AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, MAY 9, 2017

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

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ITEMS FOR VOTE-ONLY

8955 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS

VOTE-ONLY ISSUE 1: YOUNTVILLE: STEAM DISTRIBUTION SYSTEM RENOVATION

The Spring Finance letter requests for the Yountville Home: Steam Distribution System Renovation working drawings and construction phase $14.2 million ($6.2 million lease revenue bonds and $7.9 million federal funds) and reversion of $6.9 million ($2.8 million lease revenue bonds and $4.1 million federal funds).

BACKGROUND

These funds will renovate the failing Steam Distribution System at the Yountville Home. Steam provides heating and domestic hot water to all 120 buildings that serve the persons residing at the home. This project was originally appropriated in 2011, but had difficulty proceeding due to contracting issues and design delays related to the complexity of the project. The proposed increase in project costs will allow the project to proceed to the construction phase in October 2019. Project completion is anticipated by September 2020.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 2: YOUNTVILLE: CHILLED WATER DISTRIBUTION

The Spring Finance letter requests for the Yountville Home: Chilled Water Distribution construction phase $11 million ($4.4 million lease revenue bonds and $6.6 million federal funds) and reversion of $5.4 million ($1.7 million lease revenue bonds and $3.7 million federal funds.

BACKGROUND

These funds will renovate the failing Chilled Water Distribution System at the Yountville Home. This project was originally appropriated in 2011, but had difficulty proceeding due to contracting issues and design delays related to the complexity of the project. The request incorporates updated cost increases.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 3: YOUNTVILLE: CENTRAL POWER PLANT RENOVATION

The Spring Finance letter requests for the Yountville Home: Central Power Plant Renovation working drawings and construction phase $14.9 million ($5.5 million Veteran's Home Bond Funds and $9.4 million federal funds).

BACKGROUND

These funds will renovate the 85-year old Central Power Plant that has exceeded its useful life and is experiencing an increasing failure rate in addition to increased maintenance costs. The project was first approved in 2010. The request incorporates recent updated costs increases.

Staff Recommendation: Approve as Budgeted

1701 DEPARTMENT OF BUSINESS OVERSIGHT

VOTE-ONLY ISSUE 4: 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 item was heard at the May 2, 2017, meeting. There are no concerns with this item.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 5: STUDENT LOAN SERVICING ACT – AB 2251 (STONE)

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

This item was heard at the May 2, 2017, meeting. There are no concerns with this item.

Staff Recommendation: Approve as Budgeted.

7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

VOTE-ONLY ISSUE 6: SUPPLEMENTAL REPORTING LANGUAGE

Supplemental Reporting requirement on Headquarters Phase II Project.

BACKGROUND

At the March 7, 2017, hearing, CalSTRS discussed the Headquarter Phase II Project. In that discussion, CalSTRS indicated that it anticipates that the design phase will take 12 to 18 months to complete. At its completion, the board will reassess the project's viability and other leasing alternatives to determine the best long-term approach. If construction is approved by the board, the board will approve the expenditure from the building fund, and submit a Budget Change Proposal describing the board's decision.

STAFF COMMENT

The process described by the board does not provide for Legislative oversight or input. Staff recommends working with the LAO on supplemental reporting language that would require CalSTRS to provide additional information to the Legislature prior to a final board action whether that action approves or disapproves moving forward with a second building.

Staff Recommendation: Adopt Supplemental Reporting Language.

VOTE-ONLY ISSUE 7: RISK, COMPLIANCE, AND SECURITY ENHANCEMENT

The Governor's budget includes $1.39 million to establish 11 positions to address an increasing need in enterprise wide risk management, security, and compliance.

BACKGROUND

Enterprise Risk. The Enterprise Risk area within the Financial Services Branch (FSB) currently performs the enterprise risk management (ERM) reporting process. FSB recently contracted with Deloitte Consulting to assist in enhancing the ERM function at CalSTRS by creating a more efficient and effective risk-reporting framework. While the project is not complete, the initial results have indicated that the ERM function will need three dedicated staff to support the framework. Currently, FSB performs this function with one full time equivalent provided by two staff members. Additionally, Enterprise Risk includes facility management to cover employee safety. Staff in this area only has increased by one person since moving to their new headquarters, which is larger than their former location.

Enterprise Compliance. In the June 2016 Teachers' Retirement Board meeting, the Board was presented the results of a compliance assessment and a recommendation for establishing an enterprise-wide compliance program. Recommendations included designating a Chief Compliance Officer and establishing position for a Compliance Director.

Cybersecurity and Information Management. The increased frequency and sophistication of cyber-attacks requires constant vigilance and forward thinking. CalSTRS provides retirement, disability and survivor benefits for more than 862,000 educators and their families. A major data breach at CalSTRS could cost an estimated $190 million and could impact the delivery of member benefits.

STAFF COMMENTS

This item was heard at the March 7, 2017, meeting. Staff notes that this proposal increases the staffing levels by almost half for every program identified.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 8: INVESTMENT PORTFOLIO COMPLEXITY

The Governor's budget includes $3.23 million for 16 positions to reduce risk and increase efficiencies in the management of the investment portfolio. Thirteen of these positions will address critical investments branch resource needs, as a result of increased size and complexity of the portfolio. Two positions will support Financial Services to provide investment accounting, operating cash management, program allocation, and financial reporting for the portfolio. The last position will provide software support to both Financial Services and Investment Branch users of CalSTRS' enterprise resource planning software.

BACKGROUND

The Investment Branch's workload is driven and authorized by the Investment Committee. The Investment Committee is composed of the full Teachers' Retirement Board and adopts strategic asset allocation targets that are implemented over the long term. The Branch is organized into asset classes and sub-units of those classes. These classes are currently working at full capacity, and will be facing challenges caused by bringing more of the fund under internal management. This move is designed to benefit the fund as a result of the reduced costs and increased control that it can provide. The requested positions are proposed to be allocated to the various classes and units.

As of July 1, 2016, CalSTRS has 155 full-time permanent investment positions. The additional staff will allow each unit within the Investment Branch to address the following objectives:

- Implementation of the Risk Mitigation Strategy
- Implementation of Asset Allocation
- Increasing Transparency

The CalSTRS Investment Branch 10 Year Comprehensive Financial Plan forecasts that the portfolio's total assets will grow by $49 billion from fiscal year 2016-17 to 2017-18 with external management costs increasing by $25.4 million. CalSTRS states that for each staff added to support the internal management of portfolios, CalSTRS saves about $1.2 million in external management fees per year.

STAFF COMMENTS

This item was heard at the March 7, 2017, meeting.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 9: MEMBER SERVICE CENTER RESOURCES

The Governor's budget includes 13 positions and $1.296 million to support member benefit education efforts, communication regarding supplemental retirement savings, and other member and employer outreach activities requested by the Teachers' Retirement Board (TRB). The positions will address staffing needs in the Glendale, Riverside, and San Diego Member Service Centers (MSC).

- One Pension Program Manager and Five Associate Pension Program Analysts (Glendale)
- Three Associate Pension Program Analysts (San Diego)
- Three Associate Pension Program Analysts (Riverside)
- One Associate Governmental Program Analyst (HQ).

BACKGROUND

Previously, CalSTRS provided member education program service delivery using contracted resources. In an effort to achieve greater program quality, provide more accurate information, and enhance the effectiveness of the delivery resource, CalSTRS shifted its service delivery model to one that used state staff instead of contractors. At the time, the staffing model provided for one manager and five staff at each MSC. However, the member education program has evolved to include additional products and services.

Glendale Member Service Center. The Glendale MSC services approximately 180,000 members. They provide services out of the Walnut, Antelope Valley, Oxnard and Culver City satellite offices. An additional six full-time permanent positions are needed to provide on-site outreach to members and employers throughout Los Angeles County and surrounding areas. The MSC staffing structure is comprised of both full time permanent and administratively established positions, which are funded by Civil Service temporary help.

Riverside Member Service Center. The Riverside MSC opened in FY 2014-15 with one manager, three benefits specialists, and one support staff. Riverside MSC staff serve about 86,000 members in a geographical area that covers thousands of square miles in the Riverside and San Bernardino counties. Three additional full-time permanent positions are needed to keep up with the demand of the member needs.

San Diego Member Service Center. The San Diego MSC, which opened in the fall of 2016, faces the challenge of Retirement readiness. The resources at the MSC are similar to Riverside with one manager, three benefits specialists, and one support staff. To mitigate the prolong delay of services to members, an additional three full-time permanent positions to serve the 52,000 members through the MSC, North County and Imperial offices as well as increasing member and employer outreach as mandated by the TRB.

Administrative Services. As the Retirement Readiness continues to grow, an additional administrative support analyst is needed to ensure effective management of budgetary, human resources and procurement needs. The unit is responsible for nine budget allotments including four additional MSCs and the Defined Contribution Solutions funded programs and associated revenue streams.

STAFF COMMENTS

This item was heard at the March 7, 2017, meeting. The resources provided will help CalSTRS implement initiatives for Retirement Readiness to increase member education and outreach.

Staff Recommendation: Approve as budgeted.

0950 STATE TREASURER'S OFFICE

VOTE-ONLY ISSUE 10: DEBT MANAGEMENT SYSTEM (DMS) II

The 2017-18 budget includes a request from the STO of $5.8 million (reimbursements) to continue the funding of its Debt Management System (DMS) II. The project, which was initially funded in 2013-14, is a replacement system for the STO's existing debt management system. The debt management system is used to administer the state's outstanding debt, monitor and pay debt services and fees on outstanding debt, and track and validate the authority to issue new debt. Of the budget request, $4.0 million will be used for the system integrator (vendor) payment, $981,000 for staff funding, $49,000 for project management support, $174,000 for independent verification and validation, $113,000 for independent project oversight, and the remainder for hardware and software licensing.

BACKGROUND

In 2015-16, the STO received continued funding for the replacement of the department's debt management system. The $1.4 million (reimbursements) consisted of $302,000 for a project management support vendor, $200,000 for Department of Technology procurement assistance, $97,000 for the procurement assistance vendor, $140,000 for independent verification and validation services, $113,000 for the Department of Technology project oversight, and $530,000 of continued funding for positions (data processing manager, senior programmer analyst, system software specialist, and treasury program manager).

In conjunction with this funding, the STO changed the procurement strategy for the DMS II Project from what was as previously submitted in SPR1, based on vendor feedback provided to the STO from the pre-solicitation request for proposals and resulting analysis. Subsequent to the submission of the May Revision request, staff was notified of requested change in the procurement strategy. In 2013, the STO had determined that replacing the existing debt management system with a solution-based procurement using a systems integrator was in the state's best interest, due to available expertise staffing. However, STO subsequently determined, based on potential vendor feedback, that it would be very difficult to completely satisfy business requirements at an acceptable cost and/or within a reasonable timeframe. Following more in depth vendor conversations, STO explored alternative procurement strategies and models and determined the debt management system replacement could be better addressed by using the existing debt management system and expert-level technicians rather than STO staff. The Department of Technology agreed with this decision and approved the SPR 2 reflecting this change in April 2016.

The STO received funding for this project in 2013-14 and 2014-15. The new system is necessary for debt administration, including duties associated with trustee, registrar and paying agent responsibilities, payment of debt service, disclosure and analysis of debt issuances. Given the increased legal and financial complexities in the debt markets, the STO indicates a need for a new system to administer outstanding debt, track and pay debt service and fees on outstanding debt, and track and validate the issuance of new debt. The existing system dates to 2004.

STAFF COMMENTS

The approval of this proposal is consistent with past actions by the subcommittee. Staff has no concerns.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 11: STATE TREASURER'S OFFICE INFORMATION SECURITY PROGRAM AUGMENTATION

The budget includes a request from the STO for $330,000 (General Fund) to maintain the Department's information security tools and administration, and sustain adequate support for the cyber risk management program and security defense systems. The augmentation will fund additional threat detection and eradication tools through information technology solutions and one full-time permanent position (systems software specialist).

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 12: DATA AND GOVERNMENT TRANSPARENCY UNIT

The budget proposes $799,000 (Reimbursements) to fund five permanent positions for data and government transparency efforts. The resources for these positions will be provided by the various boards, commissions and authorities associated with the STO. The funding will provide support for five technology positions – three senior programmer analysts, one systems software specialists III, and one staff information systems analyst. These limited-term positions expire at the end of the current year.

BACKGROUND

The Unit was created to increase the public access to programs, data and information provided through various web based programs, including: Debtwatch debt data website; California Debt and Investment Advisory Commission (CDIAC) Issuance Documents project, California Business Incentives Gateway (CBIG); Treasurer's Awards Transparency project; BuyCaliforniaBonds website upgrade project; and various other programs.

The 2015-16 budget provided the STO with five positions and roughly $700,000 on a two-year, limited term basis to establish a Data and Government Transparency Unit, funded by the boards, commissions, and authorities associated with STO. The office proposed to use the Unit to update its website and facilitate its data sharing efforts. In the two fiscal years since the unit's establishment, STO has used it, along with about $1 million in contracts that was redirected from other sources, to update STO's website and launch other pages with information on California debt (DebtWatch) and business incentives (CBIG). (The ongoing cost of these contracts is about $180,000 per year.)

STAFF COMMENTS

This item was heard at the March 14, 2017, hearing. Staff continues to have concerns about the ongoing workload associated with this program similar to concerns shared in 2015. Staff recommends resources continue to be provided on a limited-term basis. The STO has asked for budget bill language that would provide an exemption for STO to continue to use the same staff if these positions are provided on a limited-term basis.

Staff Recommendation: Approve on a two-year limited-term basis and placeholder budget bill language.

VOTE-ONLY ISSUE 13: FISCAL RECOVERY FUND TRAILER BILL LANGUAGE

The budget includes proposed trailer bill language (TBL) that would require that, after transferring required amounts in the Fiscal Recovery Fund (FRF) to the counties, any remaining amounts be transferred to the General Fund.

BACKGROUND

The FRF was established in conjunction with the issuance of the state fiscal recovery bonds, which were authorized by the voters in 2004. Revenues raised by 0.25 percent of the statewide sales tax were deposited to the FRF and used to pay debt service on the bonds. The bonds have been paid off and are no longer outstanding. Under current law, certain remaining funds in the FRF are to be transferred to the counties and the remainder subject to appropriation.

STAFF COMMENTS

This item was heard at the March 14, 2017, hearing. Staff has no concerns with this issue.

Staff Recommendation: Adopt placeholder trailer bill language.

0840 STATE CONTROLLER'S OFFICE

VOTE-ONLY ISSUE 14: CALIFORNIA STATE PAYROLL SYSTEM

The SCO requests $2,970,000 one-year limited-term funding [$1,693,000 General Fund and $1,277,000 Central Services Cost Recovery Fund (CSCRF)] to support 11.0 positions in 2017-18, to perform business process re-engineering of human resource management and payroll processing practices, document mid-level solution requirements, and begin the completion of the Stage 2 Alternatives Analysis of the Department of Technology (CDT) Project Approval Lifecycle (PAL).

BACKGROUND

In 2010, the State Controller's Office (SCO) hired SAP Public Services, Inc., to develop, test, deliver, and implement the 21st Century Project system (also known as MyCalPAYS). Started in 2006 by BearingPoint and continued by SAP, the project was the largest payroll modernization effort In the nation, intended to replace 30 year-old legacy systems and improve staff management processes such as payroll, benefits administration, and timekeeping for all state government employees.

In August 2011, the SCO issued a formal cure letter to SAP Public Services and in November 2011 negotiated a new agreement. However, in October 2012, a second formal cure letter was issued to SAP Public Services and in February 2013, the SCO terminated its $90 million implementation contract with SAP after an unsuccessful eight-month pilot involving 1,500 state employees. In November 2013, the SCO filed a lawsuit against SAP and SAP later filed counter-claims against SCO. After two and a half years of litigation, a June 6, 2016, settlement agreement resulted in SAP paying SCO $59 million and abandoning its own claims against SCO in the amount of approximately $23 million. The $59 million settlement was distributed to the state's General Fund and special funds, using the same proportions established to support the 21st Century Project. SCO is now closing out the 21st Century Project and recently completed a Post-Implementation Evaluation Report (PIER) to the CDT on November 7, 2016.

During the 2016-17 May Revision the SCO was approved authority of $2,377,000 in 2016-17, and $2,831,000 in 2017-18, to fund eight positions to begin the process of re-starting the human resource management and payroll system replacement project, using the new PAL processes to identify and analyze alternative solutions to the MyCalPAYS system. As part of the approved May Revision, the Legislature adopted supplemental reporting language requiring SCO to provide more detail on future assessment activities.

One of the most significant lessons learned from prior efforts is that the state's personnel and payroll practices are extremely complex and not always in alignment with industry standards, resulting in great difficulty when attempting to identify a modern alternative system. The additional resources requested in this proposal will augment the 8.0 existing positions and continue the extensive effort of examining these business practices and working with SCO divisions. Department of Human Resources (CalHR), Financial Information System for California (FI$Cal), Department of Finance, and departmental human resources offices to determine where the state can conform to industry standards for payroll processing.

Timeline. The alternatives analysis for this project is a significant endeavor and is likely to span the entire 2017-18 fiscal year. It is projected that the S1BA will be completed by April 2017, the S2AA by August 2018, the S3SD by May 2019, and the S4PRA is projected to be completed by December 2019. Project funding is targeted for 2020-21.

The SCO is taking a collaborative approach to examine business practices and is identifying classifications and positions within SCO divisions and CalHR to accomplish this objective. Once potential changes are identified, these resources will work with a consulting firm to engage in business process re-engineering and a procurement consultant to assist in the development of the mid-level solution requirements needed for the completion of the PAL.

STAFF COMMENTS

This item was heard at the March 14, 2017, hearing. The SCO is proposing funding on a one-year limited term basis. Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 15: FI$CAL RELATED BCPS

The SCO has three BCPs related to FI$Cal, which are summarized below in this item.

BACKGROUND

1. **FI$Cal Implementation for SCO's Control Functions.** The SCO requests $1,500,000 (General Fund) in 2017-18, to support 13.0 positions in transitioning the State's Accounting Book of Record from the SCO legacy system to the FI$Cal system and provide support to the FI$Cal departments. Approval of these resources will ensure that the SCO continues to fulfill its obligations and responsibilities related to the completion of the FI$Cal 2017 Release (R17).

   The FI$Cal system is being implemented by departments in releases (formerly waves), with the first release to have occurred in July 2014 and the final release to occur in July 2018. Waves 1, 2, and Release 2016 have been deployed so far. The workload described above has been anticipated by both the project and the SCO. The SCO and the Project worked together to bring in-home subject matter experts to the Project and to provide support to home staff and other FI$Cal departments during implementation of previous releases and assist in the analysis, design and build stages of the R17. Both of these scenarios were encountered in each of the previous releases. At this time, the SCO is requesting support of $1.5 million to continue work that is already in progress.

2. **Vendor Management Workload.** The SCO requests $1,181,000 ($674,000 GF; $507,000 Central Services Cost Recovery Fund [CSCRF]) in 2017-18, and $1,149,000 ($655,000 GF; $494,000 CSCRF) in 2018-19, to support 12.0 positions, and $488,000 ($278,000 GF; $210,000 CSCRF) in 2019-20, and ongoing to support five permanent positions to manage increased workload related to the Vendor Management File (VMF).

One of the benefits of FI$Cal is the implementation of a centralized statewide VMF for all departments using the system. Prior to FI$Cal, state agencies, boards, commissions, bureaus and office independently maintained their own vendor file, which did not allow for consolidated vendor reporting or transparency. Coordinating with FI$Cal, the VMF is a key component to the functionality of many of the FI$Cal modules, with direct impact on all other modules.

The implementation of the VMF began in July 2014 with Wave 1 Departmental Release. At that time, one of the key activities in implementing the VMF was the conversion of vendor data from the nine Wave 1 departments. Vendor data conversion, which occurs at each release and has created extensive workload. Initially, the VMF was maintained by a variety of staff working on FI$Cal. FI$Cal management and the Partner Business Executives representing the SCO, STO, DOF, and DGS recognized the importance of a single entity taking ownership and responsibility for ongoing maintenance of the VMF. In June 2015, FI$Cal project leadership determined the SCO was the appropriate entity to manage this functionality due to the Electronic Fund Transfer payment information, which contain confidential information. The SCO created the Vendor Management Group (VMG) and staffed the transition with five staff.

The five existing positions in the VMG have effectively managed the workload resulting from Waves 1 and 2 and anticipate to be able to manage the workload resulting from Release 2016. However, with the 2017 and 2018 releases, which include a number of large departments, the expected workload increase will far exceed the available staffing and resources will increase.

3. **Electronic Claims Processing.** The SCO requests three permanent positions and $343,000 in reimbursement authority in 2017-18, and $337,000 in reimbursement authority in 2018-19, and ongoing to support an increased workload related to processing electronic claims, implementing new electronic claims, system conversions and performing post-payment surveys in conjunction with electronic claims processing.

The SCO Division of Audits provides the State and taxpayers with assurances that claim payments are legal and valid. The two SCO bureaus responsible for providing these assurances by auditing all claims submitted to the SCO are:

- Operations Bureau, Claims Audits – responsible for auditing manual and FI$Cal generated claims.
- FI$Cal & Information Technology Audits Bureau, Electronic Data Processing (EDP) Audits – responsible for auditing electronic claims.

In 2014-15, EDP Audits processed 14,370 claim schedules resulting in more than $38.1 million in payments. For electronic claims, the supporting documentation is captured in the electronic claim file, eliminating the need for hardcopy submission. The average processing time for electronic claims is three days. EDP Audits provides assurances that adequate controls exist with an agency's program and that the payments are legal, proper and accurate by readiness testing, control evaluations, prepayments audits, post-payment field surveys, and annual tests.

Agencies contract with the SCO to implement the electronic claims processes, and pay the SCO for the actual costs. Prior to 2011-12, EDP Audits had 17.0 authorized positions. Due to an anticipated increase in the workload, 4.0, two-year limited-term positions were approved beginning in 2011-12. The SCO has determined that its resources are insufficient to meet workload needs and cannot redirect staff to meet the increased workload.

STAFF COMMENTS

This item was heard at the March 14, 2017, hearing. Staff has no concerns with these proposals.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 16: PROPOSITION 47 AGENCY AND GRANT AUDITS

The SCO requests three permanent positions and $389,000 in 2017-18, and $383,000 in 2018-19, and ongoing from the Safe Neighborhoods and Schools Fund to perform audits of the grant programs operated by the California Department of Education (CDE), California Victims Compensation Board (VCB) and the Board of State and Community Corrections (BSCC) to ensure the funds for the Proposition 47 program are disbursed and expended correctly.

BACKGROUND

Proposition 47, approved by the voters of California on November 4, 2014, reduces penalties for certain offenders convicted of non-serious and nonviolent property and drug crimes. In addition, it allows certain offenders previously convicted of such crimes to apply for reduced sentences. The 2016-17 Budget Summary estimates that there will be an initial savings of $39.4 million for use in 2016-17, with approximately $62.6 million in ongoing annual savings. Savings resulting from this proposition will be transferred to the newly created Safe Neighborhoods and Schools Fund to be used in support of truancy reduction and drop-out prevention programs, increase victim services grants, and support substance use and mental health treatment services. An additional $28 million in one-time discretionary funding will also be provided in 2016-17.

Proposition 47 was enacted in June 2016 and requires the SCO to perform an audit of the Safe Neighborhoods and Schools Fund every two years, beginning in 2018, to ensure the funds are disbursed and expended solely according to program requirements. The SCO's authority to perform such an audit is consistent with the Controller's constitutional and statutory authority.

STAFF COMMENTS

This item was heard at the March 14, 2017, hearing. Staff has no concerns with this proposal. The resources will allow SCO to perform audits consistent with Proposition 47.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 17: LOCAL GOVERNMENT OVERSIGHT INITIATIVE

The SCO requests $1,121,000 ($108,000 General Fund [GF]; $1,013,000 Reimbursement) in 2017-18, and $1,115,000 ($108,000 GF; $1,007,000 Reimbursement) in 2018-19, and ongoing for nine positions (eight continuing, one new) to allow for the continued oversight of local government entities (cities, counties and special districts) through authorities granted under existing state law. This will be accomplished by enforcement of the financial transactions reporting (FTR) requirements of local governments (cities, counties and special districts); analyzing and monitoring the financial data for potentially distressed entities; and audits under Government Code Section 12464.

BACKGROUND

Through an approved 2012-13 Finance Letter, the SCO was provided 2.5 years limited-term funding to support 16.4 positions in performing local government oversight, with an implementation date of January 2012. However, the dissolution of Redevelopment Agencies occurred and SCO was directed to utilize these positions for that purpose. Consequently, local government oversight was implemented beginning in 2013-14. In 2014-15, a BCP provided the SCO with three-year limited-term funding to support nine positions with an implementation date of July 2014 to provide increased oversight of local governments under existing law.

The SCO's goal has been to accomplish the following with the resources received: 1) increase compliance with annual FTR requirements by all local government agencies (non-filers) through increased customer outreach and direct collection of data by the SCO; and 2) develop a method to identify factors that could be used to support a decision to conduct investigations such as those performed in Bell, Montebello, Hercules, and Stockton, and to conduct such investigations.

With the approved resources, the SCO has ensured compliance with annual FTR requirements by all local government agencies in order to provide the public with financial transparency, accountability and comparability. The SCO has spent over 3,000 hours reaching out to approximately 1,000 local governments each year that did not submit the SCO's reports timely, as shown in the Workload History below. These local government agencies are either small special districts that have limited resources and are staffed by volunteers with limited financial reporting skills, or cities with high turnover and are not familiar with the FTRs. The SCO has been providing them with one-on-one assistance, so they can prepare the FTRs properly. Because the number of entities needing assistance has not decreased over the past three years, the workload is expected to continue.

Financial data collected through the FTRs is presented in the SCO's open data website, "By-The-Numbers." It is imperative that all local governments submit the SCO's reports properly because the "By-The-Numbers" data is used by various stakeholders including reporters and research institutes, such as Public Policy Institute of California and Pew

Research Center; academia; advocacy groups, including the League of California Cities and the California Special Districts Association; state departments, including the Legislative Analyst Office and Department of Finance; and local governments within California and in other states. This website, launched in 2014, is considered the only resource that contains readily available financial data of California's local governments in one standard format.

STAFF COMMENTS

This item was heard at the March 14, 2017, hearing. Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

VOTE ONLY ISSUE 18: STATE GOVERNMENT REPORTING

The budget includes a request from the SCO for resources and positions related to continuing workload for the Budgetary Legal Basis Annual Report (BLBAR) and the Comprehensive Annual Financial Report (CAFR), and to address the new and ongoing workload related to continuing implementation of accounting and reporting standards set by the Governmental Accounting Standards Board (GASB). The request is for eight permanent accounting positions and $1.1 million ($617,000, General Fund).

BACKGROUND

The activities engaged in by the existing accounting administrators and accounting analysts are crucial for the accurate maintenance of the state’s financial transaction records and the representation of these in a standardized acceptable format. In addition, the workload will consist of implementing additional reporting requirements of 11 newly implemented GASB rules, largely related to pensions and pension plans. The responsibilities associated with the BLBAR and the CAFR are currently being addressed using personal service savings, used to hire five permanent staff within the temporary help blanket and to pay for two retired annuitants. As a consequence of this staffing issue, the number of authorized positions for this area is 28.6 and the actual number of filled positions is 34.6. SCO indicates that it is unable to fund such activities on a continuing basis from salary savings and thus seeks resources to provide for the existing seven staff, plus one additional position to address the added GASB workload.

STAFF COMMENTS

Staff has no concern with the proposal.

Staff Recommendation: Approve as budgeted.

VOTE ONLY ISSUE 19: SCO INFORMATION SECURITY WORKLOAD

The State Controller's Office (SCO) requests $966,000 ($549,000, General Fund) in 2017-18 and $928,000 ($529,000, General Fund) in 2018-19 to support eight positions, and $258,000 ($148,000, General Fund) in 2019-20 and ongoing, to support two permanent positions for strengthening the SCO's security measures. The proposed resources would be deployed to validate SCO compliance with state security standards and verify the proper functioning of security precautions. The initial two years of the proposal would include costs associated with temporary help for security activities. The two permanent positions would consist of an information asset security analyst and an information asset custodian. There would also be six temporary positions acting as program area information asset liaisons, one each for SCO's six divisions.

BACKGROUND

The State and the SCO have adopted the National Institute of Standards and Technology (NIST) guidelines as minimum information security control requirements. The SCO owns and maintains numerous systems with confidential or sensitive data that serve statewide functions. Upon additional review of the NIST standards and in compliance with these standards, the SCO indicates it found two areas – risk assessment and continuous monitoring – that required additional resources. Risk assessment will entail accounting for threats, vulnerabilities and organizational impacts to business operations. Continuous monitoring includes ongoing assessment of information technology infrastructure and evaluating information system security effectiveness. The workload tasks include establishing and maintaining inventories of all information assets, completing annual risk assessments, implementing a continuous monitoring program, and conducting trend analyses on security threats.

STAFF COMMENTS

Staff has no concerns with the proposal.

Staff Recommendation: Approve as budgeted.

VOTE ONLY ISSUE 20: CALIFORNIA AUTOMATED TRAVEL EXPENSE REIMBURSEMENT SYSTEM

The budget includes an SCO request for $1.3 million ($642,000, General Fund) and $642,000 ($390,000, General Fund) in 2018-19 and 2019-20 The resources will provide support for three positions for fiscal year 2017-18 to continue the required analysis and documentation for replacing the California Automated Travel Expense Reimbursement System (CalATERS) vendor and reimbursement system, maintain the current system without disruption to service through 2019-20, and obtain final approval for the replacement program. Expenses not associated with personnel are for external consulting and professional services.

BACKGROUND

The SCO's personnel and payroll services division is responsible for the operation and maintenance of the CalATERS, which allows state employees to electronically submit claims, and for those claims to follow an automated review, approval, and payment process. The SCO has been utilizing CalATERS, which was designed by International Business Machines (IBM), for claims processing since 2000. Currently, there are 98 agencies, with 107,488 individual customers, that utilize the CalATERS platform. In May 2014, IBM notified the SCO that it will discontinue support for the CalATERS platform, effective March 31, 2016, which coincides with the completion of the current contract. IBM informed SCO that they could provide the state with continued support, but at an additional cost. The state has contracted with IBM for these services through 2020, when the new system is expected to be completed. The new system qualifies as an IT project, requiring the SCO to proceed according to the PAL process. Stage 1-Business Analysis, has been completed. Stage 2-Alternative Analysis, is in progress. State 3-Solution Development, is expected to be completed in early 2017, followed by Stage 4-Project Readiness and Approval.

STAFF COMMENTS

Staff has no concerns on this proposal.

Staff Recommendation: Approve as budgeted.

VOTE ONLY ISSUE 21: ENHANCED ENFORCEMENT COMPLIANCE AND APPRENTICESHIP SERVICES

The Department of Industrial Relations requests 11 positions and $1.7 million in 2017-18, 25 positions and $3.4 million in 2018-19, with 19 positions and $2.6 million ongoing, to fulfill the provisions of recently chaptered legislation including:

- AB 1066 (Chapter 313, Statutes of 2016) Phase-In Overtime for Agriculture Workers.
- AB 1978 (Chapter 373, Statutes of 2016) Property Service Workers
- SB 693 (Chapter 774, Statutes of 2016) Workforce Expansion
- SB 1001 (Chapter 782, Statutes of 2016) Immigrant Workers Document Protections
- SB 1063 (Chapter 866, Statutes of 2016) Equal Pay – Race and Ethnicity
- SB 1167 (Chapter 839, Statutes of 2016) Indoor Heat Regulations

BACKGROUND

AB 1066. AB 1066 removes an exemption for agriculture employees regarding hours, meal breaks, and other working conditions. The bill includes specific wage requirements, bringing farmworkers in line with the majority of employees in California who are protected by the existing mandate that nay hours worked in excess of 8 hours per ay or 40 hours per week be paid at 1.5 times the regular pay. The bill provides for a phase-in approach for overtime requirements that gradually implement the 8-hour workday for farmworkers over a four-year period.

The Department requests $40,000 for outreach in 2017-18, and two positions and $308,000 in 2018-19, ($267,000 ongoing) to support its Division of Labor Standards Enforcement (DLSE) for increased workload created by the passage of AB 1066.

AB 1978. AB 1978 establishes specific standards and protections for property service workers (otherwise known as janitors). The intent of the new law is to combat wage theft, ensure compliance with existing labor laws, and also lower instances of sexual harassment, sexual violence, and human trafficking in the property services industry, where it is particularly prevalent.

The Department requests an augmentation of three positions and $442,000 in 2017-18, nine positions and $1 million in 2018-19, with nine positions and $967,000 ongoing. These positions will support DLSE in implementing the requirements under AB 1978.

SB 693. DAS promotes and develops apprenticeship training and enforces minimum apprenticeship standards. Among other mandates, DAS is the division within DIR responsible for approving new apprenticeships programs, ensuring that programs are adhering to its approved training standards, registering apprentices in approved programs, investigating apprentice complaints against programs, and issuing State certificates of completion to graduates of programs.

Because only registered apprentices may be paid a lower prevailing wage on publicly-funded “public works” projects, DAS regularly receives inquiries from the public to verify that a worker is a registered apprentice. Employers also contact DAS when they wish to confirm that worker has completed an apprenticeship and has graduated into a journeyperson.

The Department requests one position and $123,000 in 2017-18, ($116,000) to provide resources for the Division of Apprenticeship Standards (DAS) to address additional workload as a result of SB 693.

SB 1001. SB 1001 adds Labor Code section 1019.1 and makes it unlawful for an employer in the course of satisfying requirements of the Immigration Reform and Control Act of 1986. The bill provides that an applicant for employment or an employee who believes their rights have been violated under this law may file a complaint with DLSE for equitable relief and penalties not to exceed $10,000 per violation.

The Department requests three positions and $437,000 in 2017-18 and 2018-19 as a two-year limited-term funding, to support its DLSE for increased workload created by SB 1001.

SB 1063. Existing Labor Code section 1197.5 prohibits payment of a wage less than the wage rate paid to employees of the opposite sex for substantially similar work, when viewed as a composite of skill, effort, and responsibility, and performed under similar working conditions. SB 1063 amends Labor Code section 1197.5 to add a new and discrete equal pay protection to the existing protection for gender based disparity to also include a prohibition against paying lesser wage to an employee based on race or ethnicity. The amendments made by SB 1063 are an individual worker protection that will be enforced by the DLSE’s Retaliation Complaint Investigation unit within DIR.

The Department requests three positions and limited-term augmentation of $415,000 in 2017-18 and $392,000 in 2018-19, to implement the requirements of SB 1063 that will expand equal pay protections to include a prohibition against paying a lesser wage to an employee based on race or ethnicity.

SB 1167. The Division of Occupational Safety and Health (DOSH) is the sole agency responsible for protecting workers from health and safety hazards on the job. DOSH protects workers in almost every workplace in California through its enforcement, research, and standards, and consultation programs.

SB 1167 requires DOSH to develop a new heat-illness prevention standard for indoor workers which would specify necessary measures to control indoor exposures to heat and would make compliance and enforcement easier and more effective. The new standard completed by this bill could prompt engineering and administrative changes to reduce risks of heat stress for indoor employees.

The Department requests one position and $212,000 for 2017-18 and seven positions and $1.1 million in 2018-19 ($1.3 million ongoing) to provide resources for DOSH to address the new activity of indoor heat exposure inspections to protect California workers as required by SB 1167.

STAFF COMMENTS

This item was heard at the March 21, 2017, hearing. The resources provided in these bills will enable DIR to implement provisions and the intent of recently enacted legislation. All resources are consistent with the appropriation estimates provided during the legislative process.

Staff Recommendation: Approve as budgeted.

VOTE ONLY ISSUE 22: DIVISION OF APPRENTICESHIP STANDARDS FEDERAL APPRENTICESHIP GRANT FUNDING

The Department of Industrial Relations (DIR) requests six positions and $923,000 for 2017-18 from the Federal Trust Fund for the Division of Apprenticeship Standards (DAS) to expand the number of opportunities for Californians to gain employable lifetime skills and provide employers with a highly skilled and experienced workforce. Through focused outreach and education, DAS aims to register 6,000 new apprentices, including women and under-represented low-income apprentices; and engage 100 non-traditional industry sponsors from advanced manufacturing, information technology, health care and transportation for potential apprenticeship program development.

BACKGROUND

As part of the California workforce development system, the primary responsibility of DAS is to promote and develop employment based apprenticeship training programs, to improve apprentices' working conditions, and to advance profitable employment opportunities for apprentices. DAS accomplishes these objectives by providing consultative services to apprenticeship program sponsors, employers, employee organizations, and education providers.

DIR and its key partners, such as the Labor and Workforce Development Agency (LWDA) and the Employment Development Department (EDD), are responding to the state's workforce need by developing a strategy to enhance current apprenticeship programs and develop new programs that will help address the need for workers in high-demand sectors, and from under-served populations and/or geographic areas of the state.

The Employment and Training Administration (ETA) and the U.S. Department of Labor (DOL) announced the availability of approximately $50.5 million to fund an estimated 33 quality grant applications competitively awarded to states through grant funds authorized by the Consolidated Appropriations Act of 2016 for ApprenticeshipUSA State Expansion Grants. The grant was designed to provide states with an opportunity to further align resources to innovate, expand, and diversify registered apprenticeship to better respond to industry workforce demands. California was awarded $1.8 million over 18 months from the ApprenticeshipUSA State Expansion Grant.

On October 5, 2011, Governor Jerry Brown signed into law Assembly Bill 554 (Chapter 499, 2011), which requires the Workforce Development Board (WDB) to partner with apprenticeship programs, creating a smoother training pathway that broadens access to apprenticeships. In addition, in 2014 the federal government reauthorized the old Workforce Investment Act (WIA) with the Workforce Investment and Opportunity Act (WIOA). As a result, DAS staff have been collaborating with WIA and WIOA partners, namely the WDB and community colleges, to provide training through pre-apprenticeship as well as apprenticeship offered by approved apprenticeship programs and to create new on the job training and apprenticeship programs. DAS has been working with the Community Colleges' Sector Navigators to broaden opportunities for apprenticeship by recreating existing program curricula and developing apprenticeship programs for new industries. DAS also continues to work with multiple private and public entities that received Accelerator Grants from the California Community College Chancellor's Office in 2014, helping them to set up new apprenticeship programs.

Apprenticeship Program Expansion in Non-Traditional Industries. High-growth industries in California that are best suited for potential apprenticeship programs have been identified. The EDD Regional Economic Analysis Profile details projected growth in specific geographical areas where it is expected that apprenticeship expansion in these industry clusters will stimulate economic market growth and boost employment opportunities statewide. Four of these industries (healthcare services, information and communication technologies, transportation and logistics, and advanced manufacturing), will be targeted for apprenticeship expansion based on the need for workforce and education programs.

California is in its second grant application cycle for creation of innovative new apprenticeship demonstration projects, as part of its "California Apprenticeship Initiatives." The first round of state grants, which included a $15 million grant program, awarded eight pre-apprenticeship grants, 14 apprenticeship grants, and one grant for technical assistance and evaluation. These grants provided innovative approaches to new kinds of apprenticeship programs in a wide range of non-traditional industries and occupations ranging from registered nurses, medical coders, early childhood educators, cyber security, help desk technicians to microbiology quality control technicians and light rail maintenance workers.

Training. This proposal also will help facilitate an educational campaign directed to California employers and their associations, informing them of their benefits of registered apprenticeship. DAS will provide a two-day training session for front-line staff in regional DAS offices to provide ongoing technical assistance, consultation and oversight to all program sponsors to ensure continuous compliance with apprenticeship law and regulation.

DAS will continue to work with and engage the California Apprenticeship Council (CAC) to focus on expanding and improving the overall quality of apprenticeship programs. The CAC meetings provide an ideal setting for training the CAC and the public on ways to promote new programs, utilizing its partnerships with local communities involving parents, educators, and businesses to better educate each other on apprenticeship principles and providing policy advice to attract new apprenticeship sponsors and increase apprenticeship registration.

Increased Apprentice Participation in Underrepresented Populations. Both the federal government and the state have placed a priority on providing apprenticeship opportunities to individuals with barriers to employment and increasing diversity amongst all economic backgrounds. This proposal builds on the success of existing pre-apprenticeship and apprenticeship pilot programs, and will begin expanding opportunities to low-income areas with training and high quality job opportunities.

Women represent 50.3 percent of the population (U.S. Census Bureau, 2016) in California but only 6 percent of registered apprentices in the state. A Blue Ribbon Panel met to address this issue and produced a set of recommendations focused on enhanced recruitment through outreach, retention strategies to increase graduation rates, and leadership pathways to train, support, and motivate women to enter positions of leadership. These recommendations are central to the current strategic plan to engage and successfully graduate more women apprentices in California.

STAFF COMMENTS

This item was heard at the March 21, 2017, hearing. Staff has no concerns with this issue.

Staff Recommendation: Approve as budgeted.

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

VOTE ONLY ISSUE 23: BENEFIT SYSTEM MODERNIZATION

This request includes one-time budget augmentation of $4,022,000 (Special Fund) and 15 positions and a redirection of $3,162,000 (Special Fund) and 15 positions in 2017-18 for the Benefit Systems Modernization (BSM) project. The resources will be for state staff, requirements vendor, project oversight from California Department of Technology, and for Independent Verification and Validation (IV&V) vendor services to continue activities towards building an integrated, secure and sustainable Benefits System to service California claimants seeking unemployment, disability or paid family leave benefits. The funding also includes $1.8 million as part of the one-time budget augmentation toward the requirements vendor contract.

BACKGROUND

The EDD administers several multi-billion dollar benefit programs, including the Unemployment Insurance (UI), Disability Insurance (DI), and Paid Family Leave (PFL) programs that provide financial stability to workers and communities.

Partial system modernization was completed for both the State Disability Insurance (SDI) program, which implemented SDI Online in 2012, and for the UI program, which implemented UI Online in 2015. The PFL system has not been modernized since being implemented in 2004.

While the partial system modernization projects provided some relief in terms of new customer self-service capabilities, the resulting systems are now overly complex and not sustainable from both technology and staffing standpoints. The EDD possesses three independent, non-integrated benefit systems that all rely to varying degrees on an aging mainframe, Common Business Oriented Language (COBOL)-based system, as well as legacy external sub-systems and components. Maintaining viable system interfaces and data integrity between disparate benefit system databases that reside on different technological platforms is very complex, expensive, and difficult to maintain. In addition to the many technology challenges, recruitment and retention of staff with the COBOL skillset is increasing difficult.

The existing benefit systems are not fiscally sustainable. The EDD's customers experience a lack of consistency when utilizing the various benefit systems, certain customer groups cannot utilize online services and must submit information manually or through contacting an EDD representative.

Major Project Opportunities.
One Benefits System: EDD will replace three stand-alone systems with one benefits system that provides all functionality. This will mitigate the legacy system issues currently experienced including the ongoing support costs and sustainability.

Technology Support: Having one technology platform will reduce IT staff support costs as staff would only have one technology platform to support. Current benefit systems require different skill sets to maintain the systems COBOL, .Net, Structured Query Language, and Database. With one platform, technical support staff, including developers and testers, will need to know one system, framework, etc.

Better Service to Customers: Having one benefits system will provide claimants and employers a single portal to EDD services. This will result in fewer identity and account management issues by having a standardized process for establishing a customer's identity.

A team of program staff and IT staff need to be fully engaged performing Stage 2 activities during 2017-18. The requirements vendor contract is expected to be procured during 2016-17 with services set to begin April 2017. The CDT will provide external oversight of the BSM project's activities and management processes during Stage 2 of the Project Approved Lifecycle (PAL). The EDD will procure a vendor to perform IV&V services to oversee the requirements phase of Stage 2. IV&V services are expected to begin in January 2018. Utilizing vendors is consistent with industry standards and meets best practices.

The EDD anticipates the BSM project will result in the creation, change, and deletion of business processes. While the specific changes to existing business processes are not known at this time, the EDD will document and monitor all changes beginning in Stage 2 of PAL.

The EDD states that the estimated timeline for Stage 2 may be overly aggressive and that if it is not able to complete all planned activities in 2017-18, the EDD will reflect any changes or additional needs in future BCPs.

Provisional Language. Budget Act provisional language has been drafted to allow EDD's budget to be augmented by up to $1 million, provided there is sufficient justification for an increase, in order to fully fund the requirements vendor contract.

STAFF COMMENTS

This item was heard at the March 21, 2017, hearing. The resources requested in this proposal are for a one-time budget augmentation.

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

VOTE ONLY ISSUE 24: CALIFORNIA UNEMPLOYMENT INSURANCE APPEALS BOARD

The California Unemployment Insurance Appeals Board (CUIAB) requests an augmentation of $791,000 (General Fund), $791,000 (Disability Insurance/Paid Family Leave (DI/PFL) funds) and 12.5 positions (5.4 temporary positions and 7.1 permanent positions) in 2017-18 and 2018-19, and $407,000 (General Fund), $407,000 (DI/PFL funds), and 7.1 permanent position equivalents in 2019-20 and ongoing, for the Tax Appeal Program, to address the incoming workload level and high volume of pending payroll tax appeals waiting for hearings.

BACKGROUND

The CUIAB provides due process for California employers who disagree with their payroll tax determinations by the Employment Development Department (EDD). The EDD's tax program is a federal-state program that primarily collects and enforces payroll taxes from about one million California employers. When employers dispute

EDD tax audits, tax liability statements, Unemployment Insurance (UI) reserve accounts and benefit charges, or other tax liabilities, they may file appeals with the CUIAB.

California provides two levels of appeal. The first level is an appeal of the EDD determination to a CUIAB Field Operations judge. The second level is an appeal of the first level judge's decision to the Board. Tax appeals make up about one percent of the total appeal caseload at the CUIAB, but take about three to four times the staff time to process as compared to benefit appeals.

The liabilities associated with CUIAB's current open balance of pending tax appeals total approximately $339.5 million, as of July 31, 2016. This represents the tax liabilities at the time of the appeal, as reported by the EDD at that time, and then captured in CUIAB's appeal tracking system. Adjustments made after the appeals are filed are not captured in CUIAB's data.

The CUIAB's Tax Appeal Program is insufficiently funded. Each year, the CUIAB receives more tax appeals than it can process with the staff levels supported by available funding. This results in a growing number of pending tax appeals, delayed due process for employers, and delays in the State's collection of upheld tax liabilities.

The CUIAB currently has a high number of pending tax appeal and tax ruling appeal cases. For cases closed in 2015-16, employers had waited 26 months on average, from the date the appeal was filed to the date the CUIAB decision was mailed, for resolution to their tax appeals. This also delays EDD's collection of the tax liabilities upheld by CUIAB decisions.

At the end of 2015-16, the CUIAB had 4,800 pending first-level tax appeal cases and 3,400 pending first-level tax ruling appeal cases, for a total of 8,200 pending cases. During the fiscal year, the CUIAB received 2,500 new tax appeal cases and 1,200 new tax ruling appeals, for a total of 3,700 incoming cases.

The total staffing needed to address the incoming workload and also reduce the pending caseload is 21.9 positions, including one Presiding ALJ positions, 9.2 ALJ positions, and 11.7 positions in support staff. However, the CUIAB only receives enough funding to support 9.4 positions. The UI funding is allocated by the EDD from the federal UI grant funds, based on an agreement with US Department of Labor, to fund CUIAB Tax Appeal Program activities.

STAFF COMMENTS

This item was heard at the March 21, 2017, hearing. Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

7300 AGRICULTURAL LABOR RELATIONS BOARD

VOTE ONLY ISSUE 25: FUNDING FOR THE AGRICULTURAL LABOR RELATIONS BOARD

The Office of the Board (Board) requests permanent funding of $573,000 (General Fund) for existing limited-term positions: 1.5 Hearing Officer II positions and 1.0 Attorney IV position. The workload for these positions has not decreased and is projected to increase as new satellite offices are fully opened and education and outreach efforts are increased.

BACKGROUND

In 1975, then Governor Jerry Brown signed into law the Agricultural Labor Relations Act (Act) to “encourage and protect the rights of agricultural employees to full freedom of association, self-organization ... and to be free from interference, restraint, or coercion” (Labor Code § 1140.2). The ALRB’s role is to ensure peace and justice in the fields by providing stability in agricultural labor relations by implementing, protecting, and enforcing the rights and responsibilities of employers, employees and unions in their relations with each other. The ALRB exercises jurisdiction over approximately 800,000 farmworkers and employers, which were specifically exempted from the coverage of the National Labor Relations Act (NLRA) in 1935.

In 2015-16, the Board received a temporary budget augmentation for three positions; two full-time Hearing Officer positions to address the backlog and ongoing caseload and one full-time Attorney IV position to address the increased state and federal court litigation. These positions were authorized as limited-term for two years.

Hearing Officer. The Board is requesting permanent augmentation for 1.5 Hearing Officer II positions, which would bring the Board’s total permanent Hearing Officer staffing to three Hearing Officer positions. Having three permanent full-time Hearing Officer positions, will allow the Board to timely schedule, preside over, and provide a final decision all in support of the protection of rights of California farmworkers.

These positions will allow the Board to provide timely hearings and decisions. The Hearing Officer is the presiding administrative law judge and every case that comes before a Hearing Officer is fact-specific and unique in the complexity of the law involved. Hearing Officer decisions are multifaceted and complex as cases can involve thousands of employees, resulting in numerous legal questions within a single case.

Attorney IV position. The Board is requesting permanent augmentation for the Attorney IV position. In January 2014, to address the Board’s increased state and federal court litigation workload, the Labor and Workforce Development Agency (LWDA) temporarily redirected resources to provide a limited-term Attorney IV position to the Board to oversee, coordinate, and assist Board Counsel and attorneys assigned from the Office of the Attorney General to handle litigation. Effective July 1, 2015, the Legislature approved the Governor’s Budget proposal for a two-year limited-term

Attorney IV position, which expires June 30, 2017. The primary responsibility of the Attorney IV is appellate work where the position works with the three Board Counsel positions to represent the Board in the most sensitive and complex matters.

STAFF COMMENTS

This item was heard at the March 21, 2017, hearing. Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

0559 LABOR AND WORKFORCE DEVELOPMENT AGENCY

VOTE-ONLY ISSUE 26: ASSOCIATE SECRETARY FOR FARMWORKER AND IMMIGRANT SERVICES

The Labor and Workforce Development Agency (Agency) requests an increase of $205,000 (reimbursement authority) and one position to identify and prevent abuses in the recruitment of H-2A temporary workers and to coordinate the programs within the Agency that are responsible for serving farmworkers and immigrants.

BACKGROUND

The 2015-16 Budget provided two-year limited term funding to hire the Associate Secretary for Farmworker and Immigrant Services. The position and funding are set to expire.

Farmworker Services and H-2A. 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.

Immigrant Integration / Immigrant Services. In March 2016, the Governor's Office appointed a Director of Immigrant Integration, who is spearheading efforts to inventory, assess, and improve access to programs statewide that can or should serve California's immigrant population. The Associate Secretary is responsible for implementing and overseeing the directives of the Director of Immigrant Integration within the Agency and coordinating Agency programs and resources that can be used to assist California's immigrant population in obtaining employment, labor rights protections, and accessing employment training resources. The Associate Secretary has worked to identify gaps in services to farmworkers and limited access to services for immigrants, particularly around workforce services.

STAFF COMMENTS

This item was heard at the March 21, 2017, hearing. The resources will continue to protect and support farmworkers and immigrant integration.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD

0890 SECRETARY OF STATE

ISSUE 1: VOTE CENTERS SB 450

The Spring Finance letter requests 3.0 positions and a funding increase of $463,000 annually for three years from the proceeds of settlement agreement.

The Committee will hear a presentation from the LAO on its recent report on the state's role in elections.

BACKGROUND

Counties administer most elections in California and bear the cost of administering state and federal elections. The Secretary of State (SOS) oversees the administration of elections across the state, including certifying voting equipment that may be used in California elections. Most counties antiquated voting equipment that raises concerns over security and the potential for a catastrophic failure of a voting system in an election year. The SOS estimates the total costs to replace counties' voting equipment to be around $400 million. In addition, the state currently owes counties about $71 million for outstanding elections mandates incurred in prior years. Despite these mandates being suspended, counties continue the activities associated with the suspended laws—costing counties roughly $30 million in general election years. Examples of mandates include requiring absentee ballots to be make available to any registered voter and requiring election officials to compare the signature on each provisional ballot envelope with the signature on the voter's affidavit of registration.

SB 450 (Allen, Chapter 832, Statutes of 2016) has the potential to dramatically change how most Californians vote. Under SB 450, counties may replace the current precinct model of voting with a new "vote center" model that enables voters to cast their votes over a period of days prior to election day. However, there is no requirement that counties implement the vote center model. The law allows 14 counties—accounting for about one-fifth of California's registered voters—to implement the new voting model in 2018 and the remaining counties to implement the model in 2020. As counties implement the vote center model of voting, the SOS will be overseeing two very different voting models across the state.

In the past, the state and federal governments have provided funding to counties to modernize voting equipment. To date, the Administration has made no proposal to provide state money for these costs or for any costs counties might incur to implement SB 450.

The proposed funding for this effort would come from the proceeds from a settlement agreement with Election Systems and Software, Inc. The settlement was made in 2009 for $3.25 million and after appropriation of these requested funds ($1.4 million over three years) roughly $1.5 million would still be available for expenditure.

LAO COMMENTS

The LAO thinks that the Legislature should establish a new financial relationship between the state and county elections officials that allows the state to (1) direct statewide elections policy and (2) provide to counties a reasonable and reliable level of financial support that reflects the benefits to the state of county elections administration.

The LAO recommends that the Legislature structure ongoing support for elections as a block grant to participating counties and that the Legislature (1) use the implementation of the SB 450 proposal to reconsider the state's role in paying for elections administration and (2) consider the appropriate level, duration, and source of funding to support the SOS's SB 450 activities.

Specific to this proposal, the LAO thinks the budget committees should consider four key questions:

Why Are Estimated Secretary of State Costs Higher Than Estimated in August 2016? The requested amount of funding to implement SB 450-related activities is 65 percent higher than the estimated costs that SOS provided the Legislature when it was considering SB 450. The SOS indicates that the increase is due to (1) bill changes toward the end of session and (2) discussions with county elections officials since the enactment of the legislation.

Should This Funding End Five Months Before 2020 General Election? Proper administration of elections is essential for the democratic process. Administering elections—especially in presidential election years—is a logistical feat with many opportunities for highly visible errors and disruptions. Under SB 450, most counties first have the opportunity to implement the new voting model in the 2020 election cycle—a presidential election year. This means that potentially more than 15 million registered voters in the state will be using the vote center model for the first time when they cast their ballots in the June 2020 primary or November 2020 general elections. Under the administration’s proposal, the SOS funding for overseeing the rollout of this new voting model would end June 30, 2020. Although many problems with the new voting model likely will be identified and resolved following the 2018 elections and the 2020 primary election, it seems potentially unwise to defund the entity responsible for overseeing the rollout of the new voting model before the system has been in place for a majority of counties in a presidential general election. In addition to not disrupting the oversight SOS provides leading up the November 2020 election, extending the appropriation through 2020-21 could allow the SOS to assess the successes and shortcomings of the new voting model. The Legislature could formally require the SOS to report its findings and recommend possible improvements to SB 450 following the state’s experience with the new voting model.

How Should The State Use the Remaining 2009 Settlement Funds? The Administration's request appears to be an appropriate use of the settlement funds as it (1) funds the Secretary of State's elections administration—one of the possible uses of the money under the terms of settlement agreement—and (2) uses one-time funds to pay for limited-term activities. That being said, California needs to invest more money into its elections administration—for example, most voting equipment across the state needs to be replaced. Even if the Legislature were to extend the requested appropriation through 2020-21, there would be more than $1 million of the settlement funds remaining at the end of the period. It is not clear if the administration has plans for how to use these remaining funds. The Legislature could explore possible uses for this money, including combining it with other funds to help pay the state's share of purchasing new voting equipment.

Could Secretary of State Need Ongoing Funding for SB 450-Related Activities? A number of counties have indicated that they plan on implementing the new voting model allowed under SB 450. To the extent that other counties do not implement the new voting model, the SOS will need to provide continued oversight of two very different voting models. It is possible that SOS will need some level of ongoing funding beyond 2020-21 to support these activities. Money from the General Fund—rather than one-time settlement money—likely will need to be the funding source for any ongoing oversight activities in the future.

STAFF QUESTIONS

1. SOS: What additional state costs beyond this proposal do you foresee for the implementation of SB 450?

2. Will counties have additional costs to implement SB 450?

STAFF COMMENTS

The LAO raises important questions about the state's role in elections and the merits of reconsidering that role from a mandate and funding perspective. Answers to these questions could be considered as part of a strategy to provide funding for mandates, the implementation of SB 450, and updating county election equipment.

Specific to the resources being requested for SB 450, as the LAO points out the costs of this proposal are greater than when the bill was going through the legislative process. According to SOS, the cost is greater because as the bill changed and upon further discussions with county election officials and other stakeholders, it decided it was necessary to elevate one of the positions initially requested to a project management position. Given the scope and timeline of the bill, a program director will be necessary in order for the SOS to effectively oversee development, implementation and oversight of elections under the vote center model.

Based on the LAO's findings about when the funding for these positions ends, staff recommends providing one additional year of funding so that SOS's oversight of the 2020 election is not disrupted.

Staff Recommendation: Approve as proposed. Also, approve one additional year of funding for the 3.0 positions.

0840 STATE CONTROLLER'S OFFICE

ISSUE 2: SPRING FISCAL LETTER: PROPERTY TAX POSTPONEMENT FUND

The State Controller's Office (SCO) requests $358,000 three-year limited-term funding from the Senior Citizens and Disabled Citizens Property Tax Postponement Fund (PTP Fund) to support 3.0 positions in 2017-18 through 2019-20 for the administration of the Property Tax Postponement (PTP) Program.

BACKGROUND

The State Constitution authorizes and establishes the PTP Program, administered by the SCO. The PTP Program provides low-income seniors, blind, or disabled individuals the ability to stay in their homes, by making property tax payments on their behalf. It prevents these individuals from defaulting on their property taxes and ultimately ending up homeless or in an alternative living situation due to the property being sold by the county in a tax-defaulted land sale. Additionally, the program impacts counties' revenues. It not only provides revenue, but also reduces their workload with respect to collections and defaults resulting in tax-defaulted land sales.

Currently, the SCO has 6.7 authorized two-year limited-term positions that will expire on June 30, 2017:

- 0.5 Associate Info Systems Analyst (Spec); 1.2 Associate Governmental Program Analysts (AGPA); 1.0 Associate Accounting Analyst (AAA); 1.0 Accounting Analyst; 2.0 Staff Services Analysts (SSA); and 1.0 Program Technician.

Based upon the programmatic data and workload metrics collected through February 10, 2017 for the 2016-17 filing period of the reinstated program, the SCO requests that funding for 3.0 (of the 6.7) limited-term positions due to expire at the end of the 2016-17 fiscal year be extended for an additional three years beginning in 2017-18. The SCO requests funding to extend the following positions:

- Associate Governmental Program Analysts (AGPA); 1.0 Staff Services Analysts (SSA); and 1.0 Associate Accounting Analyst (AAA).

In addition to the processes and requirements below, the 1.0 AGPA and 1.0 SSA will also assist in conducting some outreach in upcoming years in conjunction with local governments, as it is anticipated there will be growing interest and need for the program.

STAFF COMMENTS:

Staff has no concerns with this proposal

Staff Recommendation: Adopt Spring Finance Letter.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS

ISSUE 3: SPRING FISCAL LETTER: WORKER'S COMPENSATION REFORM IMPLEMENTATION

The Subcommittee will review a Spring Fiscal Letter requesting additional resources to enforce worker's compensation reform efforts.

BACKGROUND

A Spring Fiscal Letter request 73 positions and $14.7 million special fund in 2017-18 ($13.6 million ongoing) to enforce and implement recent worker's compensation reform legislation.

The Division of Workers' Compensation (DWC) monitors the administration of workers' compensation claims, and provides administrative and judicial services to assist in resolving disputes that arise in connection with claims for workers' compensation benefits. DWC oversees the administration of workers' compensation benefits to over 460,000 Californians who are injured on the job each year. One of DWC's core responsibilities is the administration of California's exclusive judicial system for resolution of work injury claims. DWC operates 24 courts from Eureka to San Diego (officially referred to as "Workers' Compensation Appeals Board District offices") where industrial injury claims are resolved or litigated.

Recent Legislation adopted last year looked to address demonstrated fraud in the worker's compensation system. Recent news stories, including coverage by the Center of Investigative Reporting, show that workers' compensation provider fraud is endemic - notably in Los Angeles County -costing stakeholders and the system over $1 billion in liens that had accumulated in the system at the time of this writing. In particular, the current workers' compensation lien claim and litigation system has proven to be highly exploitable by fraudulent medical providers.

Two bills were adopted to address this problem: SB 1160 (Mendoza) (Chapter 868, Statutes of 2016 and AB 1244 (Gray)(Chapter 852, Statutes of 2016). SB 1160 was a reform bill intended to remove unnecessary litigation from the workers' compensation system that was exposed by SB 863 reforms. SB 1160 expedites medical treatment to injured workers within the first 30 days after their injury by exempting conservative treatment from utilization review, standardizing utilization review procedures, modernizing data collection in the system to improve transparency, and implementing anti-fraud measures in the filing and collection of lien claims for medical treatment. 1 Analysis of Problem AB 1244 addresses medical provider fraud within the workers' compensation system and creates a new adjudication, stay, and suspension process for dealing with convicted and indicted providers that have medical lien claims within the system. These two bills are estimated to save the system $800 million.

Of the positions requested, 12.0 positions are needed to support three information technology projects which will help facilitate the necessary reform efforts: 1) Doctor's First Report of Injury; 2) Utilization Review Management and Provider Suspensions; and 3) Consolidated Lien Proceedings. Of the remaining 61.0 positions, 50.0 positions are specific to the anti-fraud provisions of these two bills focused on: 1) the work of the Anti-Fraud Unit; 2) Provider Suspension Hearings; and 3) Special Lien Proceedings.

STAFF COMMENT

The adoption of the two reform bills significantly increased the Department's role in combating fraud. The small investment in proposal staff are required to perform a variety of functions for hundreds of claims to achieve the estimated $800 million in savings to the worker's compensation system. Given the level of savings that could be achieved, the Subcommittee may wish to revisit this issue in 2018-19 to insure that the department has adequate resources to carry out the newly mandated tasks.

Staff Recommendation: Adopt Spring Fiscal Letter.