

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION****ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR****TUESDAY, MAY 19, 2015
10:00 A.M. - STATE CAPITOL ROOM 447**

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VOTE-ONLY CALENDAR

3100 CALIFORNIA SCIENCE CENTER

VOTE-ONLY ISSUE 1: PHASE III AIR AND SPACE CENTER TRAILER BILL LANGUAGE

The California Science Center Phase III Air and Space Center will be home of the Space Shuttle Endeavour. This BCP contains two components:

- Trailer bill language to authorize the Phase III Project for the purpose of the Foundation developing, constructing, equipping and furnishing the project known as the Phase III Air and Space Center
- Acknowledgement of future state operating support costs upon completion of the Phase III Project. State operating costs will be requested via a future budget change proposal as part of the regular state budget process. Future operating support costs for staffing, facility support, and exhibit maintenance, are estimated to be \$2 million and 10.5 positions in 2017-18, and \$4 million and 24 positions in 2018-19, and ongoing.

BACKGROUND

At the April 7, 2015, hearing, the California Science Center stated that they were still working with the Administration on trailer bill language. The Administration, the California Science Center and the Foundation have all agreed to trailer bill language.

Proposed Trailer Bill Language. The trailer bill language requests approval for the Science Center to authorize the Foundation to construct the Air and Space Center and educational exhibits therein. The Department will submit future BCPs for state operations costs in future years.

Future Operational Costs. In 2017-18, as part of Phase III, there will be additional estimated operating costs incurred to hire staff and provide for start-up operational systems for Phase III. In 2018-19, the full operational costs would be incurred as Phase III would be fully operational and open to the public. Those budget change requests will move through the budget process to be approved at that time.

STAFF COMMENTS

According to the Foundation and the Department of Finance, all issues have been resolved with the trailer bill language.

Staff Recommendation: Adopt placeholder trailer bill language.

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**VOTE-ONLY ISSUE 2: CALPERS ADMINISTRATION BUDGET ADJUSTMENTS**

The May Revision proposes adjustments to eight items in the California Public Employees Retirement System's (CalPERS) administrative budget and an increase of 38 positions, based on the 2015-16 CalPERS budget approved during the April 15, 2015, board meeting.

BACKGROUND

- Item 7900-003-0830, CalPERS board administrative costs paid by the Public Employees Retirement Fund, decreased by \$83,367,000;
- Item 7900-015-0815, CalPERS board administrative costs paid by Judges' Retirement Fund, increased by \$96,000;
- Item 7900-015-0820, CalPERS board administrative costs paid by Legislators' Retirement Fund, increased by \$110,000;
- Item 7900-015-0822, CalPERS board administrative costs paid by the Public Employees Health Care Fund, increased by \$10,795,000;
- Item 7900-015-0830, CalPERS board administrative costs paid by the Public Employees Fund, increased by \$16,173,000;
- Item 7900-015-0833, CalPERS board administrative costs paid by the Annuitants' Health Care Coverage Fund, increased by \$435,000;
- Item 7900-015-0849, CalPERS board administrative costs paid by the Replacement Benefit Custodial Fund, decreased by \$2,000; and
- Item 7900-015-0884, CalPERS board administrative costs paid by the Judges' Retirement System II Fund, increased by \$428,000.

STAFF COMMENT

Staff has no concerns with this proposal.

Staff Recommendation: Approve May Revision proposal.

7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

VOTE-ONLY ISSUE 3: CALSTRS RETIREMENT SYSTEM REVISED CREDIBLE COMPENSATION

The May Revision proposes a technical correction regarding the amount of General Fund contribution to CalSTRS based on the revision of the credible compensation.

BACKGROUND

The Governor's Budget estimated 2015-16 contributions based on the October 2014 report of prior-year teacher payroll by CalSTRS. The actual amount is based on a report submitted by CalSTRS in April 2015 of an update to the prior-year teacher payroll.

The revision in the credible compensation results in an increase in funding \$6,815,000. This increase consists of \$1,860,000 in defined benefit level, \$2,650,000 in the pre-1990 defined benefit level, and \$2,305,000 for supplemental benefit maintenance account.

STAFF COMMENT

Staff has no issues with this proposal.

Staff Recommendation: Approve May Revision proposal.

9650 HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

VOTE-ONLY ISSUE 4: RETIREE HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

This May Revision proposes technical changes to the medical and dental premiums.

STAFF COMMENTS

It is requested that Item 9650-001-0001 be increased by \$21,514,000 (General Fund) to reflect medical (\$20,790,000) and dental (\$723,000) premium increases over projections from the Governor's budget proposal.

The Governor's budget projected 2016 health and dental premiums to increase by 5.5 percent over 2015 rates. The May Revision reflects an updated estimate that medical premiums will increase by 8 percent and dental premiums by 6.8 percent.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve May Revision proposal.

**6645 HEALTH AND DENTAL BENEFITS FOR CALIFORNIA STATE TEACHERS'
RETIRED ANNUITANTS**

**VOTE-ONLY ISSUE 5: HEALTH BENEFITS FOR CALIFORNIA STATE TEACHERS' RETIRED
ANNUITANTS**

This May Revision proposes technical changes to the medical premiums.

STAFF COMMENTS

It is requested that Item 6645-001-0001 be increased by \$3,648,000 to reflect medical premium increases over projections from the Governor's budget proposal.

The Governor's budget projected 2016 premiums to increase by 5.5 percent over 2015 rates. The May Revision reflects an updated estimate that medical premiums will increase by 8 percent.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve May Revision proposal.

9800 AUGMENTATION FOR EMPLOYEE COMPENSATION

VOTE-ONLY ISSUE 6: AUGMENTATION FOR EMPLOYEE COMPENSATION

This May Revision proposes technical changes to reflect revised health and dental premium rates, increased enrollment in health and dental plans, updated Rank and File and Excluded employment, and formula driven changes to pay increases for Judges and the California Highway Patrol.

BACKGROUND

This proposal would do the following:

- Item 9800-001-0001, Augmentation of employee compensation, increased by \$21,015,000;
- Item 9800-001-0494, Augmentation for Employee Compensation payable from other unallocated special funds, increased by \$9,023,000; and
- Item 9800-001-0988, Augmentation for Employee Compensation payable from other unallocated nongovernmental cost funds, increased by \$4,445,000.

STAFF COMMENTS

Staff has no concerns with this proposal. Staff notes that final rates are not expected to be adopted by the California Public Employees' Retirement System Board until June 2015.

Staff Recommendation: Approve May Revision proposal.

CONTROL SECTION 3.60

VOTE-ONLY ISSUE 7: CONTROL SECTION 3.60

The May Revision includes an amendment to budget bill Control Section 3.60 to capture the proposed retirement rates adopted by the California Public Employees' Retirement System Board on April 14, 2015.

BACKGROUND

The revised budget bill language reflects the impact of employees entering the system under the benefit formulas pursuant to the Public Employees' Pension Reform Act of 2013, stronger than expected investment performance, higher mortality rates, and greater than expected contributions to the system.

The newly adopted state employer contribution rates result in total state costs of \$337,980,000, a decrease of \$109,907,000 from the \$447,887,000 included in the January Budget. Of the \$109,907,000, the General Fund is \$55,592,000, special funds are \$35,506,000, and other nongovernmental cost funds are \$18,809,000. Additionally, it is requested that CalPERS' fourth quarter deferral be reduced by \$9,151,000 General Fund from the Governor's Budget to reflect the changes in retirement rates.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve May Revision proposal and revised budget bill language.

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT**VOTE-ONLY ISSUE 8: VARIOUS CHANGES TO UNEMPLOYMENT INSURANCE, DISABILITY INSURANCE AND SCHOOL EMPLOYEES FUND ADJUSTMENTS**

The May Revision includes various changes to Unemployment Insurance (UI), Disability Insurance, and School Employees Fund Adjustments.

BACKGROUND**Unemployment Insurance (UI)**

- **UI Loan Interest Rate Reduction.** This would decrease Item 7100-002-0001 by \$9,868,000 to reflect a reduction in interest due to the federal government for borrowing that has occurred to provide unemployment benefits without interruption.
- **UI Benefit Adjustments.** This item would decrease Items 7100-101-0871 and 7100-111-0890 by \$172,755,000 to reflect a projected decrease in UI benefit payments due to historical trends and benefit payment projections.

Additionally, this would decrease the UI benefit authority in 2014-15 by \$536,654,000 based on overall improvements in the economy and fewer weeks paid per claim.

Disability Insurance (DI)

- **DI Benefit Adjustments.** This item would decrease Item 7100-101-0588 by \$115,536,000 to reflect a projected decrease in DI benefit payments due to lower anticipated average weekly benefit payments.

Additionally, the DI benefit authority in 2014-15 would be increased by \$9,741,000 based on longer current year benefit durations.

School Employees Fund

- **School Employees Fund Adjustments.** This would decrease Item 7100-101-0908 by \$10 million to reflect a projected decrease in benefit payments from the School Employees Fund due to improvements in the economy.

Additionally, the benefit authority in 2014-15 would be decreased by \$17,151,000 along with technical adjustments to align budget authority for these operations.

STAFF COMMENTS

Staff has no concerns with these technical adjustments.

Staff Recommendation: Approve May Revision proposals.

7502 OFFICE OF PLANNING AND RESEARCH

VOTE-ONLY ISSUE 9: FEDERAL FUNDING

The Department of Finance has issued a May Revision request for \$155,000 in increased federal funds for the Department of Defense Office of Economic Adjustment grant.

BACKGROUND

The Department of Finance has issued a May Revision request for \$155,000 in increased federal grant administrative activities for the Department of Defense Office of Economic Adjustment grant.

STAFF COMMENTS

Staff has no concerns with this proposal

Staff Recommendation: Adopt May Revision

VOTE-ONLY ISSUE 10: PRECISIONS MEDICINE CONTRACTING LANGUAGE

The Department of Finance has proposed Trailer Bill Language to allow funding for precision medicine that is contracted through UC and CSU to be exempted from competitive bidding.

BACKGROUND

The Department of Finance has requested Trailer Bill Language that would allow the UC and CSU to subcontract out funding for precision medicine contained in the 2014 budget that could be awarded without competitive bidding.

The language is contained below:

(3) The contract is with another state agency, a local governmental entity, an auxiliary organization of a California community college, a foundation organized to support the Board of Governors of the California Community Colleges, or an auxiliary organization of the Student Aid Commission established pursuant to Section 69522 of the Education Code. These contracts, however, may not be used to circumvent the competitive bidding requirements of this article.

(#?) Notwithstanding section (3), above, until January 1, 2019, an interagency agreement that is in effect pursuant to the amount appropriated to the Office of Planning and Research under 0650-001-0001 of the Budget Act of 2014 [Citation], including a contract between the Office of Planning and Research and the University of California Regents or an auxiliary organization of the California State University, may include subcontracting not subject to limitation or the competitive bidding requirements of this article, for the limited purpose of researching and/or developing precision medicine.

STAFF COMMENTS

None.

Staff Recommendation: Adopt Trailer Bill Language

9620 CASH MANAGEMENT AND BUDGETARY LOANS

VOTE-ONLY ISSUE 11: MAY REVISION ADJUSTMENTS

The Department of Finance has issued a May Revision update to the estimated interest payments for cash management and budgetary loans.

BACKGROUND

The May Revision estimates interest payments for cash management and budgetary loans will decrease from \$20 million to \$15 million for the budget year, resulting in a \$5million savings from the January Budget estimate.

STAFF COMMENTS

Staff has no concerns with this proposal

Staff Recommendation: Adopt May Revision

9625 INTEREST PAYMENTS TO THE FEDERAL GOVERNMENT

VOTE-ONLY ISSUE 12: MAY REVISION ADJUSTMENTS

The Department of Finance has issued a May Revision update for the estimated interest payments to the federal government.

BACKGROUND

The May Revision estimates interest payments to the federal government will decrease from \$10 million to \$3 million for the budget year, resulting in a \$7 million savings from the January Budget estimate.

STAFF COMMENTS

Staff has no concerns with this proposal

Staff Recommendation: Adopt May Revision

CONTROL SECTION 12
CONTROL SECTION 35.50
CONTROL SECTION 39
CONTROL SECTION 99
CONTROL SECTION 99.5

VOTE-ONLY ISSUE 13: CONFORMING BUDGET SECTIONS

The Budget continues several control sections that describe the overall budget structure.

BACKGROUND

The Budget Bill contains several sections that describe the overall budget and revenues contained in the budget package. These provisions are updated at the end of the process, once the overall architecture of the budget package has been developed. These items will conform to these decisions.

STAFF COMMENTS

Staff has no concerns with this proposal

Staff Recommendation: Conforms to final budget package

7502 DEPARTMENT OF TECHNOLOGY

VOTE-ONLY ISSUE 14: GOLD CAMP COOLING TOWER

The Department of Finance has issued a May 1 Spring Fiscal Letter to remove a request for a capital project.

BACKGROUND

The Governor's budget included a proposal for \$206,000 for the preliminary plans phase of a project that would install a new cooling tower and chiller at the Gold Camp Data Center. However, further analysis indicates that this additional cooling capacity is not needed at this time. Therefore the Department of Finance has issued a May 1 Spring Fiscal Letter to remove the request.

STAFF COMMENTS

Staff has no concerns with this proposal

Staff Recommendation: Adopt Spring Fiscal Letter

ITEMS TO BE HEARD

GOVERNOR'S PROPOSAL ON CIVIL SERVICE

ISSUE 1: GOVERNOR'S PROPOSAL ON CIVIL SERVICE

The May Revision includes three proposals related to civil service including, reforming vacant positions and the hiring process; reconciling departments' budgets based on actual expenditures, and eliminating limited term positions.

BACKGROUND

The Department of Finance staff will present the May Revision proposal.

Improve Budget Transparency and Hiring Process Trailer Bill Language

- **Vacant Positions.** Current law includes a provision that requires the elimination of positions, that at the end of a fiscal year, have been vacant for six consecutive months or more. Intended as a mechanism to maintain accurate numbers of authorized personnel, reviews by both the Legislative Analyst's Office and the Department of Finance in recent years have recommended its repeal due to its ineffectiveness and overly bureaucratic approach. The May Revision proposes abolishing this law and replacing it with a better mechanism to provide monitoring of and greater transparency into departments' budgets. Neither existing law nor the proposed new mechanism affect how much funding a department receives.
- **Hiring Process.** The May Revision proposes eliminating several archaic statutes that impose unnecessary restrictions on departments, preventing them from hiring eligible candidates. Eliminating these restrictions will assist departments in hiring the best candidates for positions in a more timely manner.

Control Section 4.11.

- The May Revision requests that Control Section 4.11 be replaced with the Administration's authority to establish a process for reconciling departments' budgets based on actual expenditures. The overall goal is to more accurately reflect how departments spend their funds on personnel versus operation expenses. To this end, Finance will develop a bi-annual process for reconciling department budgets, specifically for positions and operating expenses and equipment. This reconciliation process will first take place in the 2015-16 budget year and the results will be utilized to build departments' baseline budgets in the 2016-17 Governor's Budget. The appropriate mix of funding between positions and operating budgets will be based on a department's past three years of expenditures in specified categories. The following language is proposed:

~~SEC. 4.11. All new positions approved in the 2015-16 fiscal year shall be established effective July 1, 2015, unless otherwise approved by the Department of Finance. Before the end of each month, the Controller shall provide to the Department of Finance a listing of each new position approved that will be abolished pursuant to Section 12439 of the Government Code as a result of the position being vacant for six consecutive pay periods at the end of the immediately preceding month. The report provided by the Controller shall include the department, division, position classification, position number, and the date the position was established.~~

To promote greater transparency in how departments develop their support budgets, which include personal service and operating expenses and equipment, as defined in Control Section 3.00, the Department of Finance shall develop a bi-annual process for reconciling department budgets as it concerns the aforementioned categories. This reconciliation process will begin in the 2015-16 budget year and the results used to help build departments' budgets baseline budgets in the 2016-17 Governor's Budget.

Finance shall set departments' funding levels for personal services on the average number of filled positions over the last three fiscal years. Departments maintain the authority to fill all their authorized positions; however, funding will be set based on this historic data. Funding for operating expenses and equipment will be based on actual expenditures for purchase of materials, supplies, equipment, services, departmental services, and all other proper expenses, as defined in Control Section 3.00, over the last three fiscal years.

Limited-term Positions Trailer Bill Language

- **Limited-Term Positions.** Under current practice, when a department's new work is temporary in nature, it may receive limited-term positions along with temporary funding. In many cases, these positions are difficult to fill because applicants know they will need to look for a new job shortly. Once filled, workers often transfer to a different permanent job as soon as possible. Consequently, from an operational standpoint, limited-term positions make completing the necessary work even more difficult. The May Revision proposes to eliminate the use of limited-term positions going forward. Instead, Finance and the Legislature can approve limited-term spending authority that will act as a control on the number of positions a department can fill in any given year. When combined with the bi-annual reconciliation process described above, departments will be able to manage their personnel levels within budgeted funds to meet operational needs more efficiently and effectively.

LAO COMMENTS

In general, the LAO agrees with the Governor's goal of improving the state's hiring process and giving hiring managers greater flexibility. That being said, any effort to significantly improve the state's civil service system warrants thorough consideration by the Legislature. The Legislature reasonably could conclude that it does not have sufficient time in the weeks remaining before it must approve the budget to adequately review and understand the full implications of adopting such significant policy changes to the state's civil service system.

STAFF COMMENTS

The Governor's proposal on civil service will provide efficiencies in department budgeting as well as overall transparency.

Staff Recommendation: Hold Open

9800 EMPLOYEE COMPENSATION

ISSUE 2: RATIFICATION OF MEMORANDUM OF UNDERSTANDING

The May Revision requests that Items 9800-001-0001, 9800-001-0494, and 9800-001-0988 be amended to include provisional language relating to the existing Joint Legislative Budget Committee review process for side letters, appendices, or other addenda to a properly ratified memorandum of understanding.

BACKGROUND

Under current law, labor contracts (referred to as memoranda of understanding, or MOUs) between the State of California and its employees do not take effect unless they are ratified by the Legislature. Subsequent amendments to these MOUs (often called “MOU addenda”) are reviewed by the Legislature’s Joint Legislative Budget Committee (JLBC). If the JLBC determines that an MOU addendum requires the expenditure of funds not previously approved by the Legislature, the addendum must be submitted to the Legislature for approval. In recent years, the legislative approval process for MOU addenda has been criticized because it can result in lengthy delays to implement even minor changes.

The May Revision proposes to establish a new process for reviewing these MOU amendments in 2015-16. The three main changes to the current process include, Department of Finance having a greater role, the JLBC taking a smaller role, and require the budget approval of costs in future years.

LAO COMMENTS

The LAO recommends that the Legislature adopt it with the following modifications to ensure legislative and public oversight.

- **Base DOF Determination on “Expenditure of Funds.** When determining whether an agreement can be implemented without JLBC notification, DOF should have some meaningful standard against which to measure the agreement. Accordingly, the LAO recommends striking the proposed sentence referencing the subjective term “fiscal impact” and instead base DOF’s determination on whether an agreement results in the expenditure of funds—a more meaningful standard, in our view.
- **Specify What Must Be Posted Online.** Adding language that specifies that agreements must be posted in their entirety, including any attachments referenced in the agreement, would help the Legislature and public know the full terms of an agreement.

- **Allow for Expedited JLBC Review.** Including language that allows the JLBC to expedite its review would allow the administration to implement an agreement in less than 30 days in instances when an agreement is addressing a time-sensitive issue. According to the LAO, these modifications would provide legislative and public oversight of all MOU addenda while granting the administration significantly greater flexibility than it enjoys under the current process—especially in the case of agreements that do not require the expenditure of funds. Given the high degree of administrative flexibility, the LAO recommends that the Legislature closely monitor the new MOU addenda review process over the next year to ensure that legislative intent is met.

STAFF COMMENTS

The Administration states that the proposed language will increase transparency, streamline processes, and provide flexibility to the Administration to implement addenda.

Staff Recommendation: Hold Open

CONTROL SECTION 3.61

ISSUE 3: CONTROL SECTION 3.61

This request proposes to replace the existing 9651 with Control Section 3.61. Control Section 3.61 would be amended for technical clarification of the framework for prefunding retiree healthcare benefits.

BACKGROUND

According to the Department of Finance, under the current process, there have been issues in the past with deficiencies, and also not being able to use federal and other funds for these purposes. CS 3.61 would pay for OPEB prefunding similar to how we pay for other pension benefits under CS 3.61. The costs would be paid through departmental budgets, and any augmentations each year would be distributed to departments.

The use of CS 3.61 would make it easier for these costs to be paid with the same funds that pay for payroll (including federal grant monies, if applicable) and would address the deficiency issues.

LAO RECOMMENDATION

The LAO recommends the following amendment to the language to ensure that there is legislative oversight:

“(c) The Director of Finance may adjust the percentage levels of the employers’ contribution for prefunding other postemployment benefits listed in subdivision (a) in accordance with ~~approved memoranda of understanding or labor agreements or other legislation approved by the Legislature in fiscal year 2015-16, for employees excluded from collective bargaining, in accordance with salary and benefit schedules established by the Department of Human Resources.~~ The Director of Finance shall notify the Controller by executive order of adjustments made pursuant to this subdivision. Within 30 days of making an adjustment pursuant to this subdivision, the Director of Finance shall report the adjustment in writing to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees in each house of the Legislature that consider appropriation.”

STAFF COMMENTS

The Subcommittee may wish to ask the Department of Finance to explain how the changes in this Control Section should be considered independent from the Governor's larger proposal on OPEB prefunding proposal?

How will the state benefit from using Control Section 3.61 and not the process established under 9651?

Staff Recommendation: Approve May Revision with LAO recommendation for amendments to the language.

7501 DEPARTMENT OF HUMAN RESOURCES

ISSUE 4: HEALTHIER U WELLNESS PILOT PROGRAM

The Department of Human Resources (CalHR) is requesting one permanent position and \$122,000 (reimbursement authority) in 2015-16 and \$113,000 ongoing, to expand the existing Healthier U state employee workplace wellness pilot program to additional worksites.

BACKGROUND

The April 2012 Urban Institute study found that \$362 million (22.4 percent) of 2008 California Public Employees' Retirement System (CalPERS) expenditures on state employee health care services were attributed to chronic diseases that could be prevented or treated through change in diet and physical activity. The study concluded a 1 percent reduction in expenditures among state employees could save \$3.6 million annually. The study suggests actual reduction of 5 to 15 percent are feasible using well-designed and targeted interventions and could lead to annual potential saving of \$18 million to \$54 million.

In 2012, the State Controller's Office, State Treasurer, CalPERS, Service Employees International Union Local 1000 (SEIU) and CalHR partnered to create a model workplace wellness and injury prevention program designed by state employees for state employees. Given the state budget constraints at the time, funding from the California Endowment, California Wellness Foundation, California Health Care Foundation, Sierra Health Foundation, CalPERS, and Kaiser Permanente were obtained for the pilot.

The California Department of Public Health (CDPH) and Department of Health Care Services East End Complex were selected as pilot sites. The Healthier U pilot has exceeded all participation goals for the health screenings and program interventions. The pilot has been extended to a third year for the purpose of obtaining additional biometric data for the health outcomes evaluation.

The Governor's proposal is seeking to implement Healthier U at additional worksites to gain a better understanding of worksite implementation policy issues and needs. SEIU has committed to continue to implement the pilot program and its expansion. Under the CalPERS contract, Kaiser Permanente will continue to provide funding for core web-based intervention program until June 3, 2015, and has committed two personnel staff until December 2015. However, the onsite wellness pilot coordinator by the California Wellness Foundation via Sierra Health Foundation has ended, and there is a void in staffing.

The new position included in this BCP will implement the expansion of the project at additional worksites, including analyzing state demographics and CalPERS data, and working collaboratively with executive leadership of identified departments to implement the program at those sites.

STAFF COMMENTS

The resources for the program will allow CalHR to improve employee health and reduce associated costs, actively collaborate with other state and labor partners, and oversee the statewide evaluation to determine the effectiveness of the program.

Staff Recommendation: Approve May Revision proposal.

8260 CALIFORNIA ARTS COUNCIL

ISSUE 5: PERMANENT AUGMENTATION FOR LOCAL ASSISTANCE GRANTS

This proposal would add \$4.9 million to provide funding for grants to local assistance grants and \$100,000 for staff overtime and expert panel review of grant applications on a permanent basis.

BACKGROUND

On April 7, 2015, the Subcommittee voted to include \$10 million and five permanent positions to the Arts Council budget for local assistance grants.

The subcommittee discussed the need for increased positions if there was an ongoing increase to the Arts Council budget. The Governor's May Revise proposal includes an ongoing appropriation but still does not include any positions authority. In order to allow the Arts Council to continue to administer the grants it is important that the subcommittee also look at providing increased staff to the Council.

STAFF COMMENTS

Staff would recommend that the subcommittee rescind its previous action of including \$10 million and five positions ongoing. Instead, the subcommittee should approve a funding level of \$5 million ongoing (General Fund) which includes two permanent positions ongoing for the Arts Council on an ongoing basis.

Staff Recommendation: Hold Open

0840 STATE CONTROLLER'S OFFICE**ISSUE 6: CALATERS VENDOR REPLACEMENT STUDY**

The SCO request 3.0 positions and \$492,000 (\$199,000 General Fund, and \$150,000 Central Service Cost Recovery Fund [CSCRF], and \$143,000 Reimbursements) in 2015-16 to study alternatives for replacing the California Automated Travel Expense Reimbursement System [CalATERS]) vendor and reimbursement system. The \$143,000 in Reimbursements is for additional costs in 2015-16 to maintain the system without disruptions to service.

BACKGROUND

The SCO, Personnel and Payroll Services Division (PPSD) operates and maintain CalATERS as a service to state department accounting offices and employees. Prior to 2000, travel advances and expense reimbursement claims were processed using a manual, paper-based method, which was labor intensive and often delayed payment reimbursement to state employees. In 2000, the SCO developed CalATERS to process claims more rapidly and accurately. The system allows employees to electronically submit claims through the internet, and for those claims to follow an automatic review, approval, and payment process.

In 2007, the Legislature adopted AB 1806 (Chapter 69, Statutes of 2006), which mandated all state agencies use CalATERS by July 1, 2009. The legislation allowed agencies to opt out of CalATERS if a business case could be made to the SCO and DOF if the use was not cost effective or feasible. Currently, CalATERS is used by 93 agencies, with 138,893 users, only 23 agencies were granted exemptions.

The CalATERS system was designed and built under a contract with International Business Machines, Inc. (IBM). In November 2013, CalATERS was fully upgraded to IBM's Global Expense Reporting Solution (GERS) to become compliant with the Americans with Disabilities Act (ADA) and compatible with Apple and Citrix environments.

In May 2014, IBM announced that it will sunset and discontinue support for the current system effective March 31, 2015. To date, it is known that IBM can support CalATERS using a different platform, but at an increased costs. However, there are still many unknowns including length of time and level of maintenance they will agree to support. Therefore, this decision compels SCO to actively evaluate alternatives.

In December 2014, the SCO released a Request for Information to survey the Information Technology vendor community for potential solutions to replace the current system.

The May Revision requested resources for the research and analysis of alternatives portion of the request. Since the phase is not directly related to the current Travel Expense Reimbursement System, these costs should not be passed on to client departments. The \$143,000 in Reimbursements is being requested as it relates to increased costs to the current system and should be passed on to the client departments.

STAFF COMMENTS

The resources requested will help SCO find an alternative to the IBM sunset and discontinued support of the current system.

Staff Recommendation: Hold Open

ISSUE 7: INCREASED CLAIMS OF UNCLAIMED PROPERTY TO OWNERS

The May Revise proposal requests 4.0 permanent positions and \$581,000 in 2015-16, and \$857,000 in 2016-17, and ongoing for the Unclaimed Property Fund to enhance the SCO's online eClaim paperless claim process.

BACKGROUND

According to the SCO, various program reforms and initiatives have increased the number of unclaimed property returned to owners from an average of 238,614 (2001-02 to 2006-07) to 526,925 (2007-08 to 2012-13). During the same time-period, the value of unclaimed property returned to owners increased from an average of \$233.6 million to \$445.7 million.

Currently, the state has over \$7.6 billion of unclaimed property available to be claimed under the provisions of the Unclaimed Property Law. Unclaimed property is the fifth largest contributor to General Fund revenue.

On February 10, 2015, the LAO released "Unclaimed Property: Rethinking the State's Lost and Found Program. The report included a number of recommendations to address the Unclaimed Property Program. The resources included in this BCP aims to address some of the recommendations.

SCO Plan:

The SCO plans to address the recommendation by the LAO on the Unclaimed Property Law by taking some actions that require funding and others that can be accomplished through administrative changes. The SCO states that it can do the following to address the LAO's recommendations without additional resources:

- **Reduce Owner Burden by Lowering Paper Claim Documentation Requirements.** The SCO's filing instructions will be reviewed to reduce the upfront documentation requested to claim property.
- **Allow Users to Search More Fields.** SCO plans to add search tips and more search fields to the website that will assist users in locating property.
- **Enhance outreach through Partnering Efforts with Legislators.** SCO is working on protocol for legislators to be outreach partners helping their constituents search for and recover unclaimed property.

The resources included in the BCP include 4.0 permanent positions to enhance the online eClaim paperless process to address increasing the eClaim threshold and reducing owner burden by lowering paper claim documentation requirements. This is a first step in addressing the costs associated with the Unclaimed Property Program.

The requested resources will allow the SCO to raise the eClaim threshold from \$1,000 to \$3,000 and perform a manual review of 85,000 eClaims. The manual review is expected to increase the number of properties returned to owners by up to 63,000 estimated between \$3.0 million to \$5.2 million annually.

STAFF COMMENTS

The May Revise aims to address some of the concerns about reuniting property with owners. The challenge remains to find ways to improve the system to reunite property with their owners. Staff believes that the resources are needed to make the improvements to the system, but would like to have the SCO report back to the committee at the beginning of next year to evaluate how these resources have united more people with their property.

Staff Recommendation: Hold Open.

ISSUE 8: OTHER POSTEMPLOYMENT BENEFITS (OPEB) REPORTING
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The SCO requests that Provision 7 of Item 0840-001-0001 be amended to clarify the process related to the accounting and reporting standards that SCO has to annual report on the actuarial valuation of OPEB.

BACKGROUND

7. The Controller shall obtain actuarial valuation services to comply with governmental accounting and reporting standards for other postemployment benefits (OPEB). ~~Controller's estimate of the state's liability and trust assets for other postemployment benefits prepared to comply with all Governmental Accounting Standards Board (GASB) reporting standards for other postemployment benefits, and shall include, in~~ In addition to all other items required under ~~the accounting and reporting standards, the report shall include statements:~~ (a) an identification and explanation of any significant differences in actuarial assumptions or methodology from any relevant similar types of assumptions or methodology used by the Public Employees' Retirement System to estimate state pension obligations, and (b) alternative calculations of the state's OPEB liability ~~for other postemployment benefits~~ using different long-term rates of investment return consistent with a hypothetical assumption that the state will begin to deposit 100 percent or a lesser percent, respectively, of its annual required contribution under GASB governmental reporting standards to a retiree health and dental benefits trust fund. ~~and, (c) breakouts of the actuarial data including but not limited to liability and trust assets, unfunded liability, normal costs, implicit subsidy costs, and annual required contributions attributable to each state's collective bargaining units.~~ To avoid duplication of effort and promote efficiency and costs effectiveness, the Controller and the Department of Finance will coordinate in obtaining additional actuarial valuation services related to OPEB plan liabilities and assets attributable to each of the state's collective bargaining units or other state entities or groups. This provision shall not obligate the state to change the practice of funding health and dental benefits for annuitants currently required under state law.

STAFF COMMENTS

The amendments are technical; staff has no concerns with the changes.

Staff Recommendation: Approve May Revision proposal.

0950 STATE TREASURER'S OFFICE**ISSUE 9: DEBT MANAGEMENT SYSTEM II**

The STO request \$1,382,000 in expenditure and reimbursement authority for 2015-16 to continue the DMS II project, which was originally authorized in 2013-14 Budget Act. DMS II will implement a replacement system for the STO's existing debt management systems.

On March 28, 2015, the State Treasurer's Office submitted a revised Special Project Report (SPR) 1 that incorporated Department of Technology feedback and accounts for all deviation from the approved Feasibility Study Report (FSR) for the DMS II project. Once approved SPR 1 will re-baseline the project schedule and cost estimates for DMS II. The expenditure and reimbursement authority amounts being requested by this Spring Finance Letter are based upon the submitted SPR.

BACKGROUND

The resources requested consist of \$302,000 for a Project Management Support Vendor, \$200,000 for CalTech procurement assistance, \$97,000 for the procurement assistance vendor, \$140,000 for Independent Verification and Validation (IV & V) consulting services, \$113,000 for CalTech Project oversight, and \$530,000 of continued funding for the Data Processing Manager (DPM) III, Senior Programmer Analyst, System Software Specialist, and Treasury Program Manager II. \

LAO COMMENTS

The LAO recommends that STO provide additional information on this proposal at May budget hearings. The STO has proposed a revised procurement strategy, which will modify the existing DMS I rather than creating a new DMS II system. The STO indicates that this revised approach will allow it to meet its business needs, but will involve less risk, time, and cost.

However, this revised approach is not reflected in the May Revision proposal. Instead, STO indicates that the level of resources it is requesting would still be required even under the revised procurement strategy. Even though total project costs would be lower under the revised approach, the department plans to accelerate the project, resulting in a similar level of resources needed in the budget year.

However, we note that there is limited information on the plan for the new procurement strategy at this time and that a revised Special Project Report is not expected to be available for 3 to 5 months. Accordingly, it is difficult to fully evaluate the revised approach or the resources required at this time. Thus, we recommend that the Legislature require that STO report at budget hearings on the justification and plan for its revised approach, as well as the rationale for requesting the proposed level of

resources in 2015-16 despite the revised approach. We would note that the Legislature will be provided with additional information through the Section 11.00 notification process as the SPR is revised.

STAFF COMMENTS

Staff would request that STO provide additional information during the hearing since the STO has proposed a revised procurement strategy that is not reflected in the BCP before the Legislature.

Staff Recommendation: Hold Open.

**0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION
FINANCING AUTHORITY**

ISSUE 10: PROVISIONAL LANGUAGE

The May Revision includes provisional language to extend the repayment date of loans made by the Renewable Resource Trust Fund (RTTF) to the California Alternative Energy Authority Fund from June 30, 2016 to be fully repaid by June 30, 2019.

BACKGROUND

CAEATFA is requesting the following provisional language be included in the budget:

X. The \$2,409,000 loan from the Renewable Resource Trust Fund to the California Alternative Energy Authority Fund shall be repaid to the Renewable Resource Trust Fund as follows: \$803,000 by June 30, 2017, \$803,000 by June 30, 2018, with the remaining balance, including applicable interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer to the California Alternative Energy Authority Fund, to be repaid by June 30, 2019. Any fee revenue received pursuant to the program established by Chapter 10 of the Statutes of 2010 may be used to support the program as long as this use does not interfere with the repayment of the loan, which is due not later than June 30, 2019.

The loan from the RRTF provided funds to the CAEATFA to implement the Sales and Use Tax Exclusion program. Various factors including the economic recession, disruptions in the solar manufacturing markets, and competition have impacted CAEATFA's ability to generate consistent revenues to repay the RRTF loan by June 30, 2016.

STAFF COMMENTS

The extension will provide CAEATFA with a workable plan to repay outstanding loans by June 30, 2019.

Staff Recommendation: Hold Open.

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

ISSUE 11: UNEMPLOYMENT INSURANCE PROGRAM ADMINISTRATIVE ADJUSTMENT

The May Revision includes additional funding to administer the Unemployment Insurance (UI) program.

BACKGROUND

The May Revision proposes a reduction of \$8.9 million in Unemployment Administration authority for 2015-16 due to updated workload estimates. In addition, this request includes a proposal to reduce General Fund by \$40.9 million, and replace it with increases of \$27.8 million in Benefit Audit Fund (BAF) and \$14 million in Contingency Fund (CF). Additional BAF and CF resources have recently become available due to revenue collections that were higher than anticipated.

Over the past years, the UI program has received multiple augmentations from state and special funds in order to address a structural funding deficit and to increase service levels. These augmentations have made it possible for EDD to continue to meet or exceed the service level targets which were identified as part of the 2014-15 Finance Letter. Specifically, these resources were used to increase the number of telephone calls answered and to reduce call demand by processing Internet and paper claims, Internet inquiries (EDDComm messages), and scheduling eligibility determination interviews more timely.

As a continuation of what began in 2013-14, the 2015-16 budget included EDD's proposal for \$39.7 million (General Fund) and \$8.2 million (CF) to support 594 positions equivalents in 2015-16 to continue to support the UI program service levels. The Subcommittee approved this proposal on March 17, 2015.

This proposal seeks to change the level of staffing identified in the 2015-16 UI BCP due to updated workload projections. The workload reductions are occurring as a result of a slight decline in non-monetary determinations and appeals since the fall of 2014. These declines in workload account for a 42 PE reduction for EDD and a 6 PE reduction for California Unemployment Insurance Appeals Board (CUIAB).

Additionally, it is requested that Item 7100-490 be eliminated to reflect the shift from the General Fund to BAF and CF, as follows:

~~7100-490—Reappropriation, Employment Development Department. The balances of the appropriations provided in the following citations are reappropriated for the purpose of supporting the administration of the Unemployment Insurance Program and shall be available for encumbrance or expenditure until June 30, 2016 upon approval of the Department of Finance:~~

~~0001—General Fund~~

~~—(1) Item 7100-001-0001, Budget Act of 2014 (Ch. 25, Stats. 2014)~~

STAFF COMMENTS

The item seeks to realign resources with workload reductions. Staff has no concerns with this proposal.

Staff Recommendation: Approve the May Revision proposal.

ISSUE 12: WORKFORCE INVESTMENT ACT AND WORKFORCE INNOVATION AND OPPORTUNITIES ACT PROGRAM

The May Revision requests that Items 7100-001-0869 and 7100-021-0890 be increased by \$17,777,000 to reflect an increase in discretionary funds from 8.75 percent to 10 percent of the federal allotment. This includes funding the continuation of key workforce initiatives such as the Slingshot Program, the Regional Workforce Accelerator Grant Program, and the Governor's Award for Veteran's Grant Program, as well as administrative resources to implement the new act.

Additionally, this request includes a decrease of \$29,463,000 for Items 7100-101-0869 and 7100-101-0890 to align budget authority with current federal allotments for local area activities.

BACKGROUND

The Workforce Innovation and Opportunity Act (WIOA) was signed into law by the President on July 22, 2014. The WIOA replaces the existing Workforce Investment Act (WIA) effective July 1, 2015. All references to state fiscal year (SFY) 2014-15 activities and funding are still referred to as WIA, whereas SFY 2015-16 activities and funding will now be referred to as WIOA.

The U.S. Department of Labor (U.S. Labor) released final WIOA allotments for SFY 2015-16 via Training and Employment Guidance Letter (TEGL) 29-14, dated April 27, 2015. The TEGL indicates that states may reserve up to 10 percent of their total SFY 2015-16 allotment for the Governor's discretionary fund, which is up from 8.75 percent in SFY 2014-15.

STAFF COMMENTS

Staff has no concerns with these changes. The changes are necessary to capture additional discretionary funding and make conforming changes.

Staff Recommendation: Adopt May Revision proposal.

0559 LABOR AND WORKFORCE DEVELOPMENT AGENCY

ISSUE 13: TEMPORARY WORKER PILOT PROGRAM

The May Revision requests an increase of \$148,000 (General Fund) and one position in 2015-16 and 2016-17 to develop and implement a pilot program to prevent abuses in the recruitment of H-2A temporary workers and to improve the coordination and effectiveness of the various entities under the Agency responsible for serving and protecting the state's more than 800,000 farmworkers.

BACKGROUND

The U.S. Department of Labor's H-2A temporary agricultural worker program allows agricultural employers who anticipate a shortage of domestic workers to bring nonimmigrant foreign workers, typically from Mexico, to the U.S. to perform agricultural labor of a temporary or seasonal nature that lasts no longer than one year. Employers must pay all travel costs and provide these workers with a copy of their contract, free housing, and three low-cost meals per day. To Secure H-2A workers, employers typically rely on recruitment agencies to find and contract the workers on their behalf. Under the federal program, it is unlawful for recruiters or recruitment agencies to charge recruitment fees to H-2A workers.

Despite the current statutory and program requirements that are designed to protect these temporary workers, abuses within the system are prevalent. It remains a common practice for recruiters to charge Mexican workers high fees in exchange for connecting them with employment. Recruiters often make false promises to workers about employment conditions as a means to attracting more workers and charging higher recruitment fees.

In July 2014, Governor Brown signed a letter of intent to cooperate with Mexico's Secretary of Labor and Social Welfare to protect the rights of Mexican H-2A temporary workers in California.

This request will enable California to fulfill Governor Brown's commitment to the Mexican government to protect the rights of Mexican H-2A temporary workers in California. The position will be responsible for the development, implementation, and oversight of a voluntary pilot program that will reduce exploitation and prevent labor violations amount this workforce by improving transparency and accountability in the recruitment of H-2A workers.

The program will include the following key elements:

- The Mexican government and California will work in partnership to develop a list of certified recruitment agencies that are compliant with all statutory and H-2A program requirements.
- Encourage current H-2A growers to utilize only certified recruiters from the list of reputable recruiters.
- Monitor working conditions for H-2A workers and address violations of federal and state labor laws, including making referrals to federal and state enforcement agencies.
- Require licensed Farm Labor Contractors to report the names of the growers they contract with and the physical location of the H-2A workers' job sites.

STAFF COMMENTS

The resources will be used to prevent abuses in the current program and continue to coordinate and provide efficiencies in the agricultural services with EDD. The Subcommittee may wish for future updates on the implementation of this pilot program.

Staff Recommendation: Approve May Revision proposal.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

ISSUE 14: SMALL BUSINESS DEVELOPMENT CENTER NETWORK (SBDC)

The May Revision proposal increases by \$2 million (General Fund) on a one-time basis as a match to draw down additional federal funds that will be made available to the Small Business Development Center (SBDC) Network.

BACKGROUND

Created in California in 1974, the SBDC program is now the largest small business technical assistance program in the country, with over 1,000 centers across all 50 states and US territories.

The California SBDC network provides valuable services to small businesses, which comprise approximately 90 percent of businesses located in California. The following are the 2014 California statistics, which were recently submitted by the California SBDC network to the SBA as part of the reporting requirements of the federal grant:

- SBDC clients created 5,435 new jobs attributed to SBDC assistance.
- SBDC clients retained 3,1990 jobs that would otherwise have been lost.
- SBDC clients secured \$535 million in new capital through loans and venture capital activity as a result of working with the SBDC program.

The Small Business Administration provides up to \$12.8 million of Federal grant funds to the California SBDC network, if they can meet the required one-to-one match. If the matching funds are not met, the funds that California is not able to match are released to other states.

STAFF COMMENTS

This action is consistent with action taken by the Subcommittee last year.

Staff Recommendation: Approve May Revision proposal.

0890 SECRETARY OF STATE**ISSUE 15: CALIFORNIA BUSINESS CONNECT**

The long-term plan to address the problems with business filings is to modernize the Secretary of State's business process. This issue explores the modernization effort, called the California Business Connect project.

BACKGROUND

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.

This project is still in the design phase, but is behind schedule. SOS received a schedule from the vendor that re-assessed tasks, durations and resource assignments. Due to the increased timeframe associated with this, SOS is working with the Department of Technology and the vendor to determine next steps and potential options for moving forward. According to the Department, although the project is behind schedule, it is still currently within the initial scope and cost parameters.

BUDGET CHANGE PROPOSAL

The Governor's budget is requesting spending authority of \$7.759 million for the continuation of the California Business Connect project. Of these funds, \$6.259 million would come from the Business Fees Fund authority and \$1.5 million in Business Programs Modernization Fund authority. The total project costs for 2015-16 total \$10.377 million; of which \$2.896 million will be funded by existing resources currently within the project's budget.

STAFF COMMENTS

The California Business Connect project is currently behind schedule. In a revised draft schedule submitted to the Department on February 27, 2015, the Contractor stated that the appropriate projected implementation date should be September of 2017, which is 15 months later than was previously approved. This delay will necessitate further costs to the Department as well as the State, and any previously approved limited-term positions will need to be extended.

Based on recent conversations regarding this proposal, although there are issues with the vendor and the project is behind schedule, the Department has no changes to the project at this time. This Subcommittee may wish to ask the Department to report back on this project at next year's hearings including any change of scope that occurs with this project.

Staff Recommendation: Hold open.

ISSUE 16: ONLINE MOTOR VOTER REGISTRATION PROPOSAL

This May Revision request will fund upgrades to Secretary of State (SOS) and Department of Motor Vehicle (DMV) Voter registration systems that electronically transmit voter registration information from the DMV to the SOS.

BACKGROUND

The National Voter Registration Act (NVRA) requires that registering to vote be a simultaneous part of applying for or renewing a driver license. SOS and DMV can improve California's compliance with the NVRA by streamlining the process through the enhancement of existing system and the scheduled maintenance updates of equipment.

MAY REVISION PROPOSAL

The May Revision includes an increase of \$2,350,000 to the SOS budget for "one-time funding necessary to enhance the Online Motor Voter Registration system." Of this amount, SOS is required to reimburse the DMV \$1,250,000 for expenses related to the DL system upgrades. This request will fund upgrades to SOS and DMV voter registration systems that electronically transmit voter registration information, captured on driver license/identification card applications, from the DMV to the SOS.

DMV field office equipment will be upgraded to allow the signature capture tablet connected to the camera station to prompt in-person applicants to provide voter-specific information. The current driver license/identification card contract is in need of a refresh to both software/hardware. As part of the refresh, the signature capture tablets can be replaced with a larger tablet that will better enable applicants to provide voter registration-specific responses. Upon completion of the driver license signature and photo, the information will be processed and sent electronically to the SOS.

Additionally, this proposal will modify DMV/s online driver license renewal process by using an SOS-provided application that will pre-populate DMV-related information to an online voter registration form. By enhancing the online driver license renewal process, applicants will be able to complete their driver license renewal and subsequently register to vote. The information that will be pre-populated will assist applicants in completing the voter registration process.

STAFF COMMENTS

This proposal will streamline the voter registration portion of the driver license application/renewal process. Staff has no concerns with this proposal.

Staff Recommendation: Approve as Budgeted.

8955 DEPARTMENT OF VETERANS AFFAIRS**ISSUE 17: GREATER LOS ANGELES AND VENTURA COUNTY VETERANS HOMES**

The May Revision includes a decrease in funds for FY 2015-16.

BACKGROUND

The Greater Los Angeles and Ventura County (GLAVC) Veterans Home of California (VHC) is composed of three more recently opened sites in West Los Angeles (WLA), Lancaster, and Ventura. The Lancaster and Ventura homes ramped up relatively quickly; however, there were many outstanding issues at the West Los Angeles facility. In the last few months, the Home reached residential capacity, and has confirmed dates for the CDPH licensing survey for the new Skilled Nursing Facility (SNF) wing.

Last year's budget provided an additional \$770,000 in Lease Revenue Bond funds to accelerate the WLA home kitchen by six months, which allowed the home to expand the Skilled Nursing bed capacity. On January 29, Department of General Services (DGS) conducted the official bid opening for the WLA Kitchen Facility. Of the 12 qualified bids, offers ranged from \$2,185,000 to \$3,730,000 with the center of the range about the state's construction estimate of \$3,194,000. On February 25, DGS awarded the contract to the winning bidder contingent upon meeting multiple requirements such as bond verification.

DGS finalized the kitchen contract with the selected contractor, AMG and Associates. The "Notice to Proceed" was executed on April 20 and a preconstruction meeting was held on April 21. Demolition work began on April 23 and the project remains on track for completion in October in accordance with the accelerated schedule. To ensure transparency, WLA recently hosted a town hall for staff, residents, and family members. Furthermore, WLA's Acting Administrator met with the Brentwood Community Council to provide construction information and impact on the community. CalVet continues to keep residents and staff informed of construction status and potential impact to their daily lives.

MAY REVISION PROPOSAL

The May Revision requests a one-time reduction of \$10,415,000 GF in BY 2015-16 to reflect:

- The continued delay in opening the skilled nursing facility at the West LA VHC.
- A one-year delay in opening the Community-Based Adult Services (formerly Adult Day Health Care) in VHC-Lancaster and VHC-Ventura.

STAFF COMMENTS

Staff has no concerns with this proposal but notes that this Subcommittee should continue to watch the progress on the West Los Angeles Veterans Home.

Staff Recommendation: Approve as Budgeted.

1110/1111 DEPARTMENT OF CONSUMER AFFAIRS**ISSUE 18: BREZE UPDATE**

The Department has a May Revision request as a Spring Finance Letter (SFL) to continue funding for the BreEZe project and to fund credit card processing fees on behalf of users of credit card payments through the BreEZe system.

BACKGROUND

After realizing that there were issues with the ability to automate the licensing process with the BreEZe system the Department submitted SPR 2, which increased the overall project cost to \$77.9 million (an increase of \$50.4 million over the expected project costs). SPR 2 updated and realigned the project schedule due to project delays encountered during the deployment of Release.

SPR 3.1 was sent to the Joint Legislative Budget Committee in January of 2015 and requested further resources to increase the overall project costs to \$95.4 million (an increase of \$17.5 million). \$11.3 million of this cost can be attributed to contract costs and the remaining balance is for additional staff resources and an extended schedule. Within SPR 3.1 the Department recognizes the need for thorough planning efforts, organizational change management, and maintenance and operations support. This report was approved by the Legislature in March of 2015.

SPRING FINANCE LETTER

The Spring Finance Letter requests additional funding for the continued support of the BreEZe project. Aside from the resources included within the SPR 3.1 request, the SFL requests additional funding for the boards and one bureau in Releases 1 and 2 to fund the credit card processing fees for users who make credit card payments through the BreEZe system.

	BreEZe Project	Credit Card Convenience Fee	Total 2015/16 Augmentation
DCA Boards	\$17,209	\$2,503	\$19,712
DCA Bureaus	\$3,437	\$99	\$3,536
Total	\$20,646	\$2,602	\$23,248

(dollars in thousands)

MAY REVISION PROPOSAL

The May Revision requests an additional \$1,950,000 to cover the cost of the revised timeline in signing an amended implementation contract for the BreEZe information technology project. The additional cost is exclusively distributed amongst the Boards and Bureaus included in Releases 1 and 2 of the project. This additional funding is required to fund increased contract costs related to a two-month delivery schedule extension and the resulting need for contract re-negotiations with the project vendor.

STAFF COMMENTS

The Legislature has held many oversight hearings regarding the BreEZe project in both houses, in both the policy and budget committees. As part of the ongoing negotiations with the vendor, it became necessary to re-negotiate the contract, which resulted in a two-month delivery schedule extension and \$1.95 million in additional costs.

Staff Recommendation: Approve both the Spring Finance Letter and May Revision as budgeted.

ISSUE 19: BUREAU OF PRIVATE POSTSECONDARY EDUCATION

The May Revision includes a decrease in funds for FY 2015-16.

MAY REVISION PROPOSAL

The Bureau of Private Postsecondary Education (BPPE) requests a special fund augmentation of \$1,030,000 in 2015-16 and \$903,000 in 2016-17 and annually thereafter to fund 10.0 permanent positions.

The Bureau requests the conversion of 17.0 existing three-year limited-term (LT) positions (6.0 LT expiring June 30, 2016 and 11.0 LT expiring June 30, 2017) to permanent status, which requires \$628,000 in 2016-17 and \$1,845,000 in 2017-18.

The Bureau also requests provisional budget bill language (BBL) be added to provide \$1.0 million in 2015-16, \$1.5 million 2016-17, and \$1.0 million in 2017-18, contingent upon the Department of Finance's approval of the Bureau's plan to address the backlog of applications in the licensing unit and the backlog of complaints in the complaint unit.

This proposal will allow the Bureau to:

- Recruit, hire, and train its new permanent staff to meet ongoing workload needs
- Implement any process improvement recommended by the State Auditor and CPS HR Consulting (CPS) and assess the efficacy of newly implemented process improvements
- Use overtime and temporary help budget authority to reduce and eliminate unassigned license application backlog and enforcement cases

BACKGROUND

The Bureau for Private Postsecondary Education exists to promote and protect the interests of students and consumers through the effective and efficient oversight of California's private postsecondary educational institutions. In fulfilling these duties the Bureau also proactively combats unlicensed activities, and resolves student complaints. The State Auditor's office recently found that the Bureau was not meeting the mandates of the California Private Postsecondary Education Act of 2009, generally as a result of significant backlogs.

A 2013 audit by the California State Auditor concluded that BPPE has consistently failed to meet its responsibility to protect the public's interests. Among other findings, the auditor identified several specific concerns, including (1) a backlog of more than 1,100 license applications, (2) challenges proactively identifying and effectively sanctioning unlicensed institutions, (3) failure to respond to complaints against institutions in a timely fashion, and (4) a backlog of more than 470 claims by students to recover tuition from institutions that closed while they were enrolled.

Senate Bill (SB) 1247 (Chapter 840, Statutes of 2014) extends the sunset date for BPPE from January 1, 2015, until January 1, 2017. This bill was intended to amend existing mandates and add additional regulatory mandates in order to provide the Bureau with guidance and resources necessary to better serve students and consumers.

In March 2014, the California State Auditor released its audit report of the Bureau. The Auditor's report was critical of the Bureau's oversight of private postsecondary education institutions and noted significant backlogs of institution license applications and student complaints. Additionally, the audit found that the Bureau has not been adequately inspecting institutions or enforcing compliance. As a result of the Auditor's assessment and the legislative reporting requirements, the Bureau began implementing process improvements and contracted with a public human resources consulting firm, CPS HR Consulting, to perform a baseline workload staffing resources assessment and to examine the Bureau's current workflow processes.

LAO COMMENTS

This proposal would provide funding and additional positions over a three-year period in order to enable BPPE to meet its license and enforcement backlogs and address its ongoing workload. We find that the proposal appears reasonable. The proposed positions are generally consistent with the needs that were identified in the March 2015 CPS HR Consulting report.

The LAO notes, however, that a second report from CPS HR Consulting was scheduled for release in April 2015 and may be available in the coming days. This report is anticipated to evaluate BPPE's business processes and make additional staffing recommendations. Accordingly, the Legislature may want to request that BPPE report at May budget hearings on the expected timeline for the release of this report. Additionally, the Legislature may want to delay finalizing its decision on this staffing proposal, if feasible, until this report is available in case the information contained in the report would affect the staffing resources needed by the Bureau.

STAFF COMMENTS

This proposal seeks to establish an appropriate level of permanent staffing to allow the Bureau to meet any ongoing workload related to licensing, enforcement, and compliance. The Bureau's ongoing workload analyses of licensing, enforcement, and compliance closely matches CPS' staffing recommendations, including the recommendation to convert existing Limited-Term positions to permanent status.

This proposal further seeks to address the Bureau's existing backlogs by increasing overtime and temporary help expenditure authority. Because the number of backlogged applications and enforcement cases is finite and declining, the Bureau views these backlogs as temporary workload.

As the Bureau has had issues hiring the limited-term positions, this proposal includes

Staff Recommendation: Approve as Budgeted.
