

**AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION**

Assemblymember Joan Buchanan, Chair

TUESDAY, MAY 3, 1:30 PM
STATE CAPITOL, ROOM 447

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CONSENT CALENDAR**ITEM 1730 FRANCHISE TAX BOARD****ISSUE 1: VOLUNTARY CONTRIBUTION CHECK-OFF FUNDS**

The Franchise Tax Board (FTB), administers various voluntary contribution check-offs that are included on the personal income tax forms. Statute establishes that as part of the regular process, check-offs are required to meet minimum contribution levels in order to remain on the form or they are removed. Four of the current check-offs did not meet the minimum threshold and four additional check-offs were enacted by recent legislation. This request would remove funding for four deleted check-offs (Arts Council Fund, Safely Surrendered Baby Fund, California Police Activities League and California Veterans' Homes Fund) and provide funding for four new check-offs (California Military Family Relief Fund, ALS/Lou Gehrig's Disease Research Fund, Municipal Shelter Spay-Neuter Fund and California Ovarian Cancer Research Fund). This proposal simply represents a shift in funding and has no budgetary impact on the General Fund.

ITEM 8380 DEPARTMENT OF PERSONNEL ADMINISTRATION**ISSUE 1: PERSONNEL SUPPORT**

The Department of Personnel Administration (DPA) received temporary funding and provisional language related to recruitment contracts for medical professionals. The language and the funding authorization have expired and DPA requests that their budget be decreased by \$350,000 for 2011-12 and Provision 2 of Item 8380-001-0001 be deleted.

Savings for 2009-10 and 2010-11 could also be captured by adopting Budget Bill Language (BBL) as follows:

8380-496—Reversion, Department of Personnel Administration. As of June 30, 2011, the amounts specified below of the appropriations provided in the following citations shall revert to the balances of the funds from which the appropriations were made:

0001—General Fund

(1) Item 8380-001-0001, Budget Act of 2010 (Chapter 712, Statutes of 2010) \$350,000 for recruitment contracts for medical professionals.

(2) Item 8380-001-0001, Budget Act of 2009 (Chapter 1, Statutes of 2009, Third Extraordinary Session & Chapter 1, Statutes of 2009, Fourth Extraordinary Session) \$350,000 for recruitment contracts for medical professionals.

VOTE-ONLY CALENDAR**0845 CALIFORNIA DEPARTMENT OF INSURANCE**

**ISSUE 1: WORKER'S COMPENSATION INSURANCE FRAUD PROGRAM
WORKLOAD INCREASE**

April 1st Letter. The Department requests an increase by \$1.6 million from the Insurance Fund to provide additional funding for the Worker's Compensation Fraud Program in 2011-12 and on-going to fund local District Attorney (DA) workers' compensation fraud investigation workload increases.

Background. The Workers' Compensation Fraud Program (WCFP) was established in 1991 under the California Insurance Code, by Senate Bill 1218. This bill made workers' compensation fraud a felony, required insurers to report suspected fraud, and established a mechanism for funding enforcement and prosecution activities –including the Fraud Assessment Commission (FAC).

The FAC is mandated to determine the level of employer paid assessments necessary to fund investigation and prosecution of worker's compensation insurance fraud. Funding is specifically derived from California employers who are statutorily required to be insured or self-insured for purposes of operating their respective businesses, and can only be used for insurance fraud purposes. Investigation and prosecution funding is directed to the Department of Insurance Workers' Compensation Fraud Program (WCFP), which funds local District Attorneys. The goal of the WCFP is to arrest, prosecute, and convict perpetrators who commit workers' compensation insurance fraud and aggressively provide anti-fraud outreach and training to the public, private and government sectors.

STAFF COMMENT

The FAC recently approved a new funding level of \$31.9 million for 2011-12. Augmenting the Department of Insurance Worker's Compensation Fraud Program will align the California Insurance Department with the newly approved FAC expenditure authority, which can only be used for this purpose. Local DA's will continue to apply for funding by submitting a Request for Application (RFA) in accordance to California Code of Regulations.

1110 DEPARTMENT OF CONSUMER AFFAIRS**ISSUE 1: NATIONAL EXAMINATION ADMINISTRATION COSTS**

April 1st Letter. The Department requests a one-time special fund increase of \$1,124,000 for the Board of Professional Engineers, Land Surveyors, and Geologist (BPELSG) to fund the additional fees required by the National Council of Examiners for Engineering and Land Surveying (NCEES), to administer examinations.

Background. Following an examination breach in April of 2010, the Board received a memo from NCEES stating that, "the NCEES Board of Directors has mandated that the California Board contract with NCEES for the administration of NCEES examinations effective with the October 2011 examination administration." A breach liability estimate –as a result of a missing test booklet which compromised the exams integrity–is expected to be \$6.2 million to replace all national exams if an exam breach were to occur.

Transferring test administration to the NCEES will eliminate the Boards financial liability and make certain that the examinations are administered in strict accordance with existing NCEES policy. This means that unless California contracts with NCEES to administer the required national examinations –including agricultural, chemical, electrical, nuclear, petroleum, engineering and fire protection exams –NCEES will no longer supply California with the examination materials effective May 1, 2011.

STAFF COMMENT

The Board states that future baseline expenditures will decrease as the examination process moves to a computer-based testing format and exam applicants pay all national exam fees to NCEES. Additionally, transferring the administration and security of examinations will serve to mitigate any future liability that the Board could incur with another examination breach. Additionally, without the ability to use NCEES exams for licensing, the Board must develop and grade the 16 exams offered by the NCEES, which would involve costs for test developers, matter experts, and additional staff and materials for printing. This cost is estimated at \$2.8 million. The Board would also have to cancel the October 2011 exams and require a 12 month delay in examinations to develop new exams. This option causes delays and increases cost all around.

The additional request for \$1.1 million to transfer administration of exams to NCEES comes from special funds. Transfer of test administration will result in compliance with state statute to use national examinations for licensure, a faster licensing process and cost-savings for the Board.

ITEMS TO BE HEARD**0502 CALIFORNIA TECHNOLOGY AGENCY**

ISSUE 1: CTA PROJECT OVERSIGHT POSITIONS

The CTA requests \$966,000 of special funds and 9.0 positions for Independent Information Technology Project Oversight (IPO). These positions represent the beginning of the staffing needed to provide independent project management services to state departments. The CTA currently oversees 76 projects, worth over \$8.7 billion in total project costs. The State currently spends \$17.2 million on contracted project management costs.

Last year, AB 2408 (Smyth) required the CTA to improve the governance and implementation of IT by standardizing reporting relationships, roles, and responsibilities for setting IT priorities. These positions begin the implementation of this bill.

STAFF COMMENT

This item was denied without prejudice in the January-February budget process.

Possible Questions:

Given that there are 76 projects, how would the CTA allocated the 9 positions that are requested?

How much of the \$17.2 million in contracted management costs would be needed if these positions were approved?

Will these positions be exempt from the administrative hiring freeze? What is the timeline regarding hiring these positions?

ITEM 8880 Fi\$CAL

ISSUE 1: FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (Fi\$CAL)

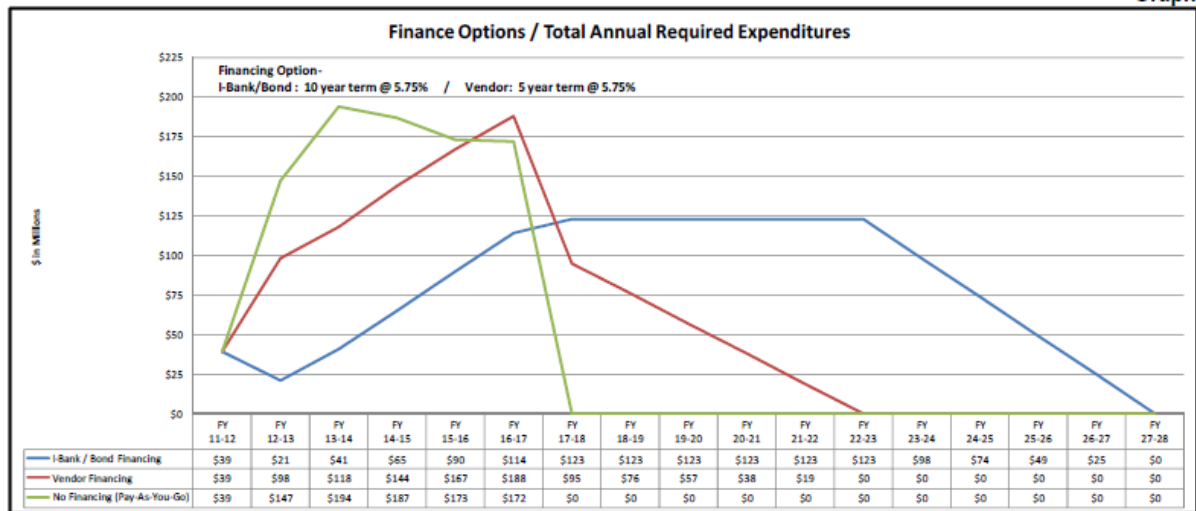
The Administration has issued a Spring Fiscal Letter on April 25, 2011 that redefines the budget year request for the Fi\$Cal project to reflect the new project schedule. The new request reduces the requested funding for the budget year by \$32.4 million (18.4 million General Fund) and 38.0 positions. In the Governor's budget, the Fi\$CAL project requests \$71.2 million (\$18.9 million General Fund) and 99.3 authorized Fi\$CAL positions for project costs next year.

FUNDING WHITE PAPER

The Fi\$Cal project has produced a white paper on funding options for the Fi\$Cal system. The paper outlines three principle methods of funding the Fi\$Cal project and provided rough cost estimates of these options. The three options are:

- **Pay-Go:** Fund project costs in the budget as these costs are incurred, which results in the lowest overall project costs, but requires huge up-front costs in the 2012-13 to 2017-18;
- **Vendor Financing:** Some of the contract costs would be financed through the vendor to help reduce the initial costs spread out the costs over an additional five years; and,
- **IBank/Bond Financing:** Provides the lowest up-front costs, but has the highest overall costs by spreading costs over 15 years.

Graph 1



The chart above is only based upon rough assumptions regarding the Fi\$Cal project. Final project costs won't be available until after the contract is awarded upon the conclusion of the Fit-Gap analysis.

0520 SECRETARY OF BUSINESS, TRANSPORTATION AND HOUSING**ISSUE 1: SMALL BUSINESS LOAN GUARANTEE EXPANSION**

April 1st Letter. The Governor's April 1st Letter makes the necessary federal fund amount changes to correctly reflect the installment expected in the 2011-12 fiscal year for the federal grant awarded to the Small Business Loan Guarantee Program. The letter does not reflect the changes adopted by the Legislature.

Background. The Governor's Budget requested various budget changes related to a federal grant award that will result in a one-time federal grant of \$84.4 million for the Small Business Loan Guarantee Program (SBLG). This represents a significant expansion of the program which has typically had a trust-fund balance between \$30 million and \$40 million. The SBLG Program provides assistance to small businesses that may not qualify for traditional loans, by guaranteeing a portion of the loaned amount. The Administration requests to revert \$20 million in General Fund support provided to the program one-time as part of the 2010 Budget Act (AB 1632, Chapter 731, Statutes of 2010). This reversion of \$20 million is contingent on receipt of the federal funds. Finally, the Administration requests to double program staff from 1.5 positions to 3.0 positions.

Prior Subcommittee Action. The Subcommittee heard this item January 31st and February 11th and determined that the Federal grant will allow the State to expand this program, and at the same time realize a General Fund benefit of \$20 million by reverting the augmentation provided last year. Specifically the Subcommittee adopted the following:

- a) The Governor's proposal to revert \$20 million to the General Fund;
- b) Trailer Bill Language to direct that new loan guarantees use federal funds first;
- c) Approved 0.5 new staff instead of 1.5 new staff;
- d) Converted program administration funding to 50-percent General Fund and trust fund interest, and 50-percent federal funds, instead of eliminating all General Fund support for administration. This provided additional FDC administration funding over the base level for ramp-up, but still resulted in a General Fund expenditure savings; and,
- e) Adopted budget bill language to allow the Director of Finance to transfer up to \$20 million from the GF to the Trust Fund, if loan defaults reduce the trust fund balance to the extent additional funds are necessary to maintain a 5:1 reserve ratio for

outstanding loans. Joint Legislative Budget Committee (JLBC) notification would be required.

STAFF COMMENT

To correctly reflect the installment appropriation for the \$84.4 million grant, the Joint Legislative Budget Committee approved \$27.8 million in federal expenditure authority for the Small Business Loan Guarantee Program in 2010-11 on March 25, 2011. The 30-day review period was waived, so that the program would be positioned to meet the federal government's expectations for use of these funds.

The April 1st Letter proposes budget bill language to adopt the appropriate changes that will correctly reflect the installment expected in 2011-12. The language would place \$27.8 million into the Small Business Expansion Fund (consistent with federal regulations) for 2011-12.

0890 SECRETARY OF STATE

ISSUE 1: CALIFORNIA BUSINESS CONNECT PROJECT

April 1st Letter. The Secretary of State requests an increase in reimbursement authority of \$1.2 million to cover the first phase of the California Business Connect Project –an IT system to automate the Business Programs Division.

Background. The Business Programs Division is the largest division of the SOS and is required by multiple California Codes to accept approximately 250 types of filing documents, including documentation for businesses to operate in California, domestic partnership registration and advanced health care directives. The division has divided the documents into 23 separate filing types for automation support, of which 15 have some form of automation support, but 8 are still paper-based manual systems.

Need. The Secretary of State's Business Programs Division is the starting point for businesses in California. Banks, investors, law enforcement, non-profits, businesses, taxing authorities and the general public rely on these filings and records to conduct business.

Currently, there are over 200,000 business documents waiting to be processed. The Secretary of State estimates that attached to the documents are approximately \$3 million in un-cashed checks and a processing wait time of 2 to 4 months. This project will improve the business filing process in California, digitalize the largely paper-based workload, and replace paper-based systems for which there are no back-up records.

The division has two main sets of filings: (1) business entity formation, amendment, merger, conversion and termination filings and (2) annual or biennial Statements of Information. After the August 2009 Budget Cuts, the Business Programs Division had an average backlog of 52 business days for most filings and 38 business days for Statements of Information. By October of 2010 most business entity filings had an average backlog of 82 business days and Statements of Information had a backlog of 72 business days. The backlogs delay processing of checks for filings.

To assist with record backlogs, the Legislature approved \$500,000 in fiscal years 2010-11 and \$500,000 in 2011/12 in reimbursement authority, as a part of the "Business Information Modernization Project." To date, only \$300,000 have been expended, but this funding has allowed the Business Programs Division to process \$2.8 million in checks for the State, process 94,000 business filings and reduced backlogs by over 6 weeks. However, the backlog persists. As of April 2011 the Business Programs Division (where most of the additional reimbursement authority was appropriated) has an average backlog of 49 business days for most filings and 77 business days for Statements of Information.

The California Business Connect Project is an information technology project that will automate the labor-intensive manual processes within the Business Programs Division by streamlining business processes, increasing efficiency and addressing backlog issues. The project is a continuation of the Secretary of State's Business Programs Automation (BPA) project that was approved in 2001, but was reduced in scope and is now outdated.

Funding. The SOS office collects filing fees that are deposited into the Business Fees Fund and service fees that are deposited into Reimbursements. Statute requires the collection of a \$5.00 disclosure fee at the time domestic stock and foreign corporations file their annual Statements of Information. As required by California Code, one-half of the disclosure fees (\$2.50) must be utilized to further the provisions of the respective sections, and should be used for activities that support businesses and enhance services including the development of an online database to provide public access to all information contained in the Statement of Information filings.

The status of the Business Fees Fund (BFF) fund is not required to be reported to the Legislature, but the Secretary of State reports projected 2011/12 revenues of \$39.5 million, expenditures of \$39.1 million and excess transfer to the general fund of \$432,000.

Reimbursements have experienced an increase of roughly \$1.2 million because more businesses are willing to pay expedited filing fees, which are remitted as Reimbursements.

STAFF COMMENT

The \$1.2 million in excess Reimbursements is already being paid by businesses. However, this is funding that would otherwise be swept by the General Fund. Funding for each of the five phases of this project would be requested annually on a one-year basis. Total estimated cost of the project is \$24 million. No increases in business fees or general fund money are expected at this point in time. After implementation in 2016 the California Business Connect Project has an estimated net benefit of more than \$5.6 million per year, allowing for a payback to the SOS's office in just 2.6 years. An increase in expenditure and reimbursement authority would allow the Secretary of State's Office to solicit a vendor and consultants to work with SOS staff to confirm business requirements and to write a Request for Proposal (RFP) for a solution-based procurement, as well as hire students to backfill behind staff that are redirected to the project. Estimated project commencement is July 2011.

It is important to note however, that the funding source for this project relies on an increase in reimbursements due to expedited application fees. This revenue source will be impacted with an improved filing process which makes expedited fees obsolete. Furthermore, of the Legislatures appropriation of \$1 million in 2010-11 and 2011-12 (combined), only \$300,000 has been expended. The small portion used has effectively reduced backlogs by six weeks.

2320 DEPARTMENT OF REAL ESTATE**ISSUE 1: SACRAMENTO HEADQUARTERS AND EXAMINATION CENTER
CONSOLIDATION AND RELOCATION**

April 1st Letter. The Department of Real Estate (DRE) requests (1) an increase of \$2.6 million Real Estate Fund in 2011-12, (2) \$1.3 million in 2012-13 and (3) \$63,000 in 2013-14 and annually thereafter to provide resources to relocate the Sacramento Headquarters and consolidate the Examination Center to a new facility.

	2011-12	2012-13	2013-14
Six months rent increase January 1 through June 30, 2012	\$635,500*		
Moving related expenses	\$1,220,000*		
Tenant Improvements	\$756,000*		
Increased rent costs for twelve months (July 1, 2012, through June 30, 2013)		\$1,271,000	
Six months of scheduled lease cost increase (\$.07 per square foot of office space)		\$31,500	
Ongoing lease cost increases over term of lease			\$63,000
TOTAL	\$2,611,500*	\$1,302,500	\$63,000**

*One-time.

**Through Fiscal Year 2019-20.

Prior Subcommittee Action. As part of the 2009-10 Budget, the Governor requested a one-time augmentation of \$1 million to partially cover the estimated costs (\$1.3-\$1.5 million) to relocate and consolidate the DRE's downtown Sacramento Headquarters Office and Examination Center at a new location. At that time, staff did not necessarily dispute DRE's claim that the existing facilities did not meet the long-term needs of the department once increased rent and the cost of a double move were factored in. However, the Subcommittee rejected the request due to the fact that the Real Estate Fund had a structural deficit at that time.

As part of the 2010-11 budget, the DRE did not present a request related to its Headquarters relocation and consolidation; rather, the DRE proposed to absorb those costs from within its existing budget. The Subcommittee did not agree with this approach, due to concerns that doing so could result in decreased enforcement and consumer protection activities. Rather, the Subcommittee requested that the DRE present a formal request related to its facility needs during the 2011-12 budget process.

Background. The DRE is a Special Fund Agency that is mandated by the Business and Professions Code 1077 to maintain its headquarters in Sacramento. The DRE's Headquarters and Examination Center facilities have been located in their present location in downtown Sacramento since 1985. The DRE leases a total of 44,922 square feet at a cost of \$1.75 per square feet. The current lease expires on September 30, 2011, and will thereafter convert to a month-to-month soft-term lease agreement. The amount of leased space has not changed during the 26 years the DRE has been at this location; therefore, the current facilities present significant space constraints.

Since 1985, the DRE's licensee population and the associated workload and file storage requirements have increased by 70 percent; there were 268,842 licensees in 1985, and a total of 457,113 today. In addition, the DRE was recently required to add a new licensing and enforcement program for mortgage loan originators. The DRE has also absorbed a 38 percent increase in staff levels, from 144 staff in January 1987 (accurate earlier data unavailable) to a total of 198 today. In addition, the current facilities present significant health and safety concerns and deterioration problems.

Need. The Department of General Services (DGS) performed a preliminary site survey of the existing facility and expressed concern with the aged facility that could require a significant investment and effectively double the current lease amount, and would require a double. Furthermore, certain conditions, such as the plumbing and structural flooring safety issues for lack of space for staff and storage are not repairable. In addition, Americans with Disability Act compliance issues exist with the present facility and adjacent parking. Therefore, DRE submitted a CRUISE to the Department of Finance. DGS placed the DRE headquarters relocation on a priority list. The move is necessary due to deteriorating conditions at the current headquarters facility. According to DGS, the building has a floor load that exceeds the engineering capacity, insufficient electrical capacity, inadequate storage capacity which results in items being placed where they create fire and life safety violations, inadequate sewer and plumbing capacity that results in flooding, and roof leaks that have led to significant water intrusion and mold issues.

Solution. Working with the DGS' Real Estate Leasing and Planning Section, the DRE is considering several new locations within the City of Sacramento, as current law requires the DRE headquarters to be located within the city limits. The request before the Subcommittee represents a new facility comprised of total of 75,000 square feet of office space at an estimated cost of \$2.40 per square feet and 10,000 square feet of warehouse space at an estimated cost of \$.45 per square feet, for a total estimated lease cost of \$2.214 million per year. The DRE is presently paying \$943,000 per year for its current facilities; the new location would therefore represent a net increase of \$1.271 million per year in lease costs. The one-time moving costs are estimated to total \$1.22 million, including: (1) \$990,000 for Modular Systems Furniture; (2) \$115,000 in moving expenses; (3) \$46,000 to install telecommunications systems; (4) \$46,000 for network switches, cabling, and electrical costs; and, (5) \$23,000 for supplies such as business cards, stationary, etc. The DGS is proposing a lease term of eight years, with the first four years termed "firm," and the second four years termed "soft." DGS indicates that this approach would allow the state to vacate the leased space after the fourth year, and otherwise renew (or vacate) on an eight year clip.

STAFF COMMENT

Staff concurs with the need to relocate and consolidate the DRE's Sacramento Headquarters and Examination Center facilities into a single location, thereby achieving a more efficient operation and a safer working environment, for both employees, licensees, and the general public. Remaining in the current location is not an option, neither is renovating the current facility as that option would require costly improvements and do nothing to address the fact that the DRE has simply outgrown its current space.

The request is built upon estimated lease costs of \$2.40 per square foot for office space and \$.45 per square foot of warehouse space. The DGS has indicated, however, that given current conditions in the commercial real estate market it is likely that office lease costs will result in a cost of \$2.00 per square foot, with a similar level of reduction in warehouse lease costs. Therefore, in considering this request, the Subcommittee may wish to adopt provisional budget bill language to ensure that any unused funds appropriated in 2011-12 for lease expenses are not built into the DRE's base budget.

The LAO has separately raised several questions regarding the eight year term of the lease, including whether that term will capitalize fully on the current soft real estate market conditions as well as ensure appropriate legislative notification of future lease renewals. Staff concurs that having answers to these questions in advance of the Subcommittee's consideration of this request is critical. To date, that information has not been provided by the DGS.

8950 DEPARTMENT OF VETERANS AFFAIRS**ISSUE 1: CENTRAL COAST VETERANS CEMENTARY**

April 1st Letter. The Governor requests that two new items be added to the 2011-12 budget to transfer and then appropriate \$1.074 million for the preliminary plans phase of the Central Coast Veterans Cemetery project.

Background. Military and Veterans Code Section 1450 et seq. required the CDVA to develop a master plan for a Central Coast Veterans Cemetery Project, a state-owned and operated veterans' cemetery on the grounds of the former Fort Ord in Monterey County. To fund the Cemetery Project, the original 2006 statute provided \$140,000 GF seed money for the master plan and created two funds: (1) the California Central Coast State Veterans Cemetery at Fort Ord Endowment Fund (Endowment Fund); and, (2) the California Central Coast State Veterans Cemetery at Fort Ord Operations Fund (Operations Fund). The Endowment fund is the mechanism for local entities to provide funding for the development and operation of the Cemetery Project. The Operations Fund receives its funding via transfer from the Endowment Fund to support the costs of designing, constructing, and maintaining the Cemetery Project. To protect the state, and before a transfer can be made, statute requires a Director of Finance determination that adequate funds exist in the Endowment Fund to fully complete the preliminary plans (as well as working drawings).

Per the master plan, the Cemetery Project would utilize a portion of a 79-acre site and accommodate the remains of nearly 14,000 veterans and spouses. It is expected that the Cemetery Project would accommodate anticipated burials for the next 20 years and that the full 79-acre site, once eventually developed, is adequate to meet burial demand for the next 100 years. The total Cemetery Project costs of \$27.0 million would be funded through a mixture of local moneys transferred into the Endowment Fund and federal funds, with the federal funds providing all of the construction costs and reimbursement of most of the design costs.

The April letter before the Subcommittee would add item 8955-011-0848 to the 2011-12 budget to transfer \$1.074 million from the Endowment Fund to the Operations Fund. In addition, the April letter requests that item 8955-301-3013 be added to the 2011-12 budget to appropriate \$1.074 million from the Operations Fund for the preliminary plans phase of the Cemetery Project.

Statute also requires the State Controller's Office to annually report the amount of interest and investment earnings generated by the Endowment Fund and the estimated amount of additional principal needed to generate annual interest revenue that will sufficiently fund the estimated annual administrative and oversight costs. The most recent report, dated July 22, 2010, reported that no deposits were made to the Endowment Fund and the fund remained with a zero cash balance for the fiscal year ended June 30, 2010, and prior. Therefore, no interest or investment earnings were generated.

STAFF COMMENT

This April letter requests to add items to the budget to transfer nonexistent funds from an Endowment Fund to an Operations Fund and then appropriate those nonexistent funds to cover the costs of preliminary plans for the Central Coast Veterans Cemetery Project. When queried on this approach, the Administration indicated that it is unique but also intentional as its purpose is to show good faith on the part of the state with the local entities that support and are raising funds for the Cemetery Project. The local entities presently fear that if they deposit funds raised (currently \$160,000) into the Endowment Fund they have no assurance that the state will then in turn appropriate the funds for preliminary plans, which is the first phase or step to realizing the Cemetery Project. Given the state's fiscal condition, this fear is understandable, and has also potentially impacted the local entities' ability to raise funds. Were this request to be approved, local entities could therefore have an enhanced ability to raise the needed funds as they have "proof" of the state's intent to support the Cemetery Project.

As noted in the background section above, current statute contains checks and balances to prevent moving forward on the preliminary plans without the total required funding being deposited into the Endowment Fund. Further, current statute delineates a process whereby the subsequent phases of the Cemetery Project (i.e., working drawings and construction) will proceed only when funds are available as determined by the Director of Finance. This April letter is limited to the first phase – preliminary plans. Therefore, in considering this request, the Subcommittee may wish to modify the Administration's budget bill language to include a citation to the relevant statute.

ITEM 1730 FRANCHISE TAX BOARD

Department Background. The Franchise Tax Board (FTB) administers the personal income tax and the corporation tax programs, the largest and third-largest contributors to the state's revenue, respectively. The department also performs some non-tax collection activities, such as the collection of court-ordered payments, delinquent vehicle license fees, and political reform audits. The FTB is governed by a three-member board, consisting of the Director Finance, the Chair of the Board of Equalization, and the State Controller. An executive officer, appointed by the board, manages the administrative functions of the department.

The Governor's Budget proposed expenditures of \$586.5 million (\$551.1 million General Fund) and 5,260 positions for FTB. This represents a continuation of substantial increase in support for the agency compared to the 2009-10 fiscal year. Most of the current year and budget year increase is due to addressing negative revenue impacts of the prior administration's three-day furlough program in 2009-10, a policy which included the state's tax collection agencies. In addition, the budget calls for augmentations for specific tax compliance programs and technology improvements related to the department's revenue collection activities.

Franchise Tax Board Budget and Resources

	2009-10 (actual)	2010-11 (estimated)	2011-12 (proposed)
Expenditures	\$474.7 million	\$577.0 million	\$586.5 million
Personnel Years	5,431.5	5,434.1	5,259.9

ISSUE 1: ENTERPRISE DATA TO REVENUE PROJECT

The FTB processes more than 15 million personal income tax returns and one million business enterprise returns annually. Its operations are heavily reliant on effective storage and use of data from a variety of sources in order to maintain adequate compliance and enforcement activities. This request is for continued funding for its Enterprise Data to Revenue (EDR) Project, which will address the agency's return processing and utilization of data, as well as provide connections among various systems. This request constitutes the third year of the EDR project and the first year of the primary solution provider (PSP) vendor contract.

EDR Budget Proposal. This April Finance Letter request calls for \$28.9 million General Fund support for the EDR project. The continuation of funding for the EDR project is expected to: (1) provide compensation payments to the vendor from benefits of implementation of initial deliverables of the project; (2) acquire independent verification and validation (IV & V) contractor services; and (3) acquire cost reasonableness consultant services. Compensation payments to the PSP are based on benefits as discussed below. The IV&V vendor will oversee and perform verification and validation including quality assurance of the EDR project contractor and state activities to verify execution consistent with project requirements. The cost reasonableness contract will result in analyses and evaluation of the validity of contractual changes that are expected in a project of this magnitude

In November, 2010, FTB received the proposed solution to its processing and data storage needs from the PSP. The proposed solution differed somewhat from the conceptual cost and revenue estimates originally provided by FTB. The project increased in cost and will also result

in greater and earlier flow of revenues. Based on the proposal received, revenues resulting from the budget augmentation are estimated to be \$65.3 million in 2011-12 while 2012-13 revenues are estimated to reach \$150.7 million. Revenues from the project are expected to increase as additional features come on line, with estimated annual revenues of \$1 billion once the project is fully built-out.

Over the long term, the projected multi-year cost will be \$664.2 million with total revenues over the term of the project of \$4.7 billion. One-time information technology (IT) costs for the contractor are approximately \$400 million. As a result of certain early components coming on-line, the project generated \$7.6 million in revenues in 2009-10 and is estimated to generate \$19.9 million in 2010-11. The EDR project will take approximately seven more years to implement fully and, once completed, will replace several older FTB information technology systems and streamline other existing systems. Total costs shown below are inclusive of one-time IT costs, on-going IT costs, and staffing.

EDR Project Costs and Revenues (\$ millions)

Fiscal Year	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Project Costs	6.1	10.3	48.4	117.5	169.9	105.5	77.9	84.8	43.7	664.2
Project Revenues	7.6	19.9	65.3	150.7	250.1	684.1	1,155.0	1,204.0	1,163.2	4,700.0

Project Description and Main Goals. The EDR solution will introduce a new personal income tax and business entity return processing system including expanded imaging, data capture, and return verification with an enterprise data warehouse and common services. The EDR Project has three major goals. First, it seeks to capture all tax return data in an electronic form. Second, the project will integrate the various existing "siloed" tax databases at FTB into a data warehouse. Third, the project will enable FTB to add third-party data (for example, county assessor data) to its data warehouse. The FTB asserts that the EDR Project will allow it to substantially improve detection of underpayment and fraud in order to collect taxes from those who are not paying the full amount that they owe. In addition, FTB indicates that the project will enable it to improve service and give taxpayers better access to their tax records.

Project Components. The project includes the following improvements to FTB's systems that process personal income tax and business entity tax returns:

- An underpayment modeling process that would be integrated with the Accounts Receivable Collections System and Taxpayer Information System;
- An enterprise data warehouse with data search and analysis tools;
- A taxpayer records folder that is accessible to the taxpayer and allows taxpayers and FTB staff to access the information;
- Re-engineering of existing business processes—including imaging of tax returns, data capture, fraud and underpayment detection, tax return validation, filing enforcement, and other audit processes—and integration of these enhanced business processes with FTB's existing tax systems; and,
- Improved business services at FTB such as address verification, issuance of notices, and a single internal password sign-on for its IT systems.

Benefit-Funded Approach. FTB indicates that it plans to finance the EDR Project using a benefit-funded approach. Contractor payment for system development and implementation will

be conditioned on generating additional revenue that will more than cover the cost. This approach is intended to protect the state and also give the contractor a strong incentive to develop the project in a manner that produces significant revenue quickly. The FTB has used this approach previously for a number of its IT projects. Under the model, the PSP is compensated only when the new tax revenues are realized and after certain state costs have been recouped. Revenue benefits over and above these amounts are shared with the PSP based on a fixed price contract. In this way, the project budget is constructed so that the state does not incur up from expenses prior to the receipt of additional revenues.

STAFF COMMENTS

The costs and revenues incorporated in the project are substantially different from those originally conceived by FTB. Given the nature of the technology procurement process, this is not a surprise; however, it does raise an issue as to whether additional substantial adjustments may occur in the future and what actions FTB may take to deal with this possibility.

The budget proposal also notes that FTB remains concerned about the impact of future restrictions on resources on the completion of the project. The committee may want FTB staff to address contingency plans that could be put in place in the event of resource restriction measures.

The key component of vendor compensation is the calculation of baseline revenues (revenues that would be received by the state absent the project). FTB staff could be asked to walk through the methodology associated with this calculation and whether the methodology can be verified by external sources.

In 2010-11, FTB requested \$10.2 million in additional budget authority and 72 positions. This proposal results in removing all positions for 2010-11 and 2011-12. It is not clear from the proposal the reasoning behind the elimination of the position authority and what impact this may have on the project in the out years. Even if FTB can absorb this in the current year, it may result in diverting resources from other revenue-related work or a delay in the project.

ISSUE 2: INFORMATION TECHNOLOGY REFRESH—ENTERPRISE TAPE LIBRARY

FTB's tax processing activities are highly automated and are predicated on reliable and accurate IT systems to process tax returns, remittances and related revenue-generating functions. The programs administered by FTB rely substantially on net-worked, automated systems, including;

- Data Center mainframe computer, which houses FTB's two key tax accounting systems:
 - Taxpayer Information
 - Business Entities Tax System
- FTB's internal network, which provides access to the mainframe, FTB's revenue and return processing system, the paper-return processing pipeline, and server based applications such as:
 - Integrated Nonfiler Compliance (INC)
 - Accounts Receivable Collection System (ARCS)
 - Professional Audit Support System (PASS)

The project request seeks an adjustment to the timing of funding to replace the Enterprise Tape Library System (ETL). The ETL provides continuous access to current accurate information that FTB's automated systems and staff rely upon to send accurate notices and perform appropriate, timely revenue generating activities. This proposal seeks to shift the funding of this project back one year. Last year, the Legislature approved funding of \$2.29 million in 2010-11 and \$2.27 million in 2011-12. This request would shift these expenditures to 2011-12 and 2012-13, respectively. This request is being made in order to align the existing funds with the updated timetable for project expenditures.

The delay in the expenditure of funds for ETL are primarily the result of: (1) the inclusion of a request for information process to reduce risk, and (2) changes to the state's RFP approval process which will now require a legal review of the RFP by Department of General Services (DGS). FTB notes that the revision would not change the completion date, scope, or total project cost.

Staff has no issues with this proposal.

ITEM 0860 BOARD OF EQUALIZATION

Department Background. The Board of Equalization (BOE) administers and collects state and local sales and use taxes, administers a variety of business and excise taxes and fees (including motor fuel taxes, cigarette taxes, and alcoholic beverage taxes), and oversees the administration of the property tax by county assessors. The BOE is governed by a five-member board, consisting of four regionally elected members and the State Controller. The Board is the final administrative appellate body for the taxes and fees it administers, as well as the personal income and corporation taxes, administered by the Franchise Tax Board (FTB). Currently, BOE's tax and fee administration programs result in the collection of approximately one-third of the state's annual revenues, as well as substantial revenues for local governments and special programs.

BOE administers taxes benefiting the state General Fund, various special funds, and local governments. The source of its support is allocated among the various funds on a benefits-received basis. The Governor proposes expenditures of \$496.4 million (\$283.3 million General Fund) and 4,485.2 PYs of staffing for BOE in 2011-12—an increase of \$16.3 million or 3.4 percent (\$11.7 million, or 4.3 percent, General Fund) and an increase of 15.3 PYs (less than 1 percent).

Board of Equalization Budget and Resources

	2009-10 (actual)	2010-11 (estimated)	2011-12 (proposed)
Expenditures	\$408.8 million	\$480.1 million	\$496.4 million
Personnel Years	3,882.8	4,469.9	4,485.2

ISSUE 1: CENTRALIZED REVENUE OPPORTUNITY SYSTEM

BOE has begun the process of consolidating and modernizing its existing taxpayer information systems through a project it terms the Centralized Revenue Opportunity System (CROS). As conceived, CROS would replace the BOE's existing two systems of tax information and return management, expand online business and taxpayer services, and provide an agency-wide data warehouse. BOE Board Members approved the project in concept and directed staff to pursue legislation that would facilitate project procurement. The Feasibility Study Report (FSR) has been provided to the Department of Finance, California Technology Agency and the Legislative Analyst's Office for their review.

The acquisition of CROS would be achieved through a performance-based, benefits funded procurement approach. This approach is similar to that used by the Franchise Tax Board (FTB) and the Employment Development Department (EDD) for their respective information and data management systems. The approach does not require up-front vendor funding, as the development and implementation costs are paid under a benefits-funded contract, with payment allowed only when increased revenues are received. Contractor payments would be dependent on the generation of additional revenues attributable to the project and would be capped overall.

Based on the projected timetable, CROS would be phased-in beginning in 2010-11 and be fully implemented by 2016-17. The additional revenues from the project would begin in 2012-13. Preliminary project costs and resulting revenues are shown below. The difference between

Budget Augmentations and Project Costs are the result redirection of existing resources and payments to the project contractor.

CROS Project Costs and Revenues (\$ in millions)

Fiscal Year	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Budget Addition	0	0	32.4	47.1	69.9	37.1	3.6	
Project Cost	3.7	8.3	37.8	60.3	82.6	54.4	29.3	276.4
Revenues	0	0	75.0	90.0	120.0	190.0	190.0	665.0

The Department of General Services (DGS) is the authority over procurement procedure pursuant to Public Contract Code section 12000, et seq. BOE believes that in order to receive revenues from CROS according to the schedule outlined above it needs additional contract authority. Although BOE has been delegated some additional procurement authority by DGS, BOE believes that further authority is needed to deliver the project in a timely fashion. DGS has determined that it is not authorized to grant further authority.

In order to deliver the project on the scheduled timetable, BOE is requesting legislation be adopted allowing for this flexibility. Specifically, BOE currently requesting that it be allowed to conduct the procurement for the project as well as negotiate the contract. Without such additional authority BOE estimates that the receipt of additional revenues generated by the project would be pushed back one year.

STAFF COMMENTS

Alternative procurement has been used previously throughout the state. In particular, the benefits funded approach has been used by the state's two other tax agencies—FTB and EDD. These agencies have used the benefits funded approach with varying degrees of success, but in both cases, the process incorporated some roles for DGS. Because of the lack of dedicated staff, it is likely that some delay would be experienced in the project if the Legislature were to deny delegated authority and DGS were to play a role in the procurement and negotiation of the contract. Rather than delegating authority, one option may be that the Legislature explicitly direct DGS to treat the project as a revenue generating priority project and require that it +deploy dedicated staff to assure its timely completion. BOE may also have suggestions that would assure the Legislature of adequate project oversight but allow it to be completed in the time set forth under BOE's proposal.

The determination as to whether to delegate additional authority for contract procurement and negotiation is ultimately a balance of timing and insurance. Using an additional level of oversight probably creates additional comfort that the project will result in a successful conclusion. However, while the delay caused by an additional layer of oversight and direction will lead to delays, the one-year estimate may be an outside estimate. In addition, there may be an alternative means of assuring timely delivery while retaining established oversight.

In staff discussions, BOE has indicated that the cost of the project will be capped and not exceed an established amount. While this provides some comfort regarding the maximum payout, the key factor relating to timing and amounts of payouts is the calculation of revenues generated by the project. In general, the payout is based on the difference between baseline revenues (absent the project) and revenues actually received. The calculation of baseline revenues is the vital component to the determination of the amounts and timing of the contractor payments.

ITEM 0840 STATE CONTROLLER'S OFFICE

Department Background. The State Controller is the Chief Fiscal Officer of California. As a separately established constitutional office, the State Controller's Office (SCO) provides fiscal control for, and independent oversight of, more than \$100 billion in receipts and disbursements of public funds. In addition, the Controller offers fiscal guidance to local governments and its audit functions uncover fraud and abuse of taxpayer dollars.

State Controller's Office Budget and Resources

	2009-10 (actual)	2010-11 (estimated)	2011-12 (proposed)
Expenditures	\$170.2 million	\$218.9 million	\$218.9 million
Personnel Years	1,249.4	1,414.0	1,415.9

The continuation in 2011-12 for the increase in funding received initially in the 2010-11 fiscal year is largely related the ramp-up of outlays for the 21st Century Project. This project was discussed in the Subcommittee's hearing on state technology projects on January 24, 2011. At that meeting, the Subcommittee approved continued funding for the project.

ISSUE 1: INCREASED POSTAGE EXPENSES

The SCO has requested and additional \$43,000 in 2010-11 and \$217,000 in 2011-12 in reimbursements to cover increased postage expenses. The SCO budget for the costs of postage is approximately 27% of the total ongoing operating and expenses and equipment (OE&E) budget. For 2009-10 actual postage costs were \$13 million and for 2010-11, \$14.2 million is budgeted. As a result of the most recent postage increase, the SCO estimates increased costs of \$61,000 in the current year and \$272,000 in the budget year. This request includes only the reimbursement share of increased costs in postage.

COMMENTS

The SCO was provided in 2010-11 additional funding of \$441,000 for increased costs in rent and an anticipated increase in postage costs. The increase in postage costs did not occur during this period and therefore the additional funding should revert at the end of the year. Committee members may want to confirm that this reversion will occur. Given that the postal increase has occurred this year, staff recommends that the funding for the increase be approved.

ISSUE 2: TRANSPORTATION AUDITS—INDIRECT COST ALLOCATION PLANS

The SCO has requested a continuation of funding for \$1.8 million in reimbursement authority and 12.6 positions to provide audit services for indirect cost allocation plans (ICAPs) for local government agencies (LGAs). This is based on a request from the Department of Transportation (Caltrans) that the SCO continue to provide these services. The request is for two-year limited term positions.

The Federal Highway Administration ((FHWA) requires Caltrans to perform audits of LGAs that receive federal transportation funding. In order for LGAs to receive reimbursement for indirect costs associated with funded projects, federal regulations require that they have an ICAP on file. The ICAP is a means by which to assure that indirect costs are equitably allocated to the project. Recent reviews by the FHWA revealed that the state has previously reimbursed indirect costs to LGAs without an approved ICAP in place.

Caltrans has received only 75 ICAPs from among the 584 LGAs that have received federal and state funding. Of those ICAPs submitted, audits have resulted in reductions in indirect costs of \$14 million due to errors and unallowable costs. Caltrans projects that of the remaining 509 LGAs, 20% are receiving reimbursements for indirect costs without an ICAP in place. Based on this, Caltrans is at risk of inappropriately reimbursing \$194 million in erroneous claims and unallowable costs. This puts Caltrans at risk of federal sanctions and further disallowances from federal funding.

SCO has an interagency agreement with Caltrans in place for these audit activities and received two-year limited term positions that covered the 2009-10 and 2010-11 fiscal years. The activities of the auditors involve multi-level assignments of LGAs and related transportation projects. The types of audits, as well as the frequency and coverage, is mandated by the federal government. The request for limited term is based on possible reduction in federal audit requirements in the future.

COMMENTS

Given the status of LGA compliance with federal ICAP requirements and the results of existing audit findings, the request to continue audit activity at the current level is reasonable. The prospect of federal sanctions and disallowed costs is sufficient to warrant approval. SCO notes that the federal audit coverage requirement may be reduce in the future. In view of this, the Committee may want the SCO to report to the Legislature prior as part of the next budget cycle on the necessity of continuing all of these positions in the second year

ISSUE 3: LOCAL GOVERNMENT OVERSIGHT INITIATIVES

The SCO has requested \$2.1 million in reimbursement authority to support 16.4 existing permanent positions beginning in 2011-12 to provide increased oversight of local government entities. Local governments that would be the focus of oversight include cities, counties, special districts, redevelopment agencies and joint powers authorities. The SCO indicates that the increase in oversight would be based on the SCO current authority and would require no additional statutory language.

While there are statutes that address requirement that local governments must follow for local funds, current law generally allows the local governments themselves to ensure compliance. In the recent past, there have been cases where statutes have been violated, resulting in significant occurrences of malfeasance and potential criminal behavior. Arguably the most significant these instances occurred in the City of Bell, where the SCO found \$6 million of unallowable taxes, mismanagement of \$50 million in bond proceeds, illegal contracting, conflicts of interest in financial decision-making, misuse of state and federal funding, as well as other improprieties.

Although local governments are in general responsible for regulating and monitoring their own activities, the state can play an indirect oversight role, including:

- **Annual Audits.** Cities must have an annual report filed by an independent auditor and filed with the SCO. In addition, the SCO is authorized to initiate a quality control review of review of work papers of any audit and refer any findings to the State Board of Accountancy for action.
- **Financial Transaction Reports.** The SCO compiles the financial transactions report based on information provided by local government entities. If the local government reports are deemed by the SCO to false or incomplete, the SCO can initiate an investigation to ascertain the veracity of the information. Repeated investigations can trigger a referral to the Grand Jury.
- **Accounting and Audit Guidelines.** Uniform accounting guidelines are currently only applicable to counties, and special districts (including RDAs and JPAs). Audit guidelines are currently only applicable to special districts, including RDAs.

SCO indicates that it currently has insufficient resources to adequately maintain a sufficient monitoring presence. For example, it is not able to compare financial reports over time or between similar entities in order to identify potential problem areas. To the extent such added activities reveal problems, without additional resources, there would need to be a redirection from other activities. The department argues that unless additional financial oversight is provided, the state will continue to be vulnerable to mismanagement and abuse of local, state and federal pass-through funding. Pressure may be put on the state to assist financially and the state's credit rating could suffer.

COMMENTS

The undeniable need for additional oversight of local governments has been amply demonstrated. SCO has also shown that its current level of resources is inadequate to provide such additional presence. However, the SCO has not provided a detailed systematic plan for how it will go about executing its additional activities nor provided any detail regarding a benefit/cost assessment of additional financial monitoring. Prior to funding this request, staff recommends that SCO provide a more detailed plan regarding the use of additional resources and provide a benefit/cost assessment of proposed activities.

Under Government Code section 12463, the SCO is required to publish a report of financial transactions of counties, cities, school districts and special districts. Under Government Code Section 12463.3 the SCO is required to publish a similar report regarding RDAs. Under Government Code Section 12464(a), the SCO has the authority to investigate possible false, incomplete or incorrect information submitted by a county, city or special district; however, this investigative authority does not extend to RDAs. The SCO is sponsoring legislation to expand its authority in this area to RDAs.

The SCO submitted a workload plan for this budget proposal, but the plan appears to be in part based on workload from expanded authority to include RDAs. However, the back-up material provided on non-compliance does not include information RDAs or JPAs and is limited to 48 late or non-compliant cities and special districts. The information presented regarding workload, on the other hand, appears to include required work based on expanded authority. The SCO should be requested to clarify the nature of the request, particularly with respect to resources necessary to address current versus potential workload demands.

ISSUE 4: 21ST CENTURY PROJECT

The 21st Century Project is an extensive revamp of the state's entire payroll processing and related services such as employment history, position management and leave accounting. The SCO is responsible for paying approximately 294,000 state employees through its existing legacy system. This employee population includes state civil service employees, as well as elected officials, judicial council members, judges and the California State University System (CSUS) employees. To support the state's ongoing needs, the Legislature in 2004 authorized the development and purchase of a new system that would provide a technically-advanced solution and create the functions required to support future growth and increased complexities in state government.

The SCO has requested Trailer Bill Language (TBL) and Budget Bill Language (BBL) to address and correct certain aspects of the project as described below:

1. TBL to extend the SCO's authority to procure, modify and implement the system. Existing authority to assess special, non-governmental, federal and General funds extends until June 30, 2011. Since the project will not be completed until December 31, 2013, this date needs to be amended. Proposed language would extend this date until June 30, 2014.
2. BBL to modify existing provisional language and allow more flexibility should additional funding be needed for added workload or unanticipated costs. Existing language allows adjustments consistent with the funding schedule of the current SPR with additional amounts requiring the submission of a new SPR. The proposed change would allow for adjustments of up to \$5 million by DOF upon 30 days' notice to the JLBC and appropriations committees of each house of the Legislature.
3. TBL to include a limited number of positions in SCO's information systems division and incoming transfers from the 21st Century Project (once it is completed) to continue to have "excluded" employment designation. Without such a change, upon the completion of the 21st Century project, these employees would lose this status and the financial advantage that goes with it, despite the fact that their duties would not have changed.
4. TBL to limit the SCO's responsibilities in administering U.S. Savings Bonds. Currently, participating employees in the savings bond program must submit enrollment forms and SCO must manually enter corresponding data in the payroll system. With the project, SCO will move to an automated system through Treasury Direct which would allow participant to directly manage their accounts.

COMMENTS

In view of the time pressures, the change in dates to extend the SCO's ability to access funds is a reasonable one that would allow the continuation of the project uninterrupted. Technology projects of the scale and scope of the 21st Century Project are by their very nature extremely complex and susceptible to numerous uncertainties. Like all state technology projects, the 21st Century project does not incorporate a contingency fund, which is the standard approach among projects of this magnitude in the private sector. The additional BBL to address unexpected provides a threshold and provide some Legislative control through notification requirements; however, staff recommends adopting some flexibility but with a lower cap of \$2 million.

Committee members may want to pursue with DOF and/or the California Technology Agency (CTA) whether it is appropriate to have a statewide policy with respect to adjustment amounts for technology projects—in a manner that is similar to other capital projects. Staff recommends that DOF and CTA, in consultation with the Legislative Analyst's Office, be directed to develop written criteria regarding funding adjustments for technology projects.

The Proposed TBL relating to employee classification and administration of savings bonds are not time-sensitive issues and could be directed through the relevant policy committees.

ITEM 0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

Department Background. The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) was established in 1980 to promote prompt and efficient development of energy sources which are renewable or which more efficiently utilize and conserve scarce energy resources. The intent of the legislation establishing the authority was to promote energy sources designed to reduce the degradation of the environment. The authority later was expanded to include development and commercialization of advanced transportation technologies. CAEATFA consists of five members and is chaired by the State Treasurer.

California Alternative Energy and Advanced Transportation Financing Authority

	2009-10 (actual)	2010-11 (estimated)	2011-12 (proposed)
Expenditures	\$276,000	\$16.7 million	\$25.8 million
Personnel Years	1.0	7.0	7.0

ISSUE 1: FINANCIAL SERVICES TO ENERGY UPGRADE CALIFORNIA PROGRAM

CAEATFA has requested an increase of \$205,000 in reimbursements to assist the California Energy Commission (CEC) by providing financial services for the Energy Upgrade California Program (EUC) which is funded by the federal American Recovery and Reinvestment Act (ARRA) of 2009. This finance letter request follows the Section 28 request submitted to the Department of Finance in the amount of \$4.3 million for the current year.

The CEC received \$315 million through ARRA for energy-related projects and rebates. As part of this project CEC developed the EUC, a statewide energy and water efficiency and renewable energy generation retrofit program and contracted with the Local Government Commission (LGC) to run the program. LGC, in turn, has subcontracted with CAEATFA to provide financial services with respect to financial products and lending standards and financial subsidies.

The total amount of the program request is \$4,523,000 (\$4,318,000 in the current year pursuant to the Section 28.0 letter and \$205,000 as a component of this BCP) through ARRA funding. The funds will be used for staff services, financial subsidy funds, trustee costs, financial advisor services, legal services, travel and overhead.

Staff has no issues with this proposal.