AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, MAY 2, 2017
1:30 P.M. - STATE CAPITOL ROOM 447

VOTE-ONLY CALENDAR

ITEMS TO BE HEARD

VOTE-ONLY CALENDAR

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

VOTE-ONLY ISSUE 1: VETERANS HOUSING AND HOMELESSNESS PREVENTION PROGRAM WORKLOAD ADJUSTMENT

The Department of Housing and Community Development requests a baseline budget increase of $903,000 (Housing for Veterans Funds) and six positions for the Veterans Housing and Homeless Prevention Program to make awards based on demand for the program, continue with loan closing workload tasks, and conduct required evaluations of program outcomes.

STAFF COMMENT

The Subcommittee initially heard the item on February 28, 2017. There is no General Fund impact. The resources requested by the Department are reasonable to continue to administer the program as it grows.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 2: NATIONAL HOUSING TRUST FUND WORKLOAD ADJUSTMENT

The 2017-18 budget proposes three positions and budget authority in the Federal Trust Fund ($423,000 State Operations and $10 million Local Assistance) to administer the National Housing Trust Fund (NHTF) Program for this year and ongoing. Additionally, this proposal includes trailer bill language to clarify that HCD is authorized to expend up to 10 percent of the federal award on administrative costs.

BACKGROUND

Trailer Bill Language: Amends subsection (b) of Section 50676 of the Health and Safety Code as shown below:

> *(b) The department shall administer the funds through any existing or newly created programs that produce, preserve, rehabilitate, or support the operation of rental housing for extremely low income and very low income households, except that up to 10 percent of funding may be used to support home ownership for extremely low income and very low income households. Any rental project funded from the federal Housing Trust Fund shall restrict affordability for 55 years through a recorded and enforceable affordability covenant. Any home ownership program funded from the federal Housing Trust Fund shall restrict affordability for 30 years through either a recorded and enforceable affordability covenant or a recorded and enforceable equity recapture agreement. The department may use up to 10 percent of the federal Housing Trust Fund annual grant award for ~~**reasonable**~~ administrative expenses.*

STAFF COMMENT

The Subcommittee heard this item on February 28, 2017. There was discussion about these temporary or ongoing positions since there is some uncertainty at the federal level. However, if the federal funding goes away, the department will have to submit a BCP to remove the positions. There is no General Fund impact.

Staff Recommendation: Approve as budgeted and adopt TBL as modified under background.

VOTE-ONLY ISSUE 3: CALIFORNIA EMERGENCY SOLUTIONS GRANT PROGRAM WORKLOAD ADJUSTMENT

The Governor's budget proposes that the remaining fund balances in the Emergency Housing and Assistance Fund along with five positions be used to administer the California Emergency Solutions Grant (CA ESG) Program for a total of $2,785,000 (local assistance and state operations programmed in 2017-18 and 2018-19). These funds will be combined with the $35 million General Fund appropriation from the 2016 Budget Act for CA ESG.

STAFF COMMENT

The Subcommittee initially heard the item on February 28, 2017. This proposal would transfer the remaining balances of the Emergency Housing Assistance Fund into the newly created CA ESG program. Transferring the funds from an outdated program to the newly created ESG program will allow California to align its goals with the federal ESG program and complement the proposed work included in the No Place Like Home Program.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 4: LEGISLATIVE PROPOSALS

The budget includes two BCPs to implement legislation passed in 2016 including $360,000 from the Mobile Home Manufactured Home Revolving Fund for four positions to implement AB 587, and an augmentation from the Building Standards Administration Special Revolving Fund for one position for two years to implement SB 7.

BACKGROUND

This BCP will implement two bill from 2016:

- AB 587 (Chau, Chapter 296, Statutes of 2016) Mobile Home Registration. AB 587 creates a tax amnesty program for owners of unregistered mobile homes.

- SB 7 (Wolk, Chapter 623, Statutes of 2016) Regulations for Water Submetering. SB 7 requires HCD to research, develop and propose for the California Building Standards Commission standards for water submetering for individuals units in newly-constructed multi-unit residential and mixed-use residential and commercial buildings.

STAFF COMMENTS

The Subcommittee initially heard the item on February 28, 2017. There is no General Fund impact. The resources requested by the department are necessary to implement legislative proposals enacted in 2016. The appropriation bill analysis states that HCD administrative costs would be $244,000 over two years versus $302,000 included in this BCP. The difference in costs can be attributed to an adjustment in administrative costs.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 5: OTHER HOUSING PROPOSALS

The following two items summarize budget proposals related to HCD Headquarters and the reappropriations of Proposition 1C Funds.

BACKGROUND

- HCD Headquarters Lease Amendment. The Governor's budget includes $517,000 (various funds but no General Fund) ongoing budget augmentation to lease additional office space at its current headquarters location.

- Proposition 1C Reappropriations. The Governor's budget includes a reappropriation of $22.2 million for Infill Infrastructure Grant (IIG) Program, a reappropriation of $10 million in local assistance funding for Veterans Housing and Homeless Prevention (VHHP) Program, and a liquidation period extension for Housing Related Parks Program (HRPP). This proposal includes Budget Bill Language.

STAFF COMMENTS

The Subcommittee heard the item on February 28, 2017. There is no General Fund impact. Staff has no concerns with the two proposals discussed in the above section. The resources needed for the additional space is justified. Additionally, the proposed reappropriation of funds is consistent with actions taken by the Subcommittee in prior years.

Staff Recommendation: Approve as budgeted.

0850 STATE LOTTERY COMMISSION

VOTE-ONLY ISSUE 6: LOTTERY REPORTING TRAILER BILL LANGUAGE

The Governor's budget proposes trailer bill language to remove the Lottery Commission from the Budget Act and to codify the reporting requirements in statute.

BACKGROUND

In 1984, Proposition 37 amended the California Constitution to authorize the establishment of a statewide lottery. As an initiative statute, the California State Lottery Act (Act) of 1984 created the California State Lottery Commission and gave it broad powers to oversee the operations of a statewide lottery. The purpose of the Act was to provide supplemental monies to benefit public education.

The Lottery is supported solely by the sale of Lottery products and does not receive any financial support from the state and the state is not liable for any obligations of the State Lottery Fund. Prior to AB 142, the Lottery was required to return a fixed 50 percent of total annual revenues to the public in the form of prizes and to return 34 percent of total revenues to the benefit of public education, with no more than 16 percent of total revenues to be used for administrative costs. In 2010, AB 142 provided flexibility for the Lottery to pay out more money in prizes. It required the Lottery to return at least 87 percent of total revenues to the public in the form of prizes and net revenues to benefit public education and limited administrative costs to 13 percent of total revenues.

In the 31 years since sales began in October 1985 through June 30, 2016, the California State Lottery has raised nearly $31 billion for public education, including $1.59 billion in FY 2015-16. Because of the inherently variable nature of lottery ticket sales, revenue estimates for 2016-17 and 2017-18 cannot be made with certainty.

The Lottery is a non-appropriated item in the Budget Act. A special display showing the Lottery's statement of operations has appeared in each Governor's budget since 1986-87. The Lottery submits its annual operating budget to the Commission for approval each June, this budget process is outside of the legislative budget process.

STAFF COMMENTS

This item was heard on the March 28, 2017, hearing. Staff has no concerns with this proposal at this time. The current process for the Lottery Commission budget is already outside of the normal budget process, therefore this trailer bill language would not make any substantive changes.

Staff Recommendation: Adopt placeholder trailer bill language.

0511 GOVERNMENT OPERATIONS AGENCY

VOTE-ONLY ISSUE 7: DATA-DRIVEN MANAGEMENT INITIATIVE

The Governor's budget includes $160,000 reimbursement authority in 2017-18 and 2018-19, and one position to develop and implement a Data-Driven Management Initiative (DDMI).

BACKGROUND

GovOps started with a "Lean" process re-engineering training program in late 2014 and ordered its first training in February 2015 to help departments identify, analyze, and modernize outdated business processes. "Lean" is a method of identifying process improvements to streamline operations for better results. GovOps partnered with CalHR Statewide Training to implement a California-specific curriculum for Lean orientation, and trained staff in departments who could train others. As of July 1, 2016, more than 600 state employees have received some form of Lean training through GovOps' effort. To date, 18 departments and agencies have participated in almost 60 Lean-Six Sigma efficiency projects.

Departments often focus on processes that emphasize compliance, rather than processes that emphasize outcomes. This leads to inefficiency, less results, and higher than necessary operating costs. GovOps proposes establishing a DDMI to develop a framework for improving department-level results that integrates the training tools it already offers and shares best practices used by other states and public agencies.

GovOps seeks to establish one Director (CEA A) position to research and establish the mission and organizational structure to implement a state-wide data-driven and performance management framework for measuring, reporting, and monitoring organizational results. The Director will also be responsible for developing a state-wide Lean program in partnership with CalHR and incorporate risk management reporting into the performance management framework.

STAFF COMMENTS

This item was first heard on March 7, 2017. The resources included are for a two-year limited-term. Staff has no concerns. There is no General Fund impact.

Staff Recommendation: Approve as budgeted.

7501 CALIFORNIA DEPARTMENT OF HUMAN SERVICES

VOTE-ONLY ISSUE 8: JUDGES SALARIES TRAILER BILL LANGUAGE

The Governor's budget proposes trailer bill language to clarify the statutory methodology used to calculate annual salary adjustment for state judges and justices, which is based on the average salary growth of civil service state employees.

BACKGROUND

The following background was provided by DOF. Currently, CalHR captures the scheduled salary increases to be provided to state employees during the next fiscal year, and applies those raises to judges on July 1 of the same fiscal year.

This trailer bill changes the methodology in cases where the state reaches a labor agreement after July 1 that includes salary increases during that fiscal year. Specifically, the trailer bill requires that salary increases made after July 1 that have been provided retroactively to state workers on July 1 will be included in the judges' calculation during that same fiscal period to ensure they receive the same level of salary increase.

As a result of this new methodology, judges will receive a one-time retroactive payment equivalent to a 0.16 percent salary increase. Item 9800 includes $1 million General Fund to cover the cost of this retroactive payment.

On July 1, 2016, only four bargaining units had ratified agreements (BUs 5, 6, 9, and 10) with scheduled salary increases that are effective July 1, 2016. These were used to calculate the judicial salary increase of 1.36 percent for 2016-17. The next judicial salary calculation will be made on July 1, 2017, and will include any general salary increases (GSIs) for employees in the remaining bargaining units that are ratified and become effective during the 2016–2017 fiscal year.

Under the current methodology, if there are bargaining units that reach a ratified agreement after July 1, 2016, on or before July 1, 2017, 2016-17 salary increases will be included in the calculation for the judicial salary increase effective July 1, 2017, not retroactively. While most new contracts include GSIs that are effective midway through 2016-17 or July 1, 2017, recently negotiated contracts with BUs 7 and 18 included GSIs retroactive to July 1, 2016. Absent this trailer bill language, these increases for BUs 7 and 18 would not be included as part of the judges calculation until July 1, 2017, nor would they be retroactive.

STAFF COMMENT

This item was heard on March 7, 2017. No concerns on this trailer bill language have been raised.

Staff Recommendation: Adopt placeholder trailer bill language.

VOTE-ONLY ISSUE 9: STATEWIDE TRAINING CENTER

The Governor's budget includes $2.820 million in reimbursement authority and three positions in 2017-18, and $2.793 million in 2018-19, and ongoing, to continue expanding the Statewide Training Center (STC) to accommodate increasing enrollment.

BACKGROUND

The STC re-opened in 2012 after being closed for six years. During that time, training functions became decentralized as departments built their own training programs and established vendor contracts for outsourcing employee development services. The decentralized model resulted in system-wide inefficiencies, redundancy and inconsistencies in how the state develops the competencies of California's civil service workforce.

The STC's mission is to provide California's civil service workforce with low cost, relevant and appropriate soft skills, leadership and human resource technical training. The new business model proposed by CSI will provide CalHR with greater leadership over statewide training curriculum in order to supply training.

The supervisory training program developed through Civil Service Improvement (CSI) team that partnered with a team from Google's HR Division, People Operations. The team worked with CalHR to develop learning objectives that led CalHR vendors to develop new, CalHR approved curriculum. CalHR is now extending this leadership training track to include a management module, with a module for employees in Career Executive Assignments to follow.

Under this proposal, the STC will develop training models and content to address state-wide needs as determined by CalHR statewide workforce planning data and training needs assessments. The STC will continue to partner with vendors to deliver requested training beyond CalHR's capacity, but the content will be owned by CalHR leadership and oversight.

STAFF COMMENT

This issue was heard on March 7, 2017. The BCP will provide CalHR with the resources that it needs to develop a centralized training model. Additionally, the model will bring cost savings to the state, as more agencies begin to utilize the training developed by CalHR.

Since the resources requested are ongoing, Staff recommends working with the LAO to develop some reporting requirements to provide additional legislative oversight.

Staff Recommendation: Approve as budgeted and adopt placeholder reporting requirements.

VOTE-ONLY ISSUE 10: BLANKET POSITION CONVERSION FOR CALCAREER SERVICES

This proposal requests the conversion of three positions from limited-term to permanent to address recruitment and retention issues within CalCareer Services unit.

BACKGROUND

The CalCareer Services unit is responsible for providing the public with assistance with walk-in career search inquiries in the Job Center and providing proctoring services and administrative support to the in Testing Center. Additionally, CalCareer Services is responsible for answering and responding to state-wide incoming calls and emails regarding general questions on civil service examinations.

The CalCareer Services unit has had recruitment and retention challenges. Many applicants accept permanent intermittent or limited-term employment within CalCareer Services as a means to gain initial state employment and experience, but continue to seek full-time employment. Since January 2014, 11 staff has left CalCareer Services for full-time employment. Turnover is costly due to the onboarding process, and the resources it takes to train and develop staff that ultimately leave for full-time employment elsewhere.

STAFF COMMENT

This item was heard on March 7, 2017. No concerns were raised with this proposal.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 11: EMPLOYEE OUTREACH

The 2017-18 budget requests $135,000 in reimbursement authority for 2017-18 and ongoing, to continue implementing a Statewide Employee Engagement Survey program that began in 2015.

BACKGROUND

To be an "employer of choice," the state must do what most best-in-class organizations in the public and private sector are already doing, which is adopt a data-driven and action-focused approach to employee engagement.

In 2015, the state hired a consultant to implement the first-ever state-wide employee engagement survey. This survey provided a broad perspective on the level of engagement in California's workforce. The state must build on this first engagement effort by greatly expanding on the survey's ability to deliver more agency and department specific results on a reoccurring basis. The state does not currently provide department with their own workforce employee engagement data, or the tools and guidance needed to improve engagement, departments either expend resources to create their own surveys or don't seek to improve performance through engagement.

The primary short-term outcome of the requested resources is to develop a consistent state-wide survey for measuring employee engagement, along with a repeatable process for administering the survey in all state organizations. The long-term expected outcome includes improvement of employees and organizational performance as a result of organizations having and acting on employee engagement.

STAFF COMMENT

This Subcommittee heard this item on March 7, 2017. No concerns were raised with this proposal.

Staff Recommendation: Approve as budgeted.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

VOTE-ONLY ISSUE 12: SUSTAINABLE FREIGHT PROJECT

The Governor's Office of Business and Economic Development (GO-Biz) is requesting funding for an exempt position and ongoing budget authority of $227,000 (Special Fund). This request provides resources to allow GO-Biz to meet the requirements of the Scoping Plan, and the Governor's Executive Order relating to the Sustainable Freight Action Plan.

BACKGROUND

This proposal will allow GO-Biz to manage and implement the portions of AB 32 (Chapter 488, Statutes of 2006), the Climate Change Scoping Plan, the first update to the Climate Change Scoping Plan, and the Sustainable Freight Action Plan. The first update discusses the Sustainable Freight Initiative, "a broad, multi-decade effort to develop, fund, and implement the changes necessary to achieve a sustainable freight system. In July 2015, the Governor signed an Executive Order mandating that GO-Biz, along with several other state agencies, develop the Sustainable Freight Action Plan by July 2016.

The Governor directed the California Transportation Agency, the California Environmental Protection Agency, the California Natural Resources Agency, the California Air Resources Board (ARB), the California Department of Transportation, the California Energy Commission, and GO-Biz to cooperate in the development and implementation of the Executive Order.

Between July 2015 and July 2016, the above agencies collaborated in drafting a Sustainable Freight Action Plan, stemming from the Sustainable Freight Initiative discussed in the first update. Since July 2015, GO-Biz re-directed an existing position to provide full-time staffing to assist in the development of the Sustainable Action Plan.

On July 29, 2016, the Governor approved the completed Sustainable Freight Action Plan. The role of GO-Biz in implementing this Executive Order and the newly approved Sustainable Freight Action Plan aligns with the tasks outlined in the-Scoping Plan and the First Update of the Scoping Plan relative to economic analyses of actions to the freight industry and individual cost analyses to businesses within the freight sector.

STAFF COMMENTS

This proposal was heard on March 14, 2017. The proposal supports the economic competiveness side of the equation related to ARB's freight plan. Staff has no concerns.

Staff Recommendation: Approve as budgeted.

7730 FRANCHISE TAX BOARD

VOTE-ONLY ISSUE 13: COURT ORDERED DEBT COLLECTION WORKLOAD

The 2017-18 budget proposes $1.1 million (special fund) and 11 positions to permanent and three-year limited-term funding to eliminate a backlog of accounts and address a growing number of clients for which FTB provides collection services for the Court Ordered Debt (COD) Program.

BACKGROUND

This FTB program was established as a pilot program in 1994. FTB-COD collects the following types of debt for clients who volunteer to participate in the program: court fines and fees, court-appointed counsel costs, vehicle code violations, civil assessments, probation, and victim restitution fines and orders. These clients include Superior Courts, Probation Courts, Probation Department and Revenue Recovery Agencies.

In 2004, the Governor signed SB 246 (Chapter 380, Statutes of 2004) to make the COD program permanent. The program client base has grown from 66 to 80 clients (21 percent growth) since 2010-11.The FTB-COD program bills its clients for the operating costs of the program not to exceed 15 percent of the amount collected or actual cost, whichever is less. There is no General Fund cost to administer the FTB-COD program.

In 2013-14, the FTB-COD leveraged the COD budget surplus to hire temporary help resources to address the growing demand in collection activities. These staff provide a short-term solution for a long-term problem. The temporary help staff on average stays within the FTB-COD program for about 12 months. The current attrition rate is approximately 75 percent. The FTB-COD training period is six weeks, however it takes staff about six months to become proficient, therefore staff is available a total of six months out of the 12 months they are in the program.

BCP Request.

- Collection Activities – Seven temporary help to permanent. These staff will manage the new level of ongoing work associated with the new data sources and tools implemented.
- Backlogs – Three-year limited term funding equivalent to 10 positions. These staff will be responsible to assist in the elimination of the backlog.

STAFF COMMENTS

The Subcommittee heard this item on March 14, 2017. The resources included in this item will provide FTB with the resources to sustain the current level of demand for collections services and eliminate the backlog.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 14: CALIFORNIA COMPETES TAX CREDIT REVIEWS

The Governor's budget provides $1.7 million (General Fund) in 2017-18 and 2019-20 for three year limited term funding authority and 14 positions to continue conducting statutorily-mandated reviews of the California Competes Tax Credit agreements.

BACKGROUND

AB 93 (Chapter 69, Statutes of 2013) eliminated state economic development programs known as Enterprise Zones and replaced them with several new economic development programs. One such program—the California Competes tax credit—provides tax credits to select businesses on a case-by-case basis. California Competes allows companies to request a credit against the corporation tax (CT) or the personal income tax (PIT) in exchange for meeting specific hiring and investment goals over a five-year period.

FTB is one of California's tax agencies, administering the PIT and the CT. FTB is generally required to review the records of businesses allocated a California Competes tax credit. (FTB is not required to audit small business recipients, defined as having annual revenues under $2 million, though they may do so at their discretion.) At the end of each year, businesses are first required to report to GO-Biz whether they achieved their hiring and investment targets for the year, meaning they will be able to claim the tax credit. GO-Biz collates this information and provides it to FTB monthly. FTB verifies that the businesses have complied with the terms and conditions of their agreements after they have claimed the tax credit. To date, businesses have only been able to claim credits against their taxes for the 2014 and 2015 taxable years. FTB has not identified any cases in which a business was in a “material breach” of their agreement, meaning they claimed a tax credit without first meeting their hiring and investment targets. In the future, should FTB determine a business is potentially in material breach of their tax credit agreement, they will notify GO-Biz. GO-Biz then determines whether to recapture the tax credit.

STAFF COMMENTS

The Subcommittee heard this item on March 14, 2017. The request for limited-term funding is reasonable. Staff has no concerns with the resources for the ongoing need.

Staff Recommendation: Approve as budgeted.

1701 DEPARTMENT OF BUSINESS OVERSIGHT

VOTE-ONLY ISSUE 15: BROKER-DEALER / INVESTMENT ADVISER PROGRAM

The Department of Business Oversight requests $1.7 million and 11 permanent positions for 2017-18, and $3.0 million and 20 permanent positions ongoing, beginning 2018-19, to enable the Department's Broker- Dealer/ lnvestment Adviser Program (BDIA). This program examines Investment Advisers, Broker-Dealers, and Broker-Dealer branches on a four-year cycle. The positions will be paid through the State Corporations Special Fund.

BACKGROUND

The BDIA Program's primary functions are to license and regulate broker-dealers (BD), broker-dealer agents, investment advisers (lA), and investment adviser representatives, pursuant to the Corporate Securities Law of 1968. Regulatory oversight ensures the investing public is protected from unethical and fraudulent activities and California's financial market is secure, fair, and transparent. Regulatory oversight is achieved by performing detailed licensing reviews and regulatory examinations of the licensee population.

In enacting SB 538 (Hill) (Chapter 335, Statutes of 2013), the Legislature found that the Department lacked adequate resources for a comprehensive regulatory program. The program had a 28-year examination cycle for a routine regulatory examination. A four-year cycle is used in approximately 60 percent of all states and by the Financial Industry Regulatory Authority (FINRA). The Legislature resolved California should follow FINRA's guidance to examine BDIA licensees once every four years. As a result, SB 538 authorized new fees to be raised with the intention that the Department use the revenue to perform regular, periodic examinations of broker-dealer agency and investment adviser representatives at least once every four years. Routine, periodic examinations will protect investors, and will discover and discourage illegal and fraudulent activity.

In response to the Global financial crisis in 2007-09, the 2010 Financial Regulatory Reform Act, commonly referred to as "Dodd-Frank" was enacted. Dodd-Frank was passed to promote financial stability in the United States by improving accountability and transparency in the financial system, to protect taxpayers by ending bailouts, and to protect consumers from improper financial service practices. Prior to the passage of Dodd-Frank, the Department was responsible for regulatory oversight of investment advisory firms with less than $25 million in assets under management. The passage of Dodd-Frank expanded the Department's responsibility to include regulatory oversight over investment advisory firms with assets under management up to $100 million.

As a result of both SB 538 and Dodd-Frank, DBO submitted a 2014-15 BCP to increase examination staff to enable more frequent examinations required by law. The Legislature approved an increase of 36 positions over two years (2014-15 and 2015-16). The Department, the Administration, and the Legislature were aware that while the 36 positions would increase the number of examinations that could be performed, the level of resources would not be adequate to meet the four-year examination cycle and it was understood the Department would submit a BCP for additional staff in future years as workload data could be substantiated. DBO has provided information that demonstrates the need for 256 more examiners to achieve the four-year examination cycle. In the short-term, it is not feasible for the Department to implement a five-fold increase in examination staff. This request is to continue the growth at a more modest and manageable rate of 16 percent per year. The positions requested will support increased examinations, increase protection to investors, and discourage illegal and fraudulent activity.

STAFF COMMENTS

The Subcommittee heard this item on March 14, 2017. There is some concern about future resources and program need. Staff recommends approval of the item, but to work with the LAO on providing reporting language through the expansion of the annual report. Reporting language could explore other options for oversight beyond the four-year cycle.

Staff Recommendation: Approve as budgeted and adopt placeholder reporting language.

0971 CALIFORNIA ALTERNATIVE ENERGY & ADVANCED TRANSPORTATION FINANCING AUTHORITY

VOTE-ONLY ISSUE 16: CAEATFA ADMINISTRATION OF CA HUB FOR ENERGY EFFICIENCY FINANCING PILOT PROGRAMS

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) has requested an adjustment to its spending authority and a budget augmentation for additional staff, pursuant to its administration of California Hub for Energy Efficiency Financing (CHEEF) pilot programs. The program is funded by ratepayer funds (non-General Fund) and includes reimbursement and expenditure authority in the amount of $3.7 million in 2017-18, $3.5 million in 2018-19 and $3.0 million in 2019-20.

The funding would extend authority for nine existing positions through 2019-20; an additional three staff positions; and, an upgrade of two existing positions. The request re-appropriates $1.8 million from previous years and includes $8.4 million in additional ratepayer funds pending formal approval by California Public Utilities Commission (PUC).

BACKGROUND

The CHEEF pilot programs are designed to encourage private lenders to develop financial products for energy efficiency projects. The pilots offer various forms of credit enhancements to provide additional security to participating financial institutions, attract private capital to energy efficiency finance, and expand consumer access to enhanced loan terms. CAEATFA was selected as the administrator of the CHEEF pilot programs, which were approved for a two-year period by the Legislature and the PUC. The pilots were originally to be implemented through 2016-17; however, the PUC approved a decision which clarified that the 24-month term for the pilot programs should align with the enrollment of the first loan in that particular finance pilot. This change, in combination with a longer than anticipated implementation schedule, unanticipated complexity, infrastructure development, stakeholder involvement, and staffing changes, requires extending the schedule for the pilots. Consistent with the budget request, the pilots will run through 2019-20.

STAFF COMMENTS

The Subcommittee heard this item on March 14, 2017. The approval of these funds is consistent with previous actions by the Legislature. The resources requested including the increase of staff and the upgrade of positions is essential to the project's success.

Staff Recommendation: Approve as budgeted.

0956 CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

VOTE-ONLY ISSUE 17: PERSONAL SERVICES AUGMENTATION

The California Debt and Investment Advisory Commission (CDIAC) has requested an increase of $200,000 (special funds) in its expenditure authority for personal services (wages, salaries and benefits) to offset the growth of personal services expenditures that has occurred at the expense of other mandated activities.

BACKGROUND

CDIAC provides information, education and technical assistance regarding debt issuance and public funds investing to state and local public agencies and other public finance professionals. CDIAC was created to serving as the state's clearinghouse for public debt issuance information and assisting state and local agencies with the issuance, monitoring, and management of public financings. The scope of CDIAC was later expanded to include assistance activities related to public investing.

According to CDIAC, as a percentage of total budget authority, its expenditures for personal services will have grown from less than 50 percent in FY 12/13 to over 63 percent in FY 17/18 (projected). The growth in personal services costs translates to a very small percentage (less than 6 percent) of authority remaining for operating expenses for which CDIAC management has a degree of discretion. The request for an on-going augmentation of CDIAC's budget authority by $200,000 will reduce the percentage of total authority expended for personal services to slightly less than 60 percent. While still a high percentage of total authority, the increase will allow CDIAC to pursue a variety of high priority projects consistent with its statutory mandate.

After adjusting for reimbursements in CDIAC's authority, a very small percentage of CDIAC's total budget authority can be expended with any degree of managerial discretion. Nearly 93 percent of the adjusted authority in 16-17 is allocated for personnel or non-discretionary operational expenses. These non-discretionary expenses include rent and facilities operations, basic communications, STO administrative services, C&P internal, prorata, and expenses related to the Treasurer's transparency initiative (DebtWatch). Even the elements of CDIAC's budget operational budget categorized as discretionary are made up of necessary items of expense including supplies, postage, travel, training, and office equipment replacement.

STAFF COMMENTS

The Subcommittee heard this item on March 14, 2017. CDIAC notes that other costs are contributing to the declines in CDIAC's savings including increased rent and a very low rate of attrition for staff. Additionally, CDIAC has not asked for an increase in expenditure authority in over 20 years.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 18: IMPLEMENTATION OF SB 1029 (HERTZBERG)

The budget includes a request from the California Debt and Investment Advisory Commission (CDIAC) of $139,000 (special funds) and one position to administer the reporting and data maintenance requirements put in place by SB 1029 (Hertzberg), Chapter 307, Statutes of 2016.

BACKGROUND

SB 1029 requires CDIAC to track and report on all outstanding state and local debt. California debt issuers are required to submit annual reports to CDIAC that will provide, among other things, the amount of previously reported debt outstanding and how the debt proceeds were spent during the reporting period. The requirements continue until the debt is fully repaid or redeemed.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

0968 CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

VOTE-ONLY ISSUE 19: COMPLIANCE SECTION SUPPORT STAFF AUGMENTATION

The budget proposes $107,000 (special funds) for one permanent position for the California Tax Credit Allocation Committee (TCAC) for support of compliance-related workload. The workload is associated with monitoring low-income housing tax credit projects to ensure compliance with state and federal law.

BACKGROUND

TCAC administers both federal and state low-income housing tax credit programs. Both programs encourage private investment in rental housing development for low and very low-income families and individuals. The program helps private developers/owners create and preserve affordable housing and raises project equity through the sale of tax benefits to investors who hold an ownership interest in the property. To assure federal compliance and properly maintained properties, TCAC must perform federally-mandated compliance monitoring functions. Regulations require that the states conduct physical inspections of each property every three years and also impose a more rigorous physical inspection standard than formerly in place. Property inspections must include a physical inspection of all building exteriors and common spaces, and physical inspections of at least 20 percent of the units in each of the properties. Last year, TCAC received additional resources and positions for monitoring and compliance activities; this position will help provide administrative support for those positions.

STAFF COMMENTS

Staff has no concerns with this issue.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 1: COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM WORKLOAD ADJUSTMENT

This budget proposal was heard on February 28, 2017. However the trailer bill language was still in draft format. HCD will discuss the trailer bill language.

BACKGROUND

CDBG has proposed trailer bill language to streamline the program to address some of these issues. Specifically, HCD proposes to provide more flexibility to allow for the efficient redesign and streamlining of the program, given new lower funding levels. This includes reducing the set-aside for economic development projects (which are often undersubscribed), speeding the redistribution of unused funds, and clarifying the uses of program income (income generated and returned to local governments after initial project award), as well as reducing the number of activities eligible for funding.

STAFF COMMENT

During the February 28, 2017, hearing, the subcommittee asked about how HCD planned to redesign the CDBG program and how it incorporated changes made by AB 723 (Chiu, 2016); the subcommittee may wish to ask HCD the same question.

Staff Recommendation: Hold Open

ISSUE 2: BOND PROGRAM APPROPRIATIONS

In a Spring Finance Letter, the budget requests appropriations of $28.6 million for the Infill Infrastructure Grant (IIG) program and $1.5 million for the Housing Related Parks Program for the final anticipated round of program awards.

BACKGROUND

California voters approved the Housing Emergency Shelter Trust Fund Act of 2006 (Proposition 1C), authorizing $850 million for the IIG program and $200 million for the HRPP program. The IIG program provides grants to fund infrastructure improvements that facilitate new housing development in residential or mixed-use infill projects.

In 2012, the Legislature authorized HCD to reappropriate IIG program funds, including any funds returned to HCD from disencumbrances of projects during the 2012-13 and 2013-14 fiscal years. The 2016 Budget Act appropriated $22.2 million in previously disencumbered funds in the IIG to allow HCD to make new IIG awards. HCD anticipates that it will not be able to award all the IIG funds in the current fiscal year. With $22.2 million available, HCD normally seeks to issue a NOFA concurrent with another complementary loan and grant program.

Originally, HCD set aside funding for long-term monitoring of IIG projects, as is standard for housing programs. The unobligated IIG monitoring reserve is $22.2 million (not to be confused with the $22.2 million requested to be reappropriated in the 2017-18 Governor's Budget). However, because the IIG program funds infrastructure projects that facilitate housing development, rather than housing projects themselves, the program does not required typical HCD monitoring workload. In addition, recent disemcumbrances of $6.4 billion are also proposed to be appropriated for new awards, which are included in this proposal of $28.6 million.

HRRP. To date, HCD has awarded approximately $165 million in HRPP funds through the NOFA process. The remaining $35 million is expected to be awarded in a final NOFA this year. A balance of $1.5 million remains for the program, comprised of disencumbered funds, leftover administrative set-aside, and unobligated fund balance.

STAFF COMMENT

The subcommittee may wish to ask HCD how more projects they anticipate to fund with the reappropriations.

The requested reappropriations are consistent with actions taken by previous subcommittees.

Staff Recommendation: Approve as budgeted.

1701 DEPARTMENT OF BUSINESS OVERSIGHT

ISSUE 3: PROGRAM CONSOLIDATION

The budget calls for consolidation of several programs within the Department of Business Oversight (DBO). The proposal would combine the supervision of California Business and Industrial Development Corporations (BIDCO), Industrial Banks, and Savings and Loan programs, and put them all under the licensing and supervision of Banks and Trust Companies program. No additional funding is requested.

BACKGROUND

The mission of the DBO is to regulate state-licensed financial institutions, products and professionals in order to provide accessibility to a fair and secure financial services marketplace. The department enforces the state's financial services laws and provides resources to Californians to make informed financial decisions. DBO's examinations focus on reviewing capital, assets, management, earnings, liquidity, market sensitivity and operations of licensees in each area. The examinations also include a review of the licensee's compliance with state and federal laws and regulations. Examinations are the essential foundation of the Banking Program's oversight and supervision of licensees, and are intended to promote safe and sound licensees.

Although there are four programs regulating financial entities, all examinations, licensing, and regulatory oversight are performed by the Banking Program examiners, under the direction of the Deputy Commissioner of Banking.

STAFF COMMENT

This request is to consolidate the budgetary display of the BIDCO, Industrial Banks, and Savings and Loan programs under the Banking Program. Approval of this request will not change DBO's responsibilities, programs, reporting requirements, budgeted appropriation amounts or fund source, but will ensure the department has the flexibility in expenditure authority to continue support of each program. Specifically, this change will ensure that the department's budget display supports its responsibility to expend staff resources to interchangeably administer and manage the four programs' licensing, examination and regulatory oversight functions. Consolidating the BIDCO, Savings and Loans,

Staff Recommendation: Hold Open.

ISSUE 4: STUDENT LOAN SERVICING ACT – AB 2551 (GALLAGHER)

The DBO requests $1.2 million (special funds) and three permanent positions in 2017-18, and $819,000 (special funds) and five permanent positions in 2018-19 and ongoing to develop and start-up the Student Loan Servicing Office required by Assembly Bill AB 2251, This request will be funded by the Financial Institutions Fund, and beginning 2018-19, costs will be funded by fees and assessments on licensees. The positions include in 2017-18 one attorney, one financial institutions manager and one senior programmer analysts. Two senior financial institutions examiners would be added in 2018-19.

BACKGROUND

AB 2251 (Stone), Chapter 824, Statutes of 2016 added the "Student Loan Servicing Act," to the California Financial Code, which requires the department to create a new Student Loan Servicing Office to license and regulate student loan servicers and to enforce any violation of the Student Loan Servicing Act. The department is also required to examine the affairs of each licensee at least once every 36 months for compliance with the Student Loan Servicing Act, and if deemed necessary, conduct such examinations frequently. Under the legislation, the new Student Loan Servicing Office (SLSO) will become operative on July 1, 2018, but actions may be taken on and after January 1, 2017, to prepare for the July 1, 2018 operative date.

The measure is intended to provide state standards to ensure consistent, fair, quality student loan servicing, and expands the duties and authority to include licensure, regulation, supervision and enforcement of student loan servicers. AB 2251 authorizes SLSO to enforce the law through administrative orders, suspension or revocation of licenses and civil money penalties, and requires servicers to adhere to specified borrower protections when servicing student loans. The bill prohibits a person from acting as a student loan servicer without a license, unless exempt student loan servicers are commonly different than the original lender or loan holder. Lenders contract with servicing companies to manage student loans. Servicers manage borrowers' accounts, process monthly payments, and communicate directly with borrowers. Borrowers must contact student loan servicers to enroll in alternative repayment plans, obtain deferments or forbearances, or process loan forgiveness benefits for which the borrower has qualified. A borrower typically has no control over which company services his or her loan. Servicers must comply with applicable consumer financial laws and US Department of Education contractual requirements.

STAFF COMMENT

There was discussion about ongoing or limited term funding for this item in the Senate. Can DBO speak to some of the concerns that the Senate had with ongoing funding?

Staff Recommendation: Hold Open.