

# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, MAY 7, 2019

1:30 P.M. - STATE CAPITOL, ROOM 447

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## ITEMS FOR VOTE-ONLY

### 7760 DEPARTMENT OF GENERAL SERVICES

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#### VOTE-ONLY ISSUE 1: STATEWIDE TRAVEL OFFICE TRANSACTION FEE TECHNICAL ADJUSTMENT

The Department of General Services is requesting a technical adjustment to their budget to reflect Statewide Travel Office activities.

#### BACKGROUND

The Department of General Services is requesting position authority, with no additional funding authority, for the establishment of 40.0 positions consisting of 6.0 blanket positions to permanent authorized positions, 23.0 positions in the Contracted Fiscal Services Program, 11.0 positions in the Administration Division and a permanent increase in expenditure authority of \$1,523,000 in Service Revolving Fund authority to offset transaction fees on behalf of the Statewide Travel Program's client agencies.

Over the last five years, the Legislature approved several budget increases for new programs and new positions across several DGS programs. As part of each Budget Change Proposal, the Administration Division has included either an 11 percent increase in distributed administration authority for BCP's with positions or a 3 percent increase for nonposition BCP's in order to provide the requisite level of services commensurate with program growth. This amount totals approximately \$1,585,000 in new distributed administration spending authority to support program needs. However, the Administration division has not requested new positions to handle the increased administrative workload

#### STAFF COMMENTS

When issue was heard on March 26 and SEIU express concern that this proposal could encourage subcontractors for travel contractors to reduce or eliminate employee benefits. According to the Department of General Services, after conferring with SEIU at the request of the Subcommittee, the department intends to change the manner by which is procures this service, which will allow the department to address this concern.

Therefore, there staff recommends approval of this item.

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**Staff Recommendation: Approve As Budgeted**

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**VOTE-ONLY ISSUE 2: FACILITIES MANAGEMENT DIVISION EXPENDITURE AUTHORITY INCREASE**

A Spring Fiscal Letter proposes to adjust the Facilities Management Division budget.

**BACKGROUND**

The Facilities Management Division is requesting a permanent budget authority augmentation of \$30,149,000 for the Service Revolving Fund in 2019-20 to reflect the true costs of operations that have increased over time. The Department of General Services assesses a statewide surcharge to state entities to recover costs associated with central services provided by the DGS.

This proposed funding increase reflects a true-up of the Department of General Services costs in various areas including security and maintenance costs. The proposed adjustment to the Facilities Management Division budget is a 6.8 percent increase to the total budget of \$441.3 million in annual costs.

**STAFF COMMENTS**

The budget proposal included detail to justify and explain each component of the cost increase.

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**Staff Recommendation: Adopt Spring Fiscal Letter**

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**VOTE-ONLY ISSUE 3: OFFICE OF SUSTAINABILITY FUNDING SHIFT**

A Spring Fiscal Letter proposes to maintain the Department of General Services Office of Sustainability operations with Service Revolving Fund revenue.

**BACKGROUND**

The Office of Sustainability (OS) develops and implements clean energy strategies and programs for state buildings in the areas of clean renewable energy development, energy efficiency retrofits, and electric vehicle charging infrastructure development. Additionally, the office provides support in many other areas of sustainability, including zero net energy (ZNE) policy development. Leadership in Energy and Environmental Design (LEED) certification, state buildings benchmarking, and recycling policy development to support DGS and other departments in greening state facilities.

DGS has received approximately \$2 million annually from the Energy Resource Program Account (ERPA) to cover statewide sustainability efforts for over two decades. OS receives approximately \$1.6 million of these funds to cover the development costs associated with potential solar and wind energy generation and efficiency projects. The Procurement Division received the remaining \$450,000 to enhance statewide environmentally preferable purchasing.

The ERPA's revenue source is a surcharge on statewide electricity consumption, which funds certain state entities who administer a variety of statewide energy programs. Revenues generated by the ERPA surcharge have leveled off. Consequently, the OS received funding from the California Environmental License Plate Fund on a one-time basis. Sustainability policy development and pre-development project work requires a permanent and ongoing source of funding in order to effectively meet the state's energy conservation goals. This request will add the program to the DGS statewide surcharge and provide a permanent funding source beginning in 2019-20 to continue these activities.

**STAFF COMMENTS**

Given the statewide importance of the activities of the Office to meeting state climate goals, staff believe this funding shift is necessary.

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**Staff Recommendation: Adopt Spring Fiscal Letter**

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**VOTE-ONLY ISSUE 4: DGS PARKING MANAGEMENT**

A Spring Fiscal Letter includes a proposal to consolidate parking management at DGS and increase expenditure authority to purchase equipment that will allow the lease of some Sacramento downtown parking lots on nights and weekends.

**BACKGROUND**

DGS is consolidating parking management under one unit to ensure the application of consistent parking policies, establish standard waitlist and lottery processes, improve inadequate revenue collection procedures, coordinate building maintenance, and establish technology upgrades.

DGS believes this will result in improved customer service to state employee parkers and a more effective oversight of all parking operations. Originally, the Office of Fleet and Asset Management (OFAM) operated and managed 14 parking facilities statewide and 9 facilities were managed by the Facilities Management Division (FMD) . In 2018, DGS began transitioning the operations and management of nine FMD parking facilities to

OFAM . As part of the management transition, OFAM analyzed each parking facility's utilization rate and identified the maintenance needs of each structure. OFAM' s analysis identified opportunities to increase parking utilization and revenue generation by increasing lot utilization to more than 100 percent of the facility's capacity. This change will maximize usage by accounting for vacations, sick leave and other absences that would otherwise leave parking lot spaces empty

DGS is also requesting a one-time budget \$2.2 million spending authority augmentation to further maximize the parking lot capacity by updating the parking access systems currently in place in six selected parking facilities. OFAM is in discussion with the City of Sacramento to use their integrated PARCS parking system at select locations, which will allow coordination for after-hours and event parking in three of the selected locations. The additional revenue generated from this activity is intended to address both outstanding needs identified in OFAM's 2015-16 deferred maintenance report and ongoing preventative maintenance to maintain the integrity of OFAM' s parking facilities.

**STAFF COMMENTS**

This proposal both improves state employee parking and provides the State with an opportunity to generate revenue from these assets.

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**Staff Recommendation: Adopt Spring Fiscal Letter.**

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**0650 OFFICE OF PLANNING AND RESEARCH**

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**VOTE-ONLY ISSUE 5: AMERICORP EXPANSION**

The Governor's budget includes an expansion to State support for AmeriCorp.

**BACKGROUND**

As the State Service Commission for California, California Volunteers manages programs and initiatives aimed at increasing the number of Californians engaged in service and volunteering. California Volunteers supports nearly 4,000 AmeriCorps members serving statewide in programs that address critical community needs in education, public safety, health and human needs, and the environment. AmeriCorps members are recruited, trained, supervised, and managed by eligible organizations, and may receive a living allowance and other benefits while serving.

Upon successful completion of their service, AmeriCorps members are eligible to receive a Segal AmeriCorps Education Award from the National Service Trust that they can use to pay for higher education expenses or apply to qualified student loans. Currently, the Segal AmeriCorps Education Award is \$6,095 for a full-time AmeriCorps participant.

The budget includes \$20 million General Fund to begin the expansion of the state's AmeriCorps members to 10,000—more than double the current number—and to supplement the federal award to reach a target of \$10,000. It is anticipated that private funds will supplement the state's investment.

**STAFF COMMENTS**

This issue was heard at the March 26<sup>th</sup> hearing.

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**Staff Recommendation: Approve as Budgeted.**

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**VOTE-ONLY ISSUE 6: IMPLEMENTATION OF SB 1072**

The Subcommittee will revisit and action taken on March 26 to conform to anticipated Senate Action.

**BACKGROUND**

On March 26, Subcommittee 4 approved OPR's request for 3.0 positions and \$392,000 General Fund in 2019-20 until 2028-29 to implement SB 1072 (Leyva, Chapter 377, Statutes of 2018). SB 1072 requires the Strategic Growth Council (SGC) to complete the following tasks:

- Develop technical assistance guidelines by July 1, 2020.
- Establish a Regional Climate Collaborative Program to assist under-resourced communities to access statewide public and other grant moneys.

SB 1072 requires SGC to develop technical assistance guidelines by July 1, 2020. The bill also creates the Regional Climate Collaborative Program to assist under-resourced communities with accessing statewide public and other grant moneys. The Regional Climate Collaboratives Program includes establishing criteria for the development of regional collaboratives and a grant program to support established collaboratives pursuant to the program. In FY 2015-16, the Legislature appropriated \$500,000 from the Greenhouse Gas Reduction Fund (GGRF) to SGC to establish a pilot program for technical assistance (TA) through Affordable Housing and Sustainable Communities (AHSC), for disadvantaged communities. The AHSC Pilot TA Program provided

individualized, direct application assistance for applicants located in disadvantaged communities. SGC contracted with three regional teams to assist applicants that were not successful in the first round of AHSC and intended to apply again. SGC also allocated a subset of the pilot funds for capacity building activities (e.g., to convene potential project partners from transportation, housing, and local government entities). SGC commissioned UC Davis researchers to assess the effectiveness of the AHSC Pilot TA Program. In this report, the evaluators found that the applicants who received comprehensive technical assistance through the pilot program "overwhelmingly outcompeted those who did not."

**STAFF COMMENTS**

Staff from the Senate Budget Committee have recommended that funding for the requested positions be approved for a two year-limited window, to allow further oversight of this issue.

Staff recommends conforming to this action, to reduce the number of differences between the two Legislative houses at Conference Committee.

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**Staff Recommendation: Rescind Action to Approve as Budgeted and Instead Approve these positions as two-year limited funded positions.**

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**2320 DEPARTMENT OF REAL ESTATE**

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**VOTE-ONLY ISSUE 7: REAL ESTATE EDUCATIONAL FACILITIES**

The Governor's budget includes a proposal to fund ongoing real estate training and materials.

**BACKGROUND**

The Department of Real Estate (DRE) requests \$200,000 Education and Research Account ongoing to fund real estate related research projects.

In 2019-20, \$200,000 will be used to conduct research to determine if DRE approved statutory courses completed for licensure are indeed equivalent in nature to those courses offered by colleges. The information obtained from this study may result in regulation changes. In 2020-21, \$200,000 will be used update the Real Estate Reference Book. The Real Estate Reference book has not been updated since 2010, and contains outdated material.

In 2021-22 and beyond, funds may be used to prepare consumer protection related pamphlets, or to update existing consumer protection brochures.

**STAFF COMMENTS**

Staff has no concerns with this special fund proposal.

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**Staff Recommendation: Approve As Budgeted.**

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**7730 FRANCHISE TAX BOARD**

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**VOTE-ONLY ISSUE 8: DISSOLUTION OF INACTIVE LIMITED LIABILITY CORPORATIONS**

The Governor's budget requests \$330,000 (General Fund), \$311,000 ongoing, and five positions to administer the provisions of AB 2503 (Irwin, Chapter 679, Statutes of 2018), which provides for administrative dissolution for certain domestic corporations and domestic limited liability companies.

**BACKGROUND**

Prior to the enactment of AB 2503, FTB lacked statutory authority to administratively dissolve business entities that failed to complete the process required to legally dissolve; thus these entities remain on the department's accounting system, continuing to accrue taxes, interest, and penalties. AB 2503 provides two options (FTB-initiated or taxpayer-initiated) for administrative dissolution of qualified entities when there is unpaid minimum franchise or annual tax.

In order to comply with this legislative mandate, FTB is requesting five permanent positions. One position will work the FTB-initiated administrative dissolution workload and three positions will work the taxpayer-initiated administrative dissolution workload. An additional position will provide business entities support.

**STAFF COMMENT**

The requested resources are consistent with the cost estimates included in the Appropriations analysis. Staff has no concerns with this proposal.

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**Staff Recommendation: Approve as Budgeted.**

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**VOTE-ONLY ISSUE 9: HUMAN RESOURCES DISCIPLINES**

The Governor's budget requests \$1.395 million (General Fund, special funds and reimbursements) and 14 positions in 2019-20, and ongoing, to conduct human resource functions and to allow FTB to hire, train, and retain staff.

**BACKGROUND**

FTB is responsible for administering the income and franchise tax laws for the State of California. Staff process tax returns and payments, issue refunds to Californians, conduct audits and filing enforcement actions, collect debts owed the state and support numerous service functions allowing for each of these compliance activities to occur. As a result of FTB's efforts, FTB programs oversee the administration and collection of over \$103 billion (2017-18) in General Fund revenues - over 78 percent of the General Fund account.

FTB has over 6,500 permanent and temporary staff positions to perform FTB administrative functions. In recent years, FTB staff has grown and workloads administered by Human Resources (HR) have increased in both number and duration of tasks as well as increased complexity of tasks, processes, and procedures. HR staffing levels are insufficient to maintain necessary and mandated processes on a timely basis to ensure that FTB can hire staff when needed, timely address staff issues, and that FTB conforms to the extensive body of laws and processes governing HR processes. Over the last five years, FTB has increased temporary help in this business area and while that has reduced some impact, this is not a temporary need and trained employee retention is causing detrimental impacts to the program.

Over the last 25 years, FTB's business operations and staffing levels have increased significantly. FTB's growth in HR staff has not. In the most recent years with new or expanded mandates related to HR functions, FTB's prior strategy of streamlining, automating, and using temporary help is no longer a viable strategy. Additional staff is needed to support FTB's business operations and the work FTB does.

Due to staffing shortages, FTB has experienced a number of issues including but not limited to: lengthier hiring processes impacting the ability to timely fill vacancies; inability to timely complete existing or expected future increases in personnel actions; and inability to develop robust employee training programs leading to empowered employees and which support CalHR's statewide competency initiatives.

**STAFF COMMENT**

Staff has no concerns with this proposal.

**Staff Recommendation: Approve as Budgeted.**

**VOTE-ONLY ISSUE 10: TAX APPEALS ASSISTANCE PROGRAM**

The Governor's budget requests \$378,000 (General Fund) and two new positions for the Tax Appeals Assistance Program (TAAP) responsibilities that are being transferred from CDTFA.

**BACKGROUND**

The TAAP program was originally established by the Board of Equalization (BOE) and with the restructuring of BOE and the transfer of the appeals process to the new California Office of Tax Appeals, this workload moved to the California Department of Tax and Fee Administration (CDTFA). There is not an appropriate alignment for Franchise and Income Tax (FIT) appeal cases to be handled by CDTFA. This proposal requests to transfer the FIT component of the program from CDTFA to FTB.

**STAFF COMMENT**

Vote-Only Issue 8 is related to this item and transfers resources from CDTFA.

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**Staff Recommendation: Approve as Budgeted.**

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**VOTE-ONLY ISSUE 11: FI\$CAL**

The Franchise Tax Board (FTB) requests \$1.44 million from various funds for nine permanent positions and three permanent intermittent positions in 2019-20, and 2020-21. These resources will conduct accounting and procurement functions and serve as FTB's foundation to allow the department to fully adopt Financial Information System for California (FI\$Cal) implementation and comply with statewide accounting policies. These resources will play a key strategic role in business operations and state cash management.

**BACKGROUND**

In compliance with accounting policies and regulations, FTB's Accounting Section maintains accounting records of the revenue, expenditures, cash, receipts, disbursements, and property for the department. For decades, FTB performed the accounting responsibilities through the state provided accounting system, California State Accounting & Reporting System (CALSTARS). In July 2018, FTB implemented the new statewide accounting system, FI\$Cal. FI\$Cal combines the State's accounting, budgeting, cash management, and procurement operation into a single, transparent, and unified financial management system that is intended to be used by most state entities.

FI\$Cal also changed and implemented new, required accounting features, processes and requirements.

In anticipation of the changes the implementation of FI\$Cal would bring to FTB's long-term accounting and procurement practices, FTB engaged early with Department of Finance (DOF) and FI\$Cal to ensure a smooth system transition. In 2016, FTB began actively working with DOF and FI\$Cal to plan, design, and test new processes, procedures, workflows, information hand-offs, and reports. While FI\$Cal brings transparency and consistency for statewide accounting, it introduced additional complexity to FTB's already complex accounting and procurement needs due to the volume and diversity of accounting transactions that FTB administers. These increased complexities have resulted in an increase in volume, and the requirement of additional tasks to complete a transaction. In addition, increased levels of review are now required. All of these together have resulted in increased timeframes to complete transactions and reconciliations. As a result of this new and increased workload, FTB needs additional resources to carry out its fiduciary responsibilities within mandated timeframes.

**STAFF COMMENT**

The augmentation will support the use and administration of FI\$Cal. Action is consistent with actions by the Subcommittee to provide additional resources for other department for FI\$Cal.

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**Staff Recommendation: Approve as Budgeted.**

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**VOTE-ONLY ISSUE 12: MAINFRAME ENTERPRISE TAPE LIBRARY REFRESH**

The Governor's budget requests \$7.2 million (\$6.9 million General Fund and \$308,000 special funds) in 2019-20, to purchase the following information technology components:

- Mainframe Enterprise Tape Library (MF ETL) and Direct Access Storage Device (DASD) for the central office, and
- Mainframe Business Class Server (MF CPU) MF ETL and DASD for a secondary off-site location.

**BACKGROUND**

FTB's Tier III equivalent Data Center provides mainframe and distributed systems access and the operating storage capacity for FTB to administer its programs successfully. During April 2018 (FTB's individual tax filing deadline), FTB's data center processed

approximately 104.2 million online transactions and roughly 250,000 batch processes. Batch processes are large numbers of data transactions that run in batches without human interaction.

The MF ETL and DASD provide the storage infrastructure that is essential to FTB's multiple mission critical tax and non-tax applications. These applications have a substantial dependency on the data that resides within the MF ETL and DASD and, therefore, rely on the storage environment having sufficient capacity to support the efficient, effective, and secure operations of those applications. FTB's Central Office Data Center houses a MF ETL that combines virtual and magnetic (physical) tape systems. All applications, business programs, and processes which access mainframe batch and online data (files, catalogs and databases) utilize the MF ETL as a repository for storage, backup and recovery. The ETL tape system has an annual growth rate of approximately 23 percent - the industry standard for mainframe storage is approximately 20 percent annually.

Internally, all system and application data residing on the DASD is backed up to a Virtual Tape Library (VTL), a data storage virtualization technology which represents storage components as tape libraries or tape drives for use with existing backup software. Data in the VTL is subsequently duplicated onto magnetic (physical) tape. These physical tapes are used for long-term data retention and technology recovery purposes. The physical tapes are manually ejected, packed and shipped to a local off-site storage location. As new tapes are shipped off-site the old tapes are returned to FTB to be cleansed and reused. This cycle occurs five days per week. FTB's current technical recovery process can take up to a week compared to the desired recovery period of one to two days.

FTB's MF ETL system consists of two components: virtual tape and magnetic (physical) tape processing. During June 2016, the manufacturer removed FTB's virtual tape library system from the market and support services will be discontinued by December 2019.

In September 2017, FTB identified the need to replace FTB's current ETL system. Since that time, the manufacturer for FTB's DASD hardware has also announced the EOM for the type/model currently in production at FTB and support services will be discontinued in three to four years from the EOM announced date of January 2017.

<b>STAFF COMMENT</b>
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The requested resources will provide support for the system and accommodate long term data retention needs.

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**Staff Recommendation: Approve as Budgeted.**

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**VOTE-ONLY ISSUE 13: LOCAL AREA NETWORK INFRASTRUCTURE REFRESH**

The Governor's budget requests \$5.7 million General Fund and \$235,000 special funds in 2019-20 and \$12,000 General Fund ongoing to refresh aging equipment and software that is reaching End-of-Life (EOL) and approaching End-of-Service (EOS) within the LAN infrastructure. FTB also is proposing to upgrade throughput (speed) to and from the network core.

**BACKGROUND**

Each year, FTB processes more than 19.2 million Personal Income Tax (PIT) returns and 1.9 million Business Entity returns, responds to more than 2.8 million telephone calls, handles over 18 million internet contacts, and administers the income tax programs that fund approximately 78 percent of the state's general fund revenue each year. FTB's LAN supports many of these transactions and services.

The LAN infrastructure provides reliability, network security, and scalability throughout FTB. There are approximately 6,000 FTB staff supported on this network. FTB's LAN supports on average 48 million online transactions conducted by taxpayers and 219,000 batch processes per month which uploads taxpayer specific transactional data to FTB's accounting and compliance systems. Batch processes are large numbers of data transactions that run in "batches" without human interaction.

This project seeks funding to replace aging equipment and software that is EOL and approaching EOS and/or hampered by old, inadequate technologies, to reduce the risk that these items will fail and impact FTB's operations. The programs administered by FTB rely heavily on network, and automated systems.

The LAN Infrastructure Refresh Project objective is to refresh the existing EOL and EOS network backbone hardware infrastructure, as well as, upgrade throughput. The overall result of this refresh will reduce the risk that these items will fail or be compromised and impact FTB's processing and compliance activities.

**STAFF COMMENT**

Staff has no concerns with this proposal.

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**Staff Recommendation: Approve as budgeted.**

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**7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION**

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**VOTE-ONLY ISSUE 14: TAX APPEALS ASSISTANCE PROGRAM**

The Governor's budget requests the reduction of \$215,000 (General Fund) and the transfer of one position to the Franchise Tax Board (FTB) to reflect the transfer of the franchise and income tax component of the Taxpayer Appeals Assistance Program (TAAP) from CDTFA to FTB.

**BACKGROUND**

The Board of Equalization (BOE) established the TAAP where participating law schools and law students assist taxpayers with state tax appeals under the supervision of a BOE (now CDTFA) attorney reporting to the Taxpayer's Rights Advocate Office (TRAO). The CDTFA has one Tax Counsel III attorney exclusively assigned to franchise and income tax appeals. The TAAP is an independent program housed within the TRAO, which offers free legal assistance to people who cannot afford to pay for legal or tax assistance through law students attending various law schools across California; educating and assisting those taxpayers in voluntarily complying with California's tax laws while minimizing their compliance burden. To accomplish this, participating law schools work with the program to allow law students to assist taxpayers with their state tax appeals under the supervision of an experienced tax attorney. With the restructuring of the BOE and the transfer of the appeals process to the OTA, this workload was initially moved to the CDTFA and currently the CDTFA is transitioning these responsibilities to the FTB to align them with the agency that has jurisdictional responsibility.

**STAFF COMMENT**

This item is related to Vote-Only Issue 3. Staff has no concerns with the transfer from CDTFA to FTB.

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**Staff Recommendation: Approve as Budgeted.**

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**VOTE-ONLY ISSUE 15: INFORMATION TECHNOLOGY CLASSIFICATION CONSOLIDATION**

The Governor's budget requests \$1.4 million in 2019-20, and ongoing, to implement the State Personnel Board's Information Technology (IT) Classification Plan, which consolidated 36 IT classifications into nine.

**BACKGROUND**

In January 2018, the State Personnel Board approved the IT Classification Plan, leading to the consolidation of 36 IT classifications into broader, usable occupational categories. It abolished and transitioned 36 IT classifications into five rank and file IT classes and four IT supervisory/managerial classifications. The new classifications have alternate ranges that provide for employee retention by increasing levels of work experience and compensation without requiring repetitive examinations. In developing the new IT classifications, the statewide team grouped classifications, which have similar functions and/or salaries into one new classification. The consolidation of the classifications results in a salary increase to a little over one-third of the CDTFA staff impacted by this change. The changes to the current classifications took effect on January 31, 2018.

**STAFF COMMENT**

Action is consistent with previous actions taken by the Subcommittee to consolidate IT classifications in accordance with the changes made by the State Personnel Board.

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**Staff Recommendation: Approve as Budgeted.**

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**0890 SECRETARY OF STATE**

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**VOTE-ONLY ISSUE 16: CALIFORNIA BUSINESS CONNECT PROJECT (APRIL FINANCE LETTER)**

An April Finance Letter requests \$12.6 million (\$10.6 million from the Business Fees Fund and \$2 million from the Business Programs Modernization Fund) to continue implementation of the California Business Connect (CBC) project.

**BACKGROUND**

The SOS is constitutionally mandated to provide services to businesses in the State including processing and filing commerce and trade documents such as business formations, changes, and terminations. Most business entity documents and information requests are submitted to the SOS via mail or in-person in Sacramento and Los Angeles. The office currently relies on several antiquated electronic and "paper" database systems

in order to process more than two million business filings and requests for information submitted annually.

The paper systems have resulted in unacceptable turnaround times and backlogs, which led to significant budget augmentations to reduce them. An augmentation of roughly 50 limited-term positions has continued since 2013-14 in order to maintain the legislatively recommended average five business day turnaround time. Currently, SOS has 47 limited-term positions doing this work. These positions and the related funding for them will go away once the system is fully implemented which is expected to be in November 2020.

CBC is a comprehensive technology solution intended to increase online services for business filings and requests for information and is intended to reduce the reliance on additional staff. The existing paper-based system will be automated for the following lines of business:

- Business entities including Limited Liability Companies, Limited Partnerships and Corporations.
- Uniform Commercial Code including Financing Statements, Federal and State Tax Lien Notices and other lien notices such as Judgment and Attachment liens.
- Trademarks and Service Marks.

Below are the estimated completion dates for each CBC module. Module 2 has slipped slightly to completion in May 2019.

<b>CBC Modules</b>	<b>Estimated Completion Date</b>
Module 1: Online Business Forms	11/15/2019
Module 2: Trademark/Service Marks	04/26/2019
Module 3: UCC	07/17/2020
Module 4: Business Entities	11/30/2020
Maintenance and Operations	06/30/2021
PIER	12/31/2021

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**Staff Recommendation: Approve as Proposed.**

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**VOTE-ONLY ISSUE 17: CYBERSECURITY REMEDIATION AND ENHANCEMENTS (APRIL FINANCE LETTER)**

An April Finance Letter requests \$2.7 million in 2019-20 (\$742,000 General Fund and \$2 million Business Fees Fund) and \$1.7 million ongoing (\$453,000 General Fund and \$1.2 million Business Fees Fund) and four positions to provide additional resources to the cybersecurity program.

**BACKGROUND**

Cyber security threats continue to increase in frequency and sophistication. Last year SOS received resources for a Chief Risk Officer to establish the SOS Office of Risk Management (ORM) and Chief Technology Officer to manage the SOS cloud and physical technology ecosystem through redirected and position upgrades.

Since the ORM was established, the SOS has increased its security tools/solutions which has resulted in the identification and detection of additional findings. The increase of these findings is an unplanned workload that require analysis, evaluation of the findings, classification of the threat analysis and remediation as necessary. Additionally, in 2018, the SOS participated in two independent third-party security assessments. It is proactively analyzing the results and remediation activities to increase its continuous monitoring and compliance, becoming more proactive with the asset lifecycle to achieve a faster remediation timeframe and decrease the window between security discovery and resolution.

The four positions being requested would:

- Provide additional resources to the cybersecurity program to ensure the continuous identification and mitigation of evolving threats and keep the SOS technology ecosystem secure from cyberattacks;
- Implement additional security controls, as well as monitoring, alert and notification tools to safeguard the information security and integrity of the voting data and other SOS information assets; and
- Replace antiquated and outdated technology that are unreliable and at high risk for malware threats and vulnerabilities to support technical modernization as threats change.

The proposal also includes funding for training, infrastructure replacement, and ongoing monitoring and notification tools.

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**Staff Recommendation: Approve as Proposed.**

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**VOTE-ONLY ISSUE 18: FI\$CAL WORKLOAD AUGMENTATION (APRIL FINANCE LETTER)**

An April Finance Letter requests \$1.5 million (\$1.1 million Business Fees Fund (BFF) and \$395,000 General Fund (GF)) for 2019-20 and \$1.4 million (\$1 million BFF and \$380,000 GF) ongoing for 11 positions (seven new positions and funding for four existing, but unfunded positions) in support of the FI\$Cal implementation.

**BACKGROUND**

FI\$Cal combines the state's entire financial management process into a single financial management system, re-engineering the state's business processes and combining the functions of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset management, project accounting, and grant management. The system provides a centralized vendor data management; a revised chart of accounts; Accounting, Procurement, and Budget Control application software (PeopleSoft/Oracle-Hyperion); and offers ongoing training, job aids, and User Support Labs.

The SOS implemented FI\$Cal in July 2018. Due to significant delays inherent to the architecture and processes of the system, the Accounting and Procurement Sections have insufficient staff to reduce ongoing backlogs that have resulted in staff overtime, employee retention problems, and delays in payment.

With the conversion to FI\$Cal, the SOS's administrative and fiscal support have been heavily impacted. Staff have dedicated over 1,000 hours of staff overtime since July 2018 to complete transition activities needed to transfer data from the legacy system CalSTARS to FI\$Cal and to begin transacting in FI\$Cal. The process has been tedious and slow. The SOS has submitted numerous problem tickets that need resolution in order to move forward. Resolution can take up to three months and leaves the SOS struggling to identify workaround processes or other temporary means to continue operations.

To date, SOS Accounting staff has completed catch up work for July and August 2018 and hopes to complete the first month close process by the end of February. That leaves the SOS six months behind in preparing financial statements. The result is the SOS management team has no current year expenditure reports and must manage the agency's budget without critical financial information. In addition, because of backlogs, the SOS has incurred a delay in payments and had to make payments through the Office of Revolving Fund account in order to avoid late payments and incurring penalties; thus, resulting in even more "catch-up" and replenishment entries required to be entered in FI\$Cal.

This has negatively impacted the SOS reputation with vendors and caused several critical functions to be in jeopardy. SOS Procurement and Accounting staff are challenged to keep up daily operations while redesigning processes to adapt to the new system, exacerbating an already strained small group of employees to meet operational demands. Most of these staff have worked overtime consistently since spring of 2018 with normal year-end close activities. Turnover is at an all-time high forcing reliance on temporary help from retired annuitants and student assistants who are limited in their availability and hours they can work. Although the use of temporary staffing has been implemented to address this shortfall, it is not sustainable. The SOS faces a substantial challenge to maintain its workload, turn-around and processing times, while also adjusting to a new and ongoing workload landscape.

**STAFF COMMENTS**

Other state departments have also requested additional resources to help with their implementation of FI\$Cal. Most of these requests have been for limited-term resources because the workload increase they are experiencing is a combination of addressing backlogs, catching-up on outstanding work, addressing an increased number of user errors as staff become familiar with the new system, and transactions taking longer to process than before. As a result, it is unknown what the ongoing level of workload will be.

SOS is in a similar situation of having to catch up on work, address backlogs, and adjust to the increased complexity of new and existing processes. In addition, SOS has to manage workload that spikes when there is an election. Staff recommends approving the requested funding for resources for two years, so that the Subcommittee can re-evaluate the ongoing workload after some of the one-time workload has been completed.

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**Staff Recommendation: Approve as proposed but only for two years.**

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**VOTE-ONLY ISSUE 19: VOTER INFORMATION INTERNET WEB SITE (AB 2707) (APRIL FINANCE LETTER)**

An April Finance Letter requests \$250,000 (\$150,000 ongoing) from the General Fund to contract for services to provide voters access to information regarding their elected federal, state, local, and special district officials as required by AB 2707 (Mullin, Chapter 920, Statutes of 2018).

**BACKGROUND**

California voters currently may visit "Who's my Representative" website found at the SOS, where numerous links provide voters a way to find their representative. The website links voters to searches for federal, and state elected officials. Separately, the SOS has links in various other webpages that provide links to local elected offices, where voters can locate their elected officials. Additional resources at the agency, through the California Roster, also provide this information.

AB 2707 requires the SOS, no later than January 1, 2020, to provide voters the opportunity to search for their elected officials with one search, or in other words, consolidating the search functions currently found on various webpages and resources provided by the SOS.

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**Staff Recommendation: Approve as Proposed.**

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**8955 DEPARTMENT OF VETERANS AFFAIRS**

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**ISSUE 20: MINORITY AND UNDERREPRESENTED VETERANS DIVISION (LEGISLATIVE PROPOSAL)**

The Administration has no proposal.

**BACKGROUND**

The Minority and Underrepresented Veterans Division within CalVet is currently staffed by one person who is a deputy secretary. This person appears to attend 2-3 events around the state each month addressing groups such as disabled veterans business groups, noncitizens, and tribal veterans. While it is commendable that CalVet has a high-level person staffing this role, this person has no additional resources to help them fulfill their mission which is to:

Promote the full and impactful use of State of California and Federal veterans benefits, programs, and services by minority and underrepresented veterans. To advocate on behalf of minority and underrepresented Veterans by identifying gaps in services or barriers to access and we seek solutions. To proudly lead and support initiatives that educate the public about the unique needs of minority and underrepresented veterans.

Also, state law requires CalVet to promote the Disabled Veterans Business Enterprise (DVBE) program and to track the effectiveness of its promotional efforts. However, a recent audit by the State Auditor (February 2019) found that CalVet and the Department of General Services have not measured the success of their outreach efforts in

encouraging more firms owned by disabled veterans to participate in the DVBE program. In the audit report, CalVet states that it plans to do a workload analysis and request more positions for this workload in the future. For now, it has internally redirected two positions.

**STAFF COMMENTS**

This item was previously heard in Subcommittee No. 4 on April 2, 2019. Without additional resources, the impact the Minority and Underrepresented Veterans Division can make to reach minority and underrepresented veterans and connect them with their federal benefits is very limited. Additional staff would allow the Division to be more visible statewide and to attend more events to provide outreach to minority and underrepresented veterans. Additional resources would also help ensure that CalVet is fulfilling its responsibilities regarding the DVBE program.

Staff recommends the Subcommittee approve \$328,000 General Fund in 2019-20 and \$311,000 ongoing for two associate governmental program analysts and one office technician so that the Minority and Underrepresented Veterans Division can provide more services and make a greater impact statewide for this important veteran population.

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**Staff Recommendation: Approve \$328,000 General Fund in 2019-20 and \$311,000 General Fund ongoing for three positions.**

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**VOTE-ONLY ISSUE 21: CALIFORNIA CENTRAL COAST VETERANS CEMETERY, CITY OF SEASIDE (APRIL FINANCE LETTER)**

An April Finance Letter requests a reappropriation of \$238,000 General Fund for the construction phase of the California Central Coast Cemetery, City of Seaside project. Additionally, CalVet requests \$7.1 million (\$268,000 California Central Coast Cemetery at Fort Ord Operations Fund and \$6.9 million federal funds) for the construction phase of this project.

**BACKGROUND**

The California Central Coast Veterans Cemetery is located on approximately 12 acres at the former Fort Ord Army base in the City of Seaside, and serves the interment needs of California veterans in the counties of Alameda, Monterey, San Mateo, Santa Cruz, San Benito, and Santa Clara. The initial movement to create the cemetery began shortly after the closure of the Fort Ord Army base in 1991. In 1993, the Fort Ord Reuse Plan designated the site as a military enclave to facilitate construction of a new cemetery to meet the burial demands of the region. The overall goal of the cemetery is to serve the interment needs of veterans living within a 75-mile radius of the six counties listed above.

The first phase of the California Central Coast Veterans Cemetery was completed in October 2016 and included 15 columbaria with 5,000 niches, an administration building, a maintenance yard and building, a committal shelter, and a memorial area. In 2017, the second phase of the California Central Coast Veterans Cemetery, City of Seaside project was approved to expand the existing cemetery. The original project scope included the expansion of the existing cemetery by 4.29 acres, approximately 2,000 in ground crypts, approximately 1,700 in-ground cremains plots, and 400 linear feet of additional roadway.

However, in February 2019, the project scope was reduced to allow the project to be completed within cost, as required by the United States Department of Veterans Affairs Cemetery Grant Program. To offset increased project costs related to site challenges and environmental constraints, the expansion was reduced from 4.29 acres to 3.3 acres, the number of in-ground crypts from 2,000 to 1,831, and the number of in-ground cremains from 1,700 to 1,000. As a result of these changes, the working drawings phase of the project will likely not be completed prior to June 30, 2019. Approval of this request allows CalVet to proceed to construction in October 2019, using the following fund sources:

- \$238,000 General Fund (construction funds appropriated in 2017).
- \$268,000 California Central Coast Veterans Cemetery at Fort Ord Operations Fund (private donations raised by the community).
- \$6,878,000 federal funds (United States Department of Veterans Affairs Cemetery Grant Service Program).

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**Staff Recommendation: Approve as Proposed.**

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#### **VOTE-ONLY ISSUE 22: CARE STAFFING AND OPERATIONS (APRIL FINANCE LETTER)**

An April Finance Letter requests \$7.1 million General Fund and four permanent positions to address increased operating expenses and equipment and to comply with new federal requirements for pharmacy services and compliance oversight. Only \$808,000 of the request (for the staff) is ongoing; the remainder of the funding is one-time.

#### **BACKGROUND**

This request includes two components: 1) increased operating expenses and equipment for three veterans homes and 2) staff to comply with federal requirements.

***Increased Operating Expenses and Equipment (OE&E) for VHC-Yountville, VHC-Barstow, and VHC-Chula Vista.*** CalVets three oldest veterans homes—Yountville (opened in 1884), Barstow (opened in 1996), and Chula Vista (opened in 2000)—have not received any increases for the cost of goods and services in their

operating budgets since 2009. The cost of maintaining operations for these homes has exceeded their operating budgets. In addition, Yountville's budget has also received pressure from equipment and infrastructure failures. The Administration requests a one-time augmentation to the OE&E budgets for VHC-Yountville, VHC-Barstow, and VHC-Chula Vista of \$4.2 million, \$962,000, and \$1.1 million respectively to address these costs pressures. This request is one-time because of the pending needs assessment/master plan for the Veterans Homes that is due December 31, 2019. The following table details some examples of escalations.

Examples of OE&E Cost Escalation at VHC-Yountville, VHC-Barstow, and VHC-Chula Vista		
Home	Impacted Operations	OE&E Funding Shortfall
VHC-Yountville	Maintenance and Service Contracts, Supplies, and General Operations	\$2,229,000
	Workers' Compensation	\$408,000
	Utilities	\$809,000
	Food and Dietary Supply Costs	\$276,000
	Pharmaceutical Costs <sup>1</sup>	\$477,000
VHC-Barstow	Maintenance and Service Contracts, Supplies, and General Operations	\$338,000
	Workers' Compensation	\$117,000
	Utilities	\$26,000
	Food and Dietary Supply Costs	\$377,000
	Pharmaceutical Costs <sup>2</sup>	\$104,000
VHC-Chula Vista	Maintenance and Service Contracts and Supplies, and General Operations	\$306,000
	Workers' Compensation	\$160,000
	Utilities	\$267,000
	Food and Dietary Supply Costs	\$187,000
	Pharmaceutical Costs <sup>1</sup>	\$187,000

**Expanded Federal Requirements for Headquarters, VHC-Yountville, VHC-Chula Vista, and VHC-West Los Angeles.** CalVet uses a geographically centralized pharmaceutical distribution network for the Veterans Homes. Central pharmacies are located at the VHC-Yountville, VHC-Chula Vista, and VHC-West Los Angeles and serve all eight Veterans Homes. This network allows for a balance between ensuring localized service delivery and maximizing staffing and cost efficiency.

In 2016, the federal Centers for Medicare and Medicaid Services (CMS) made significant changes to the requirements for ensuring care and safety of residents in long-term care facilities. Failure to meet the new requirements may result in tens or hundreds of thousands of dollars in fines, loss of millions of dollars in revenue, and/or revocation of certification. Further, all of CalVet's CMS-certified Veterans Homes are rated at four or five stars, placing them among the best long-term care facilities in California; failure to comply with this rule change may result in reduced star ratings in the future.

The new CMS requirements affect pharmacy operations and significantly increase the scope of tasks for which CalVet's pharmacists are responsible. Among the tasks and responsibilities expanded is the expectation that all psychotropic medication be monitored more closely and more frequently, as the list of drugs subject to these reviews has greatly expanded and the justification required for their use has increased. To accommodate these changes CalVet is requesting three pharmacists. Also, CalVet requests one position to serve as the Compliance Officer for overseeing the compliance and ethics program and ensuring it complies with federal law.

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**Staff Recommendation: Approve as Proposed.**

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**1111 DEPARTMENT OF CONSUMER AFFAIRS**

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**VOTE-ONLY ISSUE 23: LEGISLATIVE WORKLOAD**

The Administration includes in its January budget requests for various boards and bureaus within the Department of Consumer Affairs (DCA) totaling \$2.8 million for 22 positions in 2019-20 to address increased licensing and enforcement workload associated with provisions passed during the 2017-18 legislative session.

**BACKGROUND**

Below is a summary of the legislation passed in the 2017-18 legislative session that is addressed in the budget requests for resources shown in the table below:

**AB 93 (Medina, Chapter 743, Statutes of 2018)** - Board of Behavioral Sciences: Establishes new requirements related to supervised experience and educational requirements for marriage and family therapist, clinical social worker, and professional clinical counselor trainees, interns, and applicants for licensure regulated by the BBS.

**AB 926 (Irwin, Chapter 750, Statutes of 2017)- Cemetery & Funeral Bureau:** Authorizes cemetery authorities to apply to the Bureau to convert its endowment care fund from a net income distribution to a unitrust distribution method as of January 1, 2020, and requires the Bureau to annually review whether they continue to meet the conditions of a unitrust distribution method, evaluate the effectiveness of the unitrust method, and report to the Legislature in its next two sunset hearings.

**AB 2037 (Bonta, Chapter 647, Statutes of 2018)** - Board of Pharmacy: Provides an alternative program to authorize a pharmacy located in the state to provide pharmacy services to the patients of covered entities that are eligible for discount drug programs under federal law, using an automated patient dispensing system.

**SB 1447 (Hernandez, Chapter 666, Statutes of 2018)** - Board of Pharmacy: Repeals the general automated drug delivery system (ADDS) provisions and the additional conditions for an ADDS located in a health facility. The bill instead would require an ADDS, as defined, to meet specified requirements in order to be installed, leased, owned, or operated in the state, including a license for the ADDS issued by the California State Board of Pharmacy to the holder of a current, valid, and active pharmacy license of a pharmacy located and licensed in the state.

**SB 212 (Jackson, Chapter 1004, Statutes of 2018)** - Board of Pharmacy: Establishes a stewardship program, under which a manufacturer or distributor of covered drugs or sharps, or other entity, as specified, would be required to establish and implement, either on its own or as part of a group of covered entities through membership in a stewardship organization, a stewardship program for covered drugs or for sharps.

**AB 2998 (Bloom, Chapter 924, Statutes of 2018)** - Bureau of Household Goods & Services: Prohibits a person, including a manufacturer and custom upholsterer, from selling or distributing new, not previously owned, juvenile products, mattresses, or upholstered furniture that contain flame-retardant chemicals at levels above 1,000 parts per million.

**SB 1483 (Hill, Chapter 578, Statutes of 2018)** - Bureau of Household Goods & Services: Expands the definition of "service contracts" to include any consumer good used primarily for personal, family, or household purposes.

**SB 501 (Glazer, Chapter 929, Statutes of 2018)** - Dental Board of California: Revises the requirements for the administration of various levels of outpatient sedation related to general anesthesia, deep sedation, moderate sedation, and minimal sedation and report findings to the Legislature by January 1, 2022. Additional training and continuing education requirements will be required for the administration of general anesthesia or deep sedation for dental patients under 13 years of age. The bill would also require an onsite inspection and evaluation of the licensee and the facility, equipment, personnel, and procedures utilized by the licensee prior to issuance of any permits.

**SB 798 (Hill, Chapter 775, Statutes of 2018)** - Osteopathic Medical Board: Requires medical school graduates, including graduates of osteopathic medical schools, to obtain a postgraduate training license beginning January 1, 2020.

**SB 1465 (Hill, Chapter 514, Statutes of 2018)** - Contractor's State License Board: Requires a licensee to report to the registrar within 90 days of the date that the licensee has knowledge of any civil action resulting in a final judgment, executed settlement agreement, or final arbitration award in an action in which the licensee is named as a defendant or cross-defendant, that meets specified criteria, including that the amount or value of the judgment, settlement payment, or award is \$1,000,000 or greater and that the action is the result of a claim for damages to a property or person allegedly caused by specified construction activities of a licensee on any part of a multifamily rental residential structure.

**SB 1480 (Hill, Chapter 571, Statutes of 2018)** - Veterinary Medical Board: Requires the Board to randomly inspect at least 20 percent of veterinary premises annually.

**SB 1482 (Hill, Chapter 858, Statutes of 2018)** - Dental Hygiene Board (Board): Requires the Board to conduct random audits of at least 5 percent of its licensees annually to ensure that licensees are complying with continuing education requirements.

**Summary of Requests for Legislative Workload  
(in thousands)**

<b>Board/ Bureau</b>	<b>Proposal Title</b>	<b>Requested Funding 2019-20</b>	<b>Requested Positions 2019-20</b>	<b>Proposed Funding 2020-21</b>
Board of Behavioral Sciences	AB 93 (Medina, Chapter 743, Statutes of 2018)	\$89	1	81
Cemetery and Funeral Bureau	AB 926 (Irwin, Chapter 750, Statutes of 2017)	\$69	0.5	\$61
Board of Pharmacy	AB 2037 (Bonta, Chapter 647, Statutes of 2018)	\$288	1.5	\$272
Board of Pharmacy	SB 1447 (Hernandez, Chapter 666, Statutes of 2018)	\$182	1	\$166
Board of Pharmacy	SB 212 (Jackson, Chapter 1004, Statutes of 2018)	\$476	3	\$1,429
Bureau of Household Goods and Services	AB 2998 (Bloom, Chapter 924, Statutes of 2018)	\$197	2	\$211
Bureau of Household Goods and Services	SB 1483 (Hill, Chapter 578, Statutes of 2018)	\$102	1	\$94
Dental Board	SB 501 (Glazer, Chapter 929, Statutes of 2018)	\$547	4	\$465
Osteopathic Medical Board	SB 798 (Hill, Chapter 775, Statutes of 2018)	\$224	2	\$208
Contractor State License Board	SB 1465 (Hill, Chapter 514, Statutes of 2018)	\$217	2	\$201
Veterinary Medical Board	SB 1480 (Hill, Chapter 571, Statutes of 2018)	\$336	3	\$312
Dental Hygiene Board	SB 1482 (Hill, Chapter 858, Statutes of 2018)	\$99	1	\$91
<b>Total</b>		<b>\$2,826</b>	<b>22</b>	<b>\$3,591</b>

The Administration has justified the requested positions for the implementation of the legislation identified above.

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**Staff Recommendation: Approve as Budgeted.**

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**VOTE-ONLY ISSUE 24: CONSUMER AFFAIRS ADMINISTRATIVE WORKLOAD AND PRO RATA**

The Governor's budget requests \$5.2 million in 2019-20 and 24.5 positions (declining to \$4.5 million in 2020-21, \$3.6 million in 2021-22 and \$2.1 million ongoing) to address increased workload across various areas of DCA's centralized services.

Of the total funding requested, DCA's board and bureaus would fund \$2.9 million and 18 positions via "pro rata" (assessments for the services DCA provides) for legal, accounting, fiscal, and human resources services. Board and bureaus would fund the costs of the Office of Professional Examination Services, the Division of Investigation, and Health Quality Investigations based on actual workload.

The following positions and funding are being requested:

Unit	Positions	2019-20 (in millions)	Description
Business Services and Fiscal Operations	7	\$1.2	Two-year limited term funding to address increased workload.
Legal Affairs Division	8	\$1.67	Three-year limited term funding to create a regulations unit.
Office of Human Resources	3	\$0.05	Conversion of positions to permanent.
Office of Professional Examination Services (usage based)	2	\$0.29	Permanent positions for increased workload.
Division of Investigation (usage based)	4.5	\$0.80	Permanent positions for increased workload.
Health Quality Investigations (usage based)	Consultant Funding	\$1.2	Increased workload to investigate Medical Board and healing arts boards.
<b>Total</b>	<b>24.5</b>	<b>\$5.2</b>	

**BACKGROUND**

DCA is 99 percent funded by a portion of the licensing fees paid by California's state-regulated professionals in the form of "pro rata." Pro rata funds the centralized services that DCA provides to the various boards and bureaus. These services include administrative services, legal, accounting, budgeting, human resources, investigations, and examinations.

Pro rata is apportioned primarily based on the number of authorized staff at each board, regardless of how much of DCA's services the boards say they use. DCA charges boards based on actual use for some services, such as the Office of Information Services, the

Consumer Information Center, and the Office of Professional Examination Services. Based on DCA's data, pro rata costs for every board have increased an average of 112 percent since fiscal year 2012-2013. The 2019-20 proposal would increase DCA's pro rata budget by 3.6 percent.

**Concerns About DCA's Pro Rata Are Longstanding.** In the past, the Legislature has raised concern that DCA's methods of allocating pro rata might not result in a fair allocation of costs among the boards and bureaus, including that some entities might be paying for services they are not receiving. In response to these concerns, the Legislature passed SB 1243 (Lieu, Chapter 395, Statutes of 2014), which required DCA to report annually by July 1 on the pro rata calculation of administrative expenses. SB 1243 also required DCA to conduct a study of its current system for prorating administrative expenses.

The 2015 report recommended that DCA explore several alternative approaches to calculating pro rata, including activity-based costing, which more directly ties charges to the use of services such as by charging hourly rates. However, the report also noted that moving to a system such as activity-based costing is hampered due to DCA's lack of past client usage and workload data and systems to capture such data. To date, DCA has not made significant modifications to its process for distributing its administrative costs.

**Actions Taken Last Year to Address Pro Rata Concerns.** Last year, during budget discussions, pro rata issues came up in the context of removing the California Bureau of Real Estate (CalBRE) out of DCA. While CalBRE was under DCA, its pro rata costs increased from approximately \$1.8 million in 2013-14 to \$5.7 million in 2017-18. (This factor was one of the main rationales for moving CalBRE out of DCA.) However, the Administration's budget proposal initially only reflected a reduction to DCA's budget of \$1.3 million. This mismatch in the amount CalBRE was paying for services and DCA's proposed reduction raised concerns about pro rata and cost allocation among the boards and bureaus.

The 2018 Budget Act provided \$242,000 to DCA to conduct organizational change management (OCM) reviews of the centralized services it funds through pro rata charges in order to identify efficiencies. Below is the schedule upcoming OCM reviews.

1. Legal Affairs (Regulations) – Report in 3/19
2. Division of Investigation (Special Operations Unit [allocated based on positions] & Investigations [allocated based on usage]) – Report in 11/19
3. Office of Information Services (Help Desk) – Report in 4/20
4. Office of Human Resources (Hiring and Recruitment) – Report in 7/20
5. Business Services Office (Facilities) – Report in TBD
6. Fiscal Operations (Payables) – Report in TBD

**LAO COMMENTS**

The LAO finds that DCA's request for additional positions funded through pro rata is premature given that OCM reviews the Legislature funded have not been completed yet. As a result, the entire amount of staff being requested may not be needed if the OCM reviews result in the identification of improved business processes that require fewer staff.

Also, the lack of client usage information for pro rata-funded services makes it difficult to assess appropriate staffing levels and some portions of the request appear inflated. For example, the Governor's proposal does not appear to account for reductions in workload from the removal of CalBRE. Specifically, to help transition CalBRE to its own department, DCA is scheduled to provide various services (such as fiscal, accounting, human resources, examination, and education services) to CalBRE through 2019-20. The value of these services totals \$1.5 million in 2018-19 and \$1 million in 2019-20. Once DCA is no longer providing these services, the LAO anticipates there would be some decline in its workload. However, these reductions do not appear to be reflected in DCA's future workload estimates. Additionally, the request for legal services staff for the creation of a unit devoted to promulgating regulations was based on DCA's estimate of the amount of time necessary for it to complete its work on all the regulation packages that it estimates boards and bureaus will propose in a year. However, this does not appear to take into account that DCA's legal staff already do work related to promulgating regulations, so some of the proposed work is not new and should not require additional staff.

The LAO recommends that the Legislature reduce the Governor's proposal from \$5.2 million and 24.5 positions to \$2.3 million for 6.5 positions and consultant services in 2019-20 (\$2.1 million ongoing). This action would eliminate funding for the portions proposed to be funded through pro rata because they are premature and lack sufficient justification. If, after OCM reviews of the relevant pro rata-funded services are completed, DCA determines that additional resources are still necessary, it can return with a budget request in the future. This additional time will also give DCA an opportunity to develop a more fully justified proposal for requesting any additional resources necessary for these activities. This recommendation reflects that the LAO does not have specific concerns with the requests for the usage-based services.

**STAFF COMMENTS**

This item was previously heard in Subcommittee No. 4 on April 2, 2019. Staff recommends the Subcommittee take the following actions.

- 1) Approve as proposed funding for seven positions in Business Services and Fiscal Operations. Staff finds DCA has a short-term need for additional staff to close out year-end accounts (a process that has been delayed because of the implementation of FI\$Cal, according to DCA).

- 2) Approve two-year limited term funding of \$1.67 million 2019-20 and \$1.47 million in 2020-21 to establish a Regulations Unit, with placeholder budget bill language that would require DCA to provide workload data from this unit to the fiscal committees of the Legislature, including data on the regulations packages to implement Chapter 995, Statutes of 2018 (AB 2138, Chiu).
- 3) Reject request to make the three Office of Human Resources positions permanent. Staff agrees with the LAO's finding that this request is premature because it gets out ahead of the OCM reviews that last year the Legislature intentionally directed DCA to complete. Specifically, the OCM review of the Office of Human Resources has not been completed.
- 4) Approve as proposed funding for 6.5 positions and \$1.2 million for consultants to provide usage-based services.

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**Staff Recommendation: Approve as budgeted the requests for Business Services and Fiscal Operations, Division of Investigation, Office of Professional Examination Services, and the Legal Affairs division—for two years only. Reject the proposal for the Office of Human Resources and adopt placeholder budget bill language.**

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**VOTE-ONLY ISSUE 25: BUDGET BILL LANGUAGE FOR ANTICIPATED FACILITIES COSTS (APRIL FINANCE LETTER)**

An April Finance Letter requests budget bill language to augment, after notification to the Legislature, the DCA special fund appropriations in 2019-20 to address increased facilities costs related to active lease negotiations for various Department locations.

**BACKGROUND**

The DCA has multiple facility locations in Sacramento with leases that are set to expire in 2019. Specifically:

- Sacramento, CA - Capital Oaks (2 leases) - Expires June 2019; September 2019.
- Sacramento, CA - Evergreen - Expires March 2019.
- Sacramento, CA - Del Paso - Expires April 2019.

In anticipation of the lease agreements expiration, the DCA has been working with its programs, in coordination with the Department of General Services, to negotiate lease extensions, office relocations, and address space configuration needs. New lease agreements are anticipated to result in increased facilities costs for the programs starting in 2019-20, that they may not be able to absorb based.

Individual Boards and Bureaus may need additional expenditure authority for facility operation costs once lease agreements are finalized and the proposed language will allow the Department of Finance to augment the appropriations necessary to cover costs that exceed the existing budgets.

Below is the proposed language.

1111-402—It is recognized that various boards and bureaus within the Department of Consumer Affairs may incur increased facility costs in 2019-20 for various locations statewide that could have a fiscal impact beyond the amounts appropriated in their respective Budget Act items. Therefore, notwithstanding any other provision of law, upon the request of the Department of Consumer Affairs, the Department of Finance may augment the appropriations of various boards and bureaus within the Department of Consumer Affairs, after review of a request submitted by the Department of Consumer Affairs that demonstrates a need for additional resources for facilities costs based on executed lease contracts. Any augmentation shall be authorized not sooner than 30 days after notification in writing to the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the Chairperson of the Joint Legislative Budget Committee, or his or her designee, may determine.

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**Staff Recommendation: Approve as Proposed.**

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## ITEMS TO BE HEARD

### 0845 DEPARTMENT OF INSURANCE

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#### ISSUE 1: SPRING FISCAL LETTER: CLIMATE AND SUSTAINABILITY

The California Department of Insurance proposes creating a new Climate and Sustainability Branch.

#### BACKGROUND

The California Department of Insurance is requesting a Special Fund (Insurance Fund) expenditure authority increase of \$404,000 in Fiscal Year (FY) 2019-20 and \$384,000 in FY 2020-21 and ongoing to support two (2.0) positions to address the increased workload resulting from the newly elected Commissioner's priority to address climate impacts on insurance.

This proposal requests two positions and the associated funding to create the Climate and Sustainability Branch within the California Department of Insurance. According to the Department:

*Creating a Climate and Sustainability Branch will provide the dedicated statewide leadership and resources necessary to broaden the scope of climate work and work with our state and national partners to develop strategies to reduce risks of climate change related catastrophes and property losses. The two requested positions will allow CDI to advance new priorities and proactive policy initiatives to protect California consumers. Climate change is already requiring collaboration between CDI and those agencies that regulate forestry, utilities, and air quality.*

The Department of Insurance cites the department's role in the tree mortality task force and the implementation of recent climate-change legislation, SB 30, SB 901, and AB 2091, to demonstrate the ongoing need for dedicated staff this role.

#### PANELISTS

- Department of Insurance
- Department of Finance
- Legislative Analyst's Office

**STAFF COMMENTS**

The proposed branch is modest in scope and has a clear relationship to the insurance market in California. However, the Subcommittee may wish to explore the deliverables that this branch would produce and if the Insurance Commissioner envisions this branch growing in future years.

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**Staff Recommendation: Adopt Spring Fiscal Letter.**

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**0690 OFFICE OF PLANNING AND RESEARCH****ISSUE 2: HEALTH IN ALL POLICIES**

The Subcommittee will consider recent changes in the administration of the precision medicine program.

**BACKGROUND**

The Governor's Office of Planning and Research (OPR) requests 3.0 positions and \$430,000 General Fund in 2019-20 and ongoing to continue the existing Health in All Policies (HiAP) program at the Strategic Growth Council (SGC). Executive Order S-04-10 established the Health in All Policies Task Force to advance public health and equity through SGC's own programs and throughout State government.

SGC's HiAP staffing was fully funded by philanthropic partners and current HiAP staff are employees of the Public Health Institute, the non-profit partner to the state. Philanthropic support has amounted to over \$4 million since 2010, which has paid staff salaries and benefits. This support is declining and without authorization for state-funded positions, SGC will no longer be able to continue the HiAP work.

According to the proposal, the 3.0 permanent positions will:

- 1. Inform Leadership and Decision-making:** Incorporate health and equity into decision-making processes pursuant to State priorities and through grants, program administration, and operations, including but not limited to the state's CCI, SGC and OPR activities including the implementation of the GARE Capitol Cohort, and other grant programs administered by Council member agencies.
- 2. Convene Multi-Agency Workgroups:** Coordinate public health and equity efforts across HiAP Task Force member agencies, including gathering best practices, facilitating collaborative problem-solving for shared challenges and barriers, and building the capacity of government entities to promote health and equity through existing programs. It will also grow the Task Force to include new member agencies.
- 3. Evaluate Multi-Agency Impact:** Provide tracking, measuring, and evaluation support for health, equity, and social outcomes related to inter-agency initiatives and community investments, in order to ensure accountability and support effective implementation.

The proposal included the following workload justification:

Workload History						
Workload Measures <sup>1</sup>	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19 Estimates
<b>GARE Capitol Cohort</b>						
6 hour learning sessions (150 participants/19 departments)	-	-	-	-	4	10
Equity Speaker Series (150 participants)	-	-	-	-	2	2
Team Lead Meetings (12 Agency Leads)	-	-	-	-	6	10
<b>GARE Racial Equity Action Plans</b>						
With CALHR and GovOps	-	-	-	-	4	4
Action plans developed (1 per Agency)	-	-	-	-	12	12
<b>GARE Team Coaching and Technical Assistance</b>						
12 agencies					180 hrs	180 hrs
<b>Convening: CA Health in All Policies Task Force Plenary Meetings</b>						
Includes scheduling, agenda setting, facilitation, logistics	3	3	3	3	3	3
<b>Facilitation, Consensus-Building, Research</b>						
Equity in Government Practices Action Plan Development Meetings	-	-	-	20	20	10
Active Transportation Action Plan Development and Implementation – Stakeholder Meetings Convened	60	20	15	15	15	40
School Facility, Land Use, and Health Equity Multi Agency Working Group meetings and implementation	5	5	8	8	2	4
Housing Siting Air Quality Multiagency Working Group	4	4	4	4	-	-
Violence Free and Resilient Communities Action Plan Development and Implementation	4	4	8	8	8	8
Farm to Fork & Healthy Food Procurement Action Plans Implementation	4	4	40 hrs	40 hrs	20 hrs	40 hrs
Parks and Greening Action Plan Development and Implementation	4	4	4	8	8	5
<b>Reports</b>						
Active Transportation for State Employees in Capital Region (2015)	100 hrs	200 hrs	-	-	-	-

Integrating Health and Equity Considerations into Grant Programs from "Non-Health" Sectors (2016)	-	40 hrs	200 hrs	-	-	-
Healthy Food Procurement Case Studies, Environmental Scan, and Policies Reports (2016)	-	200 hrs	400 hrs	200 hrs	-	-
Racial and Gender Pay Gaps in State Government: A Path Toward Workforce Equity (2016)	-	-	-	-	200 hrs	300 hrs
<b>Consultation</b>						
"Non-Health" Grant Programs Provided with Health and Equity Technical Assistance	400 hrs	400 hrs	400 hrs	500 hrs	300 hrs	400 hrs
RTP Guidelines Development (Hours of assistance provided)	-	-	20 hrs	300 hrs	50 hrs	-
OPR General Plan Guideline Input (Hours per year)	-	-	80 hrs	80 hrs	-	-
Additional miscellaneous requests for health and equity input	20 hrs	25 hrs	30 hrs	35 hrs	40 hrs	45 hrs
<b>Capacity Building</b>						
Health in All Policies Presentations	17	19	20	13	10	15
Health in All Policies Trainings and Workshops	2	2	2	3	1	3
<b>Stakeholder Group</b>						
agenda setting, planning/logistics, facilitation, and follow-up with local government and non-government health equity experts	2	2	3	3	2	3
<b>Written Updates and Presentations</b>						
to SGC	3	6	6	6	7	6
<b>Public Communications</b>						
Through eblasts	20	20	20	20	20	20
<b>Survey and Evaluation Activities</b>						
Survey development, administration, analysis, and reporting	Ongoing Activities	Ongoing Activities	Ongoing Activities	Ongoing Activities and Task Force Survey	Ongoing Activities and GARE Participant Survey	Ongoing Activities and GARE Participant Survey
<b>Support other Researchers to Author Articles</b>						
About HiAP Task Force	4	2	1	4	3	3

<sup>1</sup> Work Measures are based on annual number of sessions, trainings, meetings, programs, updates, and presentations if not indicate by hours.

**PANELISTS**

- Louise Bedsworth, Office of Planning and Research
- Julia Caplan, Office of Planning and Research
- Emma Jungwirth, Department of Finance
- Legislative Analyst's Office

**STAFF COMMENTS**

The workload analysis in this proposal displays a broad range of topics and reports produced by the Health in All Policies staff. However, it also suggests that these positions functioned as discretionary staff to work on various unconnected reports and projects.

It is unclear that these positions have ongoing value. Convening meetings, reporting on meetings, and “incorporating health and equity into decision-making” are abstract tasks that lack tangible outcomes for Californians. This BCP does not include one concrete example of future workload to justify extending this effort with State resources. For that reason, staff recommends denying this proposal.

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**Staff Recommendation: Deny Proposed Spring Fiscal Letter.**

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**ISSUE 3: PRECISION MEDICINE**

The Subcommittee will consider recent changes in the administration of the precision medicine program.

**BACKGROUND**

The California Initiative to Advance Precision Medicine (CIAPM), administered by the Governor's Office of Planning and Research (OPR), has continued to support innovative projects in precision health and medicine. Launched by the State in 2015 with \$3 million in state funding, CIAPM has grown into a \$53 million state initiative — the only state-run program of its kind nationwide. The program has continued to mature. In addition to proof of concept demonstration projects, OPR has started to bring together additional expertise to create a policy framework to support precision health and medicine. The University of California, San Francisco (UCSF) has served as a fiscal agent for this program.

The 2018 budget proposed to remove UCSF as the administrative agent and instead establish a non-profit corporation named the California Institute to Advance Precision Health and Medicine. The plan for the institute was to create a board of directors including the OPR director, directors professionally active in precision health and medicine from across California, with directors appointed by the Senate Rules Committee as well as the Speaker of the Assembly. This board would have had fiduciary responsibility and would have represented precision health and medicine efforts statewide, beyond any one institution. The Assembly rejected this proposal and it was not included in the 2018 budget package.

In December of 2018, the Office of Planning and Research chose unilaterally to remove UCSF as the administrative agent of this program and move administration to Office. This action paralleled the proposal rejected by the Legislature last year.

**PANELISTS**

- Kate Gordon, Office of Planning and Research
- Emma Jungwirth, Department of Finance
- Legislative Analyst's Office

**STAFF COMMENTS**

The Assembly believes the Office of Planning and Research should not have moved the administration of this program from UCSF. Therefore, staff recommends adopting language to return this program back to that model going forward.

**Staff Recommendation: Adopt Budget Bill Language to Require that the University of California, San Francisco, become the program administrator for the remaining funding.**

**0840 STATE CONTROLLER'S OFFICE****ISSUE 4: UNCLAIMED PROPERTY FUND**

The Subcommittee will consider two proposals for the Controller to continue compliance with California Unclaimed Property Law.

**BACKGROUND**

The State Controller's Office requests has two requests relating to unclaimed property:

- January Budget Proposal:
  - \$1,571,000 Unclaimed Property Fund (UPF) in 2019-20 and ongoing to support 11.0 permanent positions, to perform audits of holders to ensure compliance with the California Unclaimed Property Law (UPL), reunite unclaimed property with its rightful owners or heirs, and provide administrative support. The proposal was contained in the Governor's Budget.
  - This Governor's January Budget proposal continues limited term propositions that are currently in place into permanent ongoing positions. The 2016-17 budget included 6.0 permanent positions and 11.0 three-year limited-term positions to perform audits of non-compliant holders and provide administrative support. Fourteen of the 17.0 positions perform field audits of non-compliant holders. Two of the 17.0 positions were redirected to oversee third-party contractors performing audits of out-of-state holders of unclaimed property and one of the 17.0 positions provides administrative support. Prior to 2016-17, SCO received an average of 17.0 three-year limited-term positions through BCPs to conduct audits of unclaimed property holders.
- Spring Fiscal Letter
  - \$1,499,000 from the Unclaimed Property Fund (UPF) to support 9.0 permanent positions for the Unclaimed Property Fraudulent Claims Prevention and Detection Program.
  - These 9 positions are based upon a workload analysis of claim evaluation and information technology functions.

SCO performs field audits of California holders of unclaimed property, including, but not limited to, banks, hospitals, retailers, utility companies, manufacturers, insurance companies, major financial institutions, escrow companies, brokerage firms, casinos, professional sports teams, and Fortune 500 companies to ensure compliance with the UPL and reunite unclaimed property with its rightful owners or heirs. SCO also contracts with third-party contractors to perform audits of out-of-state holders.

This Governor's January Budget proposal continues limited term propositions that are currently in place into permanent ongoing positions. The 2016-17 budget included 6.0 permanent positions and 11.0 three-year limited-term positions to perform audits of non-compliant holders and provide administrative support. Fourteen of the 17.0 positions perform field audits of non-compliant holders. Two of the 17.0 positions were redirected to oversee third-party contractors performing audits of out-of-state holders of unclaimed property and one of the 17.0 positions provides administrative support. Prior to 2016-17, SCO received an average of 17.0 three-year limited-term positions through BCPs to conduct audits of unclaimed property holders.

<b>LAO COMMENTS</b>
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***Increasing Holder Compliance Has Merit.*** To increase holder compliance, the Governor proposes allocating resources to SCO for more audits of potential holders. We agree with the Governor's goal to increase holder compliance. However, the scale of SCO's audits cannot address the significant lack of compliance. With only a couple of dozen audits conducted each year, SCO cannot change the behavior of hundreds of thousands of California businesses.

***Two Options to Address Holder Compliance.*** This report contains two options to try to substantially increase holder compliance with unclaimed property law. In particular we suggest the Legislature consider:

- ***Including an Unclaimed Property Question on Businesses' Tax Forms.*** The Legislature could amend tax law to require businesses to respond to a question about unclaimed property as part of their tax filings. This question would be purely informational (it would not have tax implications for the business) and likely would significantly increase businesses' awareness of the law.
- ***Providing One-Time Amnesty for Noncompliant Holders.*** The Legislature also could provide one-time amnesty for holders who voluntarily report past-due unclaimed property by temporarily waiving the penalty associated with delinquent reports. This could be an effective way to address the problem of willful noncompliance.

The Legislature might want to consider pursuing both of these options. This would be even more effective at increasing holder compliance than either of these options alone and would avoid placing undue financial hardship on businesses. Effectively increasing holder compliance would mean more property reunited with its rightful owners and could result in hundreds of millions of dollars in General Fund benefit.

**PANELISTS**

- Jennifer Urban, State Controller's Office
- Gary Qualset, State Controller's Office
- Lisa Hughes, State Controller's Office
- Department of Finance
- Ann Hollingshead, Legislative Analyst's Office

**STAFF COMMENTS**

This issue was considered by the Subcommittee on March 26, prior to the submission of the Spring Fiscal Letter.

Staff believes the requested positions are justified and should be approved.

The Subcommittee may wish to inquire why members of the public must search for unclaimed property instead of the department proactively contacting individuals with unclaimed property.

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**Staff Recommendation: Approve as budgeted and Adopt Spring Fiscal letter.**

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**0511 GOVERNMENT OPERATIONS AGENCY**

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**ISSUE 5: OFFICE OF DIGITAL INNOVATION**

The Subcommittee will consider the proposed Office of Digital Innovation.

**BACKGROUND**

The Government Operations Agency (GovOps) requests \$36,156,000 (\$33,656,000 General Fund and \$2,500,000 Reimbursements) in 2019-20 and \$14,584,000 (\$9,584,000 General Fund and \$5,000,000 Reimbursements) ongoing beginning in 2020-21 to establish the Office of Digital Innovation (Office) within GovOps. Funding includes start-up costs, personal services, an innovation fund, and operational costs including 50 positions.

According to the Administration, establishing the Office will enhance the usability and reliability of our state's most important services by using business process improvement and leveraging digital innovation, as appropriate, to transform government services.

The proposal has three elements:

- **Planning, Business Process, Digital Services, Policy and Strategy:** The bulk of the proposed office is staff dedicated to assisting state departments with innovation efforts. The vision for the Office is modeled upon similar programs operating in the federal government.
- **Innovation Academy:** The Office will address these needs through training on areas such as continuous process improvement, human-centered design, change management, service design, product management and more. Once established, and in coordination with existing training academies, the training will be mandatory for state supervisors, managers, and executives.
- **Innovation Fund:** This proposal includes a one-time \$20 million innovation fund to allow the Office to work on several small-scale demonstration projects with various state entities. The Office will identify which entities would best benefit from their services, such as DMV. After accessing needs or gaps in an entity's service delivery, the Office will develop or assist in developing projects that better meet its customers' needs. The innovation fund will provide resources to help state entities acquire the information technology goods and services they need in real-time.

The Department will utilize contracted Administrative Services for fiscal services, human resources, and IT support, modeled after the current GovOps structure. Additional operational costs are standard expenses for a new programmatic function and include expenses for operating a unit in separate office space. We note that when the Office is

fully implemented, there may be a need to consider and change the organizational structure based on the assessed needs at that time.

#### EXECUTIVE ORDER

On January 8, 2019, the Governor issued an Executive Order, N-04-19, related to information procurement that created two new approaches toward procurement derived from existing authority provided by the Legislature:

- Request for Innovative Ideas (RFI2): an alternative process to procure technology.
- Innovative Procurement Sprint: a focused effort to use alternative procurement methodology to address a problem.

#### TRAILER BILL

The Administration has proposed trailer bill language that:

- Establishes the Office of Digital Innovation;
- Allows the Director to make changes to the State Administrative Manual on issues related to service delivery;
- Creates a new Digital Innovation Services Revolving Fund; and
- Allows the Office of Digital Innovation to procure goods and services using the Public Contract Code 6611 provisions.

#### PANELISTS

- Julie Lee, Government Operations Agency
- Department of Finance
- Brian Metzker, Legislative Analyst's Office

#### STAFF COMMENTS

The proposed Office could be a driver of innovation for state government, however, is untested and new. The Office also currently does not have a leader, which appears to be a critical element of establishing a vision and building capacity to move forward in other jurisdictions that have adopted a similar approach. For these reasons, staff recommends providing funding to start the Office, with the expectation that the full build out of its scope will take place over future years.

Staff also recommends deny procurement authority to the Office, which appears unnecessary. The Office should be able to use the existing innovative 6611 procurement model by partnering with the Department of Technology and the Department of General Services, both of which report to the Government Operations Agency.

Therefore, staff recommends the following action:

1. Approve 10 positions for the Office of Digital Innovation
2. Approve \$10 million General Fund to begin the Innovation Revolving Fund
3. Adopt Placeholder Trailer Bill Language to establish the Office, but do not include language allowing the office to have stand-alone procurement authority.

In addition, the Administration has committed that this Office's first task would be to help address the Department of Motor Vehicle customer wait times. The Assembly intends to evaluation the effectiveness of this Office and only consider additional resources after that important initiative is fully resolved.

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**Staff Recommendation: Adopt Staff Recommendation.**

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**ISSUE 6: 2020 CENSUS OUTREACH**

The Subcommittee will consider the Administration's plan for Census outreach.

**BACKGROUND**

The upcoming 2020 Census is critical to California because the data collected by the decennial census is used to determine the number of seats California will have in the U.S. House of Representatives and federal funding levels for local communities. This will be the first census conducted online, and this and other aspects of the federal census design may adversely impact resident participation. California has the largest number of hard-to-count residents—putting its population at risk of being underreported.

Launched in 2017-18, California's Complete Count effort will be an extensive statewide outreach and awareness campaign designed to encourage and support full participation by all Californians in the upcoming 2020 Census. The Budget includes an additional \$50 million for statewide outreach efforts related to increasing the participation rate of Californians in the decennial census, bringing the total funding available to \$140.3 million. This effort will span multiple years, be conducted in multiple languages, and implement specific strategies to obtain a complete and accurate count of all California residents. The budget also includes \$4 million for the California Housing and Population Sample Enumeration, which is a survey that will identify barriers to a complete count and successful approaches taken by the various outreach efforts and help develop recommendations for the 2030 Census.

**LANGUAGE ACCESS**

On April 30, 2019, the Assembly Select Committee on the Census held a hearing on language access. At the hearing it was noted that there was insufficient dedicated resources to provide translation of materials.

**PANELISTS**

- Justyn Howard, Government Operations Agency
- Ditas Katague, California Complete Count Census
- Emma Jungwirth, Department of Finance
- Legislative Analyst's Office

**STAFF COMMENTS**

Based upon discussions at the Assembly Select Committee and members, staff recommends the following action on 2020 Census Outreach:

1. Approve as Budgeted the \$50 million of funding proposed in January Budget.
2. Appropriate an additional \$5 million for the State to translate materials into other languages, to supplement regional efforts.
3. Approve resources for the California Housing and Population Sample Enumeration but delay the survey until after the Census period, to reduce competition for resources and attention between these two different efforts.
4. Increase funding for K-12-focused Census educational programs by \$2 million so that schools have a robust curriculum and material during the 2019-20 school year.
5. Adopt Placeholder Trailer Bill Language to require the Complete Count Committee to report on various milestones to the Legislature prior to quarterly meetings.

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**Staff Recommendation: Adopt Staff Recommendation**

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**7760 DEPARTMENT OF GENERAL SERVICES**

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**ISSUE 7: SONOMA DEVELOPMENTAL CENTER CLOSURE**

In a Spring Fiscal Letter, the Department of General Services is requesting to statutory authority to manage the closure of the Sonoma Developmental Center and \$43.7 million for three years of facility warm shutdown and site remediation.

**BACKGROUND**

The Department of General Services (DGS) is requesting General Fund authority of \$43.7 million over a period of three fiscal years: 2019-20, 2020-21, and 2021-22 for operations, maintenance, initial partial decommissioning, and land use planning costs related to the closure of the Sonoma Developmental Center (SDC). The Department of Developmental Services (DDS) closed SDC on December 31, 2018. The Transfer of Jurisdiction of SDC from DDS to DGS is anticipated to be effective July 1, 2019.

This proposal includes trailer bill that provides DGS authority to enter into agreements on the use of the site, including the sale of the property if certain conditions are met.

**PANELISTS**

- Andrew Sturmfels, Department of General Services
- Jason Kenney, Department of General Services
- Eveyln Suess, Department of Finance
- Helen Kerstein, Legislative Analyst's Office

**STAFF COMMENTS**

This proposal has been expected and reflects a long-term goal of the State to move away from Developmental Centers. However, as a Spring Fiscal letter, this proposal does not offer the Legislature much time to react and hear from stakeholders on the future disposition of the site.

The proposal argues that providing three years of funding would help provide stability and predictability to the process. Staff believes this approach makes sense, but recommends some reporting so that the Subcommittee can monitor these activities in the next two budget conversations.

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**Staff Recommendation: Adopt Spring Fiscal letter with budget bill reporting language**

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**5180 DEPARTMENT OF SOCIAL SERVICES**  
**8860 DEPARTMENT OF FINANCE**

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**ISSUE 8: IMMIGRATION AND HUMAN TRAFFICKING RAPID RESPONSE PROGRAM**

The Subcommittee will consider a proposal to provide \$20 million in 2019-20 for Immigration and Human Trafficking Rapid Response.

**BACKGROUND**

The Department of Finance requests one-time funding of \$20 million General Fund in 2019-20 to establish an Immigration and Human Trafficking Rapid Response Program. The 2019 Governor's Budget also includes one-time funding of \$5 million General Fund to address immigration-related emergencies that occur during the 2018-19 fiscal year.

The intent of the Rapid Response Program is to quickly address emergencies affecting immigration and human trafficking victims to protect children, families, and public health. The General Fund will be appropriated to a newly established Rapid Response Reserve. Once the Administration has determined there is a need to use the funds to address immigration or human trafficking emergency situations. Finance will adjust the appropriate department's budget authority. This funding will assist qualified community-based organizations and nonprofit entities in providing services during immigration or human trafficking emergency situations when federal funding is not available. These funds will also be available to support the redirection of state-level staff who directly assist in response efforts. Within 30 days of making any adjustments. Finance shall report the adjustments in writing to the Joint Legislative Budget Committee.

The Legislature approved the 2018-19 \$5 million funding for this purpose in AB 72 (Chapter 1, Statutes of 2019), which was adopted in February of 2019.

**PANELISTS**

- Department of Finance
- Legislative Analyst's Office

**STAFF COMMENTS**

Assembly Budget Subcommittee #1 heard this issue and believes that this funding should be housed at the Department of Social Services to allow for oversight and accountability of the funding. The Department of Social Services work in San Diego and its successful operation of the One California program make it suited to be the natural home for this funding.

The Department of Finance has argued that this rapid response funding must be flexible as the immediate needs could arise in many different state departments and agencies. Thus locating these funds at the Department of Social Services would limit the ability of the administration to be responsive.

Staff believes budget bill language can be crafted to house these funds at the Department of Social Services but still give the administration control and flexibility.

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**Staff Recommendation: Move Funding for this activity to the Department of Social Services and adopt budget bill language.**

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**7600 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION****ISSUE 9: CENTRALIZED REVENUE OPPORTUNITY SYSTEM**

The California Department of Tax and Fee Administration (CDTFA) requests \$24.5 million to continue implementation of the Centralized Revenue Opportunity System (CROS) Project in 2019-20. The funds requested will allow the department to continue testing and enhancements ahead of Rollouts 3 and 4 for Special Taxes and Fees. This proposal also reflects:

- Reduction of 5.0 permanent positions authorized in the 2012-13 Budget Act
- Reduction of 2.0 permanent positions authorized in the 2016-17 Budget Act
- Continuation of year to year funding authorized in the CDTFA's approved 2018-19 BCP, including reclassification of select, prior approved permanent positions.

**BACKGROUND**

The CROS Project's objective is to establish an integrated, responsive, and effective tax and fee payer centric solution that will use up-to-date tax collection, storage, account management, and data retrieval technologies to maximize effectiveness of CDTFA's operations through the following activities:

- Replacing legacy mainframe-based revenue and collection information systems with an integrated and automated tax and fee system
  - Providing an enterprise data warehouse
  - Enhancing online services available to tax and fee payers and other stakeholders
    - Improving case and contact management
    - Reengineering and improving program processes
    - Improving data sharing capability and real-time data access, especially to field staff
    - Enhancing CDTFA's ability to quickly implement legislative, judicial, or electoral changes to tax/revenue codes
- The Project Scope includes:
- Integrating registration, reporting obligations, cashiering, refunds, collection, audit, appeal, accounting and General Ledger functions for all sales and use, special tax and fee programs, and timber tax functional areas into the CRCS Solution;
  - Replacing the Integrated Revenue Information System (IRIS), and Automated Compliance Management System (ACMS), as well as Timber Tax legacy systems;
  - Integrating enterprise software including Avaya (call center) and Documentum (enterprise content management) software.

Although this BCP requests funding only for FY 2019-20, the CDTFA anticipates following future CROS Project related requests:

- FY 2020-21: \$26.0 million
- FY 2021-22: \$18.6 million
- FY 2022-23: \$15.2 million

<b>STAFF COMMENTS</b>
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The CROS project must submit a BCP every year for project resources. This project remains on time and within budget.

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**Staff Recommendation: Approve as Budgeted.**

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**ISSUE 10: ACCOUNTING BRANCH POSITIONS AUGMENTATION**

The Governor's budget requests the redirection of five vacant Provision 1 positions to the Accounting Branch, and \$95,000 to fund the salary difference between the current and proposed classifications of redirected positions.

**BACKGROUND**

The CDTFA was established as a result of the Taxpayer Transparency and Fairness Act of 2017 (Act). This Act referenced various audits and evaluations. Audit issues include inadequate internal controls in the Accounting Branch. To address the audit findings as well as other critical unmet workload needs, an internal analysis indicated that 10 additional positions were needed in Accounting. Of the 10 positions, five have already been redirected from other areas within the CDTFA. The five remaining positions are identified but cannot be redirected without Department of Finance (DOF) approval because the positions are designated as Provision 1 (revenue generating).

Provision 1 requires any redirections of resources appropriated for audits, collections, or return processing to be approved by DOF with a 30-day Joint Legislative Budget Committee notification.

**STAFF COMMENT**

The Subcommittee may wish to further examine the limitations of Provision 1 with respect to the FTB, BOE and CDTFA. Historically, Provision 1 was included in the budget beginning in 1999-2000, in response to an Audit. Provision 1 provides some budget control and oversight but also can reduce flexibility and efficiency for departments. The Subcommittee may wish to direct staff to work with the Department of Finance and the Legislative Analyst's office to consider options for Provision 1 and the departments that it affects.

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**Staff Recommendation: Approve as Budgeted.**

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**ISSUE 11: IMPLEMENTATION OF CANNABIS TAX REGULATION**

The CDTFA requests \$2.9 million and 13.9 positions in 2019-20, to perform mandated workload associated with the implementation of the Control, Regulate and Tax Adult Use of Marijuana Act (Proposition 64) and the Medicinal and Adult-Use Cannabis Regulation and Safety Act of 2017 (MAUCRSA, Chapter 27, Statutes of 2017, effective January 1, 2018).

**BACKGROUND**

The CDTFA's Investigations Division (ID), Investigations and Special Operations Bureau operates under Section 34016, Division 2 of Part 14.5 of the Revenue and Taxation Code, which grants the CDTFA the authority to conduct inspections and seize products of evidence of non-payment of taxes and/or fees when discovered. MAUCRSA enforcement requirements are similar to those currently administered under the Cigarette and Tobacco Products Tax Law (CTPTL) program. Due to the unregulated history of the cannabis industry, and the tax rate on legal and regulated sales of cannabis and cannabis products, the potential for sales to occur as part of the underground economy is great. The Bureau of Cannabis Control (BCC) estimated that 9.4 percent of their licensed population will require enforcement action within the first year of implementation. Due to the potential for sales of cannabis to occur as part of the underground economy, inspectors will be necessary to ensure compliance with the new tax laws.

As of May 30, 2018, the CDTFA had issued 5,331 seller's permits to businesses engaged in cannabis activities, 1,473 of the permits were for registered distributors. With some of the businesses operating in multiple locations, the CDTFA estimates that the total number of potential business inspections to be conducted is 5,800. Under the current CTPTL guidelines, an inspection team of two can perform 250 inspections per year. Due to the many aspects of the cannabis industry, including but not limited to, cannabis categories, excise and cultivation tax computations, reconciliation of data and invoices, and transaction types (arm's and non-arm's length), inspections of cannabis businesses will be more complex and time consuming.

The CDTFA proposes an inspection methodology that may facilitate up to 1,000 inspections annually, designed to zero in on non-compliant business activity and tax evasion through analysis of Track and Trace data, including analysis of bills of lading; 1099 K data; licensing and/or permit data available via the DCA, Bureau of Cannabis Control; the California Department of Food and Agriculture; the California Department of Public Health; cannabis cultivation yields, manufacturing and testing facilities distributions and retail sales. Given the resources requested, ID staff anticipates performing analytic driven inspections of up to 1,000 inspections per year of cannabis related businesses. The timeline provided anticipates inspection of known cannabis businesses, both licensed and unlicensed, and includes the ongoing potential turnover of businesses. Inspecting

cannabis businesses assists in validating compliance with CDTFA laws and safeguards a level playing field for other businesses in the industry. The CDTFA is requesting inspectors in order to complete the inspections as outlined. The CDTFA also requires the one-time and ongoing resources to support enforcement activities, including external contracts with (California Highway Patrol (CHP) and Department of Justice (DOJ) law enforcement investigative services; in state travel for field positions; transportation, training, specialized equipment and an evidence monitoring/tracking system to track seizures.

The budget request provides a workload justification for over 33,000 hours of annual work and a break out of administrative costs that appear in line with the overall request.

<b>STAFF COMMENTS</b>
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The Subcommittee may wish to ask the CDTFA the following:

- Discuss how much revenue is being collected? Is this more or less than what is anticipated in the budget? What are the reasons for the smaller numbers?
- How much revenue is being remitted in cash and non-cash?
- Will the resources for enforcement affect the illegal market?

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**Staff Recommendation: Approve as Budgeted.**

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**ISSUE 12: TAX AND FEE PROGRAMS BUREAU'S OFFICE OF TAX APPEALS WORKLOAD**

The CDTFA requests the following resources to address this additional workload:

- \$1.04 million for 6.0 permanent positions (5.0 redirected and upgraded vacant positions and 1.0 new position) in fiscal year (FY) 2019-20, and
- \$876,000 in FY 2020-21 and ongoing. This augmentation will ensure the CDTFA Legal Division's Tax and Fee Programs Bureau (TFPB) has resources to prepare for OTA hearings.

**BACKGROUND**

In January 2018, the Office of Tax Appeals implemented the new administrative hearing process for tax appeals, which increased the California Department of Tax and Fee Administration (CDTFA) workload from 24-80 hours to 150 hours for each tax appeal involving legal issues and from 3 hours to 20 hours for each tax appeal involving audit issues.

Beginning January 1, 2018, oral hearings that were previously heard by the Board members of the BOE are now heard before the OTA. Due to this new administrative hearing process, the total amount of hours that TFPB will spend on a legal case in the OTA administrative hearings process will increase due to the additional tasks and steps associated with the OTA administrative hearings process. Unlike the administrative hearing process with the BOE, due to the proposed OTA regulations incorporating the Administrative Procedures Act, the new process with the OTA is much more formal and requires significantly more time and effort to complete. An opening brief is required of the CDTFA for all cases that are before the OTA, and the TFPB will also participate in all OTA pre-hearing conferences in addition to providing legal representation at all OTA hearings.

Further, the proposed OTA regulations lay out a framework that includes the need for the TFPB to prepare declarations, exhibits, and witnesses as well as object to evidence.

For legal cases, review of the tax and feepayer files, performing any required legal research, and preparation of the opening brief for OTA requires 40 hours; additional briefing (reply brief or supplemental briefing) and responses to OTA requests for additional information requires 16-30 hours; preparation for and participation in the prehearing conference including preparing declarations, witnesses, exhibits, etc. requires 40 hours; and preparation for and participation in the hearing requires 40 hours. Thus, the total hours spent on a legal case in the OTA process will be approximately 150 hours, a significant increase in the hours worked per case.

For audit cases, in which the TFPB provides all required legal support, review of briefs prepared by the department requires 4 hours; participation in the prehearing conferences requires 8 hours; and participation in the hearings requires 8 hours.

Again, since the OTA process has more steps, the TFPB will spend more hours providing legal support on audit cases. Additionally, the volume of the workload related to administrative hearings that the TFPB will handle each year will increase under the OTA administrative hearings process.

The significant increase in incoming workload for the TFPB resulting from the OTA administrative hearings process creates a gap between the amount of work to be done and the current workload capacity of the Bureau. The requested positions are essential for the TFPB to continue to timely perform its critical day-to-day assignments and responsibilities and provide the necessary legal representation of the CDTFA in the OTA administrative hearing process. This request is for permanent positions and funding. The requested positions would handle most of the work associated with the administrative hearing process with the OTA including briefing, prehearing conferences and hearing preparation; attending each pre-hearing conference and hearing; responding to and handling any required discovery or motions; and responding to any other requests from the OTA.

<b>STAFF COMMENTS</b>
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These resources are in response to the new processes created by OTA.

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**Staff Recommendation: Approve as Budgeted.**

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**ISSUE 13: SETTLEMENT AND TAXPAYER SERVICES BUREAU**

The Settlement Bureau and Taxpayer Services Bureau (Settlement Bureau) requests the permanent establishment of six limited-term positions set to expire June 30, 2019, and \$1.02 million (\$643,000 General Fund and \$374,000 Reimbursements) in 2019-20 and ongoing to address a 181-percent increase in taxpayer demand for administrative settlements with the Settlement Program from FY 2010-11 through FY 2016-17. The CDTFA expects the 6.0 positions to accelerate collection of nearly \$43.8 million in additional revenue annually.

**BACKGROUND**

The California Department of Tax and Fee Administration (CDTFA) administers more than 30 tax and fee programs that generate revenue essential to the State of California. The Settlement Bureau administers the CDTFA's Settlement Program by efficiently negotiating and resolving disputed tax liabilities in the administrative appeals process.

Taxpayer demand for administrative settlements steadily increased a total of 181-percent from 2010-11 through 2016-17. Beginning in June of 2017, requests for settlement consideration decreased due to factors such as the transition from BOE to CDTFA on July 1, 2017, with the passage of the Taxpayer Transparency and Fairness Act of 2017, from taxpayers' attempts to have their cases heard by the BOE by its final hearing in December of 2017, and the CDTFA's ongoing transition to a new computer system (called the Centralized Revenue Opportunity System) beginning in March of 2018. Absent these factors, the Settlement Program anticipates that demand for administrative settlements will continue to increase in 2019-20 and ongoing.

There was a decrease in 2017-18 due to the BOE/CDTFA transition and new technology transition (CROS). Aside from these factors, the CDTFA anticipates demand for settlement to continue the trend seen in 2010-11 to 2016-17, particularly due to the recent Wayfair ruling on economic nexus and taxpayers seeking settlement. To address this sustained increase in workload, nine positions (comprised of attorneys and auditors) were established in 2011 as three-year limited-term positions to address the new workload; the positions were continued as two-year limited-term positions in 2013-14. In 2016-17, the nine positions were made permanent (along with an additional 6.0 three-year limited-term positions), based on the continued taxpayer demand for administrative settlements of civil tax matters in dispute and the success of the program in accelerating revenue and completing cases. The Settlement Program exceeded estimated accelerated revenue in each year for which the positions were established, and has accelerated an average of more than \$134.6 million in revenue annually over the last three fiscal years by reaching settlement agreements with taxpayers based on the risks and costs of litigation on approximately 600 cases per year.

**STAFF COMMENTS**

The subcommittee may wish to ask CDTFA to talk about the settlement program and how they interact with taxpayers.

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**Staff Recommendation: Approve as Budgeted.**

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**ISSUE 14: PREPAID MOBILE TELEPHONY (MTS) SURCHARGE**

The Governor's budget requests a reduction in resources to efficiently conclude the Prepaid MTS Surcharge Collection Act program as follows:

- A reduction of \$1.0 million and 8.4 positions in 2019-20,
- A reduction of \$1.7 million and 13.6 positions in 2020-21,
- A reduction of \$1.7 million and 13.6 positions in 2021-22,
- A reduction of \$1.8 million and 14.1 positions in 2022-23,
- A reduction of \$1.8 million and 14.6 positions in 2023-24 and ongoing.

**BACKGROUND**

On November 15, 2018, the United States District Court, Northern District of California (Metro PCS California, LLC v. Michael Picker), enjoined state agencies from enforcing the provisions of the Prepaid MTS Surcharge Collection Act because it conflicts with federal law. A notice of appeal of the court's decision was filed on December 14, 2018, but a judicial stay of the injunction was not requested, thereby ending CDTFA's enforcement of the Prepaid MTS Surcharge Collection Act.

The local charges are administered under a separate act, the Local Prepaid MTS Collection Act. CDTFA will continue to collect the local portion until its sunset on December 31, 2019.

**STAFF COMMENT**

A reduction in resources related to the state program is appropriate since CDTFA will no longer collect the state portion of the program. The subcommittee may wish to ask what happens to the local program. How long will it continue?

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**Staff Recommendation: Approve as Budgeted.**

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**9210 LOCAL GOVERNMENT FINANCING**

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**ISSUE 15: COMMUNITY-BASED TRANSITIONAL HOUSING PROGRAM AUDIT TIMELINE TBL**

The Governor's budget proposes trailer bill language that would require the Office of State Audits and Evaluations (OSAE) to conduct an audit of the Community Based Transitional Housing Program and extend the existing deadline.

**BACKGROUND**

Under current law, OSAE is required to complete a review by May 1, 2019. This bill would change the review to an audit and would provide an extension of one year to complete the audit.

According to the Department of Finance (DOF), the audit would include more specific parameters than a review, and is conducted according to Government Auditing Standards. This, for example, will allow OSAE to make corrective action recommendations if they identify issues, and to then follow up to ensure those recommendations are carried out.

**STAFF COMMENTS**

According to the DOF, the review that was due May 1, 2019, has not begin. However, by providing this extension, OSAE could do a more in depth audit of the program with more time. The subcommittee may wish to ask the DOF what their timeline looks like for the audit if this trailer bill language were included in this year's budget.

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**Staff Recommendation: Adopt placeholder trailer bill language.**

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**1111 DEPARTMENT OF CONSUMER AFFAIRS****ISSUE 16: BUSINESS MODERNIZATION PLAN JANUARY AND APRIL FINANCE LETTER BUDGET REQUESTS**

The requests included in this item are the DCA's January budget and April Finance Letter requests for implementation of various Business Modernization Plans.

**January Budget Request.** The Administration requested in January 2019 resources for the California State Board of Pharmacy and the California Board of Accountancy to implement their respective Business Modernization Plans and engage in planning efforts to transition to new information technology systems. Specifically the Administration requests:

- Pharmacy - One-year limited-term funding of \$251,000 in 2019-20 to fund two staff positions to provide program support during the BMP.
- Accountancy - One-year limited-term funding of \$251,000 in 2019-20 to fund two staff positions to provide program support during the BMP.

**April Finance Letter Request.** An April Finance Letter requests one-time funding of \$5 million for the following boards and bureaus to begin implementing their selected Business Modernization software alternative consistent with DCA's Business Modernization Plan. The total combined requested of \$5 million is as follows:

- Acupuncture Board - \$1.1 million and two positions in 2019-20. This request also includes funding to support two positions to offset program staff who will be required to be redirected to implement project tasks during 2019-20.
- Chiropractic Examiners - \$540,000 in 2019-20.
- Professional Engineers Land Surveyors and Geologists - \$1.3 Professional Engineer's, Land Surveyor's, and Geologist's Fund in 2019-20.
- Private Postsecondary Education - Requests \$2,029,000 Private Postsecondary Education Administration Fund in 2019-20.
- Office of Information Services - Requests \$500,000 Consumer Affairs Fund in 2019-20. Costs will be distributed among the four programs.

**BACKGROUND**

In 2009, the BreEZe project was approved with a budget of \$28 million and an expected completion date of June 2014. The original plan was to implement the system in three phases, but the project had significant implementation challenges and project costs for Release 1 and 2 alone rose of \$96 million. Ultimately, the final Release was cancelled leaving numerous boards and bureaus without a system.

In 2017, DCA had not yet proposed a plan for Release 3 boards and bureaus, including a time line for the completion of cost-benefit analyses that would be used to inform decisions about whether entities previously slated for Release 3 would come onto BreEZe or another system. In response to concerns about lack of information on the plan for Release 3, the 2017-18 Budget Act and SB 547 (Hill, Chapter 429, Statutes of 2017) required DCA to report on the progress of Release 3 entities' transition to a new licensing technology platform by December 31 of each year. The 2017-18 budget also provided \$1.3 million in special funds for DCA to conduct reviews of the business activities of Release 3 boards and bureaus in order to prepare them to transition to new IT systems. These reviews were intended to identify and document existing "as-is" business processes and recommend changes. The \$1.3 million was contingent on DCA's submission of information about the department's plan and time line for completing reviews of business activities, as well as agreements of Release 3 entities that they were committed to participate according to the proposed plan.

In response to the above requirements, DCA produced a business modernization plan in December 2017 that identified the anticipated timing of activities related to development of IT systems for Release 3 boards and bureaus, such as completing reviews of business activities, completing the Project Approval Lifecycle procurement process, and going live with the new systems. The 2017 business modernization plan also identified challenges and opportunities facing each entity and assessed their organizational readiness.

In December 2018, DCA submitted an updated business modernization plan. Unlike the 2017 plan, the 2018 business modernization plan did not include an assessment of each entities' challenges and opportunities or organizational readiness. Instead, the 2018 plan provided descriptions of the business activities and other actions taken thus far by each entity. In addition, the 2018 business modernization plan identified various budget change proposals that it anticipated requesting to enable entities to move forward with their IT projects.

The proposals will allow the Board of Pharmacy, Board of Accountancy, Acupuncture Board, Board of Chiropractic Examiners, Board for Professional Engineers Land Surveyors and Geologists, and the Bureau for Private Postsecondary Education to begin implementing their selected Business Modernization software alternative by providing these programs with one-time resources to cover initial system integration, software licensing, project management, project oversight, and staffing costs. These programs have identified a software solution capable of interacting with other software applications in real-time and implementing functionality in an incremental manner over the course of the project is the best path forward to modernize their business operations.

The funding requests include cost for system integration, software licensing, project management, project oversight costs, and three positions in the Department's Office of Information Services to support project implementation.

LAO COMMENTS
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The LAO finds that DCA is allowing Release 3 entities to proceed with addressing their IT needs at their preferred time lines, recognizing that each has different levels of organizational readiness and operational priorities. As a result, some entities are now reporting delays in completing certain activities and lack clear time lines for proceeding with their projects. Specifically, as shown in the figure below, two entities—the Professional Fiduciaries Bureau and the Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board—have postponed business activities and schedules for their projects are unknown. Additionally, another three entities—the Board of Professional Engineers, Land Surveyors, and Geologists; the Board of Chiropractic Examiners; and the Bureau of Private Postsecondary Education—report that they have experienced delays and indicated that revised schedules will be developed pending approval of BCPs. (These BCPs have not yet been submitted to the Legislature.)

**Figure 2**

### Anticipated Schedules for Release 3 Entities in 2017 and 2018 Business Modernization Plans

Entity	Business Process Mapping Completion Date <sup>a</sup>		Planned Launch Date	
	2017 Plan	2018 Plan	2017 Plan	2018 Plan
Accountancy	8/2019	8/2020	9/2022	9/2023
Acupuncture	11/2018	Completed	1/2022	1/2022
Architecture/Landscape Architect	10/2019	10/2019	11/2022	11/2022
Athletic Commission	3/2020	3/2020	10/2023	10/2023
Automotive Repair	12/2019	12/2019	12/2022	12/2022
BPELSG	12/2017	Completed	11/2020	Delayed
Cemetery and Funeral	8/2019	8/2019	1/2023	1/2023
Chiropractic Examiners	2/2018	Completed	7/2021	Delayed
Contractor State Licensing	3/2020	3/2020	1/2024	1/2024
Court Reporters	2/2019	Completed	6/2022	6/2022
Household Goods and Services <sup>b</sup>	1/2020	1/2020	1/2024	1/2024
Pharmacy	10/2021	10/2021	7/2025	7/2025
Private Postsecondary Education	1/2018	Completed	7/2021	Delayed
Professional Fiduciaries	6/2018	Delayed	1/2022	Delayed
SLPAHAD	9/2018	Delayed	3/2022	Delayed
Structural Pest Control	10/2018	10/2018	1/2022	1/2022

<sup>a</sup> Identifies business processes that would need to be incorporated in new information technology system.

<sup>b</sup> Previously known as the Bureau of Electronic and Appliance Repair Home Furnishings and Thermal Insulation.

BPELSG = Board of Professional Engineers, Land Surveyors, and Geologists and SLPAHAD = Speech-Language Pathology and Audiology and Hearing Aid Dispensers Bureau.

In enacting reporting requirements, the Legislature sought more certainty about DCA's plan for Release 3 boards and bureaus. This lack of information is problematic because it makes it difficult for the Legislature to oversee these projects and ensure that they are completed in a timely manner. Furthermore, boards and bureaus postponing business activities and not providing clear time lines calls into question their level of commitment to moving forward with implementing IT improvements.

The LAO recommends that the Legislature require DCA and boards and bureaus that have experienced delays to report at budget hearings on:

- (1) DCA's rationale for its approach of allowing boards and bureaus to proceed at their preferred time lines and not requiring them to provide updated completion dates in the 2018 business modernization plan and
- (2) Reasons boards and bureaus have delayed work towards new IT systems.

This information would allow the Legislature to evaluate whether it is comfortable with DCA's current approach to the IT projects for the Release 3 boards and bureaus. Additionally, the information would help explain why some entities have delayed their IT-related business activities—for example, whether they have other operational priorities or other challenges to moving forward. Based on this information, the Legislature could determine if it wants to direct DCA or the boards and bureaus to proceed more quickly with developing their IT systems.

<b>STAFF COMMENTS</b>
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The January budget request for Business Modernization was previously heard in Subcommittee No. 4 on April 2, 2019 and was held open due to the Subcommittee's concerns about DCA's overall approach to implementation of the Business Modernization Plan. The Subcommittee directed DCA to report back on specific timelines and a path to implementation for the boards and boards with unspecified dates in the figure above.

Since that hearing, DCA has provided an updated schedule for implementation and all of the boards and bureaus now have "mapping completion" and "launch dates". Most of the launch dates that have been added are by 12/31/2020 however, the Board of Professional Fiduciaries does not plan to launch until 8/1/2022 and the Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board until 6/1/2023.

DCA has met with legislative staff and stressed that "buy-in" and readiness of these boards and bureaus is key to a successful implementation and is part of the reason for implementation taking longer in some cases. DCA staff is working closely with these boards and bureau and requesting additional resources as needed. In addition, as previously requested by the Subcommittee, DCA has received an attestation from every board and bureau (not already on a system) that they support implementation of a system and are working with DCA to accomplish this.

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**Staff Recommendation: Approve as proposed the various Business Modernization Plan requests.**

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**ISSUE 17: BUREAU OF HOUSEHOLD GOODS AND SERVICES TECHNICAL CORRECTION  
(LEGISLATIVE PROPOSAL)**

The Legislature proposes trailer bill language that is a technical correction to restore language for the Bureau of Household Goods and Services that was accidentally allowed to sunset last year.

**BACKGROUND**

Last year, the Bureau for Household Goods and Services went through Sunset Review. During that review, Business and Professions Code Section 9873 was inadvertently allowed to sunset. That section contained both a sunrise and sunset provision, mistakenly allowing the section to sunset which eliminated the statutory authority for the Bureau to collect initial registration and renewal fees for service contractors. The sunrise section only authorizes the Bureau to collect initial and renewal fees for service dealers. This was an oversight and not intentional as every other section of law dealing with service contractors was granted a sunset extension.

**STAFF COMMENTS**

Staff recommends the Subcommittee approve the proposed language so that the Bureau can continue to collect initial and renewal fees for service dealers.

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**Staff Recommendation: Approve as Proposed.**

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This agenda and other publications are available on the Assembly Budget Committee's website at: <https://abgt.assembly.ca.gov/sub4hearingagendas>. You may contact the Committee at (916) 319-2099. This agenda was prepared by Genevieve Morelos, Farra Bracht, and Christian Griffith.

