017-18

- Ongoing funding consists of $769,000 ($380,000 General Fund, $286,000 CSCRF, and $103,000 reimbursements) in 2016-17, and $763,000 ($377,000 General Fund, $285,000 CSCRF, and $101,000 reimbursements) in 2017-18, and ongoing.

BACKGROUND

The Statewide Training Unit (STU) within the Personnel and Payroll Services Division (PPSD) was created in the mid-1970s with the goal of providing personnel/payroll training to Human Resources (HR) staff in all civil service state departments at no-cost for those receiving training. The training courses are intended to provide HR staff with knowledge, skills, and abilities to process personnel/payroll transactions and generate accurate and timely payroll using the Uniform State Payroll System (USPS).

The demand for statewide training classes has exceeded the number of classes that can be offered with existing resources. The issues date back to 2002-03 when the SCO was able to address only 60 percent of the training requests submitted. Due to budget reductions, furloughs, personal leave programs, the need to complete critical work, and the impact of the 21st Century Project, the SCO's ability to meet the demand for training decreased from 2003 to 2012. In response, SCO developed a plan to fairly and equitably assign the limited training spaces.

The efforts allowed the STU to focus on training employees with the most critical needs based on job functions. In 2014-15, the SCO received four two-year limited term positions, which allowed the SCO to meet training demands, and it is expected that over 50 percent of the training needs will be met in 2015.

Classroom Training Requested/Scheduled Projected

Calendar Year	Training Requests Received	Classroom Trainees Scheduled	Percent of Training Needs Met
2011	3,085	1,362	44.1%
2012	5,548	846*	15.5%
2013	5,8854	2,225	37.8%
2014	7,137	2,894	40.5%
2015**	6,266	3,185	50.8%
2016***	6,000	3,520	58.7%
2017***	5,700	3,840	67.4%

*The number of trainees scheduled was very low in 2012 due to the need to design and develop MyCalPAYS training curriculum.
**2015 Training Requests and Trainees Scheduled are projected based on currently received requests.
***2016 and 2017 Training Requests are based on an estimated 5 percent decrease each year.

Calendar Year	eLearning Completed
2011	0
2012	0
2013	0
2014	1,661
2015	1,900
2016	2,500
2017	3,750

Current Staffing Positions. The STU consists of 6.5 permanent resources and four two-year limited-term positions, which expire on June 30, 2016. Of these, six positions are classroom trainers, two positions are eLearning developers, and 2.5 positions provide logistical support and supervision.

2016-17 Budget Request. The SCO requests continuation of the four two-year limited-term positions on a permanent basis and an additional two permanent positions, and two-year limited-term funding for two resources for the Learning Management system and Support, to meet the STU's training objective.

STAFF COMMENTS

The 2014-15 budget request provided the opportunity to check up on the training needs at the SCO with the limited term positions. Staff is concerned that ongoing funding provided for the 7.4 positions will not allow the legislature to check in whether the training needs are being met unless there are concerns uncovered in audits.

Additionally, the subcommittee may wish to ask whether there are any evaluation criteria for the training provided by the SCO? How does SCO monitor how the training reduces errors on an ongoing basis?

Staff Recommendation: Hold Open.

ISSUE 5: SUSTAINED ACCOUNTING WORKLOAD

The State Controller's Office (SCO) requests $221,000 ($126,000 General Fund [GF], $95,000 Central Service Cost Recovery Fund [CSCRF]) in 2016-17 and ongoing for 2.0 positions (2.0 continuing) to enable the SCO Division of Accounting and Reporting's (DAR) Cash Management Bureau (Bureau) to continue statewide cash management services.

BACKGROUND

The (Bureau) coordinates with the Department of Finance (DOF) and the State Treasurer's Office (STO) in managing the state's cash and accounting for the statewide transactions for the pool of funds (Pool) in the Treasury. Elected officials, financial institutions, control agencies, investors, and taxpayers rely heavily on information provided by the Cash Management Forecasting & Reconciliations Section (CMS) in the Bureau. The CMS is responsible for the statewide cash management.

Prior to 2008, the SCO had been able to manage the State's cash with five staff in the CMS. As a result of the economic downturn, the increased workload to manage the state's cash and ensure timely payment of the state's obligations was recognized by the SCO, DOF, and STO. In 2008-09 a May Revise BCP provided the CMS with one additional position.

As the cash crisis continued through 2011-12, overtime hours were required to complete mandatory cash management activities. As a result of the increased focus in monitoring cash during this time, several accounting and reconciling activities became backlogged. To address the excessive hours of overtime and the backlog caused by the increased cash management activities, the SCO received funding for two two-year limited-term positions through approved BCPs in 2010-11, 2012-13, and 2014-15, which temporarily increased the CMS's resources to 8.0 positions through 2015-16. In 2014-15, the Bureau utilized these resources to automate processes, update procedures and train staff.

STAFF COMMENTS

The Subcommittee may wish to ask how the cash flow management has changed since the budget crisis? How many funds does the SCO use for cash management, and how does this compare to previous years?

Staff Recommendation: Approve as budgeted.

ISSUE 6: UNCLAIMED PROPERTY HOLDER COMPLIANCE INITIATIVE

This requests $1,190,000 from 2016-17 through 2018-19, for 11.0 positions and $1,494,000 permanent funding for 12.1 positions from 2016-17, and ongoing from the Unclaimed Property Fund to reunite owners with their lost and abandoned property by continuing the Holder Outreach and Compliance program.

BACKGROUND

The Unclaimed Property Law (UPL) was enacted to assure that property is returned to its rightful owner(s) or their heirs and to prevent holders of unclaimed property from writing-off the property to business income. The UPL gives the State an opportunity to return the property and provides California with a single source to check for unclaimed property that may be reported by holders. By law, holders of unclaimed property must report and remit unclaimed property to the SCO after a specified period of time.

In 2007, state law required that the SCO improve the reporting procedures for unclaimed property holders in California. This resulted in a change from one-report process to a two-report process. A step in which holders submit the first report, a Holder Notice Report, before submitting property to the SCO was added. The Holder Notice Report is then used by the SCO to send out to Pre-Escheat Notices to rightful owners or their heirs, advising the owners to contact holders directly to retrieve the reported property, giving the owners the opportunity to reestablish contact with holders, or have their property sent directly to them. After filing a Holder Notice Report, no sooner than seven months and no later than seven months and 15 days, holders are required to provide the SCO with Holder Remit Report containing the information on any remaining properties that were not reclaimed.

The 2011-12 Budget Act authorized 23.6 three-year limited-term positions and $2,438,000 from the Unclaimed Property Fund to develop and implement the program. The 2014-15 Budget Act, the SCO received 23 two-year limited-term positions and $2,475,000 to continue the program.

Holder Audits. The current request is for 6.1 positions with permanent resources and 9.9 positions with three-year limited-term resources to continue the unclaimed property audits. The SCO will educate holders about the UPL, locate unreported and unremitted property, and ensure that holders comply with the UPL.

Holder Outreach and Compliance. With the 6.0 permanent positions requested, the Outreach and Compliance Unit (OCU) will focus on continued compliance and outreach efforts by providing holder outreach and education to new businesses, maintaining support of holder recently brought into compliance, collaborating with other state agencies, among other outreach opportunities

STAFF COMMENTS

The resources will continue to be used to reunite owners with their lost and abandoned property. The approval of this BCP is consistent with previous years.

Staff Recommendation: Approve as budgeted.

7730 FRANCHISE TAX BOARD

ISSUE 7 : UPDATE ON EARNED INCOME TAX CREDIT

Ryan Woosley from the Legislative Analyst's Office will provide a brief overview of the Earned Income Tax Credit program and Jeanne Harriman from the Franchise Tax Board will provide the latest return information from FTB on the credit.

BACKGROUND

Last year during the May Revision, the Governor proposed an Earned Income Tax Credit (EITC) for the state's low income-wage earners. California's EITC is a state refundable tax credit for wage income that is intended to benefit very low-income households. Specifically, the program builds off the federal EITC and establishes a refundable credit for tax years beginning on or after January 1, 2015. The credit is applied to personal income tax liabilities associated with earned wage income (not including self-employment income).

The program provides for a credit amount during a phase-in range of earned wage income according to specified percentages based on the number of qualifying children. The phase-in range (for the maximum credit) covers earned wage income of up to $3,290 for individuals without qualifying children, $4,940 for individuals with one qualifying child, and $6,935 for individuals with two or more qualifying children.

Figure 29

Maximum California EITC Amounts

2015 Tax Year

	Maximum Credit	Annual Wages to Receive Maximum Credit	Annual Wages to No Longer Qualify for Credit
No qualifying dependents	$214	$3,290	$6,580
One qualifying dependent	1,428	4,940	9,880
Two qualifying dependents	2,358	6,935	13,870
Three or more qualifying dependents	2,653	6,935	13,870

EITC = Earned Income Tax Credit.

The credit is expected to cost $380 million annually beginning in 2015-16 and benefit an estimated 825,000 families and two million individuals. The Franchise Tax Board (FTB) administers the EITC program. California's EITC is not an automatic entitlement. The program is only available if the Legislature and Administration affirmatively determine each year that the state can afford the program.

According to the Franchise Tax Board, some of California's most financially challenged families have benefitted from the EITC to date. As of February 29, 2016, the following information has been collected by FTB:

Return Information	
Number of Processed Returns that Claim the EITC	157,603
Amount of EITC Allowed on Processed Returns That Resulted in a Refund or Reduction in a Tax or Other Liability	$92,902,506
Average EITC Credit Claim	$599
First Time Filers	26,134
Information on Return Modifications - errors or improper payments	
Returns Adjusted or Denied	5,197
Amount of Credits Adjusted or Denied	$1,628,414

*** Note, at early March 2016 board meeting, FTB stated a number of approximately 200,000 filers. The above information (157,603 returns) relates to returns processed January 1, 2016 - February 29, 2016 and the remainder are being processed or were processed in the first part of March. Information on final amounts, first time filers, or average amount claimed is not yet available on these remainder returns.*

STAFF COMMENTS

The state's EITC was adopted as part of the current year's budget and is effective beginning with the 2015 tax year. The Governor has not proposed any additional components to the program.

Staff Recommendation: This item is for information only.

ISSUE 8: ENTERPRISE DATA TO REVENUE PROJECT

The FTB requests 198 positions and $68 million (General Fund) in 2016-17, and $61.4 million (General Fund) in 2017-18, to support FTB's maintenance and operations of the Enterprise Data to Revenue project and support ongoing operational programs. 2016-17 is the final year of the EDR project.

This proposal also requests an ongoing augmentation supporting ongoing expenditures beginning in 2018-19 associated with maintaining and refreshing the multiple new hardware and software implemented as a result of the EDR project.

BACKGROUND

As of June 30, 2015, the EDR project is 81 percent complete and is approaching the last year and warranty period of the project. An assessment of the actual on-going needs to perform the maintenance and operations post-project for the 2016-17 through 2020-21 has been completed. The proposed changes are necessary for the project to sustain its ongoing annual $1 billion revenue projection once the State takes over the full maintenance and operations of the solution post-project.

The following requests are needed to support EDR's needs covering workload growth, maintenance, operations, and hardware/software needs as outlined in the Department of Technology's Maintenance & Operations (M&O) Plan Guidelines from 2016-17 through 2020-21:

- Exercise the EDR contract M&O options for 2016-17 and 2017-18.
- Refresh EDR hardware/software and purchase EDR M&O hardware, software, and 3rd Party maintenance and support.
- Perform major version upgrades of the Security Database in 2016-17, and Case Management and Data Stage software in 2017-18.
- Increase FTB program resources to support full adoption and usage of the new EDR tools.
- Upgrade IT position classifications for increased knowledge levels required for M&O.
- Compensation payments to the Solution Provider in 2016-17 and 2017-18.

STAFF COMMENTS

FTB's EDR project has been one example of successful implementation of IT projects throughout the State. The resources requested by FTB appear reasonable and will allow FTB to continue to implement their project.

Staff Recommendation: Approve as budgeted.

ISSUE 9: TAX CREDITS

This item is presented for information only. It addresses the Governor's veto message on tax credits during the 2015 legislative year as it relates to the budget process.

BACKGROUND

On October 10, 2015, the Governor issued a veto message on nine tax credit related bills that were introduced outside of the budget process. In his veto message, the Governor stated "tax credits, like new spending programs, need to be considered comprehensively as part of the budget deliberation."

The nine bills that were vetoed are listed below:

- AB 35 (Chiu and Atkins). This bill modifies the existing Low-Income Housing Tax Credit program and increases the aggregate credit amount that may be annually allocated to low-income housing projects by $100 million for calendar years 2016-2021.

- AB 88 (Gomez). This bill establishes a sales and use tax (SUT) exemption for any "energy or water efficient home appliance" purchased by a "public utility" that is provided at no cost to a "low- income participant" in a federal, state, or ratepayer-funded energy or water efficiency program for use by that "low-income participant" in the energy or water efficiency program.

- AB 99 (Perea). This bill extends for one additional taxable year, in modified conformity to the recently enacted federal law, the tax relief for income generated from the discharge of qualified principal residence indebtedness.

- AB 428 (Nazarian). This bill allows a credit equal to 30 percent of a "qualified taxpayer's" "qualified costs" incurred for "seismic retrofit construction."

- AB 437 (Atkins). This measure establishes a Research and Development-Small Business Grant Program providing grants, equal to a percentage of unused Research and Development credits, to qualifying small business.

- AB 515 (Eggman). This measure expands the existing tax credit program under the Personal Income Tax Law and Corporation Tax Law for contributions of qualified donation items to a food bank ("program") and extends the program until January 1, 2021.

- AB 931 (Irwin). This bill revises, under the Corporation Tax and the Personal Income Tax Law, the definition of a "qualified full-time employee" to include a veteran who separated from service in the United States Armed Forces within 36 months preceding commencement of employment with a qualified taxpayer, for purposes of qualifying for a hiring tax credit.

- SB 251 (Roth). This measure makes a number of changes to provide financial relief to businesses, and encourage compliance with construction-related accessibility standards so that disabled consumers can exercise their rights to fully and equally access public accommodations in the state.

- SB 377 (Beall). This bill allows taxpayers to sell Low-Income Housing Tax (LIHT) credits, subject to certain requirements, and repeals the sunset date on provisions relating to the allocation of the federal and state LIHT credits to the partners of a partnership owning a low-income housing project.

ROLE OF SUBCOMMITTEE

With the Governor's message on tax credits, the role for the subcommittee in evaluating those measures should focus on the financial costs and impact on the overall construct of the budget. The subcommittee will have a future hearing to evaluate revenues allocated for tax credits that go through the normal policy process.

Staff Recommendation: This item is for information only.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

ISSUE 10: CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK WORKLOAD

GO-Biz requests increased reimbursement and corresponding expenditure authority from the California Infrastructure and Economic Development Bank (IBank) Fund in the amount of $1.489 million in 2016-17, ($1.267 million in 2017-18, and ongoing) and 11 permanent positions. The new funding will allow the IBank to continue its Small Business Finance Center, Bond and Loan Programs, and the additional staff will ensure the implementation and administration of the existing, new, and expanding programs.

BACKGROUND

IBank was created in 1994 to finance public infrastructure and private development that promote a healthy climate change for jobs, contribute to a strong economy and improve the quality of life. IBank has broad authority to issue tax-exempt and taxable bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage state and federal funds. IBank's current programs include:

Direct Loan Unit. This unit includes the Infrastructure State Revolving Fund (ISRF), which provides low-cost financing to public agencies for a wide variety of infrastructure projects; the Statewide Energy Efficiency Program (SWEEP), which provides low-cost financing to state and local governments approved energy efficiency projects; and California Investment for Energy and Environment Needs (CLEEN), which encourages public and private investments.

Since 2010, the number of loan inquiries has increased an average of 49 percent per year. The loans approved in 2010-11 and 2011-12, combined was three, whereas the total is 25 in the last two years. ISRF is operating with a small work force compared to the increased activity and responsibility. As a result of the increased workload, ISRF is often unable to meet reporting requirements to present complete applications to the Board within 90 days. The servicing of completed loans has fallen behind as well. The direct loan program has seen a significant increase in approved loans over the last few years in both number of loans and dollar amounts.

Bond Unit. The bond unit includes five bond programs. These programs as well as the ISRF program have successfully generated positive earnings through fees and interest earned.

Small Business Finance Center. The Small Business Finance Center has subcategories of programs including State Small Business Loan Guarantee Program, the Export Financing Program, the Farm Loan Program, and the Disaster Relief for Small Business Program. These programs provide repayment guarantees to lenders for loans to small businesses experiencing difficulty securing financing on their own.

Compliance Unit. The Chief Compliance Officer is responsible for monitoring and maintaining proper compliance over all visions of IBank. Since the position is relatively new, criteria, policy and procedures need to be established.

Fiscal Unit. The Fiscal Unit is responsible to record, post, compile, and report financial information of the IBank in an accurate and timely manner for use by all stakeholders for the purpose of enhancing economic development in California.

Legal and Legislative Unit. The Legal and Legislative Unit conducts time sensitive reviews of all its programs. The reviews consist of all stages of loan financing, legal document negotiations, loan document review, bond financing legal documents, as well as legislation research, analysis, and tracking. The legal staff is heavily involved in all aspects of the bond issuance and loan processes.

Technical Resource Support Center. The proposal will add one staff programmer analyst, which will be responsible for the development, modification, and support of IBank's information technology projects.

2016-17 Budget Request. This proposal requests the establishment of 11 ongoing positions: One Senior Loan Officer (Supervisor), six Staff Loan Officers, one AGPA Compliance Associate, One Attorney I, one Accountant Trainee, and one Staff Programmer Analyst to help with all the areas of IBank mentioned above.

STAFF COMMENTS

The increased responsibility of IBank has created a larger workload without an increase in staff for IBank. The resources will ensure that IBank can address the workload.

Staff Recommendation: Approve as budgeted.

ISSUE 11: CAP AND TRADE EXPENDITURE PLAN – CALIFORNIA LENDING FOR ENERGY AND ENVIRONMENTAL NEEDS CENTER

This proposal requests an allocation of $20 million from the Greenhouse Gas Fund to California Infrastructure and Economic Development Bank (IBank) for use in its California Lending for Energy and Environmental Needs Center greenhouse gas emission reduction programs. This is a one-time funding request.

BACKGROUND

IBank's Direct Loan Units. IBank's Infrastructure State Revolving Fund (ISRF) was established in 1994. The ISRF Program provides low-cost financing to public agencies for a wide variety of infrastructure and economic expansion projects. IBank has recently established the CLEEN Center to encourage public and private investments. The CLEEN Center also will utilize IBank's access to capital markets for clean energy and energy efficiency projects. The CLEEN Center at IBank will help drive energy related projects for State and local governments in California through the Statewide Energy Efficiency Program (SWEEP).

The funds that support these revolving fund programs are generated and leveraged with the issuance of revenue bonds in the public market. In 2014, IBank issued a bond for $95,960,000 and in 2015 issued a bond for a little over $90,000,000. IBank has demonstrated its ability to raise capital to continuously support direct loan programs.

On September 23, 2014, IBank authorized the establishment of the Clean Energy Finance Center and the creation of SWEEP. By leveraging the new funds with additional funding through IBank's eventual issuance of green bonds under the CLEEN Center, public/private investments and other funding, IBank can be more proactive and in meeting the low-cost financing needs of state and local governmental entities, municipalities and pubic universities, schools, and hospitals to achieve the State's greenhouse has reduction goals. IBank will be able to leverage the investments in the CLEEN Center to provide energy saving financings.

The CLEEN Center is still in the early stages of its implementation. IBank has identified 28 eligible projects for a little over $176,000,000, which constitutes 50 percent of the pending loan applications. The criteria for the CLEEN Center programs is similar to that of the ISRF program so it is anticipated that CLEEN Center financings will take about 90 days to complete. The $20 million will help to fund IBank's low cost financings to meet this increasing demand for clean energy.

STAFF COMMENTS

This proposal should be included in the larger of cap and trade discussions and staff recommends that this item be left open until those discussions have occurred.

Staff Recommendation: Hold Open.

0860 STATE BOARD OF EQUALIZATION

ISSUE 12: CIGARETTE AND TOBACCO PRODUCTS TAX PROGRAM: STATE AUDITOR'S REPORT

In March 2016, the State Auditor released a report on their audit concerning the costs to administer the Cigarette and Tobacco Products Tax Program and Licensing Program by the State Board of Equalization. This item will lay out background to the issue and the recommendations by the State Auditor for discussion by the Subcommittee.

BACKGROUND

For the past three years, the Subcommittee has discussed the issue of the Cigarette Tax and Licensing program. Hearings have focused on the administrative costs related to the General Fund and three special funds - the Breast Cancer fund, Prop 99, and Prop 10 – to fund the Cigarette and Tobacco Compliance Fund, created under AB 71 (Chapter 890, Statutes of 2003) and the role of the BOE to administer and collect the tax imposed on tobacco products in California.

As part of the budget action last year, the Subcommittee submitted a request to the Joint Legislative Budget Audit Committee to address how the state can reduce the administrative and enforcement costs of BOE’s tobacco programs while maintaining program effectiveness for the purpose of the Master Settlement Agreement.

In March 2016, the State Auditor's report revealed the following:

- The Fees charged for licenses do not cover all the licensing program's costs resulting in an $8 million shortfall a year.
- The licensing program's compliance fund has accumulated an excess balance that the BOE could use to offset the licensing program's costs.
- Options exist to make the licensing program self-supporting that include a combination of retailer, wholesaler, and distributor license fee changes and increases, as well as a cigarette tax increase.
- The BOE's method for identifying costs associated with each program appears to be reasonable but its allocation of some of these costs is flawed.
- A reduction in the number of inspections for the licensing program could result in an annual savings of more than $360,000 for the BOE with no sacrifice in effectiveness.
- The methods used by the BOE to enforce compliance with excise tax laws for cigarettes and tobacco products prevented the loss of $91 million in tobacco tax revenue.

Pending Legislation. Currently, special session bill AB X2 11 (Nazarian) is currently in the Assembly in Engrossing and Enrolling. This bill revises the Cigarette and Tobacco Products Licensing Act of 2003 to change the retailer license fee from a $100 one-time fee to a $265 annual fee, and increases the distributor and wholesaler license fee from $1,000 to $1,200.

The revisions in the fee structure are consistent with both findings from the Legislative Analyst's office in late 2015 as well as the audit released by the State Auditor in March of this year.

Cigarette and Tobacco Products Compliance Fund. One issue that was not addressed in AB X2 11 is the Cigarette and Tobacco Products Compliance Fund. The Cigarette and Tobacco Licensing Program regulate the activities of tobacco sellers and collects fees from them. These fees go into the Cigarette and Tobacco Products Compliance Fund. The Governor's proposed budget includes spending of only $2.3 million to support the licensing program, leaving $7.9 million balance remaining.

STAFF COMMENTS

The Subcommittee may wish to ask the Department of Finance and the BOE if they anticipate addressing the $7.9 million balance in the Compliance Fund. Are they looking at options to spend down the balance as proposed in the Auditor's Report?

Staff Recommendation: Hold Open

ISSUE 13: APPEALS DIVISION'S BUSINESS TAX PROGRAM AND SETTLEMENT WORKLOAD

The BOE requests $5.1 million ($3.3 million General Fund, $1.8 million Reimbursements, and $66,000 in Special Funds) and 22.0 permanent positions, and 8.0 permanent positions in 2016-17. $5 million ($3.2 million General Fund, $1.8 million Reimbursements, and $64,000 in Special Fund) in 2017-18 ongoing, to address the increase in combined workload of 108 percent for the Appeals Division's Business Taxes Section and Settlement Program from 2010-11 through 2014-15.

BACKGROUND

The Southern California Appeals and Settlement Unit (SCAS) was created in FY 2010-122 to address increased taxpayer demand for the appeals and settlement programs, educate taxpayers on reporting requirements, and increase voluntary compliance with tax law. Since the creation of the program, SCAS has completed 3,206 appeals and settlement cases through 2014-15.

Appeals and Settlement Workload Background								
	FY 08-09	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Beginning Inventory	695	699	1,017	1,387	1,407	1,586	1,603	2,011
Incoming Cases	834	1,092	1,260	1,208	1,449	1,466	2,001	2,514
Completed Cases	830	774	890	1,188	1,270	1,449	1,593	1,751
FY Ending Inventory	699	1,017	1,387	1,407	1,586	1,603	2,011	2,774

The ending inventory (backlog) of cases has increased from 699 cases in FY 2007-08, to 2,774 cases in FY 2014-15. The positions requested in this proposal are expected to address 1,223 cases annually, which will minimize the growing backlog of cases, assuming demand for services remain steady at the 2014-15 level.

STAFF COMMENTS

The Subcommittee may wish to ask about the backlog of cases, why it is happening, whether it is a problem, and how has the BOE tried to address it. With the requested resources included in this BCP, the BCP states that the by 2019/20 the backlog will continue to grow to 5,100 cases.

Staff would ask that the BOE work with DOF and LAO to further understand the backlog. What can the Legislature do to ensure that there is a decline instead of an ongoing continuous increase?

Staff Recommendation: Hold Open

ISSUE 14: JOINT OPERATIONS CENTER – ENSURING FUEL TAX COMPLIANCE

The BOE request $296,000 (Federal Funds) in FY 2016-17, and ongoing to permanently establish 2.0 expiring limited term positions for continued participation in the Joint Operations Center (JOC) for the National Fuel Compliance Project. Participation in JOC project has allowed the BOE to leverage state and federal resources to identify evasion, non-reporting and under-reporting.

BACKGROUND

The JOC project combines staff, data, and expertise from both federal and state governments to identify fuel taxes under-reporting, non-reporting and trends leading to evasion. These pooled resources provide benefits to both state and federal fuel tax compliance efforts.

The JOC project has established a National Data Center in Washington, DC. The National Data Center is receiving and combining data sets, which continue to increase with the addition of each new state government from federal, state and third party sources. Analytical tools are applied to the data sets to identify anomalies, inconsistencies and omissions in the data, and generate leads for JOC audit teams to follow up on in the field. There are currently nine states participating in the JOC.

BOE received resources in 2007-08 to assist with the development and implementation of the JOC project. The positions were extended in 2010-11 for a three-year limited-term in order to transition from the budget development/implementation phase to the operational phase. During the 2013-14 budget process, the BOE received limited term funding for two positions that are set to expire on June 30, 2016.

STAFF COMMENTS

The extension of these positions is consistent with past actions by the Subcommittee. If termination of federal funds occur, BOE would prepare a negative BCP to eliminate the two positions.

Staff Recommendation: Approve as budgeted.

ISSUE 15: PERMANENT ESTABLISHMENT OF THE FIRE PREVENTION FEE POSITIONS

The BOE requests $1.4 million (Special Funds) and 8.6 positions (permanent establishment of limited-term positions set to expire on June 30, 2016) and 7.2 in temporary help in 2016-17, and ongoing to continue processing workload associated with the Fire Prevention Fee program.

BACKGROUND

In 2012-13, the BOE received limited term positions that expired on June 30, 2014, to address workload associated with the Fire Prevention Fee program. The estimated workloads in 2012-13 were based on the BOE's experience implementing special tax and fee programs for primarily businesses. The initial workload was underestimated by the BOE. Funding was provided in 2012-13, to cover two billing cycles. BOE overspent its budgeted amount in 2012-13 by $1.7 million to cover one billing cycle alone. The BOE hired temporary help full-time equivalents, and utilized overtime to assist in processing over 775,000 fire prevention fee billings in a timely manner. Temporary full-time equivalent resources and overtime were used again during 2013-14 for the 2012-13 billing.

In 2014-15, BOE converted 42 expiring positions to permanent, continued 12 as limited-term and established 9.7 one-year temporary staff, and nine new two-year limited term positions to address the workload. The limited-term positions are set to expire on June 30, 2016. Prior positions were approved as limited-term to ensure the workload continued. Prior positions were also approved because there was a question of how the IT program at BOE, CROS would make the administration of this program more efficient.

As compared to other tax and fee programs that the BOE administers, advisory services and account maintenance continue to be at an extremely high volume and longer than average duration of phone calls generated by notices and billings. There are approximately 800,000 registrants in the Fire Prevention Fee program. The average duration of phone call is between 10 and 20 minutes per call.

BOE implemented changes to processing procedures that have resulted in achieving greater efficiency; however even accounting for improved processing efficiencies, permanent resources are necessary to handle the ongoing high volume workload.

STAFF COMMENTS

The subcommittee may wish to clarify with BOE as to how the temporary help positions will be used on an ongoing basis. The resources requested are reasonable to handle the ongoing work associated with the Fire Prevention Fee Program.

Staff Recommendation: Approve as budgeted.