

**AGENDA****ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION****ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR****TUESDAY, APRIL 19, 2016****1:30 P.M. - STATE CAPITOL, ROOM 447**

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## VOTE-ONLY CALENDAR

### 0890 SECRETARY OF STATE

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#### VOTE-ONLY ISSUE 1: BALLOT ON DEMAND SYSTEMS: ELECTRONIC POLL BOOKS (SB 439)

The Secretary of State requests one position and \$93,000 (General Fund) to implement testing and certification of electronic poll books as required by SB 439 (Allen, Chapter 734, Statutes of 2015.)

#### BACKGROUND

Electronic poll books are an electronic version of the traditional paper poll book, which contains a list of the registered voters in each precinct or district. Electronic poll books typically look like a tablet or laptop computer and are a more efficient way to check in a voter at his or her voting site. SB 439 requires the Secretary of State (SOS) to adopt and publish electronic poll book standards and regulations governing the certification and use of electronic poll books. It also prohibits the use of an electronic poll book unless it has been certified.

Currently, SOS does not review or approve electronic poll books.

#### STAFF COMMENT

Staff recommends approving the augmentation requested in this BCP in order to fully implement SB 439. The requested SOS does not currently review or approve electronic poll books.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 2: HELP AMERICA VOTE ACT (HAVA) SPENDING PLAN**

SOS requests \$54.085 million in expenditure authority from the Federal Trust Fund in order to continue implementation of the statewide mandates of the Help America Vote Act of 2002 (HAVA).

**BACKGROUND**

The requirements of HAVA include:

- Statewide modernization or replacement of voting equipment
- Education and training programs for election officials and poll workers
- Development and dissemination of voting information to increase voter participation and confidence
- Voting systems testing and approval
- Statewide voter registration database

HAVA requires states and localities to meet uniform and nondiscriminatory election technology and administration requirements applicable to federal elections. This proposal is an amendment to a spending plan created by SOS to utilize and distribute federal grant funds to underwrite the implementation of HAVA.

**STAFF COMMENTS**

The continuity of adequate funding for the HAVA project is essential to efforts to increasing accessibility to polling places and reducing barriers to the voting process. Staff has no concern with this proposal and recommends approval of this proposal.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 3: HAVA VOTECAL**

SOS requests \$5.338 million in spending authority from the Federal Trust Fund in order to cover costs of Maintenance and Operations and the VoteCal project.

**BACKGROUND**

This proposal requests \$5.338 million to cover the first year Maintenance and Operations costs of California's statewide voter registration database, VoteCal. The Maintenance and Operations costs were approved by Special Project Report (SPR) No. 5 in January of 2013. The VoteCal project continues to be executed within the schedule and cost allocation outlined in SPR #5 and is anticipated to be HAVA compliant, single statewide and centralized voter registration system of record by June 30, 2016. The project is successfully executing completion of the testing activities, pilot rollout activities, training activities, organizational change management, and solution implementation.

**STAFF COMMENTS**

Staff notes no concern with this proposal and recommends approval of the BCP.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 4: PLACEMENT AGENT LOBBY REGISTRATION WORKLOAD**

SOS requests one position and \$79,000 (General Fund) in order to support SOS's increased workload, which increased from a change in California law, that requires placement agents to register as lobbyists. This proposal also includes \$74,000 in ongoing costs.

**BACKGROUND**

AB 1743 (Hernández, Chapter 668, Statutes of 2010) required placement agents to register as lobbyists. At the time the change was enacted, SOS had no basis for estimating how many placement agents would register as lobbyists and had to rely on estimates provided by outside sources. Based on this, SOS did not request additional staff at that time as the Department believed they could absorb the costs within their existing budget. However, the workload has doubled in size and the complexity of the work also has increased.

Additionally, placement agents are typically unfamiliar with the lobbying registration process and engage in business practices that are short-lived and do not match the two-year registration cycle for lobbyists. Lobbying registration forms were created to depict long-term relationships and activities of traditional lobbying entities. As such, workarounds in the system must be done in order to capture similar information for placement agents and their employers.

**STAFF COMMENTS**

This BCP is the result of an unanticipated increase in workload resulting from AB 1743. When the bill was chaptered, there was no reliable statistical information on which to base the workload increases. The Department has had to absorb the additional workload, but this is not sustainable long term. Staff recommends approval of this proposal.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 5: SECRETARY OF STATE HEADQUARTERS BUILDING SECURITY IMPROVEMENTS**

SOS requests two positions and \$226,000 (\$172,000 Business Fees Fund and \$54,000 General Fund) in order to meet staffing needs to coordinate the security infrastructure improvement project currently in progress at the SOS and State Archives Building Complex. This request includes \$216,000 in ongoing costs to support and operate the updated security badging and camera systems.

**BACKGROUND**

There was an incident last year at the SOS' headquarters building which led to a security assessment by the Department of General Services (DGS) and California Highway Patrol (CHP). In June of 2015, both DGS and CHP completed their assessments and recommended the following improvements to the building's physical barriers and other key components of the facility's security infrastructure:

- Additional key card readers should be installed at recommended locations
- Installation of physical barriers at public counters
- Main entry improvements to include installation of turnstiles
- Replacement of existing analog-based closed circuit television system with a digital system
- Installation of new emergency push button call system
- Installation of new security doors at recommended locations throughout the facility
- DGS Consultant to perform study of building layout and usage

The two positions requested in this proposal will help coordinate the security infrastructure improvement project.

**STAFF COMMENTS**

This proposal would allow SOS to move forward with the coordination of their security infrastructure improvement project. Considering last year's incident at this facility, security changes should be made, and staff notes no concern with the project as prescribed by DGS and CHP. Staff recommends approval of this proposal.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 6: VOTE BY MAIL BALLOT DROP-OFF LOCATION REGULATIONS**

SOS requests \$55,000 (General Fund) in order to provide temporary help to SOS for the purpose of assisting in the promulgation of regulations required under SB 365 (Pavley, Chapter 733, Statutes of 2015.)

**BACKGROUND**

SOS is requesting one-time funding for 2016-17 of \$55,000 for temporary help to assist in promulgating regulations establishing guidelines based on best practices for security measures and procedures that a county elections official may use if the county elections official establishes one or more vote-by-mail ballot drop-off locations. This proposal will ensure the consistent application of security measures and procedures for establishing and maintaining vote-by-mail ballot drop boxes.

**STAFF COMMENTS**

This proposal aligns with the overall mission of the Secretary of State's office of strengthening democracy by building voter confidence and participation, by supporting vote-by-mail usage. Vote-by-mail has gained popularity over the last twenty years, as vote-by-mail ballot usage has steadily increase from 18 percent in 1990 to 70 percent of total votes cast in 2014. A study of vote-by-mail usage in the November 2014 General Election showed that over 26 percent of vote-by-mail voters returned their ballot to a polling place instead of sending it by mail or dropping it off at their county elections office.

Ensuring that vote-by-mail boxes are available should a county decide to use them is another step toward increasing voter participation. As it has been shown that voters will utilize these drop-off boxes, counties and SOS should ensure that these options are available to increase voter participation.

Staff notes no concern with this proposal and recommends approval.

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**Staff Recommendation: Approve as budgeted.**

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**1110/1111 DEPARTMENT OF CONSUMER AFFAIRS**

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**VOTE-ONLY ISSUE 7: ACUPUNCTURE BOARD**

The Acupuncture Board previously requested an increase in the Board's expenditure authority as a response to SB 1246. This proposal was rescinded on February 29, 2016.

**BACKGROUND**

The Board requests \$512,000 from the Acupuncture Fund in 2016-17 and \$373,000 ongoing to fund four positions in the Licensing Curriculum Compliance Unit. The Board stated that SB 1246 (Lieu, Chapter 397, Statutes of 2014) caused an increased workload due to the fact that the Board would now need to approve the curriculum of each individual applicant.

**STAFF COMMENTS**

The Department of Finance requested to withdraw the proposal on February 29, 2016. The Assembly and Senate are taking conforming actions to reject the proposal.

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**Staff Recommendation: Reject this proposal.**

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**VOTE-ONLY ISSUE 8: ENFORCEMENT, LICENSING, AND VARIOUS DCA PROPOSALS**

In an effort to increase efficiencies within the Department of Consumer Affairs the Governor's Budget includes the following proposals requesting increased funding and positions. The table below details the requests, further detail on each proposal is available below the chart. (Dollars are listed in thousands).

<b>Board/ Bureau</b>	<b>Proposal Title</b>	<b>Requested Funding 2016-17</b>	<b>Requested Positions 2016-17</b>	<b>Proposed Funding 2017-18</b>
Accountancy	Cashiering Staff Augmentation	\$154	2.0	\$138
Behavioral Sciences	Increase Position Authority in the Licensing and Exam Units	\$557	8.5	\$533
Professional Engineers	Exam-Development Position	\$118	1.0	\$110
Psychology	Conversion of Intermittent Position to Permanent	\$63	1.0	\$63
Real Estate	Licensing Positions Request	\$313	3.0	\$289
Security and Investigative Sciences	Enforcement Positions Request	\$241	2.0	\$225
Security and Investigative Sciences	Licensing Staff Augmentation	\$245	3.0	\$221
Court Reporters	Occupational Analysis	\$53	-	\$47
Dental Board	Enforcement Support Staff	-	2.0	-
Dental Hygiene	Probation Monitoring Staff Augmentation	\$90	1.0	\$82
Medical Board	Medical Expert Reviewers	\$206	-	\$206
Medical Board	Staff Augmentation	\$113	1.0	\$105
Naturopathic Medicine	Conversion of Limited-Term Position to Permanent	\$101	1.0	\$101
Occupational Therapy	Enforcement Staff Augmentation	\$596	6.0	\$548

Occupational Therapy	Licensing Staff Augmentation	\$121	1.5	\$105
Osteopathic Medicine	Office Technicians' Expenditure Authority Request	\$175	3.0	\$175
Osteopathic Medicine	Rent Augmentation	\$50	-	\$50
Pharmacy	Combatting Prescription Drug Abuse	\$1,261	8.0	\$1,261
Physical Therapy	Licensing Staff Augmentation	\$268	3.0	\$244
Speech-Language Pathology	Licensing Staff Augmentation	\$90	1.0	\$82
Veterinary Medical Board	Veterinary Assistant Controlled Substances Permits	\$256	4.0	\$256

**Board of Accountancy.** The Board requests \$154,000 from the Accountancy Fund, Professions and Vocations Fund in 2016-17 and \$138,000 ongoing in order to fund two office technician positions. Currently there is a staffing deficiency in the cashiering and mailroom units. The staffing shortage has created delays in the processing of licenses, examination applications, and cost recovery monies. The Board cannot comply with State Administrative Manual guidelines with these deficiencies.

**Board of Behavioral Sciences.** The Board requests \$557,000 from the Behavioral Science Examiners Fund, Professions and Vocations Fund in 2016-17 and \$533,000 ongoing in order to fund 8.5 positions (3.5 management service technicians, two office technicians, two office assistants, and one staff services analyst) in the Licensing and Examination Unit. These positions will provide the Board sufficient resources to address the ongoing and steady increase of applications, to continue efforts to reduce processing times, and provide accommodations pursuant to the American Disabilities Act.

**Board of Professional Engineers, Land Surveyors, and Geologists.** The Board requests to redirect \$118,000 in 2016-17 and \$110,000 ongoing to fund one personnel selection consultant position. This position would allow the Board to provide analytical and technical expertise in-house relative to the design, development, and verification of the Boards licensing exam and reduce contracting out for psychometrical services. Currently, annual costs for the Board to contract out for psychometric services average out to about \$230,000.

**Board of Psychology.** The Board requests to redirect \$63,000 in 2016-17 and ongoing from the Board's operating expenses and equipment budget to its personal services budget in order to fund one program technician. This position will allow the Board to

handle increased workload associated with new cashiering and mail processing responsibilities.

**Bureau of Real Estate.** The Bureau requests \$313,000 from the Real Estate Fund in 2016-17 and \$289,000 ongoing to fund three special investigators in the Bureau of Real Estate's Subdivisions Program. An increase in applications has resulted in an additional 4.4 days on average for Bureau staff to issue a Public Report, and if growth continues as is projected, the Bureau would be unable to achieve its statutory mandate of completing its reviews within 60 days. These three positions would provide the Bureau with staffing levels necessary to review an application for a Public Report in under 16 hours and reduce the current 52 days it takes to issues a Public Report to 45 days.

**Bureau of Security and Investigative Services.** The Bureau of Security and Investigative Services has the two following requests:

*The Enforcement Positions Request.* The Bureau requests \$241,000 from the Private Security Services Fund in 2016-17, \$225,000 in 2017-18 and \$126,000 ongoing in order to support one staff services manager and one associate governmental program analyst. These positions would support enforcement activities within the Enforcement Unit in the Bureau's Private Security Services Program.

*The Licensing Staff Augmentation.* The Bureau requests \$245,000 (\$166,000 from the Private Security Fund and \$79,000 from the Investigator Fund in 2016-17, \$221,000 (\$150,000 Private Security Fund and \$71,000 Private Investigator Fund) in 2017-18 and \$143,000 (\$72,000 Private Security Services Fund and \$71,000 Private Investigator Fund) ongoing. This funding will support two program technicians that will process license applications and various licensing documents, and one program technician to process private investigator initial and renewal applications for the Licensing Unit. Currently, each fund lacks the sufficient staffing level needed in its Licensing Unit to adequately carry out license processes in a timely manner.

**Court Reporters Board.** The Board requests \$53,000 from the Court Reporters Fund in 2016-17 and \$47,000 ongoing to fund an occupational analysis for the Board's English, Professional Practice, and Machine Skills licensing exams. Over the last six years, practices for court reporters have been updated, and as such the current question bank is not reflective of those changes. The occupational analysis is needed to create a question bank that is reflective of current court reporting knowledge, practices, and procedures.

**Dental Board.** The Dental Board requests \$128,000 from the Consulting and Professional Services Fund in order to fund two full time office technician-typing positions and to serve as administrative support to the Board's Enforcement Program. The additional support staff requested in this proposal will allow the Board to avoid processing delays, which can adversely affect the Board's consumer protection role.

**Dental Hygiene Committee.** The Committee requests \$90,000 from the State Dental Hygiene Fund in 2016-17 and \$82,000 ongoing in order to fund one staff services analyst to address a mission critical need of consumer protection in the Enforcement Program to oversee its probation monitoring workload. Currently, the Committee has one full-time analyst to run all of the enforcement program functions of probation, citation and fine, complaint intake, case investigation, writing investigative reports, case preparation for the Attorney General's Office, enforcement statistical tracking and reporting, and review of stipulated settlements and decisions as they are submitted. In 2014, there were only eleven licensees on probation. Currently, there are 28 probation cases, and the one analyst on staff cannot manage this increased workload.

**Medical Board.** The Medical Board of California has the two following proposals:

*Medical Expert Reviewers.* The Board requests \$206,000 from the Contingent Fund of the Medical Board of California in 2016-17 and ongoing in order to fund enforcement costs of expert reviewers. Expert reviewers review the facts of medical cases and determine if the standard of care has been met. Without this additional expenditure authority the Board would lack adequate resources to effectively support its investigation and enforcement functions, which would require the Board to redirect resources from other high priority areas to fully fund the cost of critical enforcement activities performed by the expert reviewer.

*Staff Augmentation.* The Board requests \$113,000 from the Contingent Fund of the Medical Board of California in 2016-17 and \$105,000 ongoing in order to fund one associate governmental program analyst position. This position will allow the Board to address increased workload associated with legislative mandates related to the reporting of adverse events by accredited outpatient surgery settings and hospital reports of transfers by licensed midwives of planned out-of-hospital births.

**Naturopathic Medicine Committee.** The Committee requests \$101,000 from the Naturopathic Doctor's Fund in 2017-18 and ongoing to convert one associate governmental program analyst from limited-term to permanent. The Committee was authorized for this positions as a three-year limited-term position in 2014-15. However, a person cannot be placed in a limited-term position for more than two years due to CalHR policy, so the Committee would be required to hire a new person to the position after two years. This proposal would allow the Board to retain a person in the position beyond the two-year term and gives the Board authority to utilize this funding ongoing to fund one associate governmental program analyst.

**Board of Occupational Therapy.** The Board of Occupational Therapy has the two following proposals:

*Enforcement Staff Augmentation.* The Board requests \$596,000 from the Occupational Therapy Fund in 2016-17 and \$548,000 ongoing in order to fund three associate governmental program analysts and three staff services analysts. These positions would allow the Board to address the permanent and on-going

workload associated with the duties required for enforcing and regulating the practice of occupational therapy.

*Licensing Staff Augmentation.* The Board requests \$121,000 from the Occupational Therapy Fund in 2016-17 and \$105,000 ongoing in order to fund 1.5 office technician-typing positions. These positions will help the Board to address the continual increase in the Board's licensing applications and support the continuing education audits performed to verify the self-certifications provided by renewing licensees.

**Osteopathic Medical Board.** The Osteopathic Medical Board has the two following proposals:

*Office Technicians' Expenditure Authority Request.* The Board requests \$175,000 from the Osteopathic Medical Board of California Contingent Fund in order to fund three positions, which were authorized in 2014-15. The Board can no longer absorb the previously allocated position costs, and requests budget authority in order to improve efficiencies in licensing and enforcement.

*Rent Augmentation.* The Board requests \$50,000 from the Osteopathic Medical Board of California Contingent Fund in 2016-17 and ongoing to move to a larger office space. The current office space costs \$71,000 annually and is at full capacity due to increases in staff.

**Board of Pharmacy.** The Board requests \$1.3 million from the Pharmacy Board Contingent Fund, Professions and Vocations Fund in 2016-17 and ongoing in order to transition eight existing three-year limited-term positions to permanent. Specifically, the Board proposes to transition one limited-term supervising inspector and five limited-term inspectors to permanent to allow the Board to prevent additional deaths from prescription drug abuse by utilizing the prescription dispensing information obtained from research to identify and investigate errant licensees. Additionally, the Board proposes to transition one research program specialist and one associate governmental program analyst to permanent in order for the Board to continue to respond proactively to the prescription drug abuse epidemic utilizing the CURES system.

**Physical Therapy Board.** The Board requests \$268,000 from the Physical Therapy Fund in 2016-17 and \$244,000 ongoing in order to fund three positions in the Application and Licensing Services Program. The application workload has increased, and the Board previously redirected existing staff in order to decrease the backlog of applications.

**Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board.** The Board requests \$90,000 from the Speech-Language Pathology and Audiology and Hearing Aid Dispensers Fund in 2016-17 and \$82,000 ongoing in order to fund one staff services analyst position to address increased workload within the Licensing Division. In the past, the Board has utilized temporary staff to address backlogs, however, the

delays continue to increase and the Board needs additional staff in order to ensure that staff are not diverted from the Enforcement Division.

**Veterinary Medical Board.** The Board requests to convert four two-year limited-term positions (one staff services analyst and three program technicians) and \$256,000 two-year limited-term funding in 2016-17 and 2017-18 from the Veterinary Medical Board Contingent Fund in order to support the positions. The three program technicians will process initial and renewal license applications and will be the main points of contact for applicants. The one staff services analyst will process complaints and desk investigations of veterinary assistants.

<b>STAFF COMMENTS</b>
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Staff recommends approval of the above proposals. Rationale for each is included in the write-ups beneath the chart.

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**Staff Recommendation: Approve as budgeted.**

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<b>VOTE-ONLY ISSUE 9: IMPLEMENTATION OF LEGISLATION</b>
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The Governor's Budget also includes the following proposals related to the implementation of legislation. The table below details the proposals, further detail for each proposal is also available below the chart. (Dollars are listed in thousands).

<b>Board/ Bureau</b>	<b>Proposal Title</b>	<b>Requested Funding 2016-17</b>	<b>Requested Positions 2016-17</b>	<b>Proposed Funding 2017-18</b>
Registered Nursing	SB 466 Enforcement Audit	\$450	-	-
Vocational Nursing	AB 179 Administrative and Enforcement Program Monitor	\$150	-	\$150
Athletic Commission	SB 469 Drug Testing	\$115	0.5	\$107
Pharmacy	SB 294 Sterile Compounding Facilities	\$1,088	5.5	\$1,088
State Board of Optometry	AB 684 Registered Dispensing Opticians Move to Optometry Board	-	1.1	-

**Board of Registered Nursing.** The Board requests \$450,000 from the Board of Registered Nursing Fund, Professions and Vocations Fund in order to reimburse the State Auditor's office for conducting an audit of enforcement. The audit began on February 1, 2016, and will continue through December 31, 2016. This proposal will allow the Board to implement SB 466 (Hill, Chapter 489, Statutes of 2015). The bill requires the State Auditor's Office to conduct a performance audit. Additionally, the bill requires that the Board review schools' clinical instruction to determine if it adheres to the regulations for granting educational credits for persons who received military education and experience as a registered nurse, review applications from schools to determine if they are eligible to grant credit for military experience and education, revoke nursing program's approval if they do not give credit for military education and experience, and review applications from any person who has served on active duty to determine if their military education or experience qualifies them for licensure.

**Bureau of Vocational Nursing and Psychiatric Technicians.** The Bureau requests \$150,000 from the Vocational Nurse and Psychiatric Technician Examiners Fund, Professions and Vocations Fund ongoing in order to contract with a consultant to provide services as an Administrative and Enforcement Monitor. This position will monitor and evaluate the administrative process and disciplinary system and procedures of the Board, as mandated by AB 179. AB 179 (Bonilla, Chapter 510, Statutes of 2015) requires the Administrative and Enforcement Monitor to monitor and evaluate the administrative processes and disciplinary systems and procedures of the Bureau.

**California State Athletic Commission.** The Commission requests \$115,000 from the Athletic Commission Fund and \$107,000 ongoing in order to fund 0.5 associate governmental program analyst and fund additional drug testing necessary to regulate the provisions set forth in SB 469 (Hill, Chapter 316, Statutes of 2015). SB 469 authorizes the Commission to conduct drug testing at any time during a fighter's period of licensure. According to the Commission, this will result in an increase of about 50 additional drug tests per year.

**Board of Pharmacy.** The Board requests \$1.1 million from the Pharmacy Board Contingent Fund, Professions and Vocations Fund ongoing in order to transition 5.5 existing three-year limited-term positions to permanent. These positions will provide the Board the ongoing resources to implement SB 294 (Emmerson, Chapter 565, Statutes of 2013). These positions will allow the Board to execute statutorily mandated inspections, investigations, process license and renewal applications, handle enforcement related workload and provide support for the resident and non-resident sterile injectable compounding facilities.

**State Board of Optometry: Registered Dispensing Opticians.** The Board requests 0.5 office technician-typing and 0.6 special investigator to replace current services provided to the program by the Medical Board of California and Division of Investigation: Health Quality Investigation Unit. AB 684 (Alejo, Chapter 405, Statutes of 2015) moves the Registered Dispensing Optician (RDO) Program from under the Medical Board of California (MBC) to the State Board of Optometry. Since the RDO currently has a budget to reimburse the MBC for these services, the program is not requesting additional expenditure authority to support these positions.

<b>STAFF COMMENTS</b>
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Staff recommends approval of the above proposals. Rationale for each is included in the write-ups beneath the chart.

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**Staff Recommendation: Approve as budgeted.**

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**0845 DEPARTMENT OF INSURANCE**

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**VOTE-ONLY ISSUE 10: LIFE AND DISABILITY POLICIES**

The California Department of Insurance (CDI) requests an increase in special fund expenditure authority of \$430,000 in 2016-17 and \$270,000 ongoing to fund two Attorney I permanent positions and limited-term funding to comply with AB 387 (McCarty, Chapter 691, Statutes of 2015).

**BACKGROUND**

AB 387 was introduced to address the consequences of a 2014 decision by the First District of the California Court of Appeal. In this case (*Ellena v. Department of Insurance*), the Department argued that the Insurance Code did not impose a mandatory duty on the Commissioner to review each policy filed. Rather, the Department argued that the code provided the Commissioner with the discretionary authority to review each policy filed, and that insurers were free to market a policy if the Commissioner did not act on a policy within 30 days of filing. However, the court found that the Commissioner has a mandatory duty to review each disability insurance policy. This decision creates substantial new workload in the department's policy review process. Extending the timeline for the Commissioner's review from 30 to 120 days will help the department adjust to the court's decision.

CDI's policy and review function for life and disability policy forms provides important consumer protection. Insurers file proposed policy forms and CDI reviews those forms for compliance with current law. The Legal Branch – Policy Approval Bureau reviews such forms and then engages in a process of disapproval letters and resubmissions until the form complies with the law. Due to the complex nature of insurance policy forms, CDI serves a vital consumer protection role in making sure that life and disability policy forms comply with California law before they are sold to consumers.

This proposal will ensure that CDI has the proper resources to approve or disapprove 100 percent of forms within 120 days as mandated, address mandated policy review functions and respond to the new requirements.

**STAFF COMMENTS**

The costs included in this proposal are consistent with the Appropriations' analyses that estimated one-time costs of about \$400,000 to develop procedures for reviewing disability insurance policies and developing procedural requirements and guidelines. Additionally, the analysis referenced ongoing costs of about \$270,000 per year to review disability insurance policies by the Department.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 11: PRINCIPLE-BASED RESERVING**

The proposal requests an increase in special fund expenditure authority of \$925,000 for 2016-17 and \$894,000 in 2017-18, and ongoing to fund five positions to address the increased workload associated with Principle-Based Reserving (PBR) authorized under SB 696 (Roth, Chapter 658, Statutes of 2015). This request includes Budget Bill Language in the event the super majority states do not adopt PBR, resources previously approved for PBR implementation will be reconsidered.

**BACKGROUND**

Reserve calculations for life insurance have been unchanged for many decades. Currently, insurers use a formula-based static (one-size-fits-all) approach to calculate reserves for products. However, insurance products have increasingly grown in sophistication and complexity, which has led to a need for a new reserve method. Discussions held among various state Insurance Commissioners and the insurance industry (through the National Association of Insurance Commissioners [NAIC]) resulted in the adoption by the NAIC of a PBR Model in September 2009.

PBR is a stochastic model tailored to insurer designs and risks. It requires forecast based mathematical models, which rely on credible past company experience. A stochastic model is a test of insurance variables to measure future liabilities based on past company experience with policyholders. PBR introduces the use of actuarial judgment in allowing insurers to determine life insurance reserves. The stochastic reserve is based on net cash flows projected under multiple economic scenarios based on randomly generated future interest rates and equity return assumptions. The introduction of stochastic PBR models adds a need to review different programming platforms to generate future modeled reserves which are not formula driven, in addition to review of reserve assumptions.

**Budget Bill Language.** *Of the funds appropriated in this item under Schedule (1) 0520 - Regulation of Insurance Companies and Insurance Producers, \$1,388,000 and 9.0 positions are available to prepare to implement and/or implement PBR actuarial methodology pursuant to Chapter 658, Statutes of 2015 (SB 696). PBR will become effective only after a supermajority of states, representing 75 percent of written premium, adopts the law. If the requisite number of states fail to adopt PBR by June 30, 2017, then this appropriation shall be reconsidered. The Department of Insurance shall periodically update the Department of Finance and the Legislature on national adoption.*

**STAFF COMMENTS**

Approval of this proposal is consistent with past actions by the Subcommittee. As previously indicated, PBR will be effective only after the revisions to the law have been adopted by the super-majority of states.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 12: OUTPATIENT PRESCRIPTION DRUGS**

This proposal requests an increase in special fund authority of \$242,000 in 2016-17 and \$235,000 in 2017-18, and ongoing to support one permanent position and a \$100,000 consulting services contract with a pharmacist to comply with AB 339 (Gordon, Chapter 619, Statutes of 2015).

**BACKGROUND**

AB 339 established mandates on health insurer prescription drug cost sharing and formularies for their health insurance policies and coverage beginning January 1, 2017. The bill establishes requirements for health insurers to follow for creation of their drug benefits and coverages and how the Commissioner will review and enforce those requirements.

**Pharmacy Consultant.** The Health Policy Approval Bureau (HPAB) will need to confirm that formularies are accessible and searchable on an insurer's Internet website as required under current law. These formularies will need to be reviewed for compliance both by HPAB legal staff attorneys and the pharmacy consultant. HPAB legal staff does not have the medical expertise to properly review the formularies or understand the various medical conditions treated by prescription drug benefits. HPAB need a pharmacy consultant to review formularies and advise HPAB attorneys regarding insurer formularies, how to formulate appropriate legal objections, and assist with negotiations with insurers for compliance.

**Insurer Drug Formulary Requirements and Pharmacy and Therapeutics (P&T) Committee Review.** HPAB will need to annually review for compliance with the new mandates, as insurers file their insurance health plans and submit information regarding their formularies based upon the insurers' P&T committee documentation, changes in DFA approved medications, and changes in health treatment criteria. The Attorney I will assist with providing legal guidance in market conduct examinations and analyzing the findings of market conduct examiners. The Attorney I will need to consult with the Department's pharmacy consultants to ascertain health care requirements and standards. There are approximately 30 active health insurers who will be submitting P&T committee documentation to support their formularies. Each annual submission will require an estimated 30 hours for review in consultation with a pharmacy consultant. It is also estimated there will be an additional 10 hours to draft objections for formulary non-compliance and negotiate with each insurer.

**STAFF COMMENTS**

The resources requested in this BCP are lower than the estimated costs in the Appropriations analysis for AB 339. Staff has no concerns with this proposal.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 13: CDI NETWORK SWITCH REPLACEMENT**

The Department of Insurance requests one-time Special Fund expenditure authority increase in 2016-17 of \$1,669,000 to support the replacement of 95 information technology network switches necessary to keep CDI's network system up and running and protected against cyber threats.

**BACKGROUND**

The CDI licenses over 380,000 individuals and business entities and regulates the California insurance market. The Department has about 1,400 employees located in one of the three headquarter offices in Los Angeles, Sacramento, and San Francisco, or one of the nine regional offices located throughout the state. CDI's IT networks connects all employees regardless of location to email and applications such as CDI Menu, Integrated Database (IDB), and Fraud Integrated Database (FIDB); provides video conferencing, Internet access, statewide Voice over Internet Protocol (VOIP) telephone system services; and provides secure access over the Internet to CDI applications for licensees, consumers, insurance companies, partners and stakeholders.

CDI's existing network infrastructure has not been significantly upgraded for over a decade and only incremental upgrades have been performed since initial set-up. All of CDI's network systems are dependent on 95 IT network switches to run. When switches fail there is downtime for the staff while equipment is being purchased, decreasing productivity. Replacing switches one by one as they fail creates compatibility issues between newer switches and older ones leaving gaps between newer higher performing switches and the older ones. By replacing all 95 network switches, all staff tools such as computers and phones will have safe and reliable access to the program systems and databases. The 95 IT network switches will reach end of life and support by July 2016.

**STAFF COMMENTS**

Staff has no concerns with this proposal.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 14: RESOURCE REDIRECTION**

This proposal requests approval to realign Special Fund Expenditure authority of \$808,000 in 2016-17 and ongoing from General Fund Tax Collection and Compliance to Regulation of Insurance Companies and Insurance Producers, and Administration for \$461,000 and \$347,000 to address workload demands.

**BACKGROUND**

The Financial Surveillance Branch (FSB) restructured its Premium Tax Audit Bureau (PTAB) in 2014-15 as a result of efficiencies created in the tax compliance process. After reexamining the premium tax audit process, FSB found that there were some inefficiencies with the existing processes including duplication of work caused by PTAB's two-level review audit process, lack of emphasis on identifying issues, coordination of on-site examinations, and not billing companies to recover costs to administer the program. In order to address the inefficiencies, FSB streamlined its review process. As a result of the efficiencies staffing needs at PTAB were reduced from 12 to 5 positions.

CDI identified resource needs in its Rate Regulation Branch (RRB) and Administration and Licensing Services Branch – Human Resources Management Division (HRMD). Consistent with CDI's strategic plan and goal to value resources and use them wisely, CDI is seeking approval to redirect available PTAB resources to RRB and HRMD.

The RRB determines whether rates charged to consumers in California are fair meaning they are not excessive, inadequate, unfairly discriminatory or otherwise in violation of the Insurance Code. Under the provisions of Proposition 103 (1988), CDI is required to review rates for most property and casualty lines of business before they can be used. RRB has the task of reviewing and approving all property and casualty insurance rate filings that are submitted as required by statute for prior approval before those rates can be charged by insurers. RRB does not have sufficient resources to address the volume of rate filing workload. As a result, it has delays in processing and rate filings.

The HRMD provides human resources services to CDI employees. HRMD ensures that civil service laws, regulations, and policies are followed in hiring, promoting, transferring, disciplining, and separating compensation, and health and safety programs. HRMD's workload has increased over the past few years primarily the result of increased positions department-wide. Authorized positions at CDI have increased about 20 percent over the last four years while the number of authorized positions in HRMD has remained unchanged.

**STAFF COMMENTS**

The resources in this proposal align with the current needs at CDI. Staff has no concerns with this proposal.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 15: SPRING FINANCE LETTER: HEALTH NETWORK ADEQUACY**

This proposal requests an increase in Special Fund expenditure authority of \$424,000 in 2016-17 and \$367,000 ongoing to support one position and funding for health network adequacy reviews, and to implement a cloud based analytics software-as-a-service (SaaS) to analyze health network adequacy reports received by the Department.

**BACKGROUND**

This proposal will enable CDI to obtain the same type of software tool presently utilized by the Department of Managed Health Care (DMHC), which also utilizes SaaS. Throughout 2014, CDI identified persistent and serious problems with health insurance network access to doctors, hospitals and other medical providers, as health insurers reduced their provider networks and/or shifted to offering Exclusive Provider Organization (EPO) health insurance products with no out-of-network benefits except for emergency room visits. This resulted in some consumers having difficulty obtaining appointments and having to travel long distances to receive in-network medical care. In response to these problems, CDI revised its network adequacy regulation on an emergency basis in January 2015. As a result of these changes to the regulation, health insurers must now submit annual network adequacy reports as well as complete data regarding all providers and facilities in their networks. The provider network for each product sold by an insurer may be different from the network of other products sold by that insurer, so CDI is receiving multiple filings from most insurers.

As a result of the revised emergency regulation, CDI will now annually receive raw data files containing the complete network information for each insurer for each of the provide network it utilizes. The problem is without the type of software tool CDI seeks to obtain, the ability to analyze the files to audit compliance with current requirements, and to detect network adequacy compliance issues at the individual insurer and specialty level to determine compliance with the regulatory standard that networks must provide access to medically appropriate care from a qualified provider.

CDI is requesting \$238,000 in 2016-17 and \$188,000 ongoing for implementation of a cloud based SaaS network adequacy analytic service that will pull the network adequacy data directly from the National Association of Insurance Commissioners (NAIC) data repository

Additionally, this proposal requests staff resources to perform the analyses and to provide compliance review of the additional network compliance information received as a result of the revised regulation. The review of network adequacy reports, as well as working with insurers on network adequacy compliance based upon the new regulation, is complex and will require expertise in health insurance and health issues, which is a particular legal knowledge and experience.

CDI is requesting \$186,000 in 2016-17 and \$179,000 ongoing for one permanent Attorney III to perform the necessary adequacy reviews and waiver analyses. The staffing resources are necessary to undertake the additional volume of reviews and increased review time.

Stage 1 Business Analysis was submitted to the CDT on July 20, 2015, and California Department of Technology (CDT) delegated the IT project back to CDI for oversight and implementation. The CDI will complete the appropriate sections the Stage 2 Alternative Analysis, per the State Information Management Manual Section 19 to support decisions made for project implementation and collaborate with CDT as necessary to ensure successful implementation.

<b>STAFF COMMENTS</b>
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Staff has no concerns with this proposal.

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**Staff Recommendation: Approve as budgeted.**

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**9860 CAPITAL OUTLAY PLANNING AND STUDIES FUNDING**

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**VOTE-ONLY ISSUE 16: STATEWIDE PLANNING AND STUDIES**

This proposal requests \$1 million (General Fund) in 2016-17 for funds to be allocated by the Department of Finance to state agencies for the development of design and cost information for new capital outlay projects.

**BACKGROUND**

These funds will be used to develop refined design, cost and schedule information (budget packages or studies) for new capital outlay projects. This helps ensure total project costs are more accurate, funding levels are appropriate, and the project scopes are feasible. More accurate funding information also provides decision makers with a better understanding of total project costs to ensure the proposed solution is cost effective.

The 2016-17 request is based on previous Budget Act appropriations for capital outlay planning and studies. Budget packages typically range from \$60,000 to \$80,000 per project and extensive studies range from \$150,000 to \$200,000. The requested funding would allow budget packages or studies for approximately 6 to 13 projects to be completed during 2016-17. While it is difficult to predict the nature of the budget packages or studies needed, given the significant amount of capital outlay need identified in the 2016 Five Year Infrastructure Plan, the proposed funding level should begin address the need.

**STAFF COMMENTS**

Approval of this proposal is consistent with previous actions, staff has no concerns with this proposal.

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**Staff Recommendation: Approve as budgeted.**

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**2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**

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**VOTE-ONLY ISSUE 17: CONSOLIDATED AUTOMATED PROGRAM ENTERPRISE SYSTEM (CAPES)  
APPLICATION DEVELOPMENT**

The Governor's budget requests \$568,000 in expenditure authority to use various HCD funds to fund application development support for the Consolidated Automated Program Enterprise System (CAPES). HCD intends to hire five staff using these funds.

**BACKGROUND**

HCD implemented CAPES in 2007 to serve as an enterprise-level data collection and organization system to accurately manage and report essential housing program and funding information. The system awards, tracks, monitors, and reports housing loans and grant information.

However, because of inadequate funding, when CAPES was put into production in 2007, the implementation of some critical requirements needed to achieve program objectives was deferred. HCD intends to use the funding augmentation to hire additional staff to design and implement required system enhancements and to ensure that the CAPES project is completed. In addition, these staff would help HCD address the backlog and ongoing requests for system enhancements and help to ensure that these are completed in a timely manner.

**STAFF COMMENTS**

HCD is tasked with administering new housing programs. Through an improved CAPES system, HCD can better use data analytics to evaluate program efficiencies.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 18: GREEN BUILDING STANDARDS**

The Governor's budget requests an augmentation of \$150,000 (Building Standards Administration Special Revolving Fund) to enable HCD's State Housing Law (SHL) Program to meet its code development and adoption responsibilities associated with the California Green Building Standards Code.

**BACKGROUND**

State Housing Law (SHL) mandates HCD to develop and implement regulations for the construction, maintenance, use, and repair of housing, hotels, motels, and other residential dwellings in California. These regulations are enforced by local governments to protect the health, safety, and welfare of Californians in residential buildings.

In 2007, the California Building Standards Commissions (CBSC) requested HCD to develop residential green building standards for new construction of buildings. The 2008 CALGreen provided voluntary green building standards for new construction, with an effective date of August 1, 2009. In general, CalGreen requires new buildings and renovations in California to meet certain sustainability and ecological standards. During the 2009 Triennial Building Code Adoption Cycle, HCD proposed to make the 2010 version of CALGreen mandatory. The 2010 CALGreen was approved by the CBSC as a mandatory green building code and became effective on January 1, 2011.

Funding for HCD's SHL program is a mix of General Fund dollars and funds from the Building Standards Fund, which supports 6.5 permanent positions and one two-year limited term position.

According to HCD it has had to redirect staff from other workload to assist with research and development of CalGREEN provisions and to participate in special projects. In addition, HCD states that it has struggled to fully monitor and participate in rulemaking activities and participate in person policy meetings, which could potentially impact residential green building standards. HCD has not been able to provide the optimal amount of annual CalGREEN training and outreach to stakeholders. In addition, HCD has not had the resources to keep up with international and national green building standards and programs that could possibly be applied to California

**STAFF COMMENTS**

The funding for this proposal is provided through the Building Standards Fund. These funds are to be used for developing green building standards as well as verification of enhanced green building measures, and educational efforts associated with green building standards.

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**Staff Recommendation: Approve as budgeted.**

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**VOTE-ONLY ISSUE 19: HABITAT FOR HUMANITY**

The Governor's budget proposes a \$250,000 appropriation for the Habitat for Humanity Fund with authority for Department of Finance to augment the appropriation, if needed, in order to align program expenditures with the revenue collections associated with a voluntary tax check-off program. Additionally, proposed budget bill and trailer bill language would appropriate the funds to HCD and give HCD the authority to issue one grant to Habitat for Humanity of California, which will provide grants to local affiliates.

**BACKGROUND**

California's tax "check-off" programs allow taxpayers to donate to charitable causes by checking a box on their income tax returns. California taxpayers have 20 tax check-offs from which to choose, supporting a range of causes, from cancer research to endangered species.

AB 1765 (Jones-Sawyer, Chapter 354, Statutes of 2014) authorized a tax-deductible voluntary check off contribution to raise funds for the Habitat for Humanity. The Franchise Tax Board is authorized to collect these funds until January 1, 2021, with the first collection occurring during the 2014 tax year. Collections through June 2015 have yielded \$167,000. The State Controller distributes these funds according to the enacting statute, which generally requires an appropriation by the Legislature. This budget change proposal proposes budget bill language that would appropriate these funds to HCD.

For some check-offs, taxpayers' contributions go directly to a state agency that administers a grant program. Other check-offs' authorizing statutes direct the administering agency to allocate donations to a private nonprofit organization, like the American Red Cross.

AB 1765 specified that HCD award these funds as grants through a competitive, project-specific grant process and oversee the grant program. According to HCD, its grant-making process is relatively intensive and costly and administrative costs for awarding such a small amount of funds could reach up to 25 percent of the collected funds. As a result, the competitive process required in AB 1765 may not be the most efficient way to award these funds.

The proposed trailer bill language would allow HCD to disburse appropriated funds to the non-profit California Habitat for Humanity and require Habitat for Humanity to submit an annual audit of the program while preserving the competitive grant process. The proposed language amends Revenue and Taxation Code Section 18900.4 as follows:

~~(b) The Department of Housing and Community Development for distribution of grants to Habitat for Humanity affiliates in California that are in active status, as described on the Business Search page of the Secretary of State's Internet Web site, and that are exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code. The Department of~~

~~Housing and Community Development shall award grants through a competitive, project-specific grant process and be responsible for overseeing that grant program. A Habitat for Humanity affiliate shall not use a grant award for administrative expenses or for any purposes outside of California.~~

(b)(1) To the Department of Housing and Community Development for disbursement to Habitat for Humanity of California, Inc., a California nonprofit public benefit corporation representing and supporting California Habitat for Humanity affiliates as a state support organization.

(2) Habitat for Humanity of California, Inc., shall submit, within 60 days of receiving a disbursement, to the Department of Housing and Community Development a plan for the use and competitive project-specific distribution of funds received under this article to Habitat for Humanity affiliates in California that are in active status, as described on the Business Search page of the Secretary of State's Internet Web site, and that are exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code.

(c) Habitat for Humanity of California, Inc., shall not use more than five percent of the moneys received pursuant to this article for administrative expenses.

(d) A Habitat for Humanity affiliate shall not use the moneys received pursuant to this article for administrative expenses or for any purposes outside of California.

(e) Habitat for Humanity of California, Inc., shall submit an annual audit of the program to the Department of Housing and Community within 60 days of completion of the audit.

<b>STAFF COMMENTS</b>
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The language outlined above preserves the intent of AB 1765, while ensuring that administrative costs are low and most of the funding for the tax check off goes to the intended use.

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**Staff Recommendation: Approve as budgeted and adopt placeholder trailer bill language as outlined above.**

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**ISSUE 20: PROPOSITION 1C ADJUSTMENTS**

The Governor's budget requests the following adjustments to Proposition 1C local assistance budget authority:

- An appropriation of \$20 million in disencumbered Infill Infrastructure Grant (IIG) funds to provide awards for new projects (and budget bill language to allow for the liquidation of encumbrances until June 30, 2021.)
- A \$4.5 million increase to the Housing-Related Parks Program (HRPP) appropriation.
- Extension of the liquidation period for existing IIG awards, including California Recycle Underutilized Sites (CALReUSE) awards, until June 30, 2020, and the Transit Oriented Development (TOD) awards until June 30, 2019.

Since the release of the Governor's budget, the Department of Finance and HCD have made an additional request to increase the 2016-17 appropriation for the IIG Program by \$2.2 million for a total appropriation of \$22.2 million.

**BACKGROUND**

In 2006, California voters approved Proposition 1C, authorizing the largest state housing bond in the state's history. The bond provided continuously appropriated funding for various programs and funds for the following programs under annual appropriations:

- **IIG program.** Proposition 1C authorized \$850 million for the IIG program. The program uses competitive grants to fund infrastructure improvements to facilitate new housing developments in residential or mixed-use infill projects. The CALReUSE program is a grant and loan program administered by the California Pollution Control Financing Authority (Authority) that finances brownfield cleanup to promote infill residential and mixed-use development, consistent with regional and local land use plans. SB 86 (Budget and Fiscal Review Committee, Chapter 179, Statutes of 2007), allocated \$60 million of IIG funds to the CALReUSE program.
- **TOD Program.** Proposition 1C authorized \$300 million for the TOD Program to award loans for development and construction of housing projects or grants for infrastructure necessary for the development of higher-density housing in close proximity of transit stations.
- **HRPP.** Proposition 1C authorized \$200 million for the HRPP to award grants for the creation, development, or rehabilitation of community or neighborhood parks to cities, counties, and cities and counties with deficient parks or deficient park acreage. (This increase would provide total budget authority of \$32 million for HRPP.)

Budget Act appropriations are needed to award disencumbered or reallocated funds for IIG and HRPP, since they are not continuously appropriated. Additionally, infill developments are complex, multiyear projects that sometimes encounter unforeseen project delays and without an extension of the liquidation period, these projects would be cancelled or delayed until new funding is found.

HCD has disencumbered funds from IIG awards and funds previously set aside for program administration in the HRPP that are now available for additional awards. Additionally, although HCD initially awarded all Proposition 1C funds during the economic crisis, some project sponsors delayed their projects due to worsening market conditions and now need additional time for completion.

<b>STAFF COMMENTS</b>
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Approval is consistent with past actions by the Subcommittee. Staff has no concerns with this proposal.

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**Staff Recommendation: Approve as budgeted, including the additional request to increase the IIG Program appropriation by \$2.2 million for a total appropriation of \$22.2 million in 2016-17.**

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## ITEMS TO BE HEARD

### 7502 DEPARTMENT OF TECHNOLOGY

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**Department Overview.** The Department of Technology is the central control agency for the purchase of information technology products and services for the State and also provides telecommunications, data center and cloud-based computer services to various state departments. CDT, formerly known as the California Technology Agency, is responsible for both approval and oversight of the state's large information technology (IT) projects.

The Governor's budget includes \$364.5 million for the Department of Technology in 2016-17, a decrease of \$13.5 million or 3.6 percent from the current year. Most of the funding for the Department is through reimbursements and changes made to state departments for services; the Department receives only \$4.5 million General Fund for its support. Proposed staffing totals 919 personnel. The Department is comprised of the following ten divisions and offices:

- Broadband and Digital Literacy Office
- California Information Security Office
- California Project Management Office
- Customer Delivery Division
- Enterprise Architecture Office
- IT Project Oversight Division
- Office of Professional Development
- Office of the State Geographic Information Officer
- Office of Technology Services
- Statewide Technology Procurement Division

Until 2012, the Department of General Services had procurement authority over IT projects, but this authority was shifted to Department of Technology as part of Governor Jerry Brown's 2012 Government Reorganization Plan. This department is now housed under the Government Operations Agency. By centralizing IT procurement and oversight under the Department of Technology, the State of California can more readily apply lessons learned from prior IT procurements, create better IT project bid requirements and contracts, and shorten the overall IT procurement process. Ultimately, this should improve the chances of success for the state's major IT projects (i.e., on time and within budget).

In addition to its role as the centralized agency for IT procurement, the Department of Technology also manages the state's IT infrastructure and provides training services to the ranks of in-house IT professionals who work at state agencies and departments. The Department's Office of Information Security bears much of the responsibility for the state's cybersecurity and privacy programs.

**ISSUE 1: EXPANSION OF THE SECURITY COMPLIANCE AUDIT PROGRAM**

The Department of Technology requests 11 positions and \$1,572,000 in budget authority from the Technology Services Revolving Fund in order to provide permanent staff for the Security Compliance Audit program within the Office of Information Security.

**BACKGROUND**

This request would allow the Department of Technology to permanently establish the program to audit departments' compliance with OIS' mandated IT security controls on a consistent basis. This would allow the Department to safeguard State IT assets and protect millions of Californians' personal information such as social security numbers, medical record information, and other sensitive data.

In September 2013, the California State Auditor's High Risk report indicated that the Department of Technology was not proactively ensuring IT security compliance. As a result of this finding, the Office of Information Security received five temporary positions in 2014-15 in order to establish and evaluate the effectiveness of an information security audit program, and to complete security compliance audits of eight state entities. The pilot concludes on June 30, 2016, and this request would allow the program to expand to be able to perform 23 risk-based audits of noncompliant departments annually.

Five of the positions in this request are currently limited term and this request seeks to convert those to permanent positions. The additional six positions are new. The overall goal of this proposal is to permanently establish the audit program and perform risk-based audits of noncompliant departments annually.

**STAFF COMMENTS**

Preliminary findings from the current pilot for this program indicate that an independent audit program is necessary and that state entities are more attentive to security compliance when they know they are subject to independent audits. Staff notes no concern with this proposal and recommends approval.

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**Staff Recommendation: Approve as budgeted.**

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**ISSUE 2: STATEWIDE INFORMATION TECHNOLOGY PROJECT WORKLOAD**

The Department of Technology requests 12 positions and \$1,718,000 in budget authority from the Technology Services Revolving Fund in order to provide extended procurement support and project oversight to ensure project success across the state.

**BACKGROUND**

Prior to 2013, the Department of General Services was responsible for the acquisitions and oversight of IT projects. Responsibility for project acquisition and oversight was transferred to the Statewide Technology Procurement Division, within the Department of Technology, by the Legislatures on July 1, 2013. These responsibilities include the procurement and management of statewide telecommunications contracts. Additionally, the Information Technology Project Oversight Division must work with state entities to plan their IT projects, must determine whether or not IT project proposals should be approved and, if approved, performs project oversight activities for all medium and high criticality projects.

The Statewide Technology Procurement Division does not have sufficient staff to address the pre-solicitation and procurement specific functions for current and approved projects. The number of complex system integration projects is increasing, and the lack of resources prevents the division from fully accomplishing its statutory obligations. This could lead to the failure of IT projects.

The Information Technology Project Oversight Division also does not have sufficient resources to provide independent project oversight due to the increase in projects and due to the more extensive workload associated with the new Project Approval Lifecycle policy. Without a staff augmentation, approved projects will be subject to increased risks of cost overruns, delay, and failure.

**STAFF COMMENTS**

The Department of Technology lacks the necessary resources to provide extended procurement support and project oversight to ensure project success across the state. Given the growing concerns regarding IT projects throughout the state, this BCP is key to ensuring that the Department of Technology has all necessary resources to safeguard the procurement and ongoing oversight of IT projects.

The Subcommittee may wish to track the outcomes of these positions and require Supplemental Reporting Language regarding the workload of these positions to be delivered to the Subcommittee March 1, 2017. Staff recommends approval of this proposal.

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**Staff Recommendation: Approve as budgeted.**

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**ISSUE 3: DEPARTMENT OF TECHNOLOGY TECHNICAL ADJUSTMENT REQUESTS**

The Department of Technology has two technical budget change requests proposed in the Governor's budget.

**BACKGROUND**

The Governor's budget includes two technical proposals:

- **Technical Adjustment of Position Authority for Existing Permanent Employees.** The Department of Technology requests a technical adjustment, with no increase in budget authority. This request would shift 50 employees from the temporary help blanket to permanent positions. This is a net zero request of Technology Services Revolving Funded positions, aligning the Department's authorized positions with actual, full time permanent employees.
- **Final Transfer of Public Safety Communications to the Office of Emergency Services.** This proposal requests the transfer of one accounting officer and \$83,000 to the Office of Emergency Services in order to complete the last step of the Governor's Reorganization Plan No. 2 of 2012. This proposal will allow for increased coordination and operational efficiencies for both departments and will mitigate potential adverse consequences that can arise when two separate departments utilize the same internal service fund.

**STAFF COMMENTS**

Both requests are technical and have no net increase to the State budget if approved. Staff notes no concerns and recommends approval of the two proposals.

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**Staff Recommendation: Approve as budgeted.**

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## 0890 SECRETARY OF STATE

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**Department Overview.** The Secretary of State (SOS) is a constitutionally established office. The SOS is the chief elections officer of the state and is responsible for the administration and enforcement of election laws. The SOS also is responsible for administering and enforcing laws pertaining to filing documents associated with corporations, limited liability companies, partnerships, limited partnerships, unincorporated associations and pertaining to filing bonds and perfecting security agreements. In addition, the SOS is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, preserving documents and records having historical significance.

The Governor's budget proposes total spending of \$140.6 million (\$59.4 million Federal Trust Fund, \$50.5 million Secretary of State Business Fees Fund, \$29 million General Fund and \$1.7 million other special funds) for the SOS's Office, an increase of 7.8 percent from the current year. Proposed staffing totals 496 personnel.

### ISSUE 4: BUSINESS PROGRAMS DIVISION FILINGS PROCESSING

SOS requests 52 positions and a \$5.5 million augmentation from the Business Fees Fund in order to continue to maintain the five-business day turnaround time for business filings and statements of information.

#### BACKGROUND

**Business Filings.** The Secretary of State's Business Programs Division continues to process business formation filings and Statements of Information within an average of five business days. January 2016 was an exception at an average of six business days due to increased business filings and year-end workload. This is the only time since reaching the five business day average in October 2013 that processing times have exceeded the five business day average.

**California Business Connect.** The California Business Connect project is an effort to replace the antiquated and labor-intensive business filing process with a modern automated process that will both improve the customer experience and reduce operational costs for the State. The project includes a comprehensive technology upgrade that will increase online services for business filings and copy orders, allowing the Secretary of State to process documents within as quickly as a few hours and avoid seasonal processing fluctuations. This will allow business to quickly open their doors, create bank accounts, acquire loans, hire employees, and generate income regardless of the time of year, creating a friendlier business environment in California.

Currently, the Uniform Commercial Code and Statement of Information filings are on paper, manually sorted, tracked on different automation systems, including a system on three-inch by five-inch index cards. The SOS received its feasibility study report (FSR) approval for the project on April 1, 2011; and a contract was awarded on January 10,

2014. On April 10, 2015, the SOS and its system integrator, Bodhtree Solutions Inc., mutually terminated the contract for \$8.9 million.

**Special Project Report #2.** On December 28, 2015, the SOS submitted a Special Project Report (SPR) to the California Technology Department which proposed:

- Changing the project scope to focus on the largest annual volume filings and reducing the complexity of the project,
- Changing the schedule to a phased implementation approach; and
- Changing the project's budget.

The revised project was approved by the California Department of Technology on April 1, 2016. According to the Department, "Instead of a big bang implementation of all filings, a more results oriented, risk based approach is proposed. In addition, the project will include a fewer number of filing types to focus resources on the most common and largest volume filing types. The Business Programs Division will add the low volume, niche filings to the system after this project is completed thus reducing the initial complexity of the core implementation. The project approach will be to phase the system and accompanying functionality into production by lines of business, to minimize the risk to the organization and to maximize the benefit to the organization including the benefit of decommissioning legacy systems.

The project efforts will be focused on the highest volume filings for the most common lines of business.

- Business Entities:
  - Limited Liability Companies
  - Limited Partnerships
  - Corporations
- Uniform Commercial Code (UCC)
  - Financing Statements
  - Federal and State Tax Lien Notices
  - Other lien notices including Judgment Liens and Attachment Liens
- Trademarks and Service Marks

After a thorough analysis and refinement of business processes, the Secretary of State will conduct a business-based procurement solicitation for California Business Connect. SOS provided the following information regarding the project timelines:

Major Milestones	Estimated Completion Date
Release of Request For Proposal	8/01/2017
Contract Awarded	9/01/2018
Vendor On-board	11/01/2018
Phase 1: LLC & LP Deployment	8/31/2019
Phase 2: Corporations Deployment	2/29/2020
Phase 3: Uniform Commercial Code Deployment	8/31/2020
Phase 4: Trademarks Deployment	1/31/2021
First Year Contract Maintenance and Operations	1/31/2022
Post Implementation Evaluation Report	1/31/2022

**Budget Request.** SOS requests 52 temporary help positions to assist in processing business filings and statements of information until California Business Connect is implemented in 2020. According to SOS, “the continued limited term funding is for limited term staff, temporary staff, and overtime to maintain the average five business days for processing business formations and Statements of Information with the current paper based manual processes. The limited term and temporary staff allow the Secretary of State to maintain the average five business days for business formations and Statements of Information during normal volume months and the overtime helps the Secretary of State maintain the average five business days during peak months and throughout the year when the volumes of submissions are higher. The limited term staff also allows us to move trained limited term staff into permanent vacant positions more quickly.”

<b>STAFF COMMENTS</b>
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California Business Connect was halted last year when the project fell behind and there were issues with the vendor. This Subcommittee may wish to ask for regular quarterly updates on the status of the Business Connect project.

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**Staff Recommendation: Hold open.**

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**8620 FAIR POLITICAL PRACTICES COMMISSION**

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**Department Overview.** The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974.

**Budget Overview.** The Governor's budget proposes total spending of \$11.9 million (\$11.2 million General Fund) for the Fair Political Practices Commission (FPPC), an increase of 6.8 percent from the current year. The Commission is funded from General Fund and reimbursements. Proposed staffing totals 70 personnel.

**ISSUE 5: STATEMENT OF ECONOMIC INTERESTS REPORTING: GIFTS OF TRAVEL (SB 21)**

FPPC requests one and one-half positions and \$210,000 General Fund in order to implement SB 21 (Hill, Chapter 757, Statutes of 2015).

**BACKGROUND**

SB 21 amends the Political Reform Act of 1974 and mandates that the FPPC create a new form to enable nonprofit organizations to disclose gifts of travel made to state and local elected officials and to disclose donors to the nonprofit organization. The bill also requires a person who receives a gift of travel from any source to report the travel destination on the Statement of Economic Interests form.

FPPC will now be required to promulgate regulations to interpret new requirements and will need to develop an entirely new form to enable the disclosures now required of nonprofit organizations.

**STAFF COMMENTS**

This proposal requires FPPC to develop a new form and receive information from organizations that were not previously required to report. Staff has no concerns with this proposal.

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**Staff Recommendation: Approve as budgeted.**

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## 1110/1111 DEPARTMENT OF CONSUMER AFFAIRS

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**Department Overview.** The Department of Consumer Affairs (DCA) is responsible for promoting and protecting the interests of millions of California consumers by establishing minimal competency standards for approximately 250 license categories involving approximately three million businesses and professionals.

**Budget Overview.** The Governor's budget proposes total spending of \$649 million (non General Fund) for DCA in 2016-17, an increase of 1.6 percent from the current year. DCA is funded by fees and other regulatory assessments from the various Boards and Bureaus. Proposed staffing totals 3,109 personnel.

### ISSUE 6: BREEZE PROJECT OVERSIGHT

There are no new proposals regarding the BreEZe project, this item is informational only and requires no action.

#### BACKGROUND

**BreEZe Overview.** The Department of Consumer Affairs oversees 40 Boards, Bureaus and a Commission that regulate various professions and agencies through licensing and enforcement. These commissions range from high profile entities like the Athletic Commission and the Medical Board, to lesser known entities like the Structural Pest Board and the Cemetery and Funeral Bureau. Much of the activities associated with all of these boards revolve around the issuance of licenses for these professions, enforcement of professional standards, and the processing of complaints from consumers.

Most of this workload is done in a traditional paper-based environment. The BreEZe project was commissioned to modernize this business process by replacing multiple disparate legacy systems with one system that would allow licensees and consumers to use the internet to apply for and renew licenses and to file complaints. Essentially BreEZe would allow the Boards and Commissions to offer the same online services that other State departments had offered for over a decade.

In January of 2015, the Department of Finance submitted a Section 11 request for \$17.5 million to terminate the contract with Accenture for the project after the delivery of Release 2, and these funds were approved by the Joint Legislative Budget Committee in March. In April of 2015, the Department requested further funding for positions in an effort to develop staff within DCA who could provide functions of organizational change management and maintenance and operations support.

To date, the following Boards are currently operating on BreEZe:

- Board of Barbering and Cosmetology
- Board of Behavioral Sciences
- Dental Board
- Dental Hygiene Committee
- Medical Board of California
- Naturopathic Medicine Committee
- Board of Occupational Therapy
- Board of Optometry
- Osteopathic Medical Board of California
- Physician Assistant Board
- Physical Therapy Board
- Board of Podiatric Medicine
- Board of Psychology
- Board of Registered Nursing
- Respiratory Care Board
- Bureau of Security and Investigative Services
- Veterinary Medical Board and Veterinary Technician Examining Committee
- Board of Vocational Nursing and Psychiatric Technicians

DCA provided the following statistics regarding Release 1 and 2 Boards and Bureaus:

- Since Release 2 went live, over 35 thousand new licenses have been issued, and over 190 thousand licenses have been renewed using BreEZe.
- Release 1 programs in total have seen a 54 percent increase in online applications received when compared to pre-BreEZe numbers.
- With Release 2, 429 new application types are available online, bringing the total number of online applications to 549. Prior to BreEZe, all of DCA had only 28 application types on-line.
- Of the 76,000 renewals approved on-line in February and March of this year, 94 percent were approved the very same day. Prior to BreEZe, the quickest turnaround possible was 4 days.
- For the same period, 51 percent of the total 189,000 applications received were submitted on-line via BreEZe.
- To date, BreEZe has almost 1 million registered users, and nearly \$200 million in credit card transactions has been processed via the BreEZe System.

**STAFF COMMENTS**

The Subcommittee may wish to ask the Department to give an update on next steps for the project and ask the following questions.

- What is the plan for the remaining Boards and Bureaus? Will the Release 3 Boards be put into the BreEZe system?
- Referencing the Project Staffing information provided to the Subcommittee, why hasn't the Department been able to hire 23 of the 34 positions requested in the Spring Finance Letter from the 2015-16 budget year?

According to the Project Staffing information provided to the Subcommittee, 23 of the 34 positions requested in the 2015-16 Spring Finance Letter have been filled; can the Department or Finance explain the vacancy rate?

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**Staff Recommendation: This item is informational only.**

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**ISSUE 7: BUREAU OF MEDICAL MARIJUANA REGULATION**

The Budget includes \$1.6 million in 2015-16, \$3.8 million in 2016-17, \$4.1 million in 2017-18, and \$492,000 in 2018-19 and 2019-20 in order to fund the development and initial start-up of the Bureau of Medical Marijuana Regulation. This funding includes funding for 9.7 positions.

**BACKGROUND**

**Establishment of a Bureau to Oversee Medical Marijuana Regulation.** As medicinal marijuana has become more prevalent in California, so has the need to create regulatory framework for the cultivation, transportation, quality, and distribution of medical marijuana. Three policy bills were passed last year, which established the Medical Marijuana Regulation and Safety Act within the Business and Professions Code. The following bills compose the Medical Marijuana Regulation and Safety Act:

- AB 243 (Wood, Chapter 688, Statutes of 2015) establishes the Medical Marijuana Regulation and Safety Act Fund and appropriates \$10 million.
- AB 266 (Cooley, Chapter 689, Statutes of 2015) establishes articles related to licensed cultivation sites, funding, penalties and violations, and a study with the California Marijuana Research Program.
- SB 643 (McGuire, Chapter 719, Statutes of 2015) establishes standards for a physician and surgeon prescribing medical cannabis and allows the Governor to appoint a Bureau Chief.

**Budget Overview.** The Budget includes a loan of \$5.4 million to the Medical Marijuana Regulation and Safety Act Fund in order to fund initial regulatory activities. In addition, the Budget includes \$12.8 million General Fund, \$10.6 million Medical Marijuana Regulation and Safety Act Fund, \$1.2 million other special funds, and 126 positions to implement the regulation of medical marijuana in California. The funding and regulatory responsibility to implement the Act is shared by six Departments and Boards, including:

- **Department of Consumer Affairs.** \$1.6 million in 2015-16 and \$3.8 million from the Medical Marijuana Regulation and Safety Act Fund and 25 positions in 2016-17 to create the Bureau of Medical Marijuana Regulation within the Department of Consumer Affairs. The Bureau will regulate the cultivation, transportation, quality, and distribution of medical marijuana.
- **Department of Public Health.** \$457,000 in 2015-16 and \$3.4 million from the Medical Marijuana Regulation and Safety Act Fund and 14 positions in 2016-17 for the licensing and regulation of medical marijuana product manufacturers and testing laboratories.
- **Department of Food and Agriculture.** \$3.3 million in 2015-16 and \$3.4 million from the Medical Marijuana Regulation and Safety Act Fund and 18 positions in

2016-17 to provide Medical Cannabis Cultivation Program administrative oversight, promulgate regulations, issue medical marijuana cultivation licenses, and perform an Environmental Impact Report. The Department of Food and Agriculture will also be responsible for developing a program to report the movement of medical marijuana products throughout the distribution chain using unique identifiers.

- **Department of Pesticide Regulation.** \$700,000 from the Pesticide Regulation Fund and three positions in 2016-17 to develop guidelines for the use of pesticides in the cultivation of medical marijuana.
- **Department of Fish and Wildlife.** \$7.7 million from the General Fund to expand and make permanent the statewide multi-agency task force that addresses environmental impacts of medical marijuana cultivation. This task force will also regulate water diversions.
- **State Water Resources Control Board.** \$5.7 million (\$5.2 million General Fund and \$472,000 Waste Discharge Permit Fund) and 35 positions in 2016-17 to develop and implement a regulatory program to address the environmental impacts of medical cannabis cultivation. This program will protect the instream flows for fish from water diversions related to marijuana cultivation.

#### **BUDGET CHANGE PROPOSAL**

The Budget includes \$1.6 million and 9.7 positions in 2015-16, \$3.8 million and 25 positions in 2016-17, \$4.1 million in 2017-18, and \$492,000 in 2018-19, and 2019-20 in order to fund the development and initial start-up of the Bureau of Medical Marijuana Regulation.

In budget year 2016-17, the Bureau of Medical Marijuana Regulation requests 25 positions to provide the following functions:

#### Bureau Staff

- One Bureau Chief responsible for oversight, policy, operations and management of the Bureau.
- One Deputy Chief responsible for assisting the Chief in formulating, implementing and interpreting Bureau policies and procedures.
- One Enforcement Program Manager responsible for the oversight of investigations and prosecutions as well as the development of policy recommendations.
- One Licensing Program Manager responsible for overseeing the operation of the Bureau's licensing program.

- One Information Officer to act as a spokesperson and liaison between the Bureau and the news media.
- Establish a Legal Affairs Division comprised of three Attorneys, one Senior Legal Analyst, one Legal Analyst, and one Legal Assistant.
- One Assistant Chief of Policy and Legislation to develop regulatory packages.
- One Data Processing Manager to serve as the primary IT liaison.
- One Associate Governmental Program Analyst (AGPA) responsible for providing technical expertise, guidance, and assistance in formulating and maintaining policies and procedures.
- One Management Services Technician responsible for performing the less technical, semi-professional Administrative duties in support of the Bureau.

#### Division of Investigation

- One Supervising Investigator II responsible for outreach to local law enforcement.
- Two Investigators to serve each region of the state, one for the north and one for the south.
- One AGPA to develop reports of existing medical marijuana dispensaries.

#### Legislative and Regulatory Review

- One AGPA to review, analyze, and facilitate regulatory packages of the Bureau and respond to constituent inquiries.

#### Office of Information Services

- One Data Processing Manager III to direct multiple state project managers and business analysts within DCA in all phases of the project planning and execution.

#### Office of Human Resources

- Two Associate Personnel Analysts responsible for assisting the Bureau with the hiring, recruitment, compensation and performance management of personnel.

#### Business Services Office

- One AGPA to plan, develop, and execute service contracts for major and minor equipment in order to run day-to-day operations.

Budget Office

- One AGPA to serve as the point-of-contact for fiscal and accounting issues with the Bureau.

Consultant Contract

- One Consultant to provide subject expertise and direction related to the medical marijuana industry, assist in the development of the Bureau and discussions with the other agencies and stakeholders.

Study with the Center. AB 266 also requires that the Department develop and conduct a study that identifies the impact that medicinal marijuana has on motor skills with Dr. Igor Grant, Head of the Center for Medicinal Cannabis Research at the University of California, San Diego. The proposal includes \$350,000 to retrofit the building to accommodate the requirements of the study and \$492,000 annually to conduct the study over three fiscal years.

**TRAILER BILL LANGUAGE**

As of April 16, 2016, the current trailer bill language is intent language. At this time, the intent language does not clarify the content of clean-up needed for the Medical Marijuana Regulation and Safety Act. Within the budget change proposal, the Department states that the “trailer bill language will be proposed to provide the Bureau with the necessary authority to hire a Deputy Bureau Chief and Assistant Chief Counsel.”

**LAO COMMENT**

The LAO provided a report to the Legislature on February 18, 2016 regarding the Governor’s proposals regarding the implementation of the Medical Marijuana Regulation and Safety Act. The LAO states that the Governor’s “approach appears consistent with Legislation [and that] implementation will require substantial amount of cross-agency coordination, coordination with locals” and that “ongoing regulatory costs [are] still unclear.” Additionally, the LAO notes that “potential voter expansion of legalized marijuana use could change the regulatory role of the state, perhaps requiring additional resources or modified regulations. Alternatively a change in federal drug policy could complicate the state’s approach to overseeing medical marijuana production and use.”

**STAFF COMMENTS**

As the LAO states, the ongoing costs for implementation of the Act are unknown, and as such, this Subcommittee may wish to receive quarterly updates regarding implementation. There are many moving pieces with the implementation of regulations between various Departments and potential changes from voters, and this

Subcommittee will have to act as a central hub for oversight, as the Bureau will oversee and coordinate all functions performed by various state and local entities.

The trailer bill language is not yet drafted, but the Department estimates it will be available within the next month. These items should be held open to consider the trailer bill with the resources and positions requested.

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**Staff Recommendation: Hold open.**

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**ISSUE 8: REGISTERED DISPENSING OPTICIANS TRAILER BILL LANGUAGE**

The State Board of Optometry requests trailer bill language to implement the provision of transitioning the Registered Dispensing Optician (RDO) program from the Medical Board to the Board of Optometry.

**BACKGROUND**

AB 684 (Alejo, Chapter 405, Statutes of 2015) moves RDO from the Medical Board of California to the State Board of Optometry. This legislation came as the result of over a decade of litigation which overall stated that it was unfair that optometrists and ophthalmologists may set up a practice where patients may receive both eye examinations and prescription eyewear, but opticians may only offer eyewear for retail.

The trailer bill goes on to establish citations and administrative fines and forbids fines from exceeding \$50,000.

**STAFF COMMENTS**

The State Board of Optometry states that the new fines included in the trailer bill language are in line with the Bureau of Private Postsecondary Education (BPPE). However, in general, the Institutions regulated by BPPE are much larger entities than some of the small business RDOs.

The Subcommittee may wish to work with the Board to clarify the citation fine structure to ensure that small business RDOs are not fined at the same levels as large business entities.

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**Staff Recommendation: Hold open.**

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**ISSUE 9: DEPARTMENT OF JUSTICE CONSUMER PROTECTION ENFORCEMENT INITIATIVE**

DCA requests \$1.4 million from the funds of various DCA Boards and Bureaus in order to fund positions requested by the Department of Justice (DOJ). The funding will cover the cost of hiring additional investigators in the Licensing Section for the purpose of reducing average case processing time. According to the Department, the goal of this proposal is in line with the DCA Consumer Protection Enforcement Initiative.

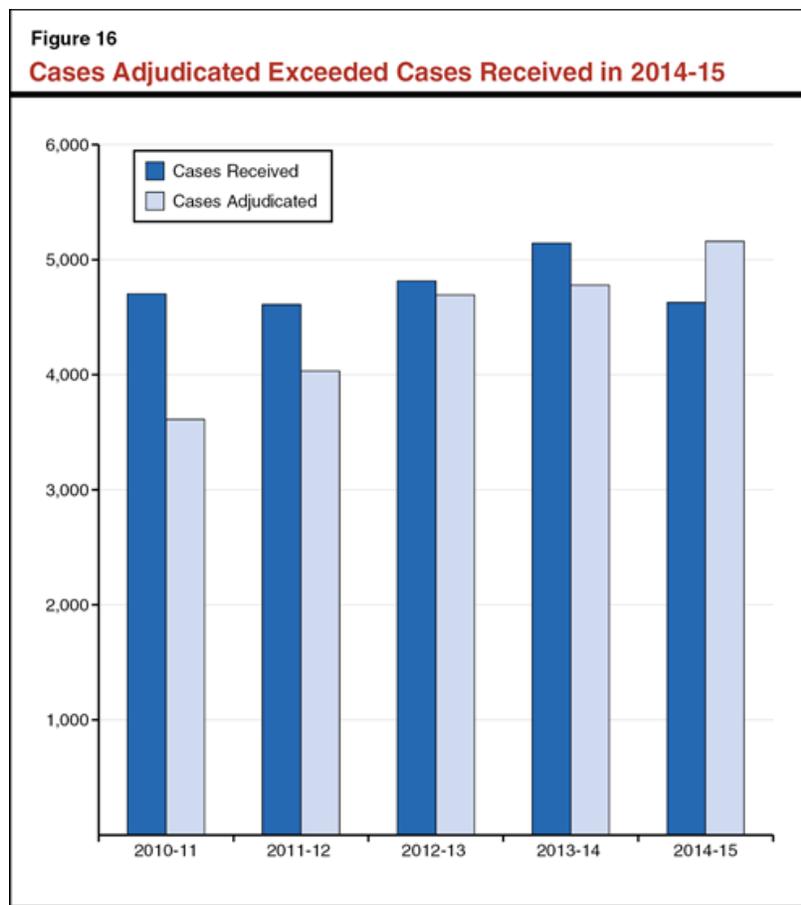
**BACKGROUND**

According to DOJ, the current staffing levels in the Attorney General's Office's Licensing Section are not sufficient to fully process cases from the DCA within the necessary Consumer Protection Enforcement Initiative's timeframes. The additional staffing requested by DOJ may allow them to better meet the DCA's case processing time expectations and support staffing requests and additional workload created by the Initiative.

**LAO COMMENT AND RECOMMENDATION**

**LAO Comment.** "Even without receiving additional positions in 2016–17, we estimate that the average number of days to adjudication would likely decline for two reasons. First, DOJ receives cases (also known as "opening the case") each year that add to its existing workload. At the same time, DOJ brings a certain number of cases to adjudication each year (also known as "closing the case"). In years where the number of cases received exceeds the number of cases adjudicated, these cases take longer to resolve, increasing DOJ's average days to adjudication. However, in 2014–15, DOJ received fewer cases than it adjudicated - thereby allowing DOJ to begin to reduce the total number of unresolved cases. This likely reduced average days to adjudication. Second, the number of cases received annually has remained relatively constant. Assuming that DOJ attorneys each handle the same number of cases, the additional positions provided in 2015–16 should allow DOJ to adjudicate even more cases—particularly after the three vacant positions are filled. This would further reduce the total number of unresolved cases and average days to adjudication."

The LAO provided the following chart, which illustrates the number of cases adjudicated and cases received in 2014-15.



**Issues Unrelated to Staffing Could Be Delaying Overall Enforcement Process.** The Governor's proposal seeks to meet the 18 month goal for the overall enforcement process by speeding up the formal discipline step - that is, by providing DOJ with greater resources to bring cases to adjudication more quickly. We note, however, that DCA and some of its boards, OAH, and DOJ have identified a number of other possible reasons unrelated to DOJ staffing for the failure to meet the 18-month goal. For example, some DCA boards indicated that difficulties in obtaining information necessary to complete investigations often caused delays in completing the second step of the enforcement process in a timely manner. Departments involved in the process also noted that DOJ sometimes receives incomplete cases from DCA and that there are often delays regarding the scheduling of hearings by OAH, both of which impact the average time it takes to complete the formal discipline step. In addition, DOJ reported certain challenges in settling some cases because it lacks clear guidance on the specific settlement terms that will be acceptable to DCA's boards and bureaus, which can delay the enforcement process. Accordingly, the additional positions for DOJ in the Governor's budget may not address key factors contributing to delays in the overall enforcement process.

## **LAO Recommendations**

**Reject Governor's Proposal.** In view of the above, we recommend that the Legislature not approve the proposed \$1.4 million augmentation from the Legal Services Revolving Fund and seven additional positions at this time. Providing such resources is premature given that (1) DOJ's average number of days to adjudication would likely decline even without additional positions and (2) there appears to be other factors unrelated to DOJ staffing that could be preventing departments from meeting the 18-month goal for completing the overall enforcement process.

**Require DOJ to Report on Workload Strategy.** In order to increase legislative oversight of DOJ's handling of the formal discipline step, we recommend that the Legislature adopt supplemental reporting language requiring DOJ to evaluate its workload and provide a plan by January 10, 2017 for preparing cases for adjudication in a more timely manner. Specifically, this report should identify (1) the causes of delays in DOJ workload (such as the number of cases returned annually to specific boards/bureaus due to incompleteness), (2) strategies for addressing these delays (which could include improved processes with DCA boards/bureaus or within DOJ), and (3) trade-offs associated with each strategy (such as the need for additional resources). The Legislature will want to consider this report, along with similar information it currently requires from DCA and OAH, to begin identifying the specific causes of delay in the enforcement process and potential solutions to address these delays.

<b>STAFF COMMENTS</b>
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This proposal reflects the estimate DCA received from the Department of Justice. The rationale and detail of this proposal comes from the Department of Justice, and as such, Assembly Budget Subcommittee No. 5 on Public Safety will consider this proposal in detail. This Subcommittee will conform to the final decision of Subcommittee No. 5.

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**Staff Recommendation: Hold open.**

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**ISSUE 10: DEPARTMENT OF JUSTICE (SB 467) ATTORNEY GENERAL REPORTING**

The Department of Consumer Affairs (DCA) requests \$1.3 million from the funds of various Boards and Bureaus in order to implement SB 467 (Hill, Chapter 656, Statutes of 2015). SB 467 requires the Department of Justice (DOJ) to submit a report to DCA, the Governor, and the Legislature that includes specific statistical information regarding cases referred to the DOJ by each constituent entity comprising the DCA and Division of Investigation of DCA.

**BACKGROUND**

SB 467 requires the Department to submit an annual report that must include specific statistical information regarding cases referred to the DOJ by each constituent entity of DCA. This request will provide the budget authority to the Boards and Bureaus within DCA in order to fully reimburse the DOJ for their cost to implement this reporting requirement.

**STAFF COMMENTS**

This proposal reflects the estimate DCA received from the Department of Justice. The rationale and detail of this proposal comes from the Department of Justice, and as such, Assembly Budget Subcommittee No. 5 on Public Safety considered this proposal in detail on April 11, 2016. This Subcommittee will hold this item open at this time and conform to Subcommittee No. 5 in an open issues hearing.

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**Staff Recommendation: Hold open.**

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**0650 GOVERNOR'S OFFICE OF POLICY AND RESEARCH**

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**ISSUE 11: PRECISION MEDICINE**

The Subcommittee will consider a proposal to fund precision medicine.

**BACKGROUND**

“Precision medicine” is a developing approach in the health sector that takes into account an individual’s genes, environment, and lifestyle for disease diagnosis, treatment, and prevention.

The 2014-15 Budget Act made a one-time appropriation of \$3 million to the Governor’s Office of Planning and Research (OPR) to fund precision medicine research. OPR, in collaboration with University of California (UC), San Francisco, issued a call for proposals to UC campuses. Two demonstration projects - California Kids Cancer Comparison at UC Santa Cruz and Precision Diagnosis of Acute Infectious Disease at UC San Francisco - were awarded funding. OPR also has developed an inventory of data, research, experts, and other resources related to precision medicine to facilitate cooperation in precision medicine research.

The 2016-17 Governor’s Budget proposes to make a one-time appropriation of \$10 million from the state General Fund to OPR to fund additional precision medicine research. The administration intends for these funds to be allocated in a manner similar to the \$3 million in 2014-15, but intends to broaden its call for proposals beyond the UC campuses.

**LAO RECOMMENDATION**

In the absence of additional details and a clearer justification for this proposal, we recommend that Legislature reject the Governor’s proposal to allocate \$10 million to OPR for precision medicine research.

**STAFF COMMENT**

The State's small investment in precision medicine, especially at UC, is important to ensure that California remains that the forefront of this development in bioscience.

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**Staff Recommendation: Approve as Budgeted.**

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**ISSUE 12: OTHER OPR BUDGET PROPOSALS**

The Subcommittee will consider two OPR budget proposals.

**BACKGROUND**

The Governor's budget includes two budget proposals:

- **Transfer of CEQA Database.** The budget includes \$200,000 one-time and \$57,600 on ongoing funding to transfer the CEQANet 2.0 database from the University of Davis to the Department of Technology for the Office of Planning and Resources. The database would allow on-line submission, posting, transmittal, and comment on all California Environmental Quality Act notices and environmental documents. The one-time costs will be for the Department of Technology to upgrade the database to include better GIS functionality, mapping searches, and project impact analyses. The on-going costs will be for the long-term hosting and maintenance needs for the upgraded CEQANet 2.0.
- **Implementation of the Integrated Climate Adaption and Resiliency Program.** The Office of Planning and Research requests \$300,000 General Fund to administer the Integrated Climate Adaptation and Resiliency Program (ICARP). The ICARP will coordinate regional and local climate adaptation efforts with state climate strategies to adapt to the impacts of climate change as required per Senate Bill 246 (Wieckowski, Chapter 606, Statutes of 2015). The OPR requests funding for two permanent, full-time staff positions, development of a clearinghouse website for climate adaptation information, on-going hosting and maintenance of the clearinghouse website, establishment of an advisory council and travel expenses for council members.

**STAFF COMMENT**

These small proposals appear reasonable. In addition to these two proposals, OPR is requesting \$100 million Greenhouse Gas Reduction Funds for the Transformational Climate Communities Program, which will be considered in Subcommittee 3 and funding to continue the contract to develop the Local Control Funding accountability rubric, which is being heard in Subcommittee 2.

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**Staff Recommendation: Approve as Budgeted**

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**8880 Fi\$CAL****ISSUE 13: Fi\$CAL PROJECT SCOPE CHANGE**

The Subcommittee will consider a proposal to change the implementation timeframe of the Fi\$Cal project.

**BACKGROUND**

The Financial Information System for California (Fi\$Cal) Project will replace the state's aging and decentralized financial systems with a new system integrating state government processes in the areas of budgeting, accounting, cash management, and procurement. The system will eliminate the need for over 2,500 department-specific applications and enable the state financial systems and workforce to function in an integrated environment. The Fi\$Cal System will also automate processes that are currently highly manual, minimize manual reconciliations among control agencies and various separate financial systems, make information more readily available to the public and the state's business partners, generally improve tracking of statewide expenditures, and standardize the state's financial practices. The integrated system will be utilized in some way by every state department, the Legislature, and the public, allowing greater transparency of the state's financial data and management. Such transparency currently does not exist given the state's fractured financial management infrastructure.

Since the project began, it has changed in scope, schedule, and cost from what was initially anticipated. The Fi\$Cal Project is currently operating under its fifth Special Project Report (SPR). While the project experienced early successes, subsequent challenges have caused the project to fall behind schedule. Ultimately, these challenges caused the project to deviate from the current SPR significantly enough to trigger the need for a new project plan—SPR 6—on which the Governor's 2016–17 budget proposals are based.

The Governor's budget includes two Fi\$Cal-related proposals: the first allows the project to implement the changes proposed in SPR 6 and the second establishes a new state department to maintain and operate the Fi\$Cal System. The administration indicates that these proposals would reduce the overall risk associated with the implementation of Fi\$Cal and set the foundation for maintaining and operating the Fi\$Cal System once it is complete. The proposed changes to the project reflected in SPR 6 result in a 24-month schedule extension and an increase in the project cost (relative to SPR 5) by \$237 million (\$125 million General Fund). This brings the total cost of the project to \$910 million (\$494 million General Fund).

**LAO RECOMMENDATION**

We find that the Governor's budget proposal to implement the changes proposed in SPR 6 reflects a reasonable plan to implement the remaining functions and

departments in Fi\$Cal. Therefore, we recommend approval of this component of the Governor's budget proposal. However, we note that the Fi\$Cal Project involves the development of an extremely ambitious and complex IT system and significant work remains before the system is fully implemented. Given the scope of the remaining work and signals from oversight entities that some project activities continue to track behind schedule, we think a future SPR is likely that would further extend the project schedule and increase costs. Should the project make significant changes going forward, a new budget proposal would be submitted for legislative review.

As for the administration's proposal to establish a new state department for M&O of the Fi\$Cal System, we agree with the administration that an entity is necessary to maintain and operate Fi\$Cal. It is unclear to us, however, whether the establishment of a new department is the best way to fulfill this function. Various options of administrative structures for maintaining and operating the Fi\$Cal System are available for legislative consideration, each with its own potential benefits and costs. Regardless of the entity ultimately selected for M&O, we think that actions are needed to strengthen the Legislature's ability to hold Fi\$Cal leadership accountable. We provide options to the Legislature for doing this.

<b>STAFF COMMENT</b>
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The Fi\$Cal project is the primary vehicle to standardize the State's accounting procedures and methodology across most State departments. While the heart of this effort is an integrated computer system, the true challenge of this effort is retool and retrain the accounting and budgeting units to use one system, on standard chart of accounts, and the same accounting, procurement, and budgeting processes. In order for the system to deliver the benefits promised by the project, this key "change management" activity is the most difficult and critical deliverable.

In past years, Subcommittee 4 has expressed concerns that the Fi\$Cal project did not provide the time or the resources to ensure that State staff had the time and training to use the new system as intended. This year's budget proposal addresses the heart of this concern by substantially increasing the resources and time for implementation and training of staff. While this results in additional expense, these costs are preferable to trying to absorb these costs within existing departmental budgets or trying to retrain staff after the system has been unsuccessful.

Fi\$Cal remains the largest and highest risk IT-related project underway in California. Given the State's experience with IT project failures and setbacks, investments in the project that reduce the overall risk to the project are likely a wise investment in the long run.

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**Staff Recommendation: Approve as Budgeted and Adopt Placeholder Trailer Bill Language Proposed by the Administration**

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**SB 95: CALIFORNIA CORRECTIONAL PEACE OFFICERS ASSOCIATION  
MEMORANDA OF UNDERSTANDING****ISSUE 14: SB 95: CALIFORNIA CORRECTIONAL PEACE OFFICERS ASSOCIATION MEMORANDA  
OF UNDERSTANDING**

SB 95 ratifies the memoranda of understanding (MOU) agreed to by the state and bargaining unit (BU) 6 represented exclusively by California Correctional Peace Officers Association (CCPOA).

**BACKGROUND**

The following information summarizes the general provisions of the MOU provided by CalHR:

Number of Employees: The BU 6 agreement affects approximately 26,835 full-time equivalents.

**FISCAL EFFECT:** According to CalHR, this bill results in the following costs:

- Fiscal Year 2015-16: \$26.1 million (\$26.0 million General Fund)
- Total Incremental Cost: \$501.6 million (\$498.8 million General Fund)
- Total Budgetary Cost: \$1,094.5 million (\$1,088.4 million General Fund)

**HEALTH BENEFITS**

## 1) Employer Contribution for Active State Employees

- Effective the pay period following ratification, the state's monthly health benefit contribution for each employee shall continue to be a flat dollar amount equal to 80 percent of the weighted average of the basic health benefit plan premiums of the four largest enrolled basic health plans. For each employee with enrolled family members, the employer shall continue to contribute an additional flat dollar amount equal to 80 percent of the weighted average of the additional premiums. The flat dollar amounts shall be increased as appropriate pursuant to the formulas on January 1, 2017, and January 1, 2018.

## 2) Employer Contribution for Future Retirees

- Employees first hired on or after January 1, 2017, will receive an employer contribution for retiree health benefits based on an "80/80" formula. Retirees and their dependents enrolled in a basic health benefit plan will receive an employer contribution equal to 80 percent of the weighted average premium of the four largest basic health benefit plans based on state active employee enrollment. Retirees and their dependents enrolled

in a Medicare health benefit plan will receive an employer contribution equal to 80 percent of the weighted average premium of the four largest Medicare health benefit plans based on state retiree enrollment.

3) Prefunding of Other Post-Employment Benefits

- Beginning July 1, 2016, the state and Bargaining Unit 6 members will prefund retiree healthcare with the goal of reaching 50 percent cost sharing of actuarially determined total normal cost for employer and employees by July 1, 2018. The state and employees will each make the following contributions:
  1. Effective July 1, 2016, 1.3 percent of pensionable compensation.
  2. Effective July 1, 2017, an additional 1.3 percent for a total of 2.6 percent of pensionable compensation.
  3. Effective July 1, 2018, an additional 1.4 percent for a total of 4.0 percent of pensionable compensation.

4) Post-Employment Health and Dental Benefit Vesting Schedule

- All employees first hired on or after January 1, 2017, will be subject to an extended vesting schedule providing 50 percent of the employer contribution upon completion of 15 years of state service, increasing 5 percent for each additional year of service, until the employee is 100 percent vested at 25 years of state service.

5) Medicare Part B Supplemental Benefit

- All employees first hired on or after January 1, 2017, will no longer be eligible to use the employer contribution for retiree health benefits for Medicare Part B premiums.

## COMPENSATION

1) General Salary Increase (GSI)

- Effective the first day of the pay period following ratification by the Legislature and the membership, all Unit 6 represented classifications shall receive a 3 percent GSI.
- Effective July 1, 2017, all Unit 6 represented classifications shall receive a 3 percent GSI.
- Effective July 1, 2018, all Unit 6 represented classifications shall receive a 3 percent GSI.

## 2) Retention and Recruitment Incentives

- Effective the first day of the pay period following ratification by the Legislature and the membership, increases the annual incentive, payable semi-annually, for Avenal, Ironwood, Chuckawalla Valley, Calipatria and Centinela State Prisons from \$2,400 to \$2,600. This provision also establishes the same incentive for Pelican Bay, California Correctional Center and High Desert state prisons.

## 3) Senior Peace Officer Pay Differential

- Effective July 1, 2016, increases each step of the Senior Peace Officer Pay Differential by 1 percent.

## 4) Uniform Allowance

- Increases the annual uniform allowance from \$530 to \$950 for full time employees, excluding Medical Technical Assistants (MTA).
- Increases the annual uniform allowance from \$305 to \$546 for MTAs.

**MISCELLANEOUS**

## 1) New Sections

- Establishes a Health and Safety Grievance Process (Article 6.16).
- Effective May 1, 2016, and depending on available departmental funds, permits the cash out of up to 80 hours of leave per year (Article 10.22).
- Incorporates Side Letter 10 regarding Retired Annuitants (Article 18.01).
- Establishes a process and criteria for Correctional Counselor I to request a transfer between institutions (Article 20.06).
- Establishes a voluntary overtime process for Correctional Counselor I (Article 20.07).
- Provides Correctional Counselor desktop computers with internet access. (Article 20.08).
- Prohibits a furlough program or a mandatory Personal Leave Program during the term of the agreement (Article 27.05).

**STAFF COMMENTS**

This item is for information only.

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**Staff Recommendation: This item is presented for information only.**

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**0845 DEPARTMENT OF INSURANCE****ISSUE 15: CDI MENU MODERNIZATION PROJECT (CMMP) – YEAR 3**

CDI is requesting a one-time increase of expenditure authority in 2016-17 of \$2.8 million (\$1.8 in Special Funds and \$1 million in General Fund). The increase will support four positions and 2.5 temporary help positions authority to complete Year 3 implementation of a five-year project to replace/upgrade its legacy CDI Menu and Integrated Database (IDB).

**BACKGROUND**

CDI Menu is a gateway or portal that was developed along with the IDB in 1992 using an Oracle Forms and Reports platform. The core of the CDI Menu is the IDB database, the backend database, which includes the majority of the CDI Menu's rules and database triggers. Built over 20 years ago, the technology supporting the current IDB is outdated and the vendor will no longer provide support for this technology after June 2017.

The CMMP funding for Years 1 and 2 was approved by the Governor and the Legislature, and to date CDI has received total resources of \$4,106,000. Year 3 of the CMMP includes completion of the reengineering of the Fraud Integrated Database (FIDB) system, the completion of upgrading systems for Administration and Licensing Services Branch (ALSB) – Licensing Services Division (LSD) and ALSB – Financial Management Division (FMD), and begins work for the Rate Regulation Branch (RRB) and Financial Surveillance Branch (FSB) systems.

The completion of the FIDB represents approximately 35 percent of the work in Year 3 of the project. As identified in the Year 2 BCP, the CDI proposed the enhancement of its current technology capabilities for investigating and preventing fraud. FIDB serves as the Enforcement Branch - Fraud Division's case management, analysis and timekeeping system. It provides on-line access to entering or retrieving case activity information, linking of cases and viewing information based on the user's authorized profile. Newer technology will offer enhanced investigative technology capability such as data analytics functionality and interface capability with national crime databases.

The completion of upgrading systems for LSD and FMD represents approximately 42 percent of the work in Year 3 and the remaining 23 percent upgrading systems for RRB and the FSB. These upgrades will streamline data systems, case management systems, and reporting systems creating efficient ways to track, store, and generate data to assist in day-to-day activities. Upgrading these systems will allow the department to avoid seeking the support from third-party contractors at substantially higher costs to service current systems that lose support in 2017.

### Year 3 Projected Outcomes

Objectives	Measure(s)
Follow IT strategic roadmap for centralized and secured data storage	<ul style="list-style-type: none"> <li>Systems architecture is aligned with strategic goals.</li> </ul>
Improve development platform	<ul style="list-style-type: none"> <li>At least 50 percent of the ITD development staff is trained on and can develop in the common development platform.</li> </ul>
Improve the ability to restore systems in the case of a disaster	<ul style="list-style-type: none"> <li>ITD will be able to restore CDI menu within four hours of a system wide outage once the network is operational.</li> </ul>
Complete the FIDB system upgrade	<ul style="list-style-type: none"> <li>The FIDB system will interface to the NAIC and NICB systems, allowing for the Enforcement Branch – Fraud Division to perform data analytics on national data, as well as the CDI data.</li> <li>Data analytics for fraud detection allows Fraud agents to take unstructured digital information from insurance companies or other entities and sift through this data to spot fraudulent claims.</li> </ul>
Complete system upgrades for LSD and FMD	<ul style="list-style-type: none"> <li>CDI has new systems that provide 100 percent of the current systems functionality.</li> </ul>
Upgrade systems for RRB and FSB	<ul style="list-style-type: none"> <li>Upgrade systems for the RRB and FSB (data, case management and reporting systems).</li> </ul>

<b>STAFF COMMENTS</b>
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Approval of this proposal is consistent with past budget actions.

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**Staff Recommendation: Approve as budgeted.**

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**ISSUE 16: SPRING FINANCE LETTERS: ENHANCED FRAUD INVESTIGATIONS**

This proposal includes resources for two spring finance letters related to enhanced fraud investigations. The proposals include resources for the following:

- The first proposal requests \$626,000 (General Fund) in 2016-17 and \$184,000 (GF) in 2017-18 to purchase and maintain a computer litigation software program, similar to those used by law firms in large-scale litigation. The software will be capable of handling extensive document research, analysis, and retention to be used for enhanced fraud investigation and prevention efforts in civil whistle blower cases associated with California's False and Fraudulent Claims Act.
- The second proposal requests \$6,460,000 (GF) for five years to support up to 10 positions to investigate and prevent Life and Annuity Fraud cases with an emphasis on cases targeting seniors as well as provide planning resources to hire consultants to develop and plan for the fraud data analytics tool.

**BACKGROUND**

**Enhanced Fraud Investigation eDiscovery.** On November 4, 2013, Commissioner Jones announced a \$46 million settlement with Sutter Health to settle a 2011 whistle-blower lawsuit. The State's share of the settlement was \$2.6 million, which was paid to the General Fund. The statute provides for the Legislature to appropriate these funds for enhanced fraud investigation and prevention efforts.

To date, the Legislature has approved a total of \$19.8 million in General Fund appropriation to CDI. In 2014-15, a Spring Finance Letter was approved appropriating \$18,340,000 (\$4,585,000 annually for four years) for Enhanced Fraud Investigation and Prevention, and in FY 2015-16, \$1,527,000 was appropriated as part of the CDI Menu Modernization Project Year 2, specifically for CDI's Fraud Investigation Database (FIDB). Additionally, due to funds not being fully expended in Year 1 of the Department's Enhanced Fraud Investigation and Prevention efforts, an additional \$1,249,000 is available. As a result, the remaining General Fund balance available for appropriation is \$1,995,000. Thus, CDI is requesting an additional GF appropriation of \$626,000 in FY 2016-17 and \$184,000 in FY 2017-18, to purchase and support a computer litigation software program.

The state received this funding as a result of CDI's enforcement efforts, the funds should be appropriated to CDI for enhanced fraud investigation and prevention efforts consistent with State law. Insurance Fraud costs every household between \$700 to \$1,000 each year. This proposal will expand the Legal Branch – Fraud Liaison Bureau (FLB) capacity to intervene and prosecute more whistle-blower litigation.

The FLB has seen a substantial increase in the number of whistle-blower cases during the past three years. In the late 1990s and through the early 2000s, it was typical to receive four to five whistle-blower cases a year. Over the last six years, cases received annually has doubled and at time tripled. The Department is currently monitoring 66

whistle-blower cases pending in the state and federal courts. CDI's enhanced whistle-blower efforts, have resulted in additional settlements. On December 18, 2015, Insurance Commissioner Jones, announced that a \$23.2 billion settlement had been reached by the CDI and whistle-blowers with pharmaceutical company Warner Chilcott to resolve a lawsuit alleging drug marketing fraud. Additionally, the CDI has been engaged in aggressive litigation against Bristol-Myers Squibb and is on the verge of a large settlement, as well as monitoring other whistle-blower cases. Without litigation software, the Commissioner's ability to prosecute these cases is severely restricted and the effectiveness of the Commissioner's counsel is substantially reduced.

**Enhanced Fraud Investigation and Prevention.** On December 18, 2015, Commissioner Jones announced that \$23.2 million settlement had been reached by the CDI and whistle-blowers with pharmaceutical company Warner Chilcott to resolve a lawsuit alleging drug marketing fraud. The settlement resolves allegations contained in pay-for-play qui tam health insurance lawsuit filed by three former Warner Chilcott employees, which stated that executives violated the Insurance Code False Claims Act, which prohibit anyone from defrauding private insurance companies by using kickbacks or other inducements to procure or steer clients. The State's share was \$11.8 million, which was paid to the General Fund and must be used for enhanced investigation and prevention efforts upon appropriation by the Legislature.

The CDI Enforcement Branch is comprised of two divisions: Fraud and Investigation. The Branch investigates criminal and regulatory violations starting with point-of-sale transactions through the claims process. This request is for additional resources to support CDI's Investigation Division and Legal Branch.

The Investigation Division (ID) has the primary duty in the State for investigating different types of suspected insurance fraud committed against consumers and is responsible for investigating complaints against agents, brokers, public adjusters, bail agents and other individuals and entities involved in the business of insurance. A major focus of the ID resources is insurance fraud committed against senior citizens. Senior abuse occurs when an insurance crime has been committed against a person age 65 or older.

The Legal Branch will be able to administratively prosecute the new cases generated by the ID with the additional resources.

Finally, the Enforcement Branch – Fraud Division, will continue to protect the public and prevent economic loss through detection, investigation, and arrest of insurance fraud offenders. The Department has resources to investigate only about 5 percent of referrals. CDI would benefit from having an analytical tool that will analyze information quickly, sift through massive data sets, and assist the fraud division's existing efforts to identify fraud trends and patterns.

**California Department of Insurance Enhanced Fraud Summary of Funds\***  
**(Dollars in Millions)**

<b>Sutter Settlement - GF Amount \$20.6M</b>	
<b>Overall:</b>	
FY 2014-15 (Actual) **	\$3.4
FY 2015-16 (Projected)	\$6.3
FY 2016-17 (Projected)	\$6.3
FY 2017-18 (Projected)	\$4.8
<b>Total</b>	<b>\$20.7</b>
<b>Enforcement Branch:</b>	
<b>State Operations</b>	
FY 2014-15 (Actual) **	\$2.3
FY 2015-16 (Projected)	\$3.0
FY 2016-17 (Projected)	\$3.0
FY 2017-18 (Projected)	\$2.9
<b>Total</b>	<b>\$11.2</b>
<b>Local Assistance</b>	
FY 2014-15 (Actual) **	\$1.0
FY 2015-16 (Projected)	\$1.0
FY 2016-17 (Projected)	\$1.0
FY 2017-18 (Projected)	\$1.0
<b>Total</b>	<b>\$4.0</b>
<b>Legal Branch</b>	
<b>State Operations</b>	
FY 2014-15 (Actual) **	\$0.1
FY 2015-16 (Projected)	\$0.7
FY 2016-17 (Projected)	\$1.3
FY 2017-18 (Projected)	\$0.8
<b>Total</b>	<b>\$3.0</b>
<b>Administration and Licensing Services Branch</b> (CDI Menu Modernization Project/Fraud Integrated Database)	
<b>State Operations</b>	
FY 2014-15 (Actual) **	\$0.0
FY 2015-16 (Projected)	\$1.5
FY 2016-17 (Projected)	\$1.0
FY 2017-18 (Projected)	\$0.0
<b>Total</b>	<b>\$2.5</b>
<b>Grand Total By Branch</b>	<b>\$20.7</b>
<b>Amount Available</b>	<b>\$0.0</b>

<b>Warner Chilcott Settlement - GF Amount 11.8M</b>	
<b>Overall:</b>	
FY 2016-17 (Projected)	\$1.6
FY 2017-18 (Projected)	\$1.3
FY 2018-19 (Projected)	\$1.1
FY 2019-20 (Projected)	\$1.3
FY 2020-21 (Projected)	\$1.3
<b>Total</b>	<b>\$6.5</b>
<b>Enforcement Branch:</b>	
<b>State Operations</b>	
FY 2016-17 (Projected)	\$1.1
FY 2017-18 (Projected)	\$1.1
FY 2018-19 (Projected)	\$0.9
FY 2019-20 (Projected)	\$0.9
FY 2020-21 (Projected)	\$0.9
<b>Total</b>	<b>\$5.0</b>
<b>Legal Branch:</b>	
<b>State Operations</b>	
FY 2016-17 (Projected)	\$0.0
FY 2017-18 (Projected)	\$0.2
FY 2018-19 (Projected)	\$0.2
FY 2019-20 (Projected)	\$0.3
FY 2020-21 (Projected)	\$0.3
<b>Total</b>	<b>\$1.0</b>
<b>Administration and Licensing Services Branch</b>	
<b>State Operations</b>	
FY 2016-17 (Projected)	\$0.5
FY 2017-18 (Projected)	\$0.0
FY 2018-19 (Projected)	\$0.0
FY 2019-20 (Projected)	\$0.0
FY 2020-21 (Projected)	\$0.0
<b>Total</b>	<b>\$0.5</b>
<b>Grand Total By Branch</b>	<b>\$6.5</b>
<b>Amount Available</b>	<b>\$5.3</b>

<sup>/</sup> Data per specific Budget Changes Proposals/Spring Finance Letters and Budget Letter Drills.

<sup>\*\*</sup>/ Data per FY 2014-15 Year-end Financial Statements (CALSTARS Q16 6541 FM 13).

**STAFF COMMENTS**

The resources requested by CDI are consistent with the settlements to use funding specifically for enhanced fraud investigations. Staff has no concerns with the proposals.

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**Staff Recommendation: Approve both Spring Finance Letters as budgeted.**

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**1701 DEPARTMENT OF BUSINESS OVERSIGHT**

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**ISSUE 17: INTERNAL AUDITING UNIT**

This proposal requests \$334,000 (non-General Fund) for one Senior Management Auditor and one Associate Management Auditor to establish an internal auditing unit to provide ongoing, independent, objective evaluation and assessment of internal controls of the newly created Department of Business Oversight (DBO).

**BACKGROUND**

The Governor's second reorganization plan (GRP2), on July 1, 2013, merged the Department of Corporations with the Department of Financial Institutions to create the DBO. The DBO's six divisions oversee 23 financial services industries and licenses.

Government Code Section 1237 requires that state agencies with aggregate annual spending of \$50 million or more consider establishing an ongoing audit function. Recent legislation added Government Code Section 13885, which focused attention on audit activities, with provisions that ensure the independence of internal auditors.

The annual appropriation of the Department of Corporations and the Department of Financial Institutions were individually less than \$50 million, neither department considered nor were funded for an internal audit unit. However, the new merged DBO's 2015-16 appropriation is \$89 million.

As DBO completes its first strategic plan and measures departmental risks for the 2015 State Leadership Accountability Act report, the need for the expertise of an independent internal auditor has become apparent. The DBO has identified the need for an Internal Auditing Unit (IAU) to provide needed independent and objective assessment of the DBO operations. The IAU will evaluate and assess the DBO's consolidation efforts by monitoring and evaluating the effectiveness of the DBO's risk management processes.

**STAFF COMMENTS**

According to the Office of State Audits and Evaluations' Internal Audit Directory, which is updated every two years, and was last updated in 2014, about 40 departments have established an internal audit function:

<http://www.dof.ca.gov/osae/documents/DirectoryofStateInternalAuditOrganizations2014.pdf>.

The Subcommittee may wish to ask how many other departments with appropriations over \$50 million are moving to include internal audit units? Will there likely be more departments that opt-in?

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**Staff Recommendation: Approve as budgeted.**

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**ISSUE 18: DEPARTMENT OF CORPORATIONS QUALITY NETWORK**

This proposal requests two years of funding for seven positions and \$1.1 million (State Corporations Fund) for continual support of the Department of Corporations Quality Network (DOCQNET) system.

**BACKGROUND**

In 2009, the Department of Corporations (DOC) was approved to develop and implement the Department of Corporations Quality Network (DOCQNET) system. According to the department, due to an administration change, the project was initiated in 2012 with a Special Project Report and approved Budget Change Proposal; the DOCQNET system was implemented in June 2014. With DOCQNET, the department conducts its regulatory functions, such as revenue collection, enforcement actions, and licensee examinations and licensing. Approximately 99 percent, or 51,165 of the 51,771 licensees, are tracked and managed within DOCQNET.

In July 2013, when Department of Financial Institutions (DFI) and DOC merged to form DBO, the information technology workload increased, attempting to consolidate two networks and infrastructures into one. To handle the workload, seven limited-term positions were approved but expired at the end of the 2014-15. Due to the loss of the seven positions, DOCQNET's development contractor continues to absorb nearly 95 percent of all DOCQNET help support, along with efficiency and improvement request activities.

The DOCQNET project originally encompassed only the DOC, not DFI systems. In addition, DOCQNET was not originally designed with the Department of Technology's updated privacy and security standards, which include guidelines for data encryption and privacy notifications. The DFI's legacy systems encompasses over three dozen databases, spreadsheets, and outdated web systems, including systems for processing applications and licenses, and managing financial institution examinations.

The development contractor's service contract expires at the end of 2017-18. According to the department, the requested positions will receive training in Microsoft's Dynamic Customer Relations Management and SharePoint software solutions. In addition, the permanent positions will allow the DBO to integrate DFI legacy systems into DOCQNET and bring the security of the system up to the latest Department of Technology standards.

**STAFF COMMENTS**

This request is for two-year funding and the department intends to transfer resources from an outside contractor to in-house staffing.

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**Staff Recommendation: Approve as budgeted.**

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## 7910 OFFICE OF ADMINISTRATIVE LAW

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### ISSUE 19: ENHANCED REGULATORY TRAINING

The Office of Administrative Law is requesting \$177,000 (\$101,000 General Fund) for one Attorney III position to provide an increase in the number of training classes on how to conduct rulemaking actions to address the demands by state agencies and to enhance the current training provided.

#### BACKGROUND

OAL is responsible for reviewing administrative regulations proposed by over 200 state agencies for compliance with the standards set forth in California's Administrative Procedure Act (APA), for transmitting these regulations to the Secretary of State and for publishing regulations in the California Code of Regulations. OAL is also responsible for reviewing and researching petitions submitted to OAL that challenge a state agency rule (policy or procedure) alleging that the rule is an underground regulation. OAL will issue a legal opinion as to whether the state agency is operating with an underground regulation. Courts have found underground regulations to be invalid and unenforceable.

**OAL's 3-day Training Class on the APA Rulemaking Process.** OAL teaches state agencies how to understand and comply with APA rulemaking requirements through a formal training program. State agencies adopt regulations that govern businesses and individuals of California. OAL's training focuses on adopting regulations that are clearly written, necessary and legally valid and properly conducting the economic impact assessment of the proposed regulatory action. The training also focuses on how to determine whether a state agency rule needs to go through the APA rulemaking process so that the state agency does not conduct its actions pursuant to an underground regulation.

OAL developed a 3-day training program on the rulemaking process for state employees. Since 1989, OAL has trained approximately 7,000 state employees. From 1989 to May 2005, the training class was conducted primarily by an OAL Senior Attorney (this attorney continued to do the training until October 2012 after he retired in 2005). Another OAL attorney who participated in the training retired in 2012, and another participating OAL attorney retired in 2014. The training is now divided up and conducted by four full time attorneys at OAL. Each year, approximately nine training classes are scheduled.

For the past three years there has been a long waiting list with more than 250 state employees currently on the list. Additionally, OAL's recently installed data system allows OAL to track the number and type of legal issues that continue to be a challenge for state agencies trying to comply with the APA. This data shows that only six percent of all matters submitted to OAL for review in the last six months were approved by OAL without any corrections needed. In order to meet the demand placed on OAL by state

agencies for this training, and enhance the training so that state agency rulemaking actions are no longer substandard and are conducted as efficiently as possible.

<b>STAFF COMMENTS</b>
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The subcommittee may wish to consider the following questions:

- How often is APA training required, when they are hired, every two years, or other?
- How many agencies receive the APA training and what is the average class size?

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**Staff Recommendation: Approve as budgeted.**

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**2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**

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**ISSUE 20: TRAILER BILL LANGUAGE: CALHFA**

The proposed trailer bill language would replace the Director of Insurance with a Director of Enterprise Risk Management and Compliance, and require the annual audit of the California housing Loan Insurance Fund to be based on agreed upon procedures within the California Housing Finance Agency (CalHFA).

**BACKGROUND**

The Insurance Fund stopped insuring new housing loans in 2009 and is currently winding down; CalHFA anticipates funds will be available to continue to pay claims at least through 2020. CalHFA indicates that the requirement to have a Director of Insurance and complete an annual audit costs the Insurance Fund approximately \$240,000 per year, which reduces the number of claims the Insurance Fund is able to pay.

By replacing the Director of Insurance with the Director of Enterprise Risk Management and Compliance, which would be funded by the California Housing Finance Fund, the Insurance Fund would save approximately \$170,000 annually. The existing CalHFA staff would oversee the administrative responsibilities for winding down the Insurance Fund by following existing procedures. The Director of Enterprise Risk Management and Compliance would be responsible for assisting in the implementation of processes, tools and systems to identify, assess, measure, manage, monitor, and mitigate risks related to the development of new programs or changes to existing laws or regulations that may result in new or increased risk to CalHFA.

By changing the annual audit requirement to an agreed upon procedures engagement, the Insurance Fund would save approximately \$35,000 annually. CalHFA indicates that this more focused audit approach is appropriate because the Insurance Fund is no longer insuring new loans or creating new liabilities.

**STAFF COMMENTS**

The subcommittee may wish to ask CalHFA to discuss the differences between an audit and “agreed upon procedures engagement?” Will these two processes achieve the same goal?

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**Staff Recommendation: Approve as budgeted.**

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**ISSUE 21: SPRING FINANCE LETTER: AFFORDABLE HOUSING AND SUSTAINABLE COMMUNITIES PROGRAM**

The Governor's proposal requests an increase of 11 positions to continue implementation and administration of the Affordable Housing and Sustainable Communities (AHSC) program. The requested positions will provide staff to award and administer approximately \$320 million in loans and grants to integrated housing and transportation projects through a competitive application process.

**BACKGROUND**

The AHCS program was established through the enactment of SB 862 (Chapter 36, Statutes of 2014), which sought to further the purpose of AB 32 (Chapter 488, Statutes of 2006), the Global Warming Solutions Act of 2006, and SB 375 (Chapter 728, Statutes of 2008), the Sustainable Communities and Climate Protection Act of 2008. The AHSC program provides funding for land use, housing, transportation, and land preservation projects to support infill and compact development that reduces greenhouse gas (GHG) emissions through the reduction of vehicle miles traveled (VMT) and land conversion, minimizing GHG emissions by protecting land from further development.

Funding for the AHSC program is provided from the Greenhouse Gas Reduction Fund (GGRF), an account established to receive cap-and-trade auction proceeds. The cap-and-trade program, a key strategy for achieving the GHG emissions reduction goals of AB 32, issues a limited number of GHG emission permits each year. A portion of these allowances can be purchased from the state at quarterly auctions, thereby generating proceeds.

This proposal requests an additional 11 positions, bringing program staff to a total of 22 positions. The 2016-17 workload analysis reflects the workload associated with awarding approximately \$320 million in local assistance in 2016-17, assuming an average award size of approximately \$7.4 million (43 awards and 86 contracts). Additional resources may be needed as the contract management of several rounds of funding overlaps and as additional funding is made available.

For 2015-16, the average award is estimated at \$4.3 million, the assumed increase in size of the average award for 2016-17 corresponds to the maximum award increasing from \$15 million to \$20 million, an emphasis to include larger transportation infrastructure projects.

For the first round of funding, SGC and HCD received 147 concept applications requesting over \$760 million. Out of the 147 concept applications, SGC and HCD invited 54 applicants from 22 counties to submit applications. Final awards of \$121.9 million in loans and grants were made to 28 projects.

This request addresses the ongoing work associated with managing the previous awards, the \$320 million of awards scheduled for September 2016, and the January 2017 NOFA, which is estimated to be another \$320 million.

<b>STAFF COMMENTS</b>
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This proposal is just position authority and has no new dollars. The funding will come from already authorized dollars within the Strategic Growth Council.

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**Staff Recommendation: Approve as budgeted.**

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**ISSUE 22: SPRING FINANCE LETTER: COMMUNITY DEVELOPMENT BLOCK GRANT – NATIONAL DISASTER RESILIENCY COMPETITION**

The Department of Housing and Community Development (HCD) requests an increase in federal state operations budget authority of \$422,000 and one position through 2020-21 to administer the federal Community Development Block Grant Program for National Disaster Resiliency (CDBG-NDR) funding.

The position and funding authority will enable HCD and partner agencies to carry out projects awarded to California under the National Disaster Resiliency Competition. Local assistance awards are planned for current year in order to meet the expenditure deadlines established by the U.S. Department of Housing and Urban Development for this grant program.

HCD has submitted a budget Control Section 28.00 letter to augment its federal funding authority and begin making awards.

**BACKGROUND**

HCD received an award from HUD of over \$70 million in CDBG-NDR funding for disaster recovery and resiliency work related to the 2013 Rim Fire. HCD will administer the award through the local government in Tuolumne County and the Sierra Nevada Conservancy. HCD has 24 months from the date a contract is executed with HUD to expend all project funds.

The 2013 Rim Fire was the largest fire in Sierra Nevada history and the third largest in California, burning more than 257,000 acres and almost closing Yosemite National Park. The Rim Fire's impact on the Yosemite tourist industry alone cost the state at least \$70 million. Estimated emergency response costs for the Rim Fire are \$127 million and environmental damage estimates range up to \$736 million. The burned area created an enormous potential for catastrophic flooding and debris runoff from winter storms.

HCD, as the state's CDBG administrator, was awarded \$70 million in CDBG-NDR funds to address damage and resiliency needs in Tuolumne County as a result of the 2013 Rim Fire. These funds will be used to fund an integrated, replicable model for community and watershed resilience, made up of three components:

- 1) Forest and Watershed Health: Thinning, biomass removal, restoration, and reforestation activities in the Rim Fire burn area. Given the likelihood of an uncertain future of drought, climate change, and wildfire, these activities are designed to improve forest and watershed health and resiliency against climatic disturbances.

2) Integrated Biomass and Wood Products Facility: This facility will provide clean power, cooling and heating, and a wood products facility to utilize biomass material removed from the impacted disaster area. The facility will serve the Rim Fire recovery area, and act as a regional facility to accept thinned biomass from Tuolumne and surrounding counties.

3) Community Resilience Center: Designed to increase community resilience, this facility will provide services during an emergency and also provide year-round services, including education and job training, to support forest and watershed work and the biomass facility. This facility will be a model for serving rural communities.

<b>STAFF COMMENTS</b>
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Without additional funding authority or staff to accomplish the new workload associated with the CDBG-NDR activities, HCD will not be able to administer this program within the deadlines established by HUD. Funds not obligated for the program grants by the date set by HUB will be disencumbered. Staff has no concerns with the proposal.

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**Staff Recommendation: Approve as budgeted.**

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