California State Assembly

Agenda

Assembly Budget Subcommittee No. 5
on State Administration

Assemblymember Sharon Quirk-Silva, Chair

Tuesday, April 16, 2024
1:30 P.M. – State Capitol, Room 447

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Public Comment will be taken in person after the completion of all panels and any discussion from the Members of the Subcommittee.

Items To Be Heard

9210 Local Government Financing

Issue 1: Education Revenue Augmentation Fund

State revenue has been the largest source of K-12 funding in California since 1990. But fifty years ago, local property taxes were the major source of funding for schools, while also supporting activities of cities, counties, and special districts. In the 1970's the California Supreme Court issued the Serrano decisions, which found that property taxes rendered unequal school district funding and compelled the State to intervene to provide an equal level of funding to all districts. State General Fund would supplement property taxes to raise all districts to the required equal funding level and address the findings of the courts. This change in policy would set the path for the state to step in when property taxes were not sufficient.

Proposition 13's passage resulted in a sudden and unexpected contraction of property tax revenue. This immediately changes the State role from a gap filling entity that supplemented district budgets to become the central source of district revenue. In almost every district the gap between the school district funding level and the property tax was vast, which meant that State General Fund and local property tax going to school districts interact.

Initially, the State, bolstered by the giant surplus built by the Governor Jerry Brown administration, used this position to help beleaguered cities and counties, which were struggling to fund public safety and other critical functions after the loss of property tax. With AB 8, the State moved property tax from schools to cities and counties, and then used State General fund to offset the lost school local tax revenue.

But the State would soon rethink this support, opting to move back a significant portion of property tax revenues back to school from cities and counties. As part of the 1992 budget package, the state established the Education Revenue Augmentation Fund (ERAF) which created an account to facility the shift of county and city property taxes back to schools, and thus save the General Fund.

After the ERAF shift, the state and local funding war over property taxes largely simmered, but the State used the mechanism as a way to use state funds to pay for local governments for various costs. If the State allowed local governments to retain more of the ERAF property tax base, the funding mechanism for K-12 schools would automatically replace the shifted tax revenue with Proposition 98 funding from the State General Fund. One famous example of this shift was in 2004, when the State shifted a portion of the ERAF property taxes to offset the lost revenue from dedicating the Sales Tax to the Economic Recovery Bond, in what was called the "triple flip". Also notably, the State used this mechanism to backfill local governments for lost Vehicle License Fee revenue resulting from the State's decision to reduce the tax in 2004.

"Excess ERAF"

But the ERAF arrangement almost immediately encountered problems in one county, Marin. Soon after the 1992 ERAF law, it was determined that in Marin County the ERAF property tax revenues would exceed the amount needed to support the schools. But under the Serrano policies, schools could not get that extra funding, so where would this extra revenue go? In 2000, the Legislature revisited the ERAF law and weighed in that "excess EFAF" funding would go to back to cities, counties and special districts. Currently five counties have excess ERAF: Marin, Napa, San Francisco, San Mateo, and Santa Clara.

"Insufficient ERAF"

In some other counties, particularly very small rural counties like Alpine and Mono, there aren't many K-12 students, which results in the ERAF tax increment being too small to cover its obligations. When that occurs, the funding mechanism for items like the VLF backfill don't automatically work. Three counties currently have insufficient ERAF: Alpine, Mono, and San Mateo.

What Is In The Budget This Year:

No Proposal to address Insufficient ERAF for VLF Backfill

In 2004, when the State reduced the Vehicle License Fee from 2 percent to 0.65 percent of value, the State uses an ERAF mechanism to backfill cities and counties for the lost revenue. However, over the last several years several counties have seen their VLF revenues backfill needs exceed their ERAF, resulting in a shortfall. The State has intervened to make one-time augmentation to address this revenue gap in past years, including $36 million in the 2023-24 budget to address the shortfall from the 2021-22 fiscal year. There is no funding in the 2024 budget or going forward for that purpose. The Department of Finance estimates that it would cost $72.5 million to backfill the lost revenues in the three counties with insufficient ERAF, San Mateo, Alpine, and Mono.

San Mateo County is uniquely both an Excess ERAF County and an Insufficient ERAF County.

Proposed Trailer Bill on how Charter School Enrollment is Considered in Excess ERAF Calculation

The Governor's budget indicates that it will seek a trailer bill provision to clarify how to treat charter school enrollment when calculating the ERAF property tax share that goes for local education obligations. This trailer bill response to several years of debate and litigation resulting from the decision by the County of Santa Clara to exclude charter school enrollment from the

ERAF calculation, thus resulting in less property tax revenue being attributed to schools and thus more Excess ERAF that would be available for the county. This approach was applied to the other excess ERAF counties as well. Santa Clara's approach was upheld by Controller Betty Yee in 2021 and a court challenge by the California School Boards Association of this Controller's decision failed in 2022.

In 2024-25, the Department of Finance estimates that $150-180 million in Excess ERAF is attributed to charter school enrollment. LAO estimates this amount to be $130 million.

Background on Charter School Funding

SB 1448 (Hart, Chapter 781, Statutes of 1992), which authorized the charter schools in California, was signed by the Governor two months after the first ERAF bill. Charter Schools receive public funding from school districts and county offices of education that are proportionate to their enrollment. From a State perspective, districts receive funding based upon total enrollment at the Local Control Funding Formula level, which includes local property taxes and state funding. After that funding is allocated, these districts are required to transfer funding to the charter schools. But, from a local school perspective, districts have to treat charter schools as if each school is a separate district. In addition to State Local Control Funding Formula funding from Proposition 98, the school district must also transfer an in-lieu property tax amount to the charter school so that the total amount per student is consistent between the charter and the district itself.

Because charter schools receive an in-lieu payment for property tax revenue from the district, instead of a direct allocation of property tax, Santa Clara argued that this enrollment should not be calculated as part of the school ERAF share. As a result of this decision, the in Excess ERAF counties, school districts do not receive property tax for their charter school enrollment.

How the ERAF Shift Impacts Education Funding

Currently there are 630,000 charter school students enrolled in California public schools, about 11 percent of total state enrollment. The unexpected loss of Excess ERAF funding impacts education funding differently depending on the state's current Proposition 98 test level.

- **Reduces overall K-14 Funding by $130-180 million in a Test 1 year.** In a Test 1 year, the state funding for education is set at a percentage of the overall state General Fund revenue amount (about 40 percent of General Fund). That funding then supplements local property tax revenues. Because local property tax revenues in Excess ERAF counties are no long available for schools, the amount of funding for schools is thus reduced by that amount. The Governor's budget projected the current and budget years would be Test 1 years.

- **Increases State Costs by $130-180 million in a Test 2 or 3 year.** In a Test 2 or Test 3 year, the Proposition 98 Guarantee is based on prior year funding, adjusted for attendance and either per capita income (Test 2) or General Fund Revenue growth (Test 3). In that case, the loss of property tax revenues to Excess ERAF would be accounted for in the prior year funding levels, and thus the Proposition 98 guarantee would adjust to fill in the lost revenue.

Panel

- Alex Shoap, Department of Finance
- Chris Hill, Department of Finance
- Edgar Cabral, Legislative Analyst's Office

Staff Comments

There are two different issues on this agenda item related to ERAF, but they have been brought together because they represent the consequence of California governments failing to work together to adjust and maintain state and local funding streams. It leads to a fundamental question of governance: Is the state a partner or an adversary with our local governments?

In one case, the State made an implicit promise to counties when we took action at the state level to reduce the Vehicle License Fee and thus reduce local VLF revenues. The state created a funding mechanism that did not evolve and change with the world around it, and that has left some counties and cities without a formal mechanism to recoup the costs. It is an example of the State being an unreliable partner.

But staff see equivalency in the attempt of Excess ERAF to exploit unclear statutory language to maximize local revenue at the expense of other governments. The current guidance on charter school funding for Excess ERAF counties conflates State policies for setting the total amount of funding for a school district with the amount a school district must provide to charters within their jurisdiction.

As the State considers how to address large, multifaceted policy challenges like climate change our housing and homelessness crisis we are clearly going to need to partner with local governments. However, can we build durable partnerships with these entities or are we destined to have to try to create transactional agreements that degrade as California evolves?

What Happens If This Is Not Fixed?

Excess ERAF counties face significant fiscal pressures, as the same factors that lead to extra property tax revenues are also driving higher costs to provide services in these locations. Most of these counties significantly overmatch state allocations for core county administered program in public safety, health, and human services. But entrepreneurial efforts by excess ERAF counties to capture more revenues for their legitimate county fiscal pressures have unintentionally disrupted the balance of funding within Proposition 98 and the role of charter schools. Prior to this policy, charter school enrollment was neutral to overall state education funding. However, going forward such enrollment can negatively impact overall funding.

Overall this problem can also grow, as more counties approach Excess ERAF status due to declining birth rates and surging property values.

Trailer Bill Draft Not Available

Advocates for counties note the Department of Finance has not published the proposed trailer bill. Government Code Section 13308 (b) requires the administration to submit all proposed trailer bill provision by February 1st of each year

The Department of Finance has commented that they intend the proposed trailer bill to be prospective, beginning in 2025, thus not impacting county ERAF payments in the budget year.

Staff Recommendation: Hold Open

0511 Government Operations Agency

The Government Operations Agency is the state agency responsible for coordinating state operations, including procurement, information technology, and human resources. The agency oversees and supports 13 departments, boards, and offices, including the Department of General Services, the California Department of Technology, the California Department of Human Resources, and more. The Agency also plays a coordinating role across all state agencies to accelerate government innovation and best practices.

Issue 2: Update on the State's Efforts to Evaluate and Deploy Generative Artificial Intelligence Technology

Background on Generative Artificial Intelligence

Models that are trained on small, specific datasets in order to make recommendations and predictions are sometimes referred to as "predictive AI." This differentiates them from "generative AI," which are trained on massive datasets in order to produce detailed text and images. When Netflix suggests a TV show to a viewer, the recommendation is produced by predictive AI that has been trained on the viewing habits of Netflix users. When ChatGPT generates text in clear, concise paragraphs, it uses generative AI that has been trained on the written contents of the internet. These systems' architecture and training data differ, but their core concept is the same.

Generative AI (GenAI) represents a category of pretrained AI models capable of producing new synthetic content. The California State Administrative Manual — the reference resource for the executive branch's statewide management policies — defines GenAI as " class of AI models that emulate the structure and characteristics of input data in order to generate derived synthetic content. This can include images, videos, audio, text, and other digital content."

In recent years, GenAI has surged at the forefront of technology research and development, with an array of GenAI technologies already deployed in private sector enterprises as well as consumer products. Today, GenAI can be used in a variety of applications, from content creation platforms capable of creating text, images, and videos, to chatbots leveraging conversational models to engage in coherent human-like discussions. GenAI may also be used to independently perform data analysis and write software code without human assistance. The development of GenAI technology is anticipated to significantly accelerate, with private equity and venture capital-backed investments in generative AI more than doubling in 2023 compared to the prior year.

Although GenAI has a wide range of applications, several issues have emerged around its use – particularly around cybersecurity, privacy, regulatory compliance, intellectual property, and job displacement.

Background on Executive Order N-12-23 and State Department Deliverables

In response to the rapidly evolving nature of GenAI technology, Governor Newsom issued an Executive Order on September 6, 2023 directing state departments to study the development, use, and risks of artificial intelligence technology throughout the state and to develop a process for the evaluation, procurement, and deployment of AI within state government.

The Executive Oder specifically mandated the following:

Procurement

1. Issue general guidelines for public sector procurement, uses, and required trainings for use of GenAI, including for high-risk scenarios such as for consequential decisions affecting access to essential goods and services.

2. Update the State's project approval, procurement, and contract terms, incorporating analysis and feedback from the reports listed above.

3. Consider procurement and enterprise use opportunities where GenAI can improve the efficiency, effectiveness, accessibility, and equity of government operations.

4. Establish the infrastructure to conduct pilots of GenAI projects, including California Department of Technology approved environments, or "sandboxes," to test such projects.

5. Consider pilot projects of GenAI applications, in consultation with the state workforce or organizations that represent state government employees and other stakeholders to determine 1) how GenAI can improve Californians' experience with and access to government services, and 2) how GenAI can support state employees in the performance of their duties.

6. Make available trainings for state government worker use of state-approved GenAI tools to achieve equitable outcomes, and to identity and mitigate potential risks.

Reports and Guidelines

1. Draft a report to the Governor examining the most significant, potentially beneficial use cases for deployment of GenAI tools by the State, as well as potential risks to individuals, communities, and government and state government workers.

2. Perform a joint risk analysis of potential threats to and vulnerabilities of California's critical energy infrastructure by the use of GenAI, and develop, in consultation with stakeholders, a strategy to assess similar potential threats to other critical infrastructure. Issue public recommendations for further administrative actions and/or collaboration with the Legislature to guard against these potential threats and vulnerabilities.

3. Submit an inventory of all current high-risk uses of GenAI within agencies and departments.

4. Develop guidelines for State agencies and departments to analyze the impact that adopting a GenAI tool may have on vulnerable communities, including criteria to evaluate equitable outcomes in deployment and implementation of high-risk use cases.

5. Establish criteria to evaluate the impact of GenAI to the state government workforce, and provide guidelines on how State agencies and departments can support state government employees to use these tools effectively and respond to these technological advancements.

6. Pursue a formal partnership with the University of California, Berkeley, College of Computing, Data Science, and Society and Stanford University's Institute for Human-Centered Artificial Intelligence to consider and evaluate the impacts of GenAI on California and what efforts the State should undertake to advance its leadership in this industry.

7. Engage with the Legislature and relevant stakeholders, including historically vulnerable and marginalized communities, and organizations that represent state government employees, in the development of any guidelines, criteria, reports, and/or training included in the Executive Order.

Reports Published to Date

In response to the Executive Order's directives, the following reports were published:

1. *"Benefits and Risks of Generative Artificial Intelligence Report"* – Published by the Government Operations Agency on November 2023, the report provides an initial analysis of the potential benefits to individuals, communities, government and State government workers, with a focus on where GenAI may be used to improve access to essential goods and services. Additionally, the report assesses the risks of GenAI, including but not limited to risks stemming from bad actors, insufficiently guarded governmental systems, unintended or emergent effects, and potential risks toward democratic and legal processes, public health and safety, and the economy.

2. *“State of California GenAI Guidelines for Public Sector Procurement, Uses and Training”* – Published by the Government Operations Agency, the Department of Technology, the Department of General Services, the Office of Data Innovation, and CalHR in March 2024, the address procurement, uses, and training related to deploying GenAI in California state government and include best practices and parameters to safely and effectively use the technology.

3. *“State of California Generative AI Toolkit for Procurement, Use, and Training”* – This toolkit was published to support and state entities to be able to self-assess risk levels, collaborate with control agencies on higher risk use cases, and document and share learnings with GenAI experimentation.

Procurement Efforts: Request for Innovative Ideas (RFI2)

To meet the procurement goals laid out by the Executive Order, the California Department of Technology has established a GenAI “sandbox” to conduct pilots of GenAI projects. This sandbox environment aims to provide a safe digital environment to test various applications of GenAI for state government operations.

In January 2024, the Administration issued five “Request of Innovative Ideas,” or RFI2, to competitively solicit, bid, and procure GenAI pilot solutions. Four state entities will be piloting these GenAI solutions: the California Department of Tax and Fee Administration (CDTFA), the California Department of Transportation (CalTrans), the California Health and Human Services Agency (CalHHS) , and the California Department of Public Health (CDPH). These five RFI2 are briefly described below:

1. *California Department of Tax and Fee Administration:*

   CDTFA is seeking a solution that will use GenAI to search reference materials and the CDTFA website to provide possible responses to taxpayer inquiries via calls, chatbot, live chat, and emails. The goals of such a solution are to minimize the risk of incorrect information being provided to taxpayers, reduce the time needed to research responses, decrease wait times for taxpayers, and provide tools to improve monitoring of operations.

2. *CalTrans: Vulnerable Roadway User Safety*

   CalTrans seeks a solution to use GenAI to analyze traffic and driving behaviors, crash data, speed profile, lighting conditions, and more to identify locations with high risk of crash incidents, recommend potential solution strategies to enhance safety at critical hotspots, and develop a prioritized list of locations to guide Caltrans’ infrastructure improvement decision-making.

3. *CalTrans: Traffic Mobility Insights*

   CalTrans seeks to use GenAI to provide analysis and recognition of traffic patterns and impacts to enhance the safety of the State Highway System, improve overall traffic, emergency, and freight management, and optimize system performance by minimizing bottlenecks. The GenAI solution would facilitate real-time decision-making and optimize infrastructure investment planning leading to projects and strategies that contribute to the development of a resilient, safe, and sustainable transportation system.

4. *CalHHS: Language Access*

   CalHHS seeks to integrate GenAI tools for translation workflows to increase speed, efficiency, and consistency of translations and generate improvements in language access. GenAI solutions would translate content between English and other languages, facilitate review and post-editing of translated content, and produce translated electronic documents and web content.

5. *CDPH: Health Care Facility Inspections*

   CDPH seeks to leverage GenAI tools for health care facilities inspections to timely document the facts or findings identified by the surveyor and analyze those facts and findings to develop a concrete set of outcomes or citations that match the state and federal requirements. GenAI solutions would document inspection findings of a survey or inspection which generates a comprehensive report, and develop a set of outcomes or citations that are in clear alignment with the facts and findings, while also being consistent with the laws and policies at the state and federal level.

The Administration reports that to date, the procurement teams working on each of the five RFI2 procurements have received, reviewed, and evaluated proposed solutions sent from vendors. Contract award announcements are to be made at a later date. Selected vendors will receive a minimal payment of $1.00 to execute the proof-of-concept in the CDT-managed sandbox, with any final negotiated contract subject to outcomes, budget appropriations, and resource availability.

The California Department of Technology reports that there are additional, minimal costs associated with monthly usage charges from cloud vendors related to the storage and computing resources used during proof-of-concept activities. These costs are to be paid for by the agencies and departments participating in the RFI2.

Panel

- Amy Tong, Secretary, Government Operations Agency,
- Liana Bailey-Crimmins, State Chief Information Officer and Director, California Department of Technology,
- Jeffery Marino, Director, Office of Data and Innovation
- Ana Lasso, Director, Department of General Services
- Jared Johnson, Chief Deputy Director, California Department of Technology
- Courtney Massengale, Finance Budget Analyst, Department of Finance,
- Brian Metzker, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

Staff Comments

While the integration of GenAI in state government operations may result in potential benefits, the technology also raises significant concerns related to cybersecurity, privacy, misinformation and disinformation, and harmful impacts on the state's workforce. Although the Legislature has received periodic updates following the RFI2 procurement proposals, there has been a lack of substantive engagement from the Administration with the Legislature regarding the strategic, long-term plan to analyze, evaluate, and act on the most urgent challenges associated with GenAI technology.

The subcommittee may wish to ask the following questions:

1- What guardrails have been put in place to ensure that the use of GenAI in state government will not compromise the personal and confidential data of Californians?

2- What data will the RFI2 vendors have access to in both the CDT sandbox environment and in future phases of the RFI2 process?

3- What are the anticipated future costs of the RFI2 pilot projects?

4- How will the Administration engage with the Legislature and other key stakeholders as it implements the Executive Order's directives and continues its experimentation with GenAI technology for state government?

In collaboration with the Assembly Committee on Revenue and Taxation and the Assembly Committee on Transportation, the subcommittee is additionally requesting responses from the Administration to the following questions specific to the RFI2 procurement bids:

CDTFA: Call Center Team Productivity

1. Is CDTFA working on ways to deploy this technology to increase access for Californians who speak languages other than English?

2. Will this technology have a way to measure improvements in service delivery (e.g., tracking wait times and abandoned calls, number of contacts needed to resolve an issue, answer accuracy, etc.)?

3. What precautions are being taken to ensure that confidential taxpayer information is not improperly being released to the vendor or other third parties?

4. What precautions are being taken to ensure that CDTFA staff do not grow overly reliant on this technology? Will there be training on when to use independent judgement in answering a complex question?

5. Will the vendor be precluded from using CDTFA information to develop other commercial products or services?

Cal Trans: Vulnerable Roadway User Safety

1. How is vulnerable roadway user defined and measured?

2. How are local governments involved in data sharing and collection?

3. How are roadways identified?

CalTrans: Solutions for Traffic Mobility Insights

1. How will complete transportation route be measured (i.e. how Californians are getting from destination to destination using what mode?)

2. How are local governments involved in data sharing and collection?

3. How do project goals accomplish existing state goals?

CalHHS: Language Access

1. Given the importance of accurate translation and the number of languages supported in a health care setting, how will the minimum qualifications for GenAI translation services be determined and established?

2. How will the proposal ensure cultural and language competency of these generated translations?

CDPH: Health Care Facility Inspections

1. What type of data would a GenAI have access to in order to support the inspection and investigation tasks conducted by surveyors?

2. Under the proposal, would GenAI provide recommendations for citations, penalties, or other state enforcement actions?

3. Under this proposal, who makes the determination on whether a facility should be cited for specific violations and how will the monetary penalty amount determined? How will this technology identify repeat violations for specific facilities?

This item is informational only.

Issue 3: Language Access Pilot Program Elimination

The Governor's budget proposes to discontinue a pilot program designed to test the feasibility of offering translation and interpretation services in multiple languages during government public hearings and meetings. This program aims to increase opportunities for public engagement in government, irrespective of language spoken.

Dymally-Alatorre Bilingual Services Act

The Dymally-Alatorre Bilingual Services Act was enacted in 1973 and outlines various requirements to ensure equal access to government services for non-English speaking or limited-English proficient individuals in California. The Act requires state and local agencies to provide translation and interpretation services in languages spoken by a significant number of the public they serve. Among other provisions, the Act requires that departments and agencies assess the language needs of their constituents, hire bilingual staff or contract with interpreters and translators to provide services in languages spoken, and translate vital documents and materials.

Language Access Challenges in Public Hearing

While California law establishes a framework for language access, challenges persist in providing equitable language access during public hearings or meetings conducted by state agencies, departments, boards, and commissions. Currently, the majority of government meetings open to the public are conducted in English. Likewise, the process of offering and responding to public comments is facilitated in English, without standardized guidelines on how government bodies should employ interpreters and translators to ensure public participation from non-English or limited-English proficient individuals in government proceedings.

Budget Act of 2022: Language Access Pilot

Acknowledging the insufficient language access in public hearings and meetings, as well as the importance of facilitating public engagement in government meetings regardless of English language proficiency, the Budget Act of 2022 allocated $5 million to establish a Language Access Pilot program. The Government Operations Agency is responsible for creating and implementing this pilot. In this role, the Government Operations Agency is tasked with determining the feasibility and scalability of using various methods and technologies to translate or interpret public hearings and meetings in various languages. This includes:

1. Translation or interpretation of public hearings and meetings in various languages for live non-English or limited-English audience members.

2. Translation or interpretation of public comment provided in languages other than English for public officials and other hearing or meeting participants.

3. Translation of public hearing or meeting agendas, transcripts, and video recordings.

4. Use of culturally competent translation and interpretation methods, including consideration of cultural backgrounds, source language awareness and sensitivity, non-verbal and contextual cues, and real time communication with interpreters to deliver effective communication with the target audience.

5. Outreach that is culturally and demographically appropriate to increase public participation of non-English or limited-English speakers in California's hearings and meetings.

6. Identification and development of a pool of trained and qualified interpreters that can serve the largest number of languages.

7. Training for public officials and department staff to improve the logistics of providing culturally competent translation or interpretation services during hearings and meetings.

After conducting initial research and assessment, the Government Operations Agency is tasked with deploying a language access pilot program at a minimum of four public hearings and meetings, and subsequently provide implementation updates to the Legislature and recommendations to expand the pilot program statewide.

Pilot Project Update and Elimination

Since the establishment of the pilot program, GovOps has reported making progress with implementing the pilot project. Project milestones include:

1. Hiring a Language Access Manager position for implementation of the pilot program.

2. Developing a workplan that identified activities and related procurement processes to implement the pilot program.

3. Initiating an RFI2 procurement process to identify feasible, scalable methods and technologies for translation and interpretation.

4. Conducting a series of meetings and interviews with stakeholders and language access experts to collect best practices on language access.

5. Surveying state departments to identify potential pilot departments.

Although progress has been made on the pilot project, the Governor's budget proposes to revert $4.5 million out of the original $5 million allocation to the General Fund. Under this proposal, the pilot project would be fully eliminated beginning 2024-25.

Panel

- Pam Chueh, State Chief Equity Officer, Government Operations Agency
- Justyn Howard, Deputy Secretary, Fiscal Policy and Administration, Government Operations Agency
- Natalie Griswold, Staff Finance Budget Analyst, Department of Finance
- Brian Uhler, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

Staff Comments

The subcommittee may wish to ask the following questions:

1. Why is the pilot project proposed to be eliminated?

2. Based on activities conducted to date, does the Administration have recommendations on expanding language access in public hearings and meetings?

Staff Recommendation: Hold Open

7502 California Department of Technology

The California Department of Technology (CDT) is the state department responsible for delivering government digital services. CDT provides Information Technology strategic planning, project delivery, procurement, policy and standards, and enterprise architecture. CDT is tasked with securing statewide information assets by providing oversight and infrastructure for many state departments and serves as the custodian of information for various state business applications. Through its State Data Center, CDT also provides infrastructure services for government customers that include on-premises and cloud-based services.

Issue 4: Budget Change Proposals

This panel will cover three budget change proposals included in the Governor's budget.

Budget Change Proposal: Information Security Compliance

The Department requests a $250,000 one-time augmentation from the General Fund in 2024-25 for consulting services to remediate internal information security vulnerabilities. In April 2023, the Department reported 107 vulnerabilities needing one-time corrective action, with approximately 50 percent related to internal processes, documentation, and systems. According to the CDT, these vulnerabilities are not consistently assigned to the impacted CDT service areas for security remediation efforts to take place.

Funding will be used to contract with an external security consultant which will be assigned to eliminate the current backlog of internal vulnerabilities, as well as develop, document, and deploy missing processes and procedures.

Budget Change Proposal: Intrusion Detection and Prevention Systems (IDS and IPS Replacement)

The Department requests $809,000 in 2024-25, $374,000 in 2025-26, and $393,000 in 2026-27 and ongoing from the General Fund to replace Data Center Intrusion Detection Systems (IDS) and Intrusion Prevention Systems (IPS) hardware that will be reaching its end of supportable life. IDS and IPS devices monitor and protect CDT's data centers, such as databases, web servers, mainframes and provide protection against potential cyberattacks.

Budget Change Proposal: Statewide Technology Services

2024-25 Budget Request: The Department requests the conversion of up to $10 million from the Technology Services Revolving Fund to the General Fund in 2024-25 to continue providing statewide information technology services without negatively impacting service rates. Statewide services, which do not have specific customers that can be billed, include strategic planning, information technology policy, research, and modernization, and cybersecurity training.

Background on CDT, Cost-Recovery, and Rate Development Process. The California Department of Technology is primarily funded through cost recovery – that is, billing for IT services it provides to state entities and using revenues from those services to cover most of its expenditures. To calculate the rates CDT charges to its customers, CDT goes through a rate development process. In this rate development process, CDT generally divides the direct costs (for example, hardware and software) and indirect costs (internal CDT administration) of a service by its projected demand. The department might consider other factors when setting service rates such as how costs are distributed across state entities (for example, to equitably distribute costs across entities with different budgets) and how simple the billing for, and collection of, revenues is for the department and state entities. As the projected costs of and demand for services change, CDT re-calculates its service rates and submits them annually to the Department of Finance for approval. For example, if demand for a service is projected to decrease but the costs of the service are projected to stay the same, CDT likely will propose an increase in the service rate. Of note, the Technology Services Revolving Fund, or TSRF, is CDT's primary cost recovery fund.

2022-23 Budget: Legislature Appropriated $54.6 Million General Fund One-Time With Trailer Bill Language on State Data Center Rate Reassessment Process. Over the past few years, CDT has seen several customers migrating out of the state's IT infrastructure to cut costs. To address revenue losses and dampen potential increase in service rates, the Legislature appropriated $54.6 million General Fund one-time in 2022- 23 to (1) shift $41.1 million in expenditures and 205 positions at CDT from its cost recovery fund to the General Fund to reduce State Data Center IT service rates by an estimated 10 percent; (2) provide $3.1 million to cover external consulting costs and internal positions to work on statewide strategic initiatives, such as CDT's development of a statewide Information Technology Strategic Plan; and, (3) cover $10.5 million in short-term net revenue losses from state entities migrating some of their business applications and IT services from the State Data Center to private vendors. The Legislature also adopted a trailer bill to outline the State Data Center rate reassessment process and create a long-term solution to make CDT's chargeback model more sustainable.

2023-24 Budget: Additional General Fund Support. The 2023-24 Budget similarly approved $28.2 million in conversion from the Technology Services Fund to the General Fund proposed to support statewide services, mandatory/oversight services, and internal indirect and administrative costs, and provided the Department of Finance with authority to provide an additional $11,113,000 to support the Department of Technology's cost recovery during its reassessment of the formal rate methodology and relevant policies and procedures for state data center services.

2024 Rate Methodology Reassessment Update. On April 2, 2024, CDT issued its report to reassess the formal rate methodology and relevant policies and procedures for state data center services. Regarding the reassessment rate policies, CDT provided the following recommendations:

1. Annual Rate Changes – Consider incremental annual rate changes to recover ongoing general salary increases, and rising costs associated with software and hardware contracts impacted by inflation and other market conditions.

2. Evaluate Service Priority - Incorporate criteria used to identify and designate mandatory State Data Center services to set policy to secure funding for these services.

3. Perform Ongoing Service Evaluations - Regularly review the cost efficiency of nonmandatory services to identify those that should be eliminated.

4. Funding for CDT Operations and Other Statewide Programs – CDT's internal operations and statewide service programs are often funded by indirect cost centers included in SDC rates. As these programs expand or are impacted by statewide priorities and emergencies, certain costs may be passed along to SDC customers.

Panel

- Liana Bailey-Crimmins, State Chief Information Officer and Director, California Department of Technology
- Miles Burnett, Chief Administrative Officer, California Department of Technology
- Courtney Massengale, Finance Budget Analyst, Department of Finance
- Brian Metzker, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

Staff Comments

With the 2024 Annual State Data Center Services Rate Methodology Reassessment Report released on April 2, 2024, staff recommends conducting additional analysis to determine whether CDT has a critical operational need to convert $10 million from the Technology Services Revolving Fund to the General Fund. For example, the report notes that based on utilization trends, rate increases, and the adoption of new service offerings, the State Data Center projected revenues and expenses are expected to be in balance by 2024-25. While other factors may impact revenues, General Fund support may not be necessary at this time.

The Subcommittee may wish to ask the following questions:

1. How did CDT calculate the requested $10 million conversion?

2. What factors may impact revenues in the outyears?

3. Will CDT continue to request General Fund support to stabilize its rates?

Staff Recommendation: Hold Open

Issue 5: Middle-Mile Broadband Initiative

The Department requests $250 million in 2024-25 and $1.25 billion in 2025-26 from the General Fund to fund completion of the Middle Mile Broadband Initiative (MMBI) network and make 36 administratively established positions permanent. The Department also requests budget bill language allowing up to $500 million General Fund to be allocated earlier in 2024-25 should the MMBI progress faster than anticipated.

Background on the Middle-Mile Broadband Initiative

The digital divide refers to the gap between households, communities, and geographic areas that have access to high-speed internet services and those that have limited to no access. This divide became increasingly pronounced during the COVID-19 pandemic, as more Californians relied on high-speed internet to work remotely, participate in online education, and access critical services. The Public Policy Institute of California notes that, although broadband access has grown in recent years, a significant gap persists across racial groups, with 81% of Latino, 83% of Black, 87% of white, and 88% of Asian households reporting having broadband access at home in 2021. In addition, 76% of households with annual income below $50,000 are less likely to have broadband access at home.

To address this digital divide, the Legislature and the Administration reached in 2021 a multiyear, $6 billion agreement to develop and implement a statewide broadband infrastructure plan. This plan, implemented through Senate Bill 156 (Committee on Budget and Fiscal Review, Chapter 112, Statutes of 2021), AB 14 (Aguiar-Curry, Chapter 658, Statutes of 2021) and SB 4 (Gonzalez, Chapter 671, Statutes of 2021), leverages both federal and state funds to implement a middle-mile network and enable last-mile projects to connect unserved and underserved communities and households.

Under state and federal definitions, a household is considered to be “unserved” if it lacks access to service capable of providing at least 25 Megabits per second (Mbps) download and 3 Mbps upload (25/3Mbps). A household which only has access to service below 100 Mbps download and 20Mbps upload is considered to be “underserved”. According to recent figures published by the California Public Utilities Commission in 2023, there are at least 362,517 unserved households across the state. However, that number can increase depending on the specific definitions used. For example, the CPUC has also published official figures that estimate nearly 1 million households are unserved and underserved when also taking into account the reliability of the service available.

The middle-mile segment of an internet network – which is the focus of this budget change proposal – is the physical infrastructure required to enable internet connectivity for homes, businesses and community institutions. The middle-mile consists of high-capacity fiber lines that carry large amounts of data at high speeds over long distances between local networks and global internet networks. Under the state's broadband plan, the California Department of Technology (CDT) and its third-party administrator GoldenStateNet, are developing a statewide open-access middle-mile network known as the Middle-Mile Broadband Initiative. The project is being developed primarily along the state's highways and other rights of way through a combination of new construction, leases, and purchasing of existing infrastructure. As an open-access network, this middle-mile infrastructure will be available to local Internet Service Providers (ISPs) public entities, and other organizations that can deliver last-mile broadband service particularly to unserved and underserved communities and households.

It is important to note that, although the middle mile network is a critical component of broadband, it does not provide internet access on its own. The middle mile requires a last mile connection to connect a household. Depending on an ISP's network design, a last-mile connection can be delivered through wireline connections (such as fiber-optic and coaxial cables) or wirelessly (through mobile networks, satellite, and fixed wireless radio waves). Last-mile projects are funded through separate funding streams managed by the California Public Utilities Commission.

Since the initial broadband infrastructure agreement between the administration and Legislature in July 2021, there have been significant changes in the funding amounts, sources and timing of the various elements of the larger broadband infrastructure plan. The following table, provided by the Legislative Analyst's Office, provides the spending plan for state broadband infrastructure programs and projects as of the 2023-24 Budget Act.

Broadband Infrastructure Spending Plan as of the 2023-24 Budget Act

(In Millions)

		Funding Source		
Program or Project	**Fiscal Year**	**GF**	**FF**	**TF**
Middle-Mile Network	Prior Years	$887[a]	$2,363[b]	$3,250
	2023-24	300	73[c]	373
	2024-25	250	—	250
	2025-26	—	—	—
	2026-27	—	—	—
Subtotals		**($1,437)**	**($2,436)**	**($3,873)**
Last-Mile Projects Grants	Prior Years	$647[d]	$550[e]	$1,197
	2023-24	253	—	253
	2024-25	200	—	200
	2025-26	200	—	200
	2026-27	150	—	150
Subtotals		**($1,450)**	**($550)**	**($2,000)**
LLRF	Prior Years	—	—	—
	2023-24	$175	—	$175
	2024-25	300	—	300
	2025-26	275	—	275
	2026-27	—	—	—
Subtotals		**($750)**	**(—)**	**($750)**
All Programs and Projects	Prior Years	$1,534	$2,913	$4,447
	2023-24	728	73	801
	2024-25	750	—	750
	2025-26	475	—	475
	2026-27	150	—	150
Totals		**$3,637**	**$2,986**	**$6,623**

[a]Pursuant to Control Section 11.96 of the *2022-23 Budget Act*, the Department of Finance shifted $887 million for the middle-mile network from ARP fiscal relief funds to GF in 2021-22.

[b]The remaining $2.363 billion in FF for the middle-mile network in 2021-22 is state ARP fiscal relief funds.

[c]Chapter 189 of 2023 (SB 104, Skinner) appropriated a $73 million award of federal funds in 2023-24 from the IIJA's Enabling Middle Mile Broadband Infrastructure Program.

[d]Pursuant to Control Section 11.96 of the *2022-23 Budget Act*, the Department of Finance shifted $522 million for last-mile projects from ARP fiscal relief funds to GF in 2021-22.

[e]The remaining $550 million in FF for last-mile project grants in 2021-22 is the state's allocation from the ARP's Coronavirus Capital Projects Fund.

GF = General Fund; FF = federal funds; TF = total funds; LLRF = Loan Loss Reserve Fund; ARP = American Rescue Plan; SB = Senate Bill; and IIJA = Infrastructure Investment and Jobs Act.

Status of the Statewide Open-Access Middle-Mile Network

As of January 29, 2024, the total estimated length of the statewide open-access middle-mile network upon its completion will be 10,513 miles. The table below provides a summary of the anticipated middle-mile network miles by delivery method. Leases and standalone Caltrans construction projects account for most of the network miles—8,616 miles or 82 percent of the total network. The remainder of the network miles are joint-build construction projects (that is, construction projects where the state is working with another party to build the network) and purchases.

Middle-Mile Network Miles by Delivery Method[a]

Delivery Method	Number of Miles	Percent of Total Network Miles
Leases	4,584	44%
Caltrans Construction Projects	4,032	38
Joint-Build Construction Projects	1,420	14
Purchases	477	5
Total	**10,513**	

[a]Data as of January 29, 2024.

Caltrans = California Department of Transportation.

As of February 6, 2024, the total estimated number of middle-mile network miles with encumbered funding (that is, appropriated funds that are committed to an unfilled purchase order or unfulfilled contract) is at least 6,500 miles. Based on responses provided by the Administration, the amount of encumbered funding for joint-build construction projects, leases, and purchases (about 6,500 miles) is, in general, more precise than for the standalone Caltrans construction projects (about 1,800 miles). Caltrans is continuing to finish the pre-construction work (design, environmental, and permitting work) on many of its projects. Caltrans expects to complete this work by the end of 2024, after which contracts and purchase orders will be finalized and more specific amounts of funding will be encumbered. Therefore, while some number of miles for the standalone Caltrans construction projects have encumbered funding, the exact number of miles is uncertain.

The following table provides a summary of the middle-mile network projects and related costs with at least some funding encumbered.

Middle-Mile Network Projects With Encumbered Funding

Project Name	Delivery Method	Miles	Estimated Cost (In Millions)	Encumbered Funding (In Millions)		
				TF	GF	FF
CVIN	Lease	2,522	$715	$715	$427	$288
Various	Standalone Caltrans Construction	1,800[a]	950	500[b]	—	500
Lumen	Joint-Build	1,186	257	257	—	257
Lumen	Lease	710	141	141	—	141
Digital 395	Purchase	435	31	31	31	—
Arcadian #1	Joint-Build	310	134	134	—	134
Arcadian #2	Joint-Build	280	171	171	—	171
Arcadian #3	Joint-Build	255	127	127	—	127
Zayo	Joint-Build	193	13	13	—	13
TPN	Lease	172	40	40	40	—
Siskiyou Telephone Company	Joint-Build	165	52	52	—	52
Arcadian #5	Joint-Build	117	38	38	—	38
Boldyn	Lease	81	79	79	—	79
Arcadian #4	Joint-Build	44	17	17	—	17
Vero	Joint-Build	24	7	7	—	7
Hoopa	Joint-Build	23	10	10	—	10
Subtotals		**8,317**	**($2,782)**	**($2,332)**	**($498)**	**($1,834)[c]**

Additional Costs	Estimated Cost (In Millions)	Encumbered Funding (In Millions)		
		TF	GF	FF
Administration	$250	$250	$8	$242
Conduit, Fiber and Vaults[d]	234	234	172	62
Electronics	215	—[e]	—	—
Huts[f]	69	69	61	8
Subtotals	**($768)**	**($553)**	**($241)**	**($312)**
Totals	**$3,550**	**$2,885**	**$739**	**$2,146**

[a]The exact number of miles of standalone Caltrans construction projects that can be funded with the $500 million in encumbered federal ARP fiscal relief funds is unknown. The 1,800-mile estimate also assumes at least $450 million GF, all of which is appropriated yet unencumbered, as well as an anticipated appropriation of $250 million GF in 2024-25.

[b]The $450 million difference between encumbered funding and the estimated cost of the standalone Caltrans construction projects is expected to be covered by appropriated yet unencumbered GF.

[c]This FF subtotal does not include the $73 million award of FF in 2023-24 from the IIJA's Enabling Middle-Mile Broadband Infrastructure Program.

[d]Conduit are physical tubes that encase fiber-optic cables. Vaults are protective shelters for network equipment that are close to the served area or household.

[e]Bids for network electronics remain under review, so no funding is encumbered yet for these purchase orders. CDT expects to encumber appropriated ARP fiscal relief funds for these costs once bids are reviewed.

[f]Huts are protective shelters for network equipment used for middle-mile broadband infrastructure.

TF = total funds; GF = General Fund; FF = federal funds; CVIN = Central Valley Independent Network; Caltrans = California Department of Transportation; IIJA = Infrastructure Investment and Jobs Act; ARP = American Rescue Plan; and CDT = California Department of Technology.

Budget Change Proposal

With approximately 8,317 miles out of the 10,513 miles under contract or under development, the Department requests additional resources to complete the remaining 2,200 miles of the middle-mile network.

The Governor's budget specifically requests:

- $500 million General Fund in 2024-25. Of that $500 million, $250 million is included in CDT's state operations budget as an anticipated appropriation based on uncodified statutory language adopted as part of the Budget Act of 2022. The Governor's budget requests a new, additional appropriation of $250 million in 2024-25 as part of CDT's MMBI proposal. CDT plans to use all $500 million requested on standalone Caltrans construction projects.

- $1.25 billion General Fund in 2025-26 as part of CDT's MMBI proposal. CDT plans to use all $1.25 billion requested on standalone Caltrans construction projects.

- Budget bill language that would allow the Department of Finance to increase the 2024-25 appropriation by $500 million should the project progress faster than anticipated.

- Conversion of 36 temporarily administratively created positions into permanent positions.

Of note, for these remaining 2,200 miles of standalone Caltrans construction projects, CDT issued a second RFI2 solicitation in November 2023. This RFI2 seeks to identify joint-build construction projects, leases, and/or purchases in place of the remaining standalone Caltrans construction projects. This is because, in general, those approaches are less costly than standalone Caltrans construction projects. It is possible that the outcome of this RFI2 process impacts the scope and costs of the remaining 2,200 miles.

Panel

- Liana Bailey-Crimmins, State Chief Information Officer and Director, California Department of Technology
- Mark Monroe, Deputy Director of Middle Mile Broadband Initiative, California Department of Technology
- Courtney Massengale, Finance Budget Analyst, Department of Finance,
- Brian Metzker, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

LAO Comments

Approve $250 Million General Fund in 2024-25 for Middle-Mile Network With New Provisional Budget Bill Language. We recommend the Legislature approve the $250 million General Fund included in CDT's operating budget as a planned appropriation in 2024-25. This funding would meet the Legislature's stated goal in SB 189 to provide additional funding for increased middle-mile network costs and, as presented in July 2023, allow CDT to build, lease, and purchase enough miles to deliver an operational middle-mile network. However, given the lack of critical information about middle-mile network construction, we also recommend the Legislature adopt provisional budget bill language that conditions this funding on more information about standalone Caltrans construction projects and other information that is deemed necessary for legislative oversight of middle-mile network implementation such as an initial draft of the business plan.

Reject Additional $250 Million General Fund in 2024-25, $1.25 Billion in 2025-26 for Middle-Mile Network. We recommend the Legislature reject the $1.5 billion General Fund in CDT's MMBI proposal—$250 million in 2024-25 and $1.25 billion in 2025-26. The serious budget problem in 2024-25 and significant projected budget deficit in 2025-26 do not support the substantial General Fund investment in this proposal, particularly when detailed information is unavailable and alternative funding sources may be explored.

Reject Provisional Budget Bill Language Allowing for Increases in 2024-25 Appropriation. We recommend the Legislature reject the provisional budget bill language that allows the Department of Finance to increase CDT's 2024-25 middle-mile network appropriation by up to $500 million. This is consistent with our recommendation on the $1.5 billion in CDT's MMBI proposal, as well as our assessment that the language does not reflect the administration's intent and complicates legislative oversight.

No Concerns With Positions Requested in CDT's MMBI Proposal. We have no concerns with ongoing funding for the 36 administratively established permanent positions that support CDT's middle-mile network implementation. Completion of the middle-mile network projects will take several more years and the maintenance, management, and operation of the network will be ongoing. We think the permanent positions that were established, based on an analysis of their workload, are warranted. We also have no concerns with related proposed provisional budget bill language allowing the administration to authorize up to three additional permanent positions. (The exact amount of funding to appropriate from CDT's MMBI proposal for these positions is unclear, but is likely in the millions of dollars.)

Staff Comments

Staff notes that as part of the Budget Act of 2023, CDT is required to deliver a report by March 1, 2024 to the relevant budget and policy subcommittees of the Legislature, the Joint Legislative Budget Committee, and the Legislative Analyst's Office on the MMBI. The report is required to include information on the state of the middle-mile network, detailing leases, purchases, construction plans, project locations, executed contracts, and funding updates. At the time of writing, this report – which contains critical information related to this budget request – has not yet been received.

The Subcommittee may wish to ask the following questions:

1. When will the Legislature receive the report on the MMBI, as outlined in Section 220 of AB 102 (Ting, Chapter 38, Statutes of 2023)?

2. Previous iterations of the MMBI anticipated the network to be approximately 8,100 miles. Why has the project grown to 10,513 miles?

3. Given that last-mile infrastructure is required to connect to the internet, how is CDT ensuring that middle-mile projects will eventually connect households? What coordination activities are taking place between CDT and the CPUC?

4. Does CDT have an update on developing a maintenance and operation plan for the MMBI?

5. Is CDT able to provide a visual map indicating construction project locations for the remaining 2,200 miles of the MMBI?

6. Does CDT have an update on the RFI2 process?

Staff Recommendation: Hold Open

1703 Privacy Protection Agency

The California Privacy Protection Agency (CPPA) is the state agency tasked with overseeing and enforcing the state's consumer privacy laws. The Agency was created as part of Proposition 24 (2020), which established new consumer privacy rights such as limitation on sharing personal data, correction of personal data, and limitation on the use of sensitive personal data. Proposition 24 directly appropriated from the General Fund $5 million in startup funds and $10 million per fiscal year thereafter for expenditure to support the operations of the CPPA.

Issue 6: Budget Change Proposal

The CPPA requests $177,000 in 2024-25 and ongoing from General Fund to account for the increase in the cost-of-living (COLA). The additional resources will be used to fund a graduate legal assistant to support the CPPA's Legal Division. Existing law provides that resources appropriated to the CPPA must be adjusted for cost-of-living changes every year for expenditure to support the operations of the agency.

Due to challenges in recruiting attorneys, the Agency administratively established two Graduate Legal Assistants (GLAs) positions to support its legal operations. However, since administratively established positions are temporary, this request will fund 1 permanent position authority to allow the Agency to continue to use the GLA as a pipeline to train and prepare candidates to compete for privacy attorney positions. According to the Agency, its Legal Division require support from these GLA positions to fulfill a variety of entry-level legal services, such as review and response to public comments during rulemaking and legal research and analysis of new and emerging privacy laws.

In addition to the using the COLA increase to cover one GLA position, the Agency will use the additional resources to cover the cost of contracts for legal and enforcement activities, such as economist services to support major rulemaking initiatives and research and case management software.

To enact yearly COLA increases, the Agency is requesting the following budget bill language:

"Pursuant to subdivision (a) of Section 1798.199.95 of the Civil Code, the amount appropriated to the Agency is to be adjusted annually for cost-of-living changes to support its operations. To calculate the cost-of-living changes, the Agency is to use the Consumer Price Index (CPI)-California, All Items, All Urban Consumers, Percentage change from the previous year report, published by the California Department of Industrial Relations, Office of the Director – Research, and determine the percentage change in the CPI from August of the current year to August of the previous year and apply it to the previous year's final appropriation. The Agency shall submit an expenditure plan to the Department of Finance that also includes the CPI calculation."

Panel

- Vongayi Chitambira, Deputy Director of Administration, California Privacy Protection Agency
- Maureen Mahoney, Deputy Director of Policy & Legislation, California Privacy Protection Agency
- Charlene Manning, Principal Program Budget Analyst, Department of Finance
- Taylor McRho, Staff Services Analyst, Department of Finance
- Brian Metzker, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

Staff Comments

Staff does not have concerns with the proposal.

The Subcommittee may wish to ask what strategies the CPPA has considered to overcome challenges with recruitment and hiring of attorneys.

Staff Recommendation: Hold Open

7760 Department of General Services

The Department of General Services (DGS) is the state department responsible for providing a variety of services to other state entities. These services include procurement, acquisition solutions, real estate management and design, transportation and fleet management, professional printing, design and web services, administrative hearings, legal services, oversight of structural, fire, and life safety, and more.

Issue 7: Budget Change Proposals and Trailer Bill

The Governor's budget includes six budget change proposals and one trailer bill:

Budget Change Proposal: Building Operations and Support Bateson Building

The Department requests $4,207,000 in 2024-25 and ongoing from the Service Revolving Fund and 36 positions to manage, operate, and maintain the newly renovated Gregory Bateson building in Sacramento.

DGS maintains a portfolio of state-owned facilities. To accommodate future growth and address issues with aging buildings, DGS published a "Sequencing Plan" to relocate tenants from the most deficient buildings and perform renovations while they are vacant. The Gregory Bateson Building has been under renovation since 2021-22 and is nearing completion. Tenants are anticipated to move in the beginning of December 2024, and will include the Energy Commission, Water Resources, Conservation, and the Office of Energy Infrastructure and Safety.

Renovations of the building incorporate a number of improvements to the fire and life, safety, and accessibility systems, repairs to historic elements, hazardous materials removal, replacement of the plumbing and heating, ventilating and air conditioning systems, and replacement of the electrical, telecommunications and security systems. The project also includes restoration of historic elements, provides a new office layout using modular furniture and optimizing occupant density.

As part of the Sequencing Plan, operations and maintenance staff previously assigned to the Bateson building were redirected to the Clifford L. Allenby Office Building when the renovation project began. The Allenby Building is a new structure, and the staff redirected to that building will not be returned to the Bateson building.

The requested resources will provide staffing for the renovated Bateson building. Positions include an office building manager, groundskeeper, electricians, engineers, and a custodial team.

The Gregory Bateson building was constructed in 1981. It was designated as historically significant in 2016 by the State Historic Preservation Officer due to its innovative design elements at the time of construction. The building was named after anthropologist and cyberneticist Gregory Bateson.

Budget Change Proposal: Increased Expenditure Authority for the Statewide Parking Program

The Department requests $2,486,000 in 2025-26, $2,600,000 in 2026-27 through 2029-30, and $886,000 in 2030-31 and ongoing from the Motor Vehicle Parking Facilities Money Account to support state employee parking operational costs, facility maintenance, and repair expenses. The Motor Vehicle Parking Facilities Money Account is primarily funded through parking fees.

DGS manages 25 parking facilities serving 120 different state agencies, departments, commissions, boards, and councils throughout California. Over the years, the Department implemented a comprehensive preventative maintenance plan for state parking facilities and identified parking facilities in need of Fire, Life, and Safety associated modifications, expanded daily parking services, and has added several parking facilities to their portfolio. According to DGS, the combination of these factors has created facility related maintenance and repair expenses that cannot be addressed within the program's current allocated resources.

The Department notes that the annual revenue generated by the program has increased from approximately $5.1 million in 2018-19, to $8.6 million in 2022-23, with revenues anticipated to remain consistent with revenue collected in 2022-23, which is sufficient to cover the requested ongoing increase in expenditure authority. DGS does not anticipate that future changes in the telework environment would significantly impact revenue.

Budget change Proposal: Increased Maintenance and Repair Cost Expenditure Authority for Fleet Operations

The Department requests $1,200,000 in 2024-25 through 2026-27 from the Service Revolving Fund to cover increased vehicle maintenance and repair expenses.

DGS provides a fleet of vehicles available for lease to support agencies' transportation needs, leasing approximately 4,600 vehicles to over 77 state departments and agencies. The Department is responsible for maintenance and repair expenses for all vehicles in its leased fleet.

Beginning 2021-22, the cost associated with vehicle maintenance and repair has increased roughly 20 percent over prior years. Factors for the increase include inflation, shortage of skilled technicians, increase in volume and complexity of vehicles with advanced technology, more expensive materials used in car manufacturing, and shortages of replacement parts.

Revenue to support fleet maintenance is generated through monthly leasing fees and mileage fees. The Department anticipates the program's revenue sources to remain steady in future fiscal years and will provide adequate coverage for the requested increase in expenditure authority of $1.2 million if this request is approved.

Budget Change Proposal Information Technology Workload Adjustment

The Department requests $1,801,000 in 2024-25 and $1,551,000 in 2025-26 and ongoing from various special funds and 14 positions to comply with Cal-Secure requirements for Disaster Recovery and Application Development.

Cal-Secure is the executive branch's information technology security roadmap, created by the California Cybersecurity Integration Center, the California Governor's Office of Emergency Services, the California Highway Patrol, the California Department of Technology, and the California Military Department. Cal-Secure aims to address gaps in the state's information and cybersecurity programs.

Cal-Secure is currently rolling out Phase 4 of its roadmap, which includes Disaster Recover and Application Development Security. Disaster Recovery enables an organization to respond to a disaster or an interruption in services by implementing a disaster recovery plan to stabilize and restore the organization's essential functions. Application, Development Security ensures that security, as part of the software development lifecycle, focuses on application confidentiality, integrity, and availability.

Requested resources will be used for various positions to support compliance with Cal-Secure Phase 4 capabilities. Additionally, the resources will cover costs of various security and network infrastructure such as ransomware data protection solutions.

Budget change Proposal: Office of State Publishing Material Purchase Authority

The Department requests $4,000,000 in 2024-25 and ongoing from the Service Revolving Fund to support increased cost and volume of paper and related publishing services.

The Office of State Publishing (OSP) is responsible for completing state printing jobs, and provides services to state, federal, county, and city agencies by providing printing, communication, and document management services. These services also include storage, mailing, and marketing, and document remediation to ensure accessibility compliance with state and federal Americans with Disability Act standards. As an example, OSP provides printing services for the Legislature, the Secretary of State, Child Support Services, DMV, Franchise Tax Board, and Department of Health Care Services, Department of Social Services.

The Department notes that the COVID-19 pandemic has resulted in significant impacts to the paper industry worldwide, with reductions in the capacity of domestic and international paper mills. Costs have also increased for related materials, including pallets, ink, and more—with some products increasing in costs by as much as 40 percent.

The requested allocation is requested to account for these increases and maintain production of government printing products.

Budget Change Proposal: Office of Sustainability Workload Adjustment

The Department requests $665,000 in 2024-25 and ongoing from various special funds and 4 positions for increased workload in its Office of Sustainability (OS).

OS develops and constructs renewable energy projects for state agencies across the California. Examples of projects include transitioning existing state buildings and parking garages to solar energy equipment, energy retrofitting, and developing infrastructure for electric vehicle charging stations at state facilities.

In addition to increasing workload, the Department notes that OS is responsible for new, more complex administrative duties, such as microgrid development, building certification, and building digital control management. Requested resources will fund 3 analysts and 1 project director.

Trailer Bill: Design-Build Authority

Existing law provides general authorization for certain state agencies to use the design-build procurement method for delivery of capital projects until January 1, 2025. Design-build refers to the specific approach that combines both the design and construction phases under a single contract with one entity. This approach contrasts with the traditional building process, where the project owner contracts with a designer to create the project plans and then separately with a builder to construct the project based on those plans.

At the time of the authorization, design-build was considered a new project delivery method and was only used for certain projects. The Administration requests trailer bill to eliminate the sunset date to allow current and future capital projects to continue using the design-build delivery method as appropriate. According to the Administration, design-build has proven to yield significant efficiencies for certain projects.

Panel

- Ana Lasso, Director, Department of General Services
- Heather Carlson, Chief Financial Officer, Department of General Services
- Natalie Griswold, Staff Finance Budget Analyst, Department of Finance
- Randall Katz, Principal Program Budget Analyst, Department of Finance
- Jared Sippel, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

Staff Comments

Regarding the Office of State Publishing, the subcommittee may wish to ask if the Department anticipates costs to continue increasing in the outyears and if so, at what levels.

Regarding the trailer bill, the subcommittee may wish to inquire if, over time, the state has moved towards design-build as the preferred method of delivery rather than the traditional design-bid-build.

Staff Recommendation: Hold Open

Issue 8: Update on Emergency Sleeping Cabins

In March of 2023, the Administration announced that it would deliver 1,200 emergency sleeping cabins – also referred to as small homes – in the County of Sacramento, the City of San Jose, the County of San Diego, and the City of Los Angeles to alleviate the homelessness crisis. To support the implementation of this initiative, the Budget Act of 2023 adopted trailer bill language to allow the Department of General Services to assist jurisdictions with the delivery and installation of the small homes and related improvements.

State funding for the small homes totals $80 million, provided through the Behavioral Health Continuum Infrastructure Program. Each local jurisdiction has received funding proportional to the number of beds to be allocated in each of the local sites.

An update on the bed capacity and site locations for each of the local jurisdictions is provided below:

- **Sacramento:** 350 beds, to be installed across two sites. DGS is currently providing support in installing the homes.

- **San Jose:** 200 beds, to be installed on a site leased by San Jose from the Valley Transportation Authority.

- **San Diego:** 150 beds, to be installed on state property.

- **Los Angeles:** 500 beds, with site selection ongoing.

Installation of the homes are anticipated to be completed in the Fall of 2024 for Sacramento, and Summer and Fall of 2025 for the remaining sites.

Panel

- Jason Kenney, Chief Deputy Director, Department of General Services
- Natalie Griswold, Staff Finance Budget Analyst, Department of Finance
- Jared Sippel, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

Staff Comments

The Subcommittee may wish to ask the following questions:

1. What factors caused the delay in the installation of the small homes?

2. Have all local jurisdictions secured the necessary funding to complete the delivery of the homes at all sites?

This item is informational only.

Issue 9: Update on State Employee Telework Policies

In response to the COVID-19 global pandemic, the Administration implemented several policies to facilitate remote and hybrid work schedules for state employees. These measures included (1) updating the Statewide Telework Policy to enable departments and agencies to offer more flexible remote work options; (2) launching a statewide telework dashboard to monitor, analyze, and evaluate various data points related to telework; and (3) negotiating telework stipends through labor agreements between the Administration and the state's various bargaining units to assist with the costs of working from home.

In April 2021, the Governor's Office issued a memo to department heads reinforcing that the Administration supported telework as a long-term strategy to decrease office space, allow more flexibility for employees, and build resiliency in the case of future emergencies that may require people to work outside the office.

The Governor's budget reflects a significant departure from these telework policies: it proposes to eliminate the telework stipend provided to state employee and does not renew funding for the telework dashboard, effectively terminating all telework data tracking operations. Additionally, the Governor's Office issued a letter to cabinet secretaries outlining a return-to-office plan for all state departments and agencies.

Background on Statewide Telework Policy

The Administration introduced in October of 2021 a revised Statewide Telework Policy – also known as State Administrative Manual Section 0181 – which set broad goals and directives for teleworking. The policy allowed individual state departments to design their own employee telework policy, provided they complied with statewide standards. This tailored approach aimed to provide each department with enough flexibility to address its unique operational needs through customized telework arrangements.

In January 2023, the Administration provided the following data on the state's workforce:

- 49.3% of employees were not eligible for telework.
- 38.7% of employees were remote-centered (teleworking more than half of the working day)
- 8.2% were office-centered (teleworking less than half of the working day)
- 3.8% were eligible for teleworking but choose not to.

In 2023, the Administration had also identified opportunities to save on rent and building leases, with 40 state departments working to consolidate space across 132 individual leases, which would have resulted in 1.16 million square feet of office space relinquished and annual savings of approximately $35 million. These savings would primarily be achieved by reducing leased spaces without incurring termination penalties or consolidating spaces due to reduced need for physical offices.

However, the Administration is now preparing to shift away from telework. In a recent letter to cabinet secretaries, the Governor's Office directed departments to implement a hybrid telework policy with an expectation of at least two in-person days per week, with exceptions to be determined at the department level on a case-by-case basis. The anticipated implementation date of this directive is June 17, 2024.

Statewide Telework Dashboard

The Budget Act of 2022 provided $1.9 million over two years and 10 positions to the Department of General Services to establish a Statewide Telework Unit. The unit is responsible for the support and oversight of state employee telework and established a data dashboard capturing various telework metrics in state government. In addition to identifying the number of state employees working remotely, the dashboard captured information such as average savings on commute time, driving distance, and vehicle expenses, as well as CO2 emissions avoided.

In March 2024, the Department of General Services sunset its entire telework website, including the telework dashboard. It is unknown if the data captured to date on telework has been archived or if is publicly available.

Budget Proposal: Elimination of the Telework Stipend

Across 2021 and 2022, the Administration and 17 of the state's 21 bargaining units entered into labor agreements establishing a stipend for teleworking state employees. Under those agreements, employees who telework more than 50 percent of their time receive $50 per month and employees who telework more than 0 percent but less than 50 percent of their time received $25 per month. In 2023, the Administration negotiated and the Legislature approved new MOUs with most of the state's workforce, and none of these new or proposed MOUs altered the telework stipend.

Beginning in 2024-25, the Governor's budget proposes eliminating the telework stipend established under the labor agreement side letters. The budget summary indicates that the state will attempt to negotiate with each bargaining unit to eliminate the stipend. Under the proposal, the stipends would be eliminated beginning with the July 2024 pay period.

Panel

- Katherine Minnich, Deputy Director, Administration, Department of General Services
- Paul Starkey, Deputy Director, Labor Relations, Department of Human Resources
- Natalie Griswold, Staff Finance Budget Analyst, Department of Finance
- Ryan Weinberg, Staff Finance Budget Analyst, Department of Finance
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

LAO Comments

Eliminating Telework Stipend Benefit Likely Would Require Trade-Off That Would Erode Savings. The telework stipend was established through the collective bargaining process. The benefit certainly is not the largest benefit earned by state employees, but at up to $600 per year per employee, it reasonably has become an expected part of state employees' compensation. State law has required our office to review labor agreements since the enactment of Chapter 499 of 2005 (SB 621, Speier). As regular observers of the collective bargaining process over the past couple of decades, we would expect there to be some sort of offsetting trade-off through the collective bargaining process—perhaps not immediately, but maybe when the current MOUs expire—that erodes the state's savings from eliminating the stipend. The trade-off might not fully eliminate the savings, but it likely would substantially erode the savings.

Any Future Reimbursements of Telework Costs Would Erode Any Savings. The side letter agreements explicitly state that upon ratification, no reimbursement claims will be authorized for costs incurred for telework—essentially establishing the stipend in lieu of reimbursement. Although some state departments are moving more employees to hybrid work schedules—increasing in-office work—telework will continue. The administration indicated that it does not anticipate that the state would reimburse employees for incurred telework costs if the telework stipend established by the side letters were eliminated; however, the administration also specified that reimbursement of telework-related expenses is a matter subject to the collective bargaining process. If the parties could not reach agreement to end the stipend and the Governor instead sought to eliminate the stipend unilaterally, it is possible that state employee unions would sue the state. To the extent that the state is required to reimburse teleworking employees for incurred telework costs—either as the result of labor agreements or court orders—any savings from eliminating the telework stipend would erode.

Implementing Proposal Seems Disproportionately Difficult for Modest Savings. The Governor proposes opening negotiations with all 17 of the affected bargaining units to achieve $26 million General Fund savings. This figure represents less than one-quarter of 1 percent of the state's General Fund payroll costs associated with these bargaining units and the associated excluded employees. While the cost of the telework stipend is small, based on anecdotal evidence, the ability to work remotely has been very popular among state workers and increasing in-office work poses challenges. This suggests that bargaining might be difficult and that the parties might not come to an agreement. Imposing the elimination of the stipend—if no agreement is reached—would have negative downstream effects on labor relations. Given all of this, implementing the Governor's proposal seems disproportionately difficult relative to the modest savings that would be achieved.

Staff Comments

The subcommittee may wish to ask the following questions:

Regarding the return-to-office directive:

1. What are the Administration's goals regarding hybrid work?
2. How does this directive impact state building leases that were originally identified as potential cost-savings due to the reduced office space needs?
3. How did the Administration identify two days as the in-office standard?

Regarding the telework Dashboard:

1. Will the Department continue any form of data collection and tracking for state employees that are remaining on a hybrid work schedule?
2. Will the telework data captured during the pandemic be made available?

Regarding the telework stipends:

1. What aspects, if any, of the hybrid workforce and the proposed elimination of the telework stipend will be determined through the collective bargaining process?
2. In the absence of a telework stipend, what obligation, if any, does the state have to reimburse state employees for costs incurred while working remotely?

Staff Recommendation: Hold Open

8260 California Arts Council

The California Arts Council establishes general policy and approves program guidelines and allocations for arts funding in the state. The Council accomplishes its mission through programs and partnerships that aim to support California's arts non-profit and cultural sector. Among its responsibilities, the Council promotes the employment and workforce development of artists, culture bearers, and cultural workers in both the public and private sectors; encourages artistic awareness, participation, and expression among Californians; collaborates with other state agencies to strengthen arts and creativity in all sectors throughout California; and administers grants to artists and arts organizations throughout the state.

Issue 10: Overview of Arts Council Programs and Trailer Bill

Overview of 2023-24 Funding Allocations and 2024-25 Programs

In 2023, the California Arts Council offered the following grant programs:

Arts & Cultural Organizations General Operating Support: This program offers general operating support for nonprofits to sustain arts infrastructure. Funds can support any eligible expenses associated with the general operations of an arts or cultural organization, including but not limited to rent, utilities, and staff salaries.

Impact Projects: This program supports collaborations between local artists and community members to develop projects that address a community-defined need. Collaborative projects use various creative practices to impact issues experienced by historically/systemically under-resourced communities.

State-Local Partners: This program provides general operating support and technical assistance for county-designated local arts agencies. The purpose of the program is to foster cultural development on the local level through a partnership between the State and the counties.

State-Local Partners Mentorship: This program is intended to support the establishment of a county-designated local arts agency in each of the four counties in which no such agency has currently been identified (Alpine, Glenn, Kings, San Joaquin).

Statewide and Regional Networks: This program supports networks of arts service organizations and artists, providing services such as capacity building, networking and professional development opportunities, financial support, technical assistance, and more to artists and nonprofits at statewide or at specific regional levels.

Folks and Traditional Arts: This program directs resources to artists and arts organizations at the local level in support of folk and traditional art forms, including but not limited to crafts, music, dance, ritual, and technical skills.

The total number of applicants, selected grantees, and amount awarded for each program is detailed in the chart below:

Program Name and Description	**Total Applicants**	**Total Grantees**	**Amount Awarded**
Arts & Cultural Organizations General Operating Support	1165	376	$8,236,530
Impact Projects	561	381	$8,213,897
State-Local Partners	52	52	$3,567,599
State-Local Partners Mentorship	2	2	$100,000
Statewide and Regional Networks	88	43	$1,853,625
Folks and Traditional Arts	16	2	$903,751
TOTAL	**1884**	**856**	**$22,875,402**

For the 2024-25 fiscal year, the CAC plans to offer the grant programs listed above, as well as three additional programs:

Arts Education Exposure: The program supports attendance at high-quality performances and exhibits for students who would particularly benefit from these experiences. Students may be identified as priority communities for participation due to socio-economic status, geographic region, or other aspects of students' life experiences that elevate the impact of having opportunities to engage with these cultural assets.

Arts Integration Training: The program supports nonprofit arts organizations and teaching artists to plan and deliver professional development in arts integration strategies to classroom teachers, as well as site, district, and county-level administrators.

Creative Youth Development: The program supports projects during or outside of traditional school hours and take place at arts and culture venues, community centers, court/school sites, juvenile halls and camps, county-operated correctional facilities, social services agencies, and other youth-oriented settings.

For 2024-25, the Governor's budget proposes $32 million General Fund for local assistance.

Trailer Bill: Teen Poet Laureate

Existing law establishes the California Youth Poet Laureate position, who is appointed by the Governor from a list of nominees 13 to 19 years of age. The list of nominees is provided by the California Arts Council through a prescribed selection process. Once appointed by the Governor, the Youth Poet Laureate serves a single term of two years and receives an annual stipend of $10,000.

The Administration notes that the name "Youth Poet Laureate" is subject to a copyright, and as a result the California Arts Council has been unable to issue the yearly stipend. The requested trailer bill would change the name of the position from "Youth Poet Laureate" to "Teen Poet Laureate" and make conforming changes.

Panel

- Danielle Brazell, CAC Executive Director
- Ayanna Kiburi, CAC Deputy Director
- Kristin Margolis, CAC Director of Programs Services
- Charles Lassalle, Finance Budget Analyst, Department of Finance
- Jared Sippel, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

Staff Comments

The subcommittee may wish to ask the following questions:

1. What has been the CAC's approach to ensuring grant funding reaches under-represented and under-resourced communities?

2. How does the CAC support organizations with limited resources with the grant writing process?

3. Can the CAC provide a breakdown of the grant funding issued in 2023 by county?

4. Under the CAC, the Budget Act of 2023 established and provided funding for the creation of a California Creative Economy Workgroup, tasked with developing a strategic plan for California's creative economy by June 30, 2025. Can the CAC provide an update on the workgroup?

Staff Recommendation: Hold Open

This agenda and other publications are available on the Assembly Budget Committee's website at: [Sub 5 Hearing Agendas | California State Assembly](). You may contact the Committee at (916) 319-2099. This agenda was prepared by Patrick Le.