AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

ASSEMBLYMEMBER WENDY CARRILLO, CHAIR

THURSDAY, MAY 27, 2021

9:30 A.M. - STATE CAPITOL, ROOM 437

Due to the ongoing COVID-19 safety considerations, including guidance on physical distancing, seating for this hearing will be very limited for the press and for the public. All are encouraged to watch the hearing from its live stream on the Assembly's website at https://assembly.ca.gov/todayevents.

We encourage the public to provide written testimony before the hearing. Please send your written testimony to: BudgetSub4@asm.ca.gov. Please note that any written testimony submitted to the committee is considered public comment and may be read into the record or reprinted.

*A moderated telephone line will be available to assist with public participation. The public may provide comment by calling the following toll-free number: **877-692-8957**, Access Code: **131 54 37**.*

VOTE-ONLY CALENDAR

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VOTE-ONLY CALENDAR

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VOTE-ONLY ITEMS

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
0515 BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY

VOTE-ONLY ISSUE 1: HOMELESSNESS PLAN

The Homelessness plan includes:

- **Dedicated resources for Budget year and out years**. With the opportunity to dedicate funding on a longer term basis, the Homelessness plan will provide dedicated funding for additional years with the goal of securing an ongoing funding stream for homelessness.

- **Combination of acquisition of units and flexible funding for homelessness programs**. Homekey has been successful in securing units at a rapid pace. It is the intent of the Legislature to build on this success by continuing the program. The HHAPP program has been successful in providing flexible funding for local entities to respond to the community's needs and to have a dedicated source of funding for our homeless youth.

- **Stronger Accountability measures.**

- **Flexible funding will include:**

    - Modifications to ensure that jurisdictions and COCs receiving these resources are spending down the monies.

    - The requirement that grant recipients do a regional gaps and needs analysis to assess what is missing from their current approach to solving homelessness and approaches on how to address it.

    - Additional accountability measures to ensure that progress is being made towards reducing homelessness.

- **HCFC:** The Homelessness plan proposes expanding HCFC's role. HCFC expanded role should include efforts to ensure that HCFC is supporting grantees in reviewing local programs, and focusing the use of state and local funding on filling the needs not currently being met in addressing homelessness. In order for HCFC to be successful with this added responsibilities, the Homeless plan proposes additional staff to do the following:

    - Evaluate and assess all state and local funding programs addressing homelessness.
    - Run HHAP and provide technical assistance to grantees.

- Support the continued growth and management of the Homeless Data Integration System (HDIS).

Staff Recommendation: Defer scoring and action to full committee

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

VOTE-ONLY ISSUE 2: INFILL INFRASTRUCTURE GRANT (IIG) PROGRAM AND TBL

The January budget included $500 million for the IIG program, including $250 million in 2020-21 (early action) and $250 million in 2021-22, with trailer bill language proposed to focus the $250 million in 2021-22 on brownfields development.

An April Finance Letter requested a reappropriation of $160 million in Veterans and Affordable Housing Bond Act of 2019 (Proposition 1) funds for the IIG originally appropriated in the 2020 Budget Act to extend the encumbrance period from June 30, 2021 to June 30, 2022. The April Finance Letter includes an additional $124.1 million in Proposition 1 funds for 2021-22 for IIG with an encumbrance period through June 30, 2023 and a liquidation date of June 30, 2026. This brings the total Proposition 1 funding for the IIG program to $284.1 million in 2021-22.

STAFF COMMENTS

The IIG program has proven to be an effective tool for local jurisdictions for predevelopment infrastructure and supporting projects to reduce overall project costs on infrastructure. The current IIG program has been oversubscribed in the last rounds, demonstrating a need for additional funding. The Governor's proposal focuses on brownfields for the $250 million. However, it is unclear what additional benefit the proposed focus on brownfields development creates relative to other forms of infill development.

Additionally, in 2019, the Legislature ensured that small jurisdictions could compete for funding without being crowded out by larger and better resourced jurisdictions. The Legislature may want to consider whether a set aside for small jurisdictions, or other mechanism to ensure geographic equity in funding distribution, is appropriate.

Staff Recommendation: Reject $250 million for 2020-21; Adopt $250 M (GF) for 2021-22; and approve $284.1 M in Prop. 1 funding; and adopt placeholder TBL

VOTE-ONLY ISSUE 3: HOUSING ON EXCESS LANDS TBL

The budget includes trailer bill language that makes a number of changes to state law to allow increased flexibility for the development of housing on state excess lands.

BACKGROUND

In 2019, Governor Newsom issued an executive order requiring the Department of General Services (DGS) and Department of Housing and Community Development (HCD) to identify viable state excess land for affordable housing development. Since then, the state has solicited developers to build affordable housing using innovative, creative, and streamlined development.

Trailer Bill Summary: Specifically, the proposed trailer provides flexibility and greater financial feasibility of affordable housing on excess sites, and permits:

- Commercial development necessary for the successful delivery of affordable housing
- Market-rate development with a floor of 20 percent affordable units when taking into account economic feasibility and site location
- Phased developments necessary for affordable housing and when it is in the best interest of the state
- Additionally, the trailer bill language permits HCD to sell property to a nonprofit or housing authority with a 30-day notification to the Joint Legislative Budget Committee outlining how a sale is in the best interest of the state.
- Finally, the trailer bill language requires HCD to focus on maximizing affordable units

STAFF COMMENTS

Generally, staff is ok with the concepts included in the TBL proposal. Updated TBL has not been released by DOF.

Staff Recommendation: Adopt placeholder TBL

VOTE-ONLY ISSUE 4: SCALING EXCESS SITES DEVELOPMENT – HOUSING INFRASTRUCTURE

The May Revision includes $45 million from the Coronavirus Fiscal Recovery Fund of 2021 in 2021-22, to expand the state excess sites program with funding for brownfield remediation, and trailer bill language to expand the state excess sites program with local government matching grants that will incentivize further affordable housing development on excess lands.

In addition, this request will allow the Department of General Services (DGS) at the discretion of HCD to approve Chapter 366, Statutes of 2017 (SB 35) applications on state excess land where the local government would be unable to take that action

BACKGROUND

In 2019-20, Governor Newsom issued Executive Order (EO) N-06-19 which required HCD to work with the Department of General Services (DGS) to make available state-owned excess sites for affordable housing development.

The Administration is interested in keeping momentum with the excess site program. Yet, in exploring the feasibility of affordable housing development on state excess sites, the HCD and DGS encountered two recurring problems: funding for environmental assessment/cleanup and financing affordable housing development.

To achieve EO timing goals, funding for environmental assessments and brownfield cleanup is needed. State lands were acquired for non-residential uses and many excess sites were never improved/used, so site mitigation is required to prepare the land for housing development. However, securing site mitigation funding is time intensive, costly, and may cause construction delays.

Financing affordable housing development is needed for some projects to achieve financial feasibility. Even shovel-ready excess sites developers are experiencing delays and uncertainty in securing funding commitments, as the affordable housing finance landscape is more competitive than ever. To address this problem and provide gap funding, the state could offer a local match program which would incentivize local jurisdictions to make financial and/or real property contributions to improve project feasibility of state-owned sites

STAFF COMMENTS

The program could have merit, but it is difficult to evaluate new proposals when trailer bill language is not available.

Staff Recommendation: Defer without prejudice

VOTE-ONLY ISSUE 5: HOUSING LAW ASSISTANCE IT

The May Revision includes $360,000 General Fund in fiscal year 2021-22 and ongoing to develop and operate a case management system at the Department of Housing and Community Development (HCD) to assist local governments in complying with housing element laws.

BACKGROUND

These resources would be part of HCD's proposed housing law assistance unit, as proposed in the Governor's Budget, and would augment the new unit in order to plan the procurement and implementation of a Software as a System (SaaS) Case Management System.

STAFF COMMENTS

On May 5, 2021, this Subcommittee approved the Housing Law Assistance program. These resources will complement that proposal.

Staff Recommendation: Adopt May Revision proposal

VOTE-ONLY ISSUE 6: REGIONAL PLANNING GRANTS – HOUSING INFRASTRUCTURE

The May Revision includes $500 million from the Coronavirus Fiscal Recovery Fund of 2021 in 2021-22 and trailer bill language to augment the Regional Early Action Planning Grants (REAP) program to support infill housing development and other actions that support reductions in vehicle miles traveled (VMT) in collaboration with the Strategic Growth Council (SGC), Governor's Office of Planning and Research (OPR), and the California Air Resources Board (CARB).

BACKGROUND

The 2019 Budget Act provided $125 million one-time for regional planning grants specifically to assist regional and local governments in planning and zoning to accelerate housing production and meet greater housing goals. The planning grants, administered by HCD in the REAP, have been in high demand by regional and local governments, which have used them to plan for additional housing development, especially in infill areas, near public transit, and in ways that that align with state planning priorities, housing, transportation, equity, and climate goals.

For example, so far REAP has supported the Sacramento Area Council of Governments in providing competitive grants to support their Green Means Go effort to accelerate housing production in green zones; the San Diego Association of Governments is using funds to create a new Housing Incentive Program that will align housing and transportation goals; Colusa County is using funds to support planning associated with expanded water, sewer, and transit necessary to promote infill development in core areas; and Butte County Association of Governments is using funds for planning with a particular focus on climate resiliency.

Since 2008, California's 18 metropolitan planning organizations (MPOs) have been drafting and adopting a Sustainable Communities Strategy (SCS) as part of their Regional Transportation

Plan (RTP). These regional plans are also developed in alignment with the Regional Housing Needs Allocation (RHNA) process. A region's SCS must also meet per capita GHG reduction targets (of up to 19 percent) established by CARB. The bulk of these per capita reductions result from reductions in VMT through better coordination of transportation and land use plans, policies, and investments. The ultimate goal of this effort is a California where residents have more equitable and affordable access to housing in infill areas, near jobs and services, as well as a range of sustainable transportation options.

STAFF COMMENTS

The 2019 REAP program was highly successful in providing tools to regions planning grants. This new program appears to build on the structure created by the Legislature. Additionally, this proposal appears to incorporate the goals outlined in AB 1147 (Friedman).

However, absent trailer bill language, staff cannot fully evaluate the program.

Staff Recommendation: Defer without prejudice

VOTE-ONLY ISSUE 7: MR INFRASTRUCTURE PACKAGE – ONE TIME DEFERRED MAINTENANCE

The May Revision includes $20 million in 2021-22 for critical repairs and deferred maintenance needs at the Office of Migrant Services housing centers throughout the state.

BACKGROUND

The January budget included $10 million General Fund for the most critical repairs and maintenance at the OMS centers. This proposal will augment the $10 million for a total of $30 million for the entire portfolio of needs at OMS.

STAFF COMMENTS

Staff supports using one-time funding for deferred maintenance. This proposal is consistent with the 2021 Assembly Blueprint in supporting farmworker housing.

Staff Recommendation: Adopt May Revision proposal

VOTE-ONLY ISSUE 8: AFFORDABLE HOUSING BACKLOG PRODUCTION – HOUSING INFRASTRUCTURE

The May Revision includes $1.75 billion from the Coronavirus Fiscal Recovery Fund of 2021 in 2021-22, and trailer bill language to provide capital to shovel ready projects in lieu of tax credit equity to proceed to development. This will maximize investments made into HCD-awarded projects that are currently awaiting a bond allocation for 4% tax credits.

BACKGROUND

HCD makes loans and grants available through more than 20 programs for: development and preservation of affordable rental and ownership housing, construction of public facilities and infrastructure, and to assist persons experiencing homelessness. HCD's programs are funded through general obligation bonds, revenue bonds, General Fund, and Federal funds.

The Federal Low-Income Housing Tax Credit Program (LIHTC) includes two different development funding tracks: competitive tax credits (9% credits) and tax credits available through tax-exempt bonds, also known as private activity bonds (4% credits). The California Tax Credit Allocation Committee (CTCAC) administers federal and state low-income housing tax credit programs to promote private investment in affordable rental housing for low-income Californians. CTCAC allocates 9% tax credits, which are subject to a federal cap and are highly competitive. CTCAC also allocates 4% tax credits that are not subject to a federal cap, and are not competitive, but can be paired with tax-exempt bonds administered by the California Debt Limit Allocation Committee (CDLAC). Federal law limits how much tax-exempt debt a state can issue, and the cap is determined by a population-based formula.

Most HCD-funded multifamily housing projects rely on tax credits for construction and long-term financing. However, the amount of financing available for affordable housing projects is greatly limited, as the demand of tax credits is expected to exceed the debt ceiling for the foreseeable future. In 2020, CDLAC reported to the Legislature that the demand for 9% tax credits was five times the amount of the debt ceiling. Consequently, CDLAC has instituted a competitive process for the award of 9% tax credits beginning in 2021

STAFF COMMENTS

This program is a $1.75 billion and trailer bill language is not available. The goal of increasing production is a high priority for the Legislature. However, the Legislature should be cautious of moving forward with this program without TBL.

Staff Recommendation: Defer without prejudice

VOTE-ONLY ISSUE 9: PRESERVATION INITIATIVE

The May Revision includes $300 million from the Coronavirus Fiscal Recovery Fund of 2021 Fund in 2021-22, and trailer bill language to recapitalize publicly funded projects that are at risk of going market rate to maintain affordability projects and maintain the state's affordable housing stock.

BACKGROUND

Affordable housing developed with funds from federal, state, and local governments have regulatory agreements to ensure the rental properties stay affordable for the long term. However, projects can be converted to market-rate rents once the regulatory agreements expire. In California, 18,043 affordable rental homes were converted to market-rate rents between 1997 and 2020, or an average of 784 per year. Currently there are 6,785 affordable rental homes at risk of conversion in 2021-22, and 21,862 at risk over the next five years. Many of these rental homes are eligible to refinance to remain affordable, but not all will do so. Losing affordable housing to market-rate rents can be extremely traumatic and disruptive for the residents and further exacerbate the State's shortage of affordable housing. Forty-three percent of the renters residing in these at-risk affordable homes are seniors, and forty-three percent are families.

HCD has a portfolio of projects with regulatory agreements that are at risk of converting to market rate housing over the next two years, and additional funding will preserve these projects as long-term affordable housing.

projects as long-term affordable housing.

HCD Projects At-Risk of Conversion

Description of HCD Projects	Expired Regulatory Agreements	Expiring in 2021	Expiring in 2022	Total
Number of Projects	37	9	14	**60**
Total Housing Units	1,059	150	489	**1,698**
HCD Assisted Housing Units	980	142	474	**1,596**
Assisted Unit Range	0-97	1-107	1-107	**-**
Avg Assisted Units per Project	27	37	37	**34**

STAFF COMMENTS

Affordable housing and preservation is a priority for the Legislature. This proposal has merit but is difficult to evaluate without trailer bill language.

Staff Recommendation: Defer without prejudice

VOTE-ONLY ISSUE 10: HOMEBUYER ASSISTANCE ECONOMIC IMPACT RELIEF

The May Revision includes $100 million one-time federal ARPA funds to CalHFA to expand its First Time Homebuyer Assistance Program.

BACKGROUND

CalHFAs First Time Homebuyer Assistance Program helps first-time homebuyers with making a down payment, securing a loan, and paying closing costs on a home.

The May Revision proposes to expand the existing program to lower-income households and expand CalHFA's lender network to help address the wealth gap, particularly in disadvantaged areas throughout the state. CalHFA has indicated that the program would aim to both expand eligibility and increase the size of individual awards, to assist lower income homeowners with the purchase of a home.

STAFF COMMENTS

This proposal is consistent with the 2021 Assembly Blueprint.

Staff Recommendation: Adopt May Revision proposal

VOTE-ONLY ISSUE 11: ACCESSORY DWELLING UNITS (ADUS) – HOUSING INFRASTRUCTURE

The May Revision includes an additional $81 million one-time federal ARPA funds to expand CalHFA's ADU program to inject a total of $100 million in available financing for ADUs.

BACKGROUND

ADUs have become an increasingly popular and cost-efficient tool to create needed housing. AB 101 (Committee on Budget), Chapter 159, Statutes of 2019 provided $19 million General Fund for CalHFA to finance ADUs for low- and moderate-income households, which is anticipated to begin in July 2021.

STAFF COMMENTS

The additional $81 million one-time federal ARPA funds requested would expand CalHFA's ADU program to infuse a total of $100 million in available financing for ADUs. Because ADUs have quicker local approvals, this proposal could further expedite low-cost production and more quickly increase the housing units statewide.

Staff Recommendation: Adopt May Revision proposal

VOTE-ONLY ISSUE 12: HOUSING NAVIGATOR FOR FOSTER YOUTH

The May Revision includes $5 million in 2021-22 and ongoing to support housing navigators to help young adults secure and maintain housing.

BACKGROUND

The Housing Navigator program allocates funding to counties for the support of housing navigators to help young adults aged 18 years and up to 21 years secure and maintain housing, with priority given to young adults in the foster care system. The program was previously suspended in the 2020 budget due to concerns about the state's fiscal condition.

STAFF COMMENTS

The Housing Navigator program plays an important role in helping a vulnerable population secure and maintain housing and complements the overall strategy of ending homelessness. Staff supports ending the suspension and funding the program.

Staff Recommendation: Adopt May Revision proposal

VOTE-ONLY ISSUE 13: FOSTER CARE TRANSITIONAL HOUSING EXTENSION

The May Revision includes $4 million in 2022-23, and $8 million General Fund ongoing to provide funding to support county transitional housing services for young adults, with a priority on serving former foster youth between the ages of 18 to 25.

BACKGROUND

The Foster Care Transitional Housing Program plays an important role in helping a vulnerable population secure and maintain housing. The requested resources will allow it to continue to play this role.

STAFF COMMENTS

Staff has no concerns with this program.

Staff Recommendation: Adopt May Revision proposal and adopt placeholder BBL

VOTE-ONLY ISSUE 14: MIXED INCOME PROGRAM

An April Finance Letter included $45 million in one-time General Fund resources to provide financing for low and moderate income multifamily housing projects. This will support the California Housing Finance Agency's Mixed-Income Program.

BACKGROUND

The CalHFA Mixed-Income Program (MIP) provides long-term subordinate financing for new construction of multifamily housing projects which restrict units at a mix between 30% and 120% of the Area Median Income. The program was created by SB 2 (Atkins), Chapter 364, Statutes of 2017, which established an annual appropriation to CalHFA for the purpose of creating mixed income multifamily residential housing for lower to moderate income households. CalHFA receives 15% of annual SB 2 for this purpose. For 2021, the Agency has also made available funds provided through AB 101 (Committee on Budget), Chapter 159, Statutes of 2019. AB 101 directs the funding to CalHFA to be used to finance low and moderate income housing.

STAFF COMMENTS

Staff has no concerns with this program.

Staff Recommendation: Adopt Spring Finance Letter

0515 BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY

VOTE-ONLY ISSUE 15: ENCAMPMENT CLEAN UP

The May Revision includes $50.3 million General Fund in 2021-22, $300,000 2022-23, and 2.0 limited-term positions for the Homeless Coordinating and Financing Council (HCFC)to partner with local governments and Continuums of Care, and assist in resolving critical encampments and transitioning individuals into permanent housing.

BACKGROUND

According to the U.S. Department of Housing and Urban Development's 2019 Point-in-Time count, about 151,000 people are experiencing homelessness at any given moment in California, and 108,000 of these individuals are unsheltered, meaning they were living in places not meant for human habitation. A portion of the state's unsheltered homeless population live in encampments in local parks, and along local streets and the state's highway system. Encampments along the state highway right of way have increased significantly over the last 10 years, with a continued increase over the past year as a result of the pandemic. Encampments along state highways can create health and safety hazards for individuals living in the encampments, motorists, and the environment. A data-informed and coordinated approach across state government and between state government and local communities is critical to creating long-term housing solutions for the thousands of individuals living in encampments throughout the state.

STAFF COMMENTS

Staff is working through new proposals and how they fit into the homelessness package.

Staff Recommendation: Defer without prejudice

VOTE-ONLY ISSUE 16: FAMILY HOMELESSNESS CHALLENGE GRANTS AND TECHNICAL ASSISTANCE

The May Revision includes $40 million General Fund in 2021-22 for the Homeless Coordinating and Financing Council (HCFC) to provide grants and technical assistance over 5 years to local jurisdictions to address family homelessness.

BACKGROUND

According to the U.S. Department of Housing and Urban Development's 2020 Point-in-Time count, families are the fastest-growing segment of Californians experiencing homelessness. Data from the Homeless Data Integration System (HDIS) shows there were 37,283 families experiencing homelessness that were served by the state's homelessness response system throughout 2020. Just under one-third of families served last year moved into permanent housing throughout the year, meaning an additional 22,781 permanent housing opportunities were needed to move all families experiencing homelessness into permanent housing in 2020. 55 percent of families experiencing homelessness in 2020 were newly homeless, meaning that if present trends continue, the state can expect roughly 20,500 new family households needing permanent housing in 2021, in addition to the 22,781 families that were not able to access permanent housing last year. The state can reverse this trend and take steps to end family homelessness by implementing a well-coordinated system that assures that homelessness is rare, brief, and non-reoccurring and connects families to services and housing.

STAFF COMMENTS

Staff is working through new proposals and how they fit into the homelessness package.

Staff Recommendation: Defer without prejudice

VOTE-ONLY ISSUE 17: FACILITY RELOCATION DUE TO RENOVATION

The May Revision includes $150,000 in fiscal year 2021-22 and $185,000 in 2022-23 and ongoing, with incremental adjustments to account for annual rent increases. This authority will cover one-time and ongoing facilities costs required to accommodate a mandated relocation from the current Business, Consumer Services, and Housing office.

BACKGROUND

BCSH is currently located in the Jesse M. Unruh Office Building. As part of the proposed Capitol Annex project, this building is slated for renovation. As such, HCFC requires funding for temporary “swing space” during this renovation. The swing space building is anticipated to be completed in October 2021 and will be used as swing space until 2026. After that, DGS expects the building to be ready for occupancy by its new tenants in 2027 or 2028. For HCFC and other tenants, it is anticipated that they will remain in their interim locations until the swing space building is ready for their use in 2027 or 2028.

STAFF COMMENTS

Staff has no concerns.

Staff Recommendation: Adopt May Revision proposal

VOTE-ONLY ISSUE 18: HOMELESSNESS LANDSCAPE ASSESSMENT

The May Revision includes $5.6 million one-time General Fund and 4.0 positions in 2021-22, $590,000 and 4.0 positions in 2022-23 to for HCFC to conduct an assessment of local homelessness service providers and state funded homelessness programs. The assessment will provide a detailed view of the range of services and strategies that are utilized at the local level and help determine if state investments are aligned with local homelessness response systems.

BACKGROUND

Current law establishes the Homeless Coordinating and Financing Council (HCFC) within Agency and sets several statutory goals, including serving as the statewide facilitator, coordinator, and policy development lead for homelessness at the state level; identifying and seeking homelessness funding opportunities; coordinating homelessness response efforts between state agencies, state departments, and local jurisdictions; and overseeing the state's implementation of Housing First.

STAFF COMMENTS

HCFC has indicated that they will contract with a vendor to complete a landscape assessment of the state's homelessness response systems. This assessment will focus on the local level and will identify providers across the local systems of response and classify programs based on the type of intervention or service, the stakeholders involved in administration and service delivery (nonprofit, public entity, public/private), and target population (people at risk, youth, those experiencing chronic homelessness, etc.). Additionally, HCFC will conduct a state funding analysis which will collect and aggregate data summarizing state funding to local systems of response.

During the Assembly budget hearings, the Assembly has focused in on what role the state should play in homelessness funding as well as identifying gaps and needs in homelessness at both the state and the local level. The May Revision proposal has merit and could further blend and braid these concepts together. The May Revise proposal could be expanded to a state gaps and needs analysis that evaluates both the resources available to address homelessness as well as the gap in resources. This analysis will allow the state and local governments to have a targeted, data-driven response to homelessness. The May Revise proposal could be expanded to include regional gaps and needs analysis to local data-driven solutions to homelessness. The state and local gaps and needs analysis would allow for greater accountability and evaluation of state and local investments. The US Department of Housing and Urban Development provides technical assistance to states and local government to complete a gaps and needs analysis which could offset the state's cost.

Staff Recommendation: Adopt May Revision proposal and adopt placeholder TBL

VOTE-ONLY ISSUE 19: PROVISIONAL LANGUAGE

The May Revision proposes provisional language for Item 0515-001-0001 to continue authorizing funding transfers, as appropriate, from local assistance that was appropriated in prior years with extended availability periods, to Program 0265-Homeless Coordinating and Financing Council for the administration of planning and progress grants to address homelessness

The requested provisional language was approved as part of the 2020 Budget Act, but was inadvertently excluded in the Governor's Budget. This would restore existing language in the current Budget until the funding availability expires.

STAFF COMMENTS

Staff has no concerns.

Staff Recommendation: Adopt placeholder language

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

VOTE-ONLY ISSUE 20: IBANK SMALL BUSINESS FINANCE CENTER AND SMALL BUSINESS LOAN GUARANTEES

The May Revision includes $70 million one-time General Fund for two initiatives at the California Infrastructure and Economic Development Bank (IBank):

- $20 million for the Small Business Loan Guarantee Program
- $50 million for the Small Business Finance Center, to use across programs including the California Rebuilding Fund

The May Revision makes the following changes:

- Reduces the funding for the Small Business Loan Guarantee Program from $50 million to $20 million in anticipation of federal State Small Business Credit Initiative funding. IBank asserts that state funds will allow it to sustain its small business loan guarantee activities until it receives the new federal funds. Moreover, IBank notes that its program fills gaps in the existing federal programs, such as funding business acquisitions or lending to businesses that are owned by undocumented immigrants, for example.
- Includes a requirement to notify the Joint Legislative Budget Committee if the Small Business Finance Center funding is not used for the Rebuilding Fund.
- Realigns the funding to the correct item.

STAFF COMMENTS

These items were heard on February 2, 2021. Staff has no concerns with the adjustments.

Staff Recommendation: Adopt May Revision proposals

VOTE-ONLY ISSUE 21: VISIT CA- TRAVEL AND TOURISM INDUSTRY ECONOMIC RECOVERY

The May Revision includes $95 million Coronavirus State Fiscal Recovery Fund in 2021-22 to implement strategic media and jobs recovery campaigns to kickstart the recovery of the travel and tourism industry. The California Office of Tourism, within the Governor's Office of Business and Economic Development, will work with Visit California to implement these marketing campaigns to encourage travel and tourism in California

STAFF COMMENTS

The subcommittee heard this item at the May 18, 2021, where $8 million was provided to Visit CA after 9/11 and Visit cCA was able to leverage this for a total of $25 million. In order to ensure that all aspects of the tourism industry should benefit especially those in the underserved communities, staff recommends funding Visit CA at the same amount as the original request from advocates at $45 million. Staff recommends redirecting the $50 million to other tourism benefits.

Additionally, staff recommends provisional language and placeholder trailer to add transparency and accountability to Visit CA.

Staff Recommendation: Adopt $45 million, provisional language and placeholder TBL

VOTE-ONLY ISSUE 22: CALIFORNIA JOBS INITIATIVE

The May Revision includes $1,350,000 (General Fund) and 10 positions in 2021-22 and ongoing, including six positions for California Competes, three positions for the California Office of the Small Business Advocate (CalOSBA), and one position for the Legislative and Inter-Governmental Unit.

BACKGROUND

The LAO recommends, consistent with their recommendation to reject the California Competes grants, to reduce this proposal by the six positions proposed for the California Competes program. In addition, the proposal for an ongoing increase of three positions for CalOSBA is not justified because that workload is temporary. The LAO recommends reducing this proposal to $535,000 for 2021-22 and $127,000 ongoing to fund three one-year limited-term positions for CalOSBA and one permanent legislative position.

STAFF COMMENTS

Staff agrees with the LAO recommendation.

Staff Recommendation: Approve $535,000 in 2021-22 and $127,000 ongoing to fund three one-year limited-term positions for CalOSBA and one permanent legislative position

VOTE-ONLY ISSUE 23: ECONOMIC SUPPORT FOR PORTS

The May Revision includes one-time funding of $250 million one-time Coronavirus State Fiscal Recovery Fund to allocate to California ports that provide a vital role in the state's economy.

BACKGROUND

California's 11 public ports were deemed essential early in the Covid-19 Pandemic, and were allowed to remain open so that essential goods could continue to reach consumers. Since the onset of the pandemic, California ports have faced abrupt, and in some cases dramatic, revenue shortfalls as cargo declined and tourism and recreational opportunities grounded to a halt.

STAFF COMMENTS

During the May Revision hearing, questions were raised about whether GO-Biz had adequate resources to administer the support for ports. Additionally more information was requested about how the funding would be allocated. Staff is working through these questions and therefore recommends deferring action on this item.

Staff Recommendation: Defer without prejudice

VOTE-ONLY ISSUE 24: SMALL BUSINESS GRANTS – ADDITIONAL ROUNDS AND TBL

The May Revision includes $1.5 billion one-time federal American Rescue Plan Act (ARPA) funds for the California Small Business COVID-19 Relief Grant Program, which is administered by the California Office of the Small Business Advocate (CalOSBA) within the Governor's Office of Business and Economic Development (GO-Biz). This would bring the total investment in this program to $4.075 billion, including the $500 million initial investment in November 2020 and the additional $2.075 billion expansion approved by the Legislature in February 2021.

BACKGROUND

California Small Business COVID-19 Relief Grant Program. At the state level, the California Small Business COVID-19 Relief Grant Program, administered by CalOSBA, has awarded $2.575 billion in grants to impacted small businesses. The program was initially authorized by Executive Order No. E 20/21-182 in November 2020, and received an $500 million allocation from the Disaster Response-Emergency Operations Account. An additional $2.075 billion was appropriated in February 2021 as part of SB 87 (Caballero), Chapter 7, Statutes of 2021, which also formally established the program in statute. CalOSBA used between four and five percent of this funding to contract with Lendistry, a California-based Community Development Financial Institution, to administer the program.

The funding was awarded over six rounds: two open rounds for the initial $500 million, a closed third round for previous applicants, a fourth round for nonprofit cultural institutions (with no limitation on annual gross revenue), and finally two open rounds. The last round closed on May 4, 2021. Approximately 198,000 small businesses either have been or will be awarded grants, with the majority going to the priority areas described above9. However, GO-Biz has reported that there are over 180,000 remaining applicants, representing roughly $2.5 billion in requests, who did not receive funding.

Proposed Expansion. The May Revision includes an additional $1.5 billion in federal ARPA funding to provide three additional rounds of grants through this program. CalOSBA would first administer two closed rounds to applicants who are currently waitlisted. Then, a final round would be opened for new applicants, as well as waitlisted applicants, to capture any entities who have not applied before or may still be on the waitlist.

STAFF COMMENTS

Staff will continue to work with the OSBA on how the funds will be administered through additional rounds and will ensure that the outreach provisions included in SB 87 are actually targeting those the program intended to target.

Staff Recommendation: Approve May Revision funding and adopt placeholder TBL

VOTE-ONLY ISSUE 25: CALIFORNIA DREAM FUND

The May Revision maintains the $35 million one-time General Fund proposal to support micro-grants up to $10,000 to seed entrepreneurship and small business creation in underserved groups that are facing opportunity gaps. The May Revision shifts the funding from FY 2020-21 to FY 2021-22. This item was heard in this subcommittee on February 10, 2021.

STAFF COMMENTS

Previous subcommittee action adopted the CA Dream Fund and placeholder TBL. The adoption of this action will score the funding the budget year.

Staff Recommendation: Adopt May Revision proposal and placeholder TBL

VOTE-ONLY ISSUE 26: FILM AND TELEVISION TAX CREDIT

The May Revision includes $30 million for a one-time expansion of the Film and Television Tax Credit in 2021-22. The expansion would be used to target relocating television series.

BACKGROUND

The California Film Commission administers the Film & Television Tax Credit Program 3.0 which provides tax credits based on qualified expenditures for eligible productions that are produced in California. The $1.55 billion program runs for 5 years, with a sunset date of June 30, 2025. Each fiscal year – July 1 to June 30 – the $330-million funding is categorized in: TV Projects, Relocating TV, Indie Features, and Non-Indie Features.

Film and television production was halted by the pandemic-related public health restrictions for several months in 2020. Unemployment in this industry was relatively high. While employment in film and television production has not yet fully recovered, the situation has significantly improved in recent months. According to the film commission, this funding will incentivize and relocate more film and television back to California post-pandemic.

STAFF COMMENTS

In a year that has focused on equity and diversity, a top priority when the State is considering increases to the film tax credit should be both equity and diversity. Therefore, in addition to the approval of the $30 million, staff recommends adopting placeholder TBL that requires the Film Commission to report annually on the diversity of the motion picture production industry in California and the representation of women and ethnic and racial minorities in film and television productions and talent allocated tax credit.

Additionally, for the next three years, the Film Commission's report must include recommendations for statutory or regulatory changes to improve diversity and equity, including measurable outcome metrics.

Staff Recommendation: Adopt May Revision and placeholder TBL

VOTE-ONLY ISSUE 27: CALCOMPETES GRANT PROGRAM AND EXPAND CAL COMPETES TAX CREDIT AND TBL

The Governor's January budget proposed the following changes to California Competes:

- **Governor's January Budget Proposed Expansions to California Competes.** The California Competes program awards income tax credits to attract or retain businesses considering a significant new investment in California. The Governor's January budget proposed to increase the total amount of California Competes credits that GO-Biz may award in 2020 21 and 2021 22 by $90 million per year. Additionally, the Governor's budget included $250 million General Fund to create a new California Competes grant program.

- **$250 Million Grants Funded Using Federal Funds.** The May Revision proposes to use federal fiscal relief funds instead of General Fund money. In addition, the proposal to increase the size of the tax credit program was modified to increase the additional amount in 2021-22 from $90 million to $180 million.

BACKGROUND

The LAO stated their longstanding concerns about the effectiveness of this program. In contrast to other business support programs like the Main Street Credit, does not target those industries that were most severely affected, by the pandemic. The LAO recommended rejecting the proposal. Should the Legislature wish to use these funds to support private firms impacted by the pandemic, it could consider reallocating these resources for better-targeted financial assistance, such increasing the amount of COVID-19 Relief Grants.

STAFF COMMENTS

This item was discussed at length at the February 2, 2021, hearing where concerns were raised. Staff recommends rejecting this program. Future changes to the CA competes program should run through the policy process where a thorough analysis can be completed on the program.

Staff Recommendation: Reject Governor's proposal

7730 FRANCHISE TAX BOARD

VOTE-ONLY ISSUE 28: EARNED INCOME TAX CREDIT – AMERICAN RESCUE PLAN ACT AND IHSS

The May Revision proposes $2.8 million General Fund, one-time, and 45.0 permanent-intermittent positions in 2021-22 to allow FTB to proactively provide assistance to those taxpayers who have already filed a return and are impacted by the retroactive provision enacted in the American Rescue Plan Act (ARPA) and a recent opinion issued by the Office of Tax Appeal (OTA) related to what qualifies as earned income for the purposes of computing the California Earned Income Tax Credit (CalEITC).

BACKGROUND

There were recently two changes that impacted the calculation of CalEITC, Young Child Tax Credit (YCTC), and potentially the Golden State Stimulus payments:

1. The ARPA was signed into law on March 11, 2021. One of the provisions of the ARPA was a federal income exclusion of up to $10,200 ($20,400 for Married Filing Joint) of Unemployment Insurance (UI) income received in the 2020 tax year. This would result in a lowering of the taxpayers federal Adjusted Gross Income for the year, which is the starting income for California's EITC. For federal purposes, the IRS has committed to proactively assisting taxpayers who have already filed a return to correct their federal EITC without requiring them to file an amended return. For taxpayer's who have filed a return but did not originally claim the federal EITC, taxpayers are required to file a federal amended tax return. FTB is proposing to adopt the IRS treatment. For taxpayers who have already filed a return and claimed the CalEITC, FTB will allow the proper amount of CalEITC onto these accounts without action from the taxpayer, where possible. For those that have already filed a return and are now eligible for the CalEITC for the first time, FTB will work with these taxpayers as desired to file an amended return.

   FTB has identified almost 1 million taxpayers (as of 4/14/21) who have already filed a California tax return for the 2020 tax year and the CalEITC may be misstated due to this issue. Of these taxpayers, over 600,000 have claimed the CalEITC and have UI income. Due to the newly enacted federal law provision excluding UI income, these taxpayers may now qualify for a larger CalEITC or YCTC. As possible, FTB will adjust these taxpayers' accounts and issue any additional refunds.

   For another 300,000 plus taxpayers who did not claim the CalEITC on their original return, but now might qualify for the credit, FTB will notify these taxpayers, and where appropriate, provide FTB Form 3514 (California Earned Income Tax Credit) to claim the refund.

2. In a recent OTA decision, it was held that certain IHSS payments can be included as earned income for purposes of determining the CalEITC at the taxpayer's election.

   FTB has identified about 100,000 taxpayers who have already excluded the IHSS income from the CalEITC calculations, which now can be included as earned income. This includes tax returns that have an open statute at this point in time. As possible, FTB will assist these taxpayers to correct their CalEITC computation with an amended FTB Form 3514.

In addition, FTB has potentially identified another 100,000 taxpayers who did not claim the CalEITC on their original return, but now might qualify for the credit as a result of this decision. FTB will notify these taxpayers, and where appropriate, allow taxpayers to provide FTB Form 3514 (California Earned Income Tax Credit) to claim their refund.

STAFF COMMENTS

The resources are needed to allow FTB to issue refunds without adding any financial burdens and hardship to our most vulnerable Californians.

Staff Recommendation: Adopt May Revision proposal.

VOTE-ONLY ISSUE 29: GOLDEN STATE STIMULUS 2.0 AND TBL

The May Revision includes $8.1 billion for an additional Golden State Stimulus (GSS) payment, including:

- $600 payments for filers earning up to $75,000 who did not already receive a GSS payment (approximately 9.4 million filers)
- An additional $500 to filers with a dependent making up to $75,000 (approximately 4.3 million filers)
- An additional $500 to Individual Taxpayer Identification Number (ITIN) filers that earn up to $75,000 and have a dependent (approximately 520,000 filers)

BACKGROUND

In addition, $3.4 million and 46.6 positions are proposed for the FTB to administer the GSS 2.0. This would bring the total investment in the GSS to $11.9 billion. The first GSS payment, which was approved by the Legislature in February 2021, included $600 payments to filers making up to $30,000, with additional $600 payments to ITIN filers making up to $75,000, families enrolled in CalWORKs, and individuals enrolled in Supplemental Security Income or Cash Assistance Program for Immigrants.

STAFF COMMENTS

Many undocumented Californians do not currently have ITINs, which are issued at the federal level. However, there is currently a large backlog in processing those applications, and it could take months for someone to obtain an ITIN if they don't already have one. The state's programs focus on those who have ITINs therefore it is important that additional resources are directed to outreach to help undocumented Californians navigate this process.

Staff recommends extending the timeline past October for individuals to apply for obtain an ITIN if needed.

Staff Recommendation: Adopt May Revision proposal and placeholder TBL.

VOTE-ONLY ISSUE 30: GOLDEN STATE STIMULUS OUTREACH AND FUNDING

The May Revision proposes to reappropriate $2 million or whatever greater or lesser amount of the unexpended outreach funds appropriated to the FTB by AB 81 (Ting), Chapter 5, Statutes of 2021, for the continued provision of outreach for the Golden State Stimulus.

BACKGROUND

AB 81 appropriated $5 million from the General Fund to the FTB to be allocated to existing California Earned Income Tax Credit for outreach contracts to provide increased awareness of the Golden State Stimulus.

STAFF COMMENTS

Staff has no concerns.

Staff Recommendation: Adopt May Revision proposal.

VOTE-ONLY ISSUE 31: FTB CENTRAL OFFICE CAMPUS

The May Revision $1.6 million General Fund for Preliminary Plans ($680,000) and Working Drawings ($937,000) phases in 2021-22. The project includes upgrades to the existing data center within the existing Los Angeles building and Sacramento building; HVAC systems and controls, upgrade of the entire electrical infrastructure, fire protection upgrades, telecommunication upgrades and mechanical system upgrades to achieve mandated energy efficiency requirements.

BACKGROUND

The FTB Data Center is a continuous operation that houses critical IT infrastructure allowing FTB to maintain day-to-day operations and generate revenue for the State of California. FTB currently maintains a Tier III equivalent Data Center, indicated in SAM Section 4982.1, which is housed in two locations in FTB's Sacramento Central Office Campus in Sacramento. The Los Angeles Building Data Center, was commissioned in 1985 and the Sacramento Building Data

Center, was commissioned in 2005. The total space of the two locations encompasses approximately 26,000 square feet.

As a Tier III equivalent Data Center, FTB requires perpetual, uninterrupted power and cooling. FTB Data Centers currently do not meet numerous required California executive orders and statewide energy efficiency mandates. Resources requested in this will allow FTB to comply with these standards.

The FTB Data Center is an interminable operation that houses critical IT infrastructure necessary for FTB to provide critical services to California taxpayers. FTB's return and payment processing systems have a goal of zero downtime because they are utilized by California taxpayers and almost 6,000 FTB staff in processing 21 million returns and 14 million payments per year and serve FTB compliance and service functions.

STAFF COMMENTS

Adoption of this proposal is consistent with approval of current deficiencies related to aging equipment and offices proposed to be funded by one time monies.

Staff Recommendation: Adopt May Revision proposal.

VOTE-ONLY ISSUE 32: EITC AND ITIN OUTREACH

The Assembly proposes adding $10 million ongoing for EITC and ITIN outreach.

STAFF COMMENTS

The state has created a comprehensive EITC tax credit and expanded it to include ITINs. During the pandemic we found that our undocumented populations were the most vulnerable and the State faced numerous challenges providing aid to these communities. In an effort to provide resources for those applying for EITC and ITINS, it makes sense to provide resources for outreach.

Staff Recommendation: Adopt $10 million for outreach.

VOTE-ONLY ISSUE 33: ELECTIVE S-CORP TBL

The Governor's budget proposes to allow California Personal Income Tax (PIT) filers with income from S corporations to pay an optional 13.3 percent tax at the entity level. This 13.3

percent rate is equal to the top PIT marginal rate. In return, the filer would receive a nonrefundable credit for their full share of the new S corporation tax.

BACKGROUND

An S corporation is a corporation that elects to be taxed as a pass-through entity. Income, losses, deductions, and credits flow through to the shareholders, partners, or members. They then report these items on their personal tax return. Some key features of S corporations are:

- They do not pay federal income taxes.
- California taxes every S corporation that has California source income at 1.5 percent.
- They are limited by the types of owners (shareholders) and cannot exceed 100 shareholders.
- A separate bank account and separate records are required with this form of business.
- S corporations are subject to the annual $800 minimum franchise tax.

For many individuals with S corporation income, electing to pay the new S corporation tax would reduce their total federal and state taxes. The new state S corporation tax would reduce these taxpayers' federal taxable income, resulting in lower federal taxes. At the same time, they would receive a state PIT credit to compensate for the increased cost of the new S corporation tax. The LAO points out that for most taxpayers with incomes of $1 million or more, the state PIT credit would fully offset the cost of the new S corporation tax. For most of those with incomes below $1 million, the credit would offset most, but not all, of the increased cost. Regardless, total federal and state taxes would go down for both groups. This would help taxpayers recoup some of the tax benefits lost by Californians when the State and Local Tax deduction was limited as part of the 2017 federal Tax Cut and Jobs Act.

STAFF COMMENTS

The LAO finds that the general concept behind the Governor's proposal has merit: to restructure state tax payments of certain business owners in a way that reduces their federal taxes without reducing state tax collections. There are various ways, however, the Legislature could carry out the general aim of the Governor's proposal. These alternatives warrant the Legislature's consideration. Given the complexities of this issue and its limited relevance to the state budget, the LAO suggest that the Legislature consider such alternatives in the policy committee process.

Staff Recommendation: Adopt placeholder TBL.

VOTE-ONLY ISSUE 34: MAINSTREET TAX CREDIT AND TBL

The Governor's budget includes $100 million General Fund for the Main Street Small Business Tax Credit (Main Street Credit), a tax credit for small businesses that increase their number of employees.

BACKGROUND

In September 2020, the Legislature created the Main Street Credit, which provides income or sales tax credits to eligible small businesses that added jobs in the second half of 2020. Each eligible business receives a credit of $1,000 for each new job. Eligibility is restricted to firms that meet two conditions: (1) they have 100 or fewer employees and (2) their gross receipts dropped by at least half between the second quarter of 2019 and the second quarter of 2020. These eligibility criteria were patterned, in part, after the federal Employee Retention Credit (ERC). The state capped the total amount of credits available to all businesses at $100 million and allotted the credits on a first-come, first-served basis.

STAFF COMMENTS

The Subcommittee heard this item on February 2, 2021. There were no concerns.

Staff Recommendation: Approve as budgeted and adopt placeholder TBL.

VOTE-ONLY ISSUE 35: DONATED FRESH FRUIT OR VEGETABLES CREDIT

Trailer bill language is being consider to extend the Donated Fresh Fruit or Vegetable Credit.

BACKGROUND

The Donated Fresh Fruit or Vegetables Credit is an income tax credit that allows a qualified taxpayer to receive a credit equal to 15 percent of the qualified value of the qualified donation items of fresh fruits or fresh vegetables donated to a California Food Bank. The current credit ends on January 1, 2022. Extending the credit is projected to result in revenue losses of $100,000 in 2021-22, growing to $350,000 in 2023-24.

STAFF COMMENTS

This tax credit helps enable producers to donate food products to California food banks and get nourishing food into the hands of individuals, children, and families.

Staff Recommendation: Adopt placeholder TBL.

7600 CALIFORNIA DEPARTMENT OF FEE AND TAX ADMINISTRATION

VOTE-ONLY ISSUE 36: USED MOTOR VEHICLE SALES TAX GAP

The May Revision includes $5,889,000 General Fund in 2021-22 to reimburse the Department of Motor Vehicles (DMV) for the costs associated with the passage of Chapter 8 of the Statutes of 2020 (AB 85) and Chapter 14 of the Statutes of 2020 (AB 82). Of the $5,889,000, $4.4 million is for IT development costs and $1.5 million is for administrative costs. Of the $5,889,000, $3.75 million is for DMV Reimbursement authority for the costs associated with the design of the IT project and administration of the program. Provisional language is being requested to provide the remaining $2.15 million contingent upon approval of the IT project, by the Department of Finance (DOF), and the Joint Legislative Budget Committee (JLBC). The DMV will be responsible for the collection of sales taxes on retail sales of used motor vehicles on behalf of the CDTFA.

STAFF COMMENTS

Staff has no concerns.

Staff Recommendation: Adopt May Revision proposal.

VOTE-ONLY ISSUE 37: DIAPER AND MENSTRUAL PRODUCTS SALES TAX EXEMPTION

The May Revision proposes trailer bill language to indefinitely extend the sales and use tax exemption for the sale or, or the storage, use, or other consumption of diapers for infants, toddlers, and children and menstrual hygiene products.

BACKGROUND

The sales and use tax exemption for diapers and menstrual products currently sunsets on July 1, 2023.

STAFF COMMENTS

Staff has no concerns.

Staff Recommendation: Approve placeholder trailer bill language to indefinitely extend the sales and use tax exemption for diaper and menstrual products

9210 LOCAL GOVERNMENT FINANCING

VOTE-ONLY ISSUE 38: PROPERTY TAX BACKFILL FOR 2020 WILDFIRES

The Administration requests $11 million to backfill property tax losses for the 2020 wildfires. This request would include the counties of Butte, Fresno, Lake, Lassen, Los Angeles, Madera, Monterey, Napa, Nevada, Orange, San Bernardino, San Diego, San Mateo, Santa Cruz, Siskiyou, Solano, Sonoma, Trinity, Tulare, and Yolo.

STAFF COMMENTS

Staff has no concerns.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 39: ASSESSMENT APPEALS BOARD DEADLINE EXTENSION

The May Revision includes trailer bill language to extend the deadline to allow assessment appeals board to hear cases remotely from March 31, 2021 to December 31, 2021.

BACKGROUND

The 2020 Budget extended the deadline for decisions in pending assessment appeals cases to March 31, 2021 and provided explicit statutory authority to conduct assessment appeals hearings remotely. These important provisions were intended to allow counties to safely conduct assessment appeals hearings and ensure that boards were able to finalize rulings on appeals that were nearing the statutory deadline. While in a few counties these provisions were sufficient to allow for disposition of backlogged cases, in many others, the backlog has persisted and grown substantially. An extension of the statutory deadline to December 31, 2021 is necessary to ensure the appropriate adjudication of these cases.

STAFF COMMENTS

Staff has no concerns.

Staff Recommendation: Approve placeholder TBL.

VOTE-ONLY ISSUE 40: LOCAL GOVERNMENT BACKFILL

The budget includes $10.1 million General Fund to reimburse San Mateo County for Vehicle License Fee backfill insufficiencies in 2019-20 driven by insufficient Educational Revenue Augmentation Fund (ERAF) revenues.

STAFF COMMENTS

This item was heard on March 9, 2021. No concerns were raised.

Staff Recommendation: Approve as Budgeted.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

VOTE-ONLY ISSUE 41: HOUSING EQUITY OUTREACH AND ENFORCEMENT

The budget includes $2.2 million General Fund in 2021-22 and $1.7 million General Fund in 2022-23 and ongoing and eight positions to: expand the Department's multi-lingual education and training efforts to reduce discrimination in housing and employment; build a fair housing testing program and attendant enforcement capability; study housing discrimination amid COVID-19; and provide expertise on landlord-tenant issues to strengthen the state's response to the COVID-19 pandemic; enhance the state's commitment to equity; and help keep Californians housed and employed in the long-term.

STAFF COMMENTS

This item was heard at the March 9, 2021, hearing. There were no concerns at the time.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 42: SB 973 CLEAN UP TBL

SB 973 authorizes DFEH to receive, investigate, conciliate, mediate, and prosecute complaints alleging practices unlawful under those discriminatory wage rate provisions. It requires DFEH, among other things and in coordination with the Department of Industrial Relations, to adopt procedures to ensure that the departments coordinate activities to enforce those provisions.

BACKGROUND

The proposed trailer bill language would add DFEH to the list of entities permitted to use information obtained in the administration of the Unemployment Insurance Code, and would authorize the department to use the information to carry out its duties, including ensuring compliance with specified pay data reporting requirements. This is intended to make it easier for DFEH to perform its duties under SB 973.

Staff Recommendation: Adopt Placeholder trailer bill language.

1701 DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

VOTE-ONLY ISSUE 43: ADJUSTMENT TO DEBT COLLECTOR LICENSING AND REGULATION (SB 908)

The May Revision proposes a reduction of the resources included in the Governor's Budget to license, examine, and regulate debt collectors under the provisions of SB 908 (Wieckowski), Chapter 163, Statutes of 2020.

The Governor's Budget proposal requested an increase in expenditure authority of $10.7 million Financial Protection Fund and 44.0 positions in 2021-22, $10.3 million and 51.0 positions in 202223, and $10.9 million and 55.0 positions in 2023-24. The department requests a reduction in expenditure authority of $4.9 million and 21.0 fewer positions in 2021-22, $5.3 million and 28.0 fewer positions in 2022-23, and $6.0 million and 32.0 fewer positions in 2023-24. The total net resources needed to license, examine, and regulate debt collectors is:

- $5.8 million and 23.0 positions in 2021-22,
- $5.0 million and 23.0 positions in 2022-23, and
- $4.9 million and 23.0 positions in 2023-24.

BACKGROUND

The Governor's Budget proposal was based on debt collection data provided by the Consumer Financial Protection Bureau. From this data, it was estimated that the Department would license approximately 7,000 debt collectors.

Since January 2021, the Department has received additional data from industry experts and other states. Analysis of this more recent data indicates that the debt collector population in California may be closer to 3,500 licensees. The data provided by industry included the number of debt collectors operating in states throughout the nation. When comparing this data to US

Census data on state population size, there appears to be a relationship between the number of debt collectors operating in each state and that state's population. Texas reported 2,372 debt collectors and a population of 28.9 million. California, with a population of 39.5 million and more robust consumer protection laws, will likely have closer to 3,500 debt collectors.

The decrease in the expected number of licensees, from 7,000 to 3,500, will reduce the program workload and the number of staff needed to implement SB 908. This request reduces the number of staff and the expenditure authority needed to license and regulate debt collectors.

The implementation of the Debt Collector program is intertwined with the resources the Department received beginning in 2020-21 to register and oversee the new entities covered under the California Consumer Financial Protection (CCFP) program. Debt collectors are a subset of these expected new registrants and, as a result, some resources are being redirected from the CCFP program to the Debt Collector program.

STAFF COMMENTS

How DFPI and SB 908 would interact was a large part of the discussion last year when creating DFPI. Staff supports the decreases in resources and looks forward to continuing oversight of the DFPI.

Staff Recommendation: Adopt Governor's budget, adopt May Revision adjustment BCP and adopt placeholder TBL.

6645 AUGMENTATION FOR CSU HEALTH BENEFITS FOR RETIRED ANNUITANTS

VOTE-ONLY ISSUE 44: 2022 HEALTH RATE ESTIMATE REDUCTION

The May Revision proposes that Item 6645-001-0001 be decreased by $2,261,000 ongoing to reflect a revised health rate forecast of 6 percent growth in 2022 versus 7 percent at Governor's Budget. The assumed lower-than-expected premium increase is a function of CalPERS' risk mitigation strategies, service area expansion, and the addition of health plans in 2022.

Staff Recommendation: Adopt May Revision proposal.

9650 AUGMENTATION FOR HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

VOTE-ONLY ISSUE 45: 2022 HEALTH RATE ESTIMATE REDUCTION

The May Revision proposes that Item 9650-001-0001 be decreased by $15,452,000 ongoing to reflect a revised health rate forecast of 6 percent growth in 2022 versus 7 percent at Governor's Budget. The assumed lower-than-expected premium increase is a function of CalPERS' risk mitigation strategies, service area expansion, and the addition of health plans in 2022.

Staff Recommendation: Adopt May Revision proposal

VARIOUS

VOTE-ONLY ISSUE 46: SUPPLEMENTAL PENSION PAYMENT AND TBL

The May Revision proposes adjustments to specific funds' assessments for repayment of the loan authorized by Chapter 50, Statutes of 2017 (SB 84). SB 84 directed an internal cash loan from the Surplus Money Investment Fund and other state funds that accrue interest to the General Fund to make a one-time $6 billion supplemental pension payment in fiscal year 2017-18 to the California Public Employees' Retirement System (CalPERS). SB 84 requires all funds that pay CalPERS contributions to be responsible for repaying the loan by June 30, 2030. The net effect of the various adjustments is a $4,789,000 increase in 2020-21, and a $1,380,000 decrease in 2021-22. The changes to the SB 84 loan repayment schedule do not have a material impact on the overall cost of the SB 84 loan.

STAFF COMMENTS

Staff has no concerns.

Staff Recommendation: Adopt May Revision and placeholder TBL.

7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

VOTE-ONLY ISSUE 47: ADJUSTMENTS

The May Revision proposes that Item 7920-011-0001 be increased by $4,917,000 ongoing to reflect an increase in the state's contributions to the California State Teachers' Retirement System's Defined Benefit (DB) Program and Supplemental Benefit Maintenance Account

(SBMA), as required in statute. The state's contributions to the DB Program and SBMA are calculated using creditable compensation provided by the Teachers' Retirement Board for the fiscal year immediately preceding June 30. The Board annually publishes a creditable compensation report by October 25, and a subsequent report is due by April 15, that displays necessary revisions to creditable compensation. Based on the Board's April 12, 2021 creditable compensation report, the DB contribution will be increased by $3,832,000 and the SBMA contribution will be increased by $1,085,000, as compared to the Governor's Budget.

STAFF COMMENTS

Staff has no concerns.

Staff Recommendation: Adopt May Revision

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

VOTE-ONLY ISSUE 48: ADJUSTMENTS

The May Revision proposes to make the following changes to reflect the changes to the fiscal year 2021-22 operational budget of the California Public Employees' Retirement System (CalPERS) that was approved by the CalPERS Board on April 20, 2021. The budget proposed by CalPERS reflects a net increase of $194,985,000 primarily attributed to external investment management fees, salaries, benefits assumptions, and third party administrator fees. The request is comprised of the following changes:

- Item 7900-003-0830 be increased by $211,738,000
- Item 7900-015-0815 be increased by $88,000
- Item 7900-015-0820 be increased by $32,000
- Item 7900-015-0830 be decreased by $17,476,000
- Item 7900-015-0833 be increased by $400,000
- Item 7900-015-0849 be decreased by $51,000
- Item 7900-015-0884 be increased by $223,000
- Item 7900-015-9251 be increased by $31,000

The Budget Bill items noted above are display items for informational purposes to reflect the corresponding changes in CalPERS' continuous appropriation authority.

STAFF COMMENTS

Staff has no concerns.

Staff Recommendation: Adopt May Revision

0950 STATE TREASURER'S OFFICE

VOTE-ONLY ISSUE 49: JESSE UNRUH BUILDING RELOCATION COSTS

The May Revision proposes a one-time General Fund augmentation of $1.2 million for relocation costs necessary to facilitate the renovation of its headquarters, the Jesse Unruh building located at 915 Capitol Mall in Sacramento. The renovation is part of the State's Ten Year Sequencing Plan for the renovation or replacement of state office buildings in Sacramento.

The proposal also includes the following budget bill language that allows the Department of Finance, upon notice of the fiscal committees in each house of the Legislature and the Joint Legislative Budget Committee, to authorize expenditures in excess of the amount requested.

Of the amount provided in this item, $1,222,000 is provided on a one-time basis to cover the cost of relocating staff and building contents prior to the renovation of the State Treasury Building. Notwithstanding any other law, the Director of Finance may authorize expenditures in excess of the amount provided, if deemed necessary but not sooner than 30 days after notification in writing of the necessity therefor is provided to the chairpersons of the fiscal committees in each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or the chairperson's designee, may in each instance determine.

BACKGROUND

An infrastructure study ("Infrastructure Study - Jesse Unruh Office Building"), completed in 2008 and updated in 2013, identified a variety of fire and life safety, building code, hazardous materials, and other infrastructure deficiencies in the Jesse Unruh Building. A facility condition assessment completed in 2015 ranked the Jesse Unruh Building fifth in Sacramento and ninth statewide for state-owned, DGS-controlled office buildings requiring renovation or replacement.

Due to the invasive nature of the remodeling and renovation, STO staff and its operations are required to temporarily relocate to the Paul Bonderson building, located at 901 P. St, for the duration of construction. The STO is scheduled to begin moving in the spring of 2022 and the project is slated to begin in June 2022, and is estimated to take three years to complete. There is no alternative to remain in the current building location once renovations begins.

STAFF COMMENTS

Staff will note that the provisional language allows the Director of Finance to authorize expenditures in excess of the amount provided through the JLBC process. The provisional language does not cap those expenditures.

Staff Recommendation: Adopt May Revision proposal.

0968 TAX CREDIT ALLOCATION COMMITTEE

VOTE-ONLY ISSUE 50: LOW INCOME TAX CREDIT

The budget includes $500 million in low-income housing tax credits.

BACKGROUND

The 2019 and 2020 Budget Acts each authorized $500 million in one-time resources for low-income housing tax credits. To maximize the allocation of tax credits, the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee adopted regulations aimed at increasing affordable housing production, containing costs, and maximizing public subsidy and benefit of the credits. These regulations were finalized in late 2020.

STAFF COMMENTS

The state's Low Income Housing Tax Credits have proven to be a valuable tool in addressing the state's housing crisis. As such, additional investment in the tax credits is warranted.

Staff Recommendation: Approve as Budgeted.

0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY (CAEATFA)

VOTE-ONLY ISSUE 51: CAEATFA SALES TAX EXCLUSION TBL

The Governor's January Budget proposes trailer bill language that would provide a $100 million one-time increase to the cap on the CAEATFA sales tax exclusion (STE), doubling the amount available for 2021. The TBL provides that if CAEATFA does not allocate all of the additional funds by the end of 2021, the remaining portion would roll over to 2022.

BACKGROUND

California's state and local government charge a sales tax and use tax on retail sales of tangible goods, including many goods purchased by businesses. The overall rate ranges from 7.25 percent to 10.5 percent depending on citywide and countywide rates, with a statewide average of 8.6 percent. The rate includes:

- 3.94 percent for the state's General Fund.
- 3.31 percent to 6.56 percent for various local programs, including 1.06 percent to counties for criminal justice, mental health, and social services under 2011 Realignment.

CAEATFA is housed within the State Treasurer's Office and operates a variety of programs that provide financial assistance, such as tax exemptions, loans, and bonds, largely to entities developing technologies intended to reduce air pollution and conserve energy. CAEATFA consists of five members the State Treasurer (who serves as the chairperson), the State Controller, the Director of the Department of Finance, the Chairperson of the California Energy Commission, and the President of the California Public Utilities Commission.

CAEATFA awards $100 million in sales tax exclusion annually to certain manufacturers, to assist them in purchasing machinery and equipment to retain and expand high- end manufacturing across the state and to incentivize the manufacturing of green technologies that will help reduce greenhouse gases, as well as reductions in air and water pollution or energy consumption.

Under the STE Program, applications are evaluated to determine the extent to which the anticipated benefits to the state from a project exceed the estimated cost of the avoided sales and use tax. Specifically, through the net benefits test established in the STE Program's regulations, applicants are evaluated based on criteria designed to measure the fiscal and environmental benefits of their projects.

By the July 2019 Board meeting, CAEATFA exhausted the $100 million STE cap – the first time in program history for it to be fully awarded prior to the end of the year and in 2020 and 2021, applications were received that exceeded the cap by the first application deadline.

The Legislative Analyst's Office (LAO) points out that historically, Tesla accounted for a large share of CAEATFA exclusions. In the last couple of years, however, CAEATFA has awarded exclusions to manufacturers across a variety of industries as detailed in the following chart from the LAO.

STAFF COMMENTS

This time was heard at the March 2, 2021, hearing.

Additional LAO comments:

- Proposal Does Not Target Hardest-Hit Businesses. The pandemic has forced many businesses to reduce their operations or close. These adverse effects have been especially severe for businesses in the travel, retail, food and hospitality, health and wellness, and personal care services sectors. The CAEATFA exclusion offers assistance primarily to the manufacturing sector, which has not been among the hardest-hit sectors of the economy.

- Allocation Process Is Complex. To use the CAEATFA exemption, equipment purchasers must fill out extensive applications, wait for board approval, and submit periodic reports to CAEATFA. These requirements make participation more costly, but they have led to greater transparency than the state typically provides regarding the use of tax expenditures.

- Benefits Occur Gradually. Historically, the usage rate of exclusions has peaked one to two years after the participant receives the award. As a result, many of the benefits of exclusions awarded in 2021 will not materialize quickly enough to address the current economic crisis.

- Recent Regulations Try to Manage Awards Within Cap. In 2019 and 2020, CAEATFA issued emergency regulations to address various issues, including the growing demand for exclusions. These regulations provide some examples of the many options available to CAEATFA and to the Legislature for managing awards within the $100 million annual cap.

Staff Recommendation: Reject this proposal.

0840 STATE CONTROLLER'S OFFICE

VOTE-ONLY ISSUE 52: CALIFORNIA STATE PAYROLL SYSTEM (CSPS) PROJECT

The Governor's Budget includes a proposal for the California State Payroll System IT project.

BACKGROUND

The Governor's budget requests the following to support the California State Payroll System (CSPS) through the continuation of the California Department of Technology (CDT) Project Approval Lifecycle (PAL) Stages 3 and 4:

- $5.472 million ($3.12 million General Fund [GF] and $2.353 million Central Service Cost Recovery Fund [CSCRF]) for 7 positions (one-year limited-term and 6 permanent) in 2021-22.

- $1.02 million ($581,000 GF and $439,000 CSCRF) and 6 positions in 2022-23.
- $1.013 million ($577,000 GF and $436,000 CSCRO) in 2023-24.

STAFF COMMENTS

The Subcommittee heard this issue at its March 2, 2021 and May 4, 2021 hearing and no concerns were raised at that hearing.

Staff Recommendation: Approve the budgeted amount with placeholder language that requires regularly scheduled oversight meetings with the Legislative Analyst's Office (LAO), the State Controller's Office, CalHR, CDT and the Department of Finance to allow the LAO to receive project updates and review oversight documents with the project team.

VOTE-ONLY ISSUE 53: CONTINUITY OF OPERATIONS PROGRAM

The State Controller's Office (SCO) requests $301,000 ($229,000 General Fund [GF] and $72 Unclaimed Property Fund [UPF]) in 2021-22 and $287,000 ongoing ($218,000 GF and $69,000 UPF) and two positions to support the development and expansion of SCO's Continuity of Operations Program as the state transitions to telework and adapts to new ways of doing business.

BACKGROUND

The subcommittee previously approved the Governor's Budget Proposal for two position and $234,000 GF and $74,000 UPF ($308,000 total) in 2021-22, and $218,000 General Fund and $69,000 UPF ongoing ($287,000 total) at the May 4, 2021 hearing. This proposal augments that request with two additional positions.

STAFF COMMENTS

Staff has no concerns with this May Revision Proposal

Staff Recommendation: Approve as requested

VOTE-ONLY ISSUE 54: FI$CAL IMPLEMENTATION FOR ANNUAL COMPREHENSIVE FINANCIAL REPORT AND OTHER ANNUAL REPORTS

SCO requests six positions and $872,000 [$497,000 General Fund (GF); $375,000 Central Service Cost Recovery Fund (CSCRF)] in 2021-22 and $854,000 [$487,000 GF; $367,000 CSCRF] in 2022-23 as part of the Financial Information System for California (FI$Cal) project, Special Project Report 9 (SPR9) plan to complete the Annual Comprehensive Financial Report (ACFR), Budgetary/Legal Basis Annual Report (BLBAR), and other annual reports timely and ensure financial reporting functions related to the current legacy system are successfully transitioned to FI$Cal.

BACKGROUND

In 2018, SCO State Accounting and Reporting Division (SARD), received approval for 27.0 positions through the SCO FI$Cal Integrated Solution Budget Change Proposal (BCP). The positions were assigned to four bureaus within SARD: 11.0 positions to create the new Bureau of FI$Cal Implementation and Transition (BFIT), 10.0 positions for the Bureau of Accounting and Consulting (BAC), 5.0 positions for the Bureau of Cash Management (BCM), and 1.0 position for the Bureau of State Government Reporting (BSGR).

All positions have been filled since approved and devoted to the specific tasks they were approved to perform, including the one position for BSGR. However, the workload for BSGR has changed materially since FI$Cal has been put into implementation. There are issues that have arisen that were unanticipated at the time that have significantly affected the development of the ACFR.

Over the last two reporting years the quality and timeliness of departments' financial reporting has diminished significantly. In January 2019, as SCO was nearing completion of the 2017-18 financial reporting cycle, BSGR and the California State Auditor (CSA) determined that there were significant errors in financial reporting by a large department in its FI$Cal implementation year, which contributed to a two-month delay in publishing the final ACFR. During 2020 (for the 2018-19 financial reporting cycle), the ACFR was delayed by seven months, specifically due to: department reporting deficiencies and errors; compliance issues with state accounting policies identified by CSA; and, because many state departments were unable to submit timely and accurate financial statements to BSGR due to difficulties with learning the FI$Cal system. As a result, SCO issued the 2018-19 Unaudited Basic Financial Statements in September 2020 to provide bond investors with information to validate the state's continued financial viability, and bond rating agencies with the underlying data needed to set rates on the state's bonds. The 2018-19 ACFR was finally issued by BSGR on October 30, 2020. Continued Analysis of Problem 2 untimely reporting could have a negative impact on the state's bond ratings, which could increase borrowing costs and reduce the state's ability to borrow.

The ACFR is critical to California as it is used by outside entities (e.g., bond rating agencies) to evaluate the financial stability of the state as a whole, and by bond investors to make investment decisions regarding California's bonds. While the ACFR is the most critical report published by SCO, there are several other annual reports likely to be delayed due to reporting issues as well, including the ACFR Supplement, BLBAR, and BLBAR Supplement. Additionally, delays in ACFR reporting have impacted timing of the subsequent year's pension and Other Post-Employment Benefits (OPEB) publications supporting BSGR's distribution of the allocations of these liabilities to state agencies. Delays in pension and OPEB allocations results in bond-issuing agencies missing the December 31 statutory deadline to file their audit reports. Again, this can negatively impact the state's bond ratings, cause further delays with the current year ACFR, and result in a cycle of delinquent ACFR reporting.

Beginning in 2021-22 and as a component of FI$Cal's Milestone 5 phase, increased BSGR efforts will be crucial in the process of reconciling and comparing financial reporting results between the existing Legacy system to the FI$Cal system. SCO must produce "parallel ACFR's" accurately and timely from both FI$Cal and the Legacy system for the ACFR reporting years of 2020-21 through 2021-22.

BSGR is the singular expert responsible for overseeing the thousands of journal entries that occur in Budgetary/Legal, Generally Accepted Accounting Principles (GAAP) hierarchy mapping to the ACFR, and the thousands of GAAP journal entries required to compile the state's ACFR. With this new implementation as part of SPR9, BSGR will assume a now critical role in the reconciliation of the Legacy system to FI$Cal and the conversion of Legacy data to establish beginning balances for transition to FI$Cal.

All of this is necessary to produce timely and accurate data on the state's financial status and to prepare annual reports including ACFR and BLBAR. The transition in reporting from FI$Cal will also require substantial increases in BSGR's communication with departments to analyze and correct data, as both BSGR and departments become accustomed to a different reporting process.

STAFF COMMENTS

Staff has no concerns with this May Revision Proposal

Staff Recommendation: Approve as requested and adopt provisional language in the Spring Finance Letter

VOTE-ONLY ISSUE 55: GOLDEN STATE STIMULUS I AND II ADMINISTRATIVE COSTS

SCO requests budget bill language that allows the Department of Finance to provide an augmentation for the administrative costs of making the Golden State Stimulus I and II tax refund payments.

The proposed language reads:

> The Department of Finance may augment the amount authorized under this item for the costs associated with processing and disbursing the Golden State Stimulus I and II tax refund payments. The Controller must submit a detailed schedule of costs directly related to the activities required pursuant to Section 8150 of the Welfare and Institutions Code to the Department of Finance for review and approval. Any adjustment shall not be made sooner than 30 days after the Joint Legislative Budget Committee has been notified in writing.

STAFF COMMENTS

Staff has no concerns with this May Revision Proposal

Staff Recommendation: Approve as requested

VOTE-ONLY ISSUE 56: ELECTRONIC PAYMENT PROCESSING FOR CHILD CARE AND STATE PRESCHOOL

This subcommittee received a request to provide $6 million in one-time General Fund to the SCO to coordinate with the Department of Education and Department of Social Services to set up an electronic payment processing system and provide direct deposit payments to child care and state preschool providers. This proposal will modernize payment options and support the implementation of direct deposit electronic fund transfers and payments for all DSS and CDE child care and early childhood development providers.

STAFF COMMENTS

Staff has no concerns with this May Revision Proposal

Staff Recommendation: Adopt this proposal.

0855 CALIFORNIA GAMBLING CONTROL COMMISSION

VOTE-ONLY ISSUE 57: CARD ROOM FEE WAIVERS

This subcommittee received a request to waive fees for card rooms. The proposal only requires statutory authority. It does not require a General Fund augmentation.

BACKGROUND

The Gambling Control Fund has a reserve of $45 million currently. The revenue impact of the proposed fee waivers is approximately $15 million.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt placeholder trailer bill language waiving fees for card rooms.

0890 SECRETARY OF STATE

VOTE-ONLY ISSUE 58: VOTERS CHOICE ACT COUNTIES

This subcommittee received a request to provide $5.8 million to fund voter education and outreach initiatives to counties adopting the Voter's Choice Act elections model. The funds will also go to the elections research and report required by law to be presented to the Legislature six months after each election.

The requested funds will cover approximately .18 cents per registered voter, per election cycle for the 15 counties (approximately 11,008,459 registered voters) operating under the Voter's Choice Act model. It will also cover the additional 14 counties (5,568,764 registered voters) currently onboarding to the Voter's Choice Act model.

BACKGROUND

The Voter's Choice Act was signed into law in 2016 with the purpose of modernizing elections in California by allowing counties to conduct elections under a new model which provised greater flexibility and convenience for voters. This new model allows the counties of Caleveras, Inyo, Madera, Napa, Nevada, Orange, Sacramento, San Luis Obispo, San Mateo, Santa Clara, Shasta Sierra, Sutter, and Tuolumne and any other county afterJanuary 1, 2020 to choose to conduct an election where all voters are mailed a ballot and where vote centers and ballot drop-off locations are available prior to and on Election Day.

The Voter's Choice Act also requires county officials to have a voter education and outreach plan that is approved by the Secretary of State. The Secretary of State's Office has the authority to accept, reject, or accept with modifications the Voter Education and Outreach plan.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested.

0911 REDISTRICTING COMMISSION

VOTE-ONLY ISSUE 59: REDISTRICTING AUGMENTATION

The Redistricting Commission requests $8.5 million one-time General Fund to complete redistricting activities related to the 2020 Census.

BACKGROUND

The United State Census Bureau planned to deliver the redistricting data to all states by March 31, 2021 but announced in Februaty that COVID related delays have pushed that deadline to September 30, 2021. As a result of the delay, the Commission's overall redistricting activities and costs will need to be extended by at least two months. This request provides the Commission with additional one-time funding that will allow for the completion of the required maps and support other related activities while finalizing redistricting activities.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as this funding with placeholder budget bill language.

1111 DEPARTMENT OF CONSUMER AFFAIRS

VOTE-ONLY ISSUE 60: RELOCATION

The Department of Consumer Affairs (DCA) requests $74,000 in increased expenditure authority from the department's various special funds to reimburse the Business, Consumer Services and Housing Agency for costs related to the mandated relocation from its current office location at the Jesse Unruh Building.

BACKGROUND

The Business, Consumer Services and Housing Agency is funded through a combination of General Fund, Special Funds and Reimbursements. While most special funds reimbursing the agency for its services can absorb the increased expenditures associated with the relocation, the increase to Reimbursements has a significant impact on funds administered by DCA. As a result, this proposal will increase the various funds administered by DCA for its share of the increased Reimbursements expenditures.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested.

1115 DEPARTMENT OF CANNABIS CONTROL

VOTE-ONLY ISSUE 61: LICENSING ENTITY CONSOLIDATION AND OTHER PROPOSALS

The Administration proposes to consolidate the three existing cannabis licensing entities and into the Department of Cannabis Control (DCC). DCC will assume the ongoing regulatory responsibilities of the three state cannabis licensing authorities pursuant to the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) (Chapter 27, Statutes of 2017).

The May Revision additionally proposes to create a new position of Deputy Director of Cannabis Equity and Inclusion with the primary focus to build upon and expand the consolidated Department's equity focused initiatives. The Deputy Director will serve as the subject matter expert and lead point of contact for the Department on all matter pertaining to the implementation of the California Cannabis Equity Act within the Department and amongst external stakeholders.

The May Revision also proposes the creation of a Local Jurisdiction Grant program and other technical changes. The grant program will provide $100 million General Fund to aid local governments in more swiftly processing substantial workload associated with transitioning the legacy market into a regulated marker, including environmental review.

The Department also requests statutory changes as needed, including language reconfiguring the provisional licensing program.

The Governor's Budget requests were discussed at this subcommittee's February 9, 2021 hearing.

BACKGROUND

Cannabis Legalization in California. In 2015, the Legislature passed the Medical Marijuana Regulation and Safety Act—subsequently retitled the Medical Cannabis Regulation and Safety Act (MCRSA). MCRSA consisted of a package of legislation: AB 243 (Wood); AB 266 (Bonta, Cooley, Jones-Sawyer, Lackey, and Wood); and SB 643 (McGuire). MCRSA established, for the first time, a comprehensive statewide licensing and regulatory framework for the cultivation, manufacture, transportation, testing, distribution, and sale of medicinal cannabis to be administered by the newly established BCC within the Department of Consumer Affairs (DCA), the CDPH, and the CDFA, with implementation relying on each agency's area of expertise. MCRSA vested authority for:

- The BCC to license and regulate dispensaries, distributors, transporters, and (subsequently) testing laboratories, and to provide oversight for the state's regulatory framework;
- The CDPH to license and regulate manufacturers; and
- The CDFA to license and regulate cultivators.

Not long after the Legislature enacted MCRSA, California voters passed Proposition 64, the Adult Use of Marijuana Act (AUMA). The passage of the AUMA legalized cannabis for non-medicinal adult use in a private home or licensed business; allowed adults 21 and over to possess and give away up to approximately one ounce of cannabis and up to eight grams of concentrate; and permitted the personal cultivation of up to six plants.

The proponents of the AUMA sought to make use of much of the regulatory framework and authorities set out by MCRSA while making a few notable changes to the structure still being implemented. The same agencies given authority under MCRSA remained responsible for implementing regulations for adult use. Under the AUMA, the BCC within the DCA continues to serve as the lead regulatory agency for all cannabis, both medicinal and non-medicinal.

In the spring of 2017, SB 94 (Committee on Budget and Fiscal Review) was introduced to reconcile the distinct systems for the regulation, licensing, and enforcement of legal cannabis that had been established under the respective authorities of MCRSA and the AUMA. The single consolidated system established by the bill—known as the Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA)—created a unified series of cannabis laws and deleted redundant code sections no longer necessary due to the combination of the two systems.

Under MAUCRSA, state excise tax and cultivation tax revenues are deposited into a special fund referred to as the California Cannabis Tax Fund and are then allocated for a variety of purposes in order of priority. After state agency cost reimbursement, Tax Fund revenue is next allocated to fund a series of specific programs designated under Proposition 64. Once those allocations have been appropriated, any remaining revenue is divided into sub-trust accounts according to a percentage outlined by Proposition 64. Sixty percent of the remaining revenue is deposited in the Youth Education, Prevention, Early Intervention and Treatment Account, and disbursed by the Controller to the Department of Health Care Services for programs for youth that are designed to educate about and to prevent substance use disorders and to prevent harm from substance use.

Equity. Cannabis criminalization has disproportionately targeted communities of color. A 2020 report from the American Civil Liberties Union found that Black Americans are 3.64 times more likely to be arrested for marijuana possession than white people are. Cities such as San Francisco, Los Angeles, Oakland, and Sacramento established social equity programs to ease local cannabis licensing and permitting. SB 1249 (Bradford), which allows cities with social equity programs to apply for $10 million in grant funds, was signed into law in 2018, however no additional funds have been approved since then.

The Department of Cannabis Control. By consolidating the licensing and regulatory functions of three cannabis-licensing agencies, the Governor proposes a single entity to provide oversight of California's commercial cannabis activities, which will simplify the licensing process for the industry. The proposal alleges that the Department of Cannabis Control will have a more streamlined compliance and enforcement process. This proposal would shift 598 current positions from the three different licensing authorities to the new department and would seek 23 new positions for the Executive and Information Technology Services Divisions.

STAFF COMMENTS

These proposals as a whole are important but make a number of substantial changes to the regulation of cannabis in the state. This subcommittee heard the consolidation proposal at its February 9, 2021 hearing but the May Revision proposes a number of new changes that this subcommittee has not yet heard and are deserving of a larger conversation. Staff recommends adopting placeholder trailer bill language to provide additional time to review the May Revision proposals.

Staff Recommendation:

1. Adopt placeholder trailer bill language.

2. Approve the funding, positions, and budget bill language for the transition until the new department is established as requested by the Administration in January and in its May Revision.

3. Approve the resources for the Local Jurisdiction Grant Program and adopt placeholder budget bill language.

4. In addition to the Administration's proposal, approve resources to include the Deputy Director of Cultivation, upon Senate confirmation, that serves in the Executive Division and two additional support staff (one attorney and one Associate Governmental Program Analyst) to serve under the Deputy Director of Cannabis Equity and Inclusion.

5. Approve $20 million General Fund for the Cannabis Local Equity Grant Program, administered by Go-Biz. The California Cannabis Equity Act of 2018 established by SB 1294 created a state grant program for local jurisdictions to develop and operate local cannabis equity programs that focus on the inclusion and support of individuals in California's legal cannabis marketplace who are from communities negatively or disproportionately impacted by cannabis criminalization. Approve $30 million in Cannabis Tax Fund to reduce barriers to entry in the legal cannabis market, including for purposes of implementing Section 26249 of the Business and Professions Code.

8620 FAIR POLITICAL PRACTICES COMMISSION

VOTE-ONLY ISSUE 62: LOBBYING AUDITS AND INVESTIGATIONS

The Fair Political Practices Commission (Commission) requests 5 positions and $637,000 General Fund in 2021-22, and $602,000 ongoing, to implement the redirection of authority from the Franchise Tax Board to perform lobbying audits and field investigations on lobbying reports and statements filed with the Secretary of State pursuant Government Code section 86100. In addition, statutory changes are requested to transfer the authority to conduct the lobbying audits and investigations from the Franchise Tax Board to the Fair Political Practices Commission.

BACKGROUND

The Commission was created by the Political Reform Act (Act) as an independent non-partisan agency whose objective is to prevent corruption of public officials in the governmental decision-making process. The Commission has primary responsibility for the impartial and effective administration and implementation of the Act. The Commission regulates and enforces actions performed by governmental officials and agencies and requires extensive disclosure reports to provide the public with access to government processes.
Existing law authorizes the FTB to perform audits and field investigations with respect to audits and investigations pursuant to Government Code Section 90000, which indicates that the reports

and statements of each lobbying firm and each lobbyist employer who employs one or more lobbyists shall be subject to an audit on a random basis with these lobbying firms or lobbyist employers having a 25 percent chance of being audited. When a lobbying firm or lobbyist employer is audited, the individual lobbyists who are employed by the lobbying firm or the lobbyist employer shall also be audited.

The redirection of authority from the FTB to the Commission is to perform lobbying audits and field investigations on lobbying reports and statements filed with the SOS pursuant to Government Code section 86100.

According to data reported to the SOS from the 2017 and 2018 two-year legislative session and after applying the 25 percent random selections of the $25,000 audit threshold, the Commission selected a total of 146 entities to be audited: (1) 72 audits of lobbying firm payments made or payments received category, and (2) 74 audits of lobbyist employers. However, the FTB was constrained in its ability to perform all audits and investigations due to competing workload demands.

STAFF COMMENTS

This proposal is a significant change to the Political Reform Act of 1974 and raises questions about separation of powers.

Staff Recommendation: Redirect the resources requested and add funds, bringing the request to $743,000 in 2021-22 and $690,000 ongoing, to the Franchise Tax Board to continue performing audits. Deny the trailer bill language request.

8955 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS

VOTE-ONLY ISSUE 63: DEFERRED MAINTENANCE

The California Department of Veterans Affairs requests $15 million General Fund in 2021-22 to address deferred maintenance projects at the Veterans Homes of California. The proposed projects include replacing the air handling units at the Veterans Home of California-Barstow ($14.4 million) and elevator renovations at the Veterans Home of California-Yountville ($600,000).

BACKGROUND

This request provides funding will provide funding for the following two projects:

Facility Location	Project Title and Description	Estimated Cost
Veterans Home of California, Barstow	Replace Air Handling Units (AHU) throughout the Home: The AHUs typically operate 24-hours per day, are over 25 years old, and are at risk of failing. The aging mechanical systems require constant, ongoing maintenance as bearings, motors, and heating and cooling coils have exceeded their life expectancy of 15 years. The AHUs need to be replaced/upgraded and aligned to increase efficiency. They need to be connected to the new control system installed by Honeywell in 2016. Due to the extreme desert temperatures, AHUs are a critical part of the infrastructure. Taking a proactive approach to address this situation before failure will ensure that the VHC-Barstow maintains its compliance with health and safety standards and that policies and procedures are in line with Title 22 and the United States Department of Veterans Affairs regulations.	$14,400,000
Veterans Home of California, Yountville	Elevator Modernization: The VHC-Yountville has 26 elevators throughout the property. Most of these elevators are very old and routinely fail. These failures have proven costly, resulting in numerous emergency contracts and repairs. In many cases, elevator parts are no longer manufactured and new parts have to be reengineered by specialty manufacturers specifically for the VHC-Yountville, dramatically extending the time before elevators return to operation and increasing the costs for repairs. More importantly, the continuous failures have proven significantly disruptive to resident services, particularly those with limited mobility. To date, only two elevators on the Yountville campus have been modernized. The $600,000 requested in this proposal will allow the VHC-Yountville to modernize one to two additional elevators.	$600,000
Total		**$15,000,000**

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested.

VOTE-ONLY ISSUE 64: EXTENSION OF LIQUIDATION PERIOD OF BARSTOW VETERANS HOME NURSE CALL SYSTEM PROJECT

The California Department of Veterans Affairs (CalVet) requests an extension of the liquidation period for $608,000 to complete the upgrades for the nurse call system at the Barstow Veterans Home.

BACKGROUND

In 2019, CalVet began an effort to upgrade the outdated nurse call system equipment at the Barstow Veterans Home. From August 2019 to March 2020, the contract work took place with the vendor providing the first round of deliverables, specifically, the plans for the upgrade. In addition, hardware for the upgrade was delivered to the Home for installation.

As a result of the COVID-19 pandemic, the work was put on hold when CalVet sent a stop work letter to the vendor on March 13, 2020. In January 2021, CalVet signed a letter to resume the contract.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested

VOTE-ONLY ISSUE 65: FEDERAL COVID GRANTS

The California Department of Veterans Affairs (CalVet) requests a one-time augmentation of $7,725,000 Federal Trust Fund from the United States Department of Veterans Affairs (VA) through the Consolidated Appropriations Act, 2021 (Public Law 116-260) for State Veterans Homes. The funding will be used to support efforts to prevent, prepare for, and respond to COVID-19 in CalVet's eight Veterans Homes of California.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested

VOTE-ONLY ISSUE 66: STRATEGIC REALIGNMENT FOR THE BARSTOW VETERANS HOME

The California Department of Veterans Affairs requests an augmentation of $330,000 General Fund and 3.1 positions in 2021-22 and $588,000 General Fund and 6 positions annually thereafter to realign levels of care in the Barstow Veterans Home. These changes are necessary to meet current and future programmatic needs as outlined in the 2020 Veterans Homes of California Master Plan and the 2021 Barstow Report.

BACKGROUND

Opened in 1996, the Home is a 400-bed facility currently budgeted for 220. The Home offers Domiciliary (Dom), Intermediate Care Facility (ICF), and Skilled Nursing Facility (SNF) levels of care. All of the five resident buildings are in use, but all have unbudgeted beds. Half of the ICF beds, nearly half of the Dom beds, and a third of the SNF beds are licensed and/or certified but are not in use. Across the levels of care, room accommodations are generally uniform, with two residents to each room and a restroom connecting two rooms for a total of four residents to a restroom. Because of the high number of unbudgeted beds, most Dom residents have private rooms.

The Home has historically encountered challenges to achieving full census, particularly in the Dom and ICF levels of care. Although the Home has a capacity for 400 residents, Barstow has averaged fewer than 200 residents since the early 2000s.

Pointedly, average census data for the four years prior to the COVID-19 Pandemic shows that the Dom level of care has been operating at 82 percent of budgeted beds, regularly having 20 or more beds unfilled. The ICF level of care is only marginally better, operating at approximately 83 percent of budgeted beds, which averages about 10 vacant beds over the same period. However, these figures do not consider the full physical capacity of the units; if budgeted to fill all available beds, the Dom and ICF units would operate at only 45 percent and 41 percent of capacity, respectively.

CalVet's 2020 Master Plan included critical data on veteran demographic and care trends. Based on this information, the 2020 VHC Master Plan included specific recommendations for reorganizing levels of care to emphasize higher levels of care and draw down or eliminate Dom and ICF programs. The 2020 Governor's Budget reflected the programmatic changes recommended in the 2020 Master Plan for the Barstow, Chula Vista, and Yountville Homes. However, the Barstow Home's portion of the proposal was withdrawn in the May Revision and instead the Home was proposed to be closed. Although the 2020 Budget Act did not contain specific language to close the Home, it did direct CalVet to provide a report on the Home to the Legislature by February 1, 2021. CalVet met its statutory obligation by delivering the 2021 Barstow Report to the Legislature on February 1, 2021. While the 2021 Barstow Report did not have specific recommendations for the Home, it did highlight many of the same operational challenges described in the 2020 Master Plan faced by the Home.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested

VOTE-ONLY ISSUE 67: ADA RESTROOM AND NURSE CALL SYSTEM UPGRADES AT THE YOUNTVILLE VETERANS HOME

The California Department of Veterans Affairs requests a reappropriation of $500,000 from the Budget Act of 2018, Control Section 6.10 to complete the Americans with Disabilities Act restroom upgrades in the Administration Building of the Yountville Veterans Home. Additionally, CalVet requests an extension of the liquidation period to complete the nurse call system project in the Eisenhower Building of the Yountville Veterans Home.

BACKGROUND

The Administration Building ADA restroom upgrade project was identified as high priority maintenance project that should be addressed to ensure ADA compliance for two of the main restrooms on the campus. In addition, the nurse call system in the Eisenhower Building was very outdated and required significant upgrades to be consistent with the nurse call system in the Holderman Building and Title 22 regulations. Both projects are currently funded with Control Section 6.10 deferred maintenance funds from the Budget Act of 2018. Those funds will revert on June 30, 2021.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested

VOTE-ONLY ISSUE 68: COUNTY VETERAN SERVICES OFFICES

This subcommittee received a request to include $5.4 million General Fund ongoing to augment the funding for county veteran service offices (CVSO) in local governments. CVSOs help guide veterans in obtaining federal benefits to which they are entitled. These funds will allow counties to hire more Veterans Service Representatives to increase outreach to veterans and hire additional trained staff to process the increased workload as a result of the improved outreach.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested

9800 EMPLOYEE COMPENSATION

VOTE-ONLY ISSUE 69: AUGMENTATION FOR EMPLOYEE COMPENSATION: MAY REVISION EMPLOYEE COMPENSATION ADJUSTMENTS

The Administration requests that Item 9800-001-0001 be increased by $53,897,000 ongoing, Item 9800-001-0494 be increased by $45,868,000 ongoing, and Item 9800-001-0988 be increased by $22,592,000 ongoing to reflect collectively bargained pay increases, updated health and dental rates, increased enrollment in health and dental plans, and a change in the Top 4 Health Plan composition. Additionally, while these figures include estimated health premium rates, we note final health rates are not expected to be adopted by the California Public Employees' Retirement System (CalPERS) Board of Administration until summer 2021.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested

VOTE-ONLY ISSUE 70: CONTROL SECTION 3.91

The May Revision proposes to eliminate Control Section 3.91, which was included in the 2020-21 budget act associated with suspensions of employee compensations.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested

VOTE-ONLY ISSUE 71: CONTROL SECTION 4.11: BUDGET POSITION TRANSPARENCY

The May Revision proposes to amend Control Section 4.11 to outline new vacancy reporting requirements designed to replace the Budget Position Transparency display from the Governor's Budget and Enactment Budget displays to provide enhanced transparency.

The proposal requires the Department of Finance to report the past year actual percentage of vacant positions for each department, by month, to the Joint Legislative Budget Committee and the Legislative Analyst's Office by October 1 of each year.

STAFF COMMENTS

In order for the Legislature to meet its obligation to oversee state operations and expenditures, it is imperative that information about the number of positions filled and vacant in each department is clearly understood. This information helps the Legislature understand department budgets and capacity to administer new or existing programs. This proposal is an attempt to make this information more accessible to the Legislature.

Staff Recommendation: Adopt placeholder trailer bill language to require the new report to include each department's total authorized positions and require the report to be posted on the Department of Finance's website.

VOTE-ONLY ISSUE 72: CONTROL SECTION 4.20: CONTRIBUTION TO PUBLIC EMPLOYEES' CONTINGENCY RESERVE FUND

The May Revision proposes to amend Control Section 4.20 to reflect an administrative rate of 0.25 percent to mitigate the impact of changing rates in the out years as a result of updated projections.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested

VOTE-ONLY ISSUE 73: CONTROL SECTION 3.60

The May Revision requested that Control Section 3.60 be amended to capture changes in state retirement contribution rates for state members of the California Public Employees' Retirement System (CalPERS) and the Judges' Retirement System II (JRS II), adopted by the CalPERS Board on April 20, 2021. The increase in state employer contribution is primarily a result of increases in payroll.

The newly adopted state employer contribution rates result in additional state costs of $35,511,000 ongoing, an increase of $169,060,000 from the -$133,549,000 included in the Governor's Budget. The $169,060,000 ongoing increase consists of an increase of $80,893,000 General Fund, $66,426,000 special funds, and $21,741,000 other nongovernmental cost funds.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as requested

7760 DEPARTMENT OF GENERAL SERVICES

VOTE-ONLY ISSUE 74: CONTRACTED FISCAL SERVICES

The May Revision includes a technical change for the contracted fiscal services.

BACKGROUND

The May Revisions includes $171,000 ongoing and 1 position, to support the addition of the Office of Energy Infrastructure Safety as a client of the Department of General Services' Contracted Fiscal Services Unit

STAFF COMMENTS

This proposal is consistent with actions previously approved by the committee to reflect the use of DGS staff to provide fiscal services for small departments.

Staff Recommendation: Adopt May Revision

VOTE-ONLY ISSUE 75: ONE-TIME DEFERRED MAINTENANCE MAY REVISION INCREASE

The May Revision reflects additional investment in deferred maintenance.

BACKGROUND

The May Revisions proposes $30 million one-time to fund state building elevator and fire alarm system repair and replacement projects. This request is in addition to the $20 million General Fund proposal for one-time deferred maintenance workload included in the Governor's Budget.

STAFF COMMENTS

Investing in deferred maintenance is a prudent use of one-time funding.

Staff Recommendation: Adopt May Revision

VOTE-ONLY ISSUE 76: MAY REVISION STATEWIDE PROPERTY INVENTORY MODERNIZATION PROJECT PLANNING

The May Revision includes a small state property project funding request.

BACKGROUND

The May Revisions proposes $214,000 one-time to fund the planning efforts for the Statewide Property Inventory modernization project, with provisional language to allow up to $2.5 million for this purpose.

STAFF COMMENTS

This proposal is consistent with state efforts to better utilize state property.

Staff Recommendation: Adopt May Revision

VOTE-ONLY ISSUE 77: CALIFORNIA COMMISSION ON DISABILITY ACCESS

The May Revision includes budget bill language to fix an error that had led to the California Commission on Disability Access not receiving its correct level of revenues.

BACKGROUND

Per statute, $500 out of every $1,000 high-frequency litigant fee revenues collected goes into General Fund for use by California Commission on Disability Access. Historically, CCDA had not been receiving the revenues thru GF due to a misinterpretation of statute—CCDA received its annual GF appropriation, which they deemed to have been partly sourced from those revenues. However, subsection (d) of GC section 68085.35 specifically states the revenues received shall not supplant existing program funding.

The revenues received had been relatively small so CCDA didn't seek to correct this issue until now. Going forward (starting in 2021-22), the new reference item and budget bill language will allow Finance to augment their budget once the actual amount collected has been determined. The budget bill language requested will also provide CCDA an extended period to expend those funds (thru 6/30/24).

To fix this error over the last five years, the May Revision is requesting to augment CCDA's budget by $99,000 GF in BY to backfill CCDA for actual revenues received in 2015-16 through 2019-20.

STAFF COMMENTS

The proposed budget bill language corrects an error that hindered the ability for the Commission to achieve its mission.

Staff Recommendation: Adopt May Revision

VOTE-ONLY ISSUE 78: UNRUH AND BONDERSON BUILDING IMPROVEMENTS

The May Revision includes a proposal for the interim office space needed for the State Treasurer as part of the Unruh building project.

BACKGROUND

The Governor's budget the design-phase of the Unruh building at 915 Capitol Mall for $122.4 million from the Public Building Construction Fund. Built in 1929, the Jesse Unruh Building is a historical landmark and this project includes the restoration of its historic character, as well as complete critical life safety and other code deficiencies. The building contains approximately 125,000 net usable square feet, and is necessary to fulfill office space needs in the Sacramento Region. An infrastructure study completed in 2008 and updated in 2013, identified a variety of fire and life safety, building code, hazardous materials, and other infrastructure deficiencies in the Jesse Unruh Building. A facility condition assessment completed in 2015 ranked the Jesse Unruh Building fifth in Sacramento and ninth statewide for state-owned, DGS-controlled office buildings requiring renovation or replacement. Once the renovation is complete, the building will be used for the State Treasurer's Office. The design-build phase of this building is estimated to take 3 years and be complete in early 2025. Like the Bateson building, the department is proposing using a Progressive Design-Build process for this project.

The May Revision includes $11,630,000 one-time for design-build authority for improvements to the Paul Bonderson Building in Sacramento. These improvements are necessary to prepare the building as swing space for staff from the State Treasurer's Office during the 36 month construction duration of the Jesse Unruh Building Renovation project. The Bonderson project will include corrections to fire and life safety and accessibility deficiencies, removal of hazardous materials, and general office space enhancements. The Bonderson project will be completed by June 2022, when on-site construction activities are scheduled to commence for the Unruh Renovation project.

STAFF COMMENTS

This issue was heard on February 9th and held open due to concerns with the relocation of the Treasurer's office. The May Revision proposal is intended to address those concerns to allow the Unruh project to move forward.

The staff recommendation includes increasing the proposed Unruh project budget authority augmented by $2 million to allow the costs for the restoration of the fountain, as discussed in Subcommittee at the hearing.

Staff Recommendation: Approve as Budgeted, with an additional $2 million. Adopt May Revision

VOTE-ONLY ISSUE 79: STATE PROJECT INFRASTRUCTURE FUND

The May Revision transfers funding for the Capitol Annex project.

BACKGROUND

The May Revision includes $93 million one-time for transfer to the State Project Infrastructure Fund to support the continuation of design and pre-construction activities for the Capitol Annex projects.

STAFF COMMENTS

This transfer is consistent with the project plan.

In addition, staff believes it is prudent to use the one-time funding available to the State to address anticipated security capital improvements needed for the entire Capitol building complex. The staff recommendation includes $64 million in additional General Fund for this purpose.

Staff Recommendation: Adopt May Revision and appropriate and additional $64 million for additional capital costs associated with the project

7502 DEPARTMENT OF TECHNOLOGY

VOTE-ONLY ISSUE 80: TECHNOLOGY MODERNIZATION FUND

The May Revision includes $50 million for the Department of Technology to fund small modernization projects.

BACKGROUND

The May Revision requests a one-time 2021-22 General Fund appropriation of $50 million for a fund at the Department of Technology for small projects identified during the fiscal year. The funding will be used in a manner similar to the Federal Technology Modernization Fund, which provides funding for federal government modernization solutions outside of the standard budget process.

According the Department, it will use the funds to quickly fund the implementation of proactive solutions identified through department's Stabilize Critical Services and Infrastructure BCP and other small strategic IT solutions identified in conjunction with other state departments, and approved by the department. The department estimates that this appropriation would fund 10 to 25 system stabilization improvements and solutions.

STAFF COMMENTS

This proposed funding is consistent with the shift of Technology's new financing model, which would use General Fund at the department to pay for projects, rather than asking for reimbursement directly from departments. However, this approach also provides more discretion and less legislative oversight as the previous approach.

Given this the department's recent work in wildfires, power shutoffs, and the public health data reporting, the department has a track record for quickly responding to IT challenges that impact the people of California. However, the last year also include technology projects which did not seem to be as effective. For any additional funding beyond this year, the department will need to demonstrate that this new authority is used responsibly and thoughtfully on initiatives, like improving EDD's unemployment insurance issuance performance and customer service.

Staff Recommendation: Adopt May Revision

VOTE-ONLY ISSUE 81: DIGITAL IDENTIFICATION

The Subcommittee will revisit the Digital Identification Spring Fiscal Letter.

BACKGROUND

In a Spring Fiscal Letter, the California Department of Technology (CDT) requests 2.0 positions and $1,111,000 in General Fund (GF) in Fiscal Year (FY) 2021-22 and FY 2022-23 to deploy a Digital Identification (ID) ecosystem for an initial subset of state services.

According to the department, this proposal "will provide a consistent, secure, privacy enabled, reliable, and consent-based method to authenticate and verify the identity of a California resident when accessing the subset of digital state services. Using an iterative approach, this initial Digital ID ecosystem and deployment will provide invaluable information needed to develop a roadmap for Digital ID expansion across all state services."

STAFF COMMENTS

This issue was heard at the May 4th hearing of the Subcommittee and the discussions focused on privacy concerns raised by the proposal. At the hearing, the department stated that it would work with the Subcommittee to address these concerns and intended this investment to be a pilot.

Policy staff from both the Assembly and the Senate with an expertise in privacy issues have assisted budget staff with provisional budget bill language and corresponding trailer bill that would allow this proposal to move forward, while also providing some guardrails to limit the scope of the pilot.

The staff recommends adopting "placeholder" language to provide additional time for the legislative staff to work with the administration on the final wording of these provisions.

Staff Recommendation: Adopt the Spring Fiscal Letter with budget bill language and placeholder trailer bill.

0120 ASSEMBLY
0110 SENATE
0130 LEGISLATIVE ANALYST'S OFFICE

VOTE-ONLY ISSUE 82: MAY REVISION SAL ADJUSTMENT

The May Revision reflects the SAL level on the budgets for the Legislature.

BACKGROUND

Pursuant to Proposition 140 (1990) the Legislature's budget may only increase in line with the State Appropriations Limit Adjustment. The May Revision adjusts these three budgets to reflect the updated SAL figures. This results in the following adjustments:

- Item 0110-001-0001 (Senate) be increased by $4,537,000 ongoing
- Item 0120-011-0001 (Assembly) be increased by $5,978,000 ongoing
- Item 0130-021-0001 (LAO) reflects a net zero adjustment between the following schedules:
  - Schedule (1) be increased by $308,000 ongoing
  - Schedule (2) be decreased by $154,000 ongoing
  - Schedule (3) be decreased by $154,000 ongoing

STAFF COMMENTS

This technical adjustment is a routine part of the May Revision.

Staff Recommendation: Adopt the May Revision

0750 OFFICE OF THE LIEUTENANT GOVERNOR

VOTE-ONLY ISSUE 83: MAY REVISION INCREASES

The May Revision includes additional funding for the Lieutenant Governor's Office.

BACKGROUND

The May Revision includes two proposals for the Lieutenant Governor's Office:

1. Lieutenant Governor Support Staff—It is requested that Item 0750-001-0001 be increased by $500,000 ongoing and 3 permanent positions to support increased workload within the Office of the Lieutenant Governor.

2. Lieutenant Governor Relocation Costs—It is also requested that Item 0750-001-0001 be increased by $58,000 in fiscal year 2021-22. This amount would decrease to $7,000 in 2022-23 and 2023-24. The funding will cover expenses associated with relocating the Office of the Lieutenant Governor from the Capitol Annex building to 1021 O Street in November 2021, including moving and storage costs.

STAFF COMMENTS

The increased staffing will provide the Lieutenant Governor 13.9 total positions, which is still less than half of the staffing the office had in 2009, when it had 29.7 positions.

Staff Recommendation: Adopt May Revision

0511 SECRETARY FOR GOVERNMENTAL OPERATIONS

VOTE-ONLY ISSUE 84: CENSUS REAPPROPRIATION

The May Revision includes a technical change to allow unspent Census funding to be used for residual costs of the effort.

BACKGROUND

The May Revision includes reappropriations language for up to $2,242,000 available for encumbrance or expenditure until June 30, 2024 to support the residual costs of the California Complete Count Census 2020.

STAFF COMMENTS

This proposal appears technical.

Staff Recommendation: Adopt May Revision

8860 DEPARTMENT OF FINANCE

VOTE-ONLY ISSUE 85: FEDERAL STIMULUS AND DISASTER REIMBURSEMENT UNIT

The Department of Finance proposes funding for dedicated staff to track federal disaster and stimulus funding in the May Revision.

BACKGROUND

The May Revision proposes $3,374,000 and 15 positions ongoing to fund the tracking, implementation, and oversight of federal stimulus and disaster relief funds by creating a Federal Stimulus and Disaster Reimbursement Tracking, Recovery, and Accountability

Unit at the Department of Finance

According to the Department of Finance, since the beginning of the COVID-19 Pandemic, California has received nearly $425 billion in federal stimulus funds from five federal stimulus bills, and is estimated to receive over $190 billion more from the American Recovery Plan Act of 2021, the sixth federal stimulus bill. Due to the immediacy of expenditure requirements in the initial bills, existing staff were redirected to manage the funding plan and establish tracking and oversight. Given the unprecedented size and scope of recent relief bills, the redirection of existing staff is not sustainable. The proposed coordinated approach to tracking and reporting will support consistency and transparency of federal reporting. To help standardize and streamline reporting, staff will evaluate enhancements needed to the Financial Information System for California (FI$Cal).

STAFF COMMENTS

The Assembly intends continued oversight and hearings on the use of these critical federal funds. These additional staff should provide durable and dedicated staff that can facilitate these discussions in future years.

Staff Recommendation: Adopt May Revision

VARIOUS

VOTE-ONLY ISSUE 86: BAGLEY-KEENE OPEN MEETINGS ACT

The May Revision includes trailer bill related to changing Bagley-Keene to allow remote participation in these public meetings.

BACKGROUND

The May Revision includes a trailer bill provision to amend the Government Code to allow open meetings governed by Bagley-Keene to be attended and observed remotely.

The Bagley-Keene Open Meeting Act covers all state boards and commissions. Generally, it requires these bodies to publicly notice their meetings, prepare agendas, accept public testimony, and conduct their meetings in public unless specifically authorized by the Act to meet in closed session.

STAFF COMMENTS

This proposal has a great deal of merit and should be considered seriously. Staff believes the proposed changes could improve public access to these hearings and allow greater participation from Californians that cannot afford the travel or take off time to attend in-person meeting that are largely held in Sacramento.

However, including this proposal in the May Revision means that there is no chance for stakeholders to weigh in on this change to the public process of decision making. This policy should go through a slower process, like the policy process, to allow for deliberation and discussion. Staff recommends denying the proposal with the intent that the administration continue this discussion outside of the 2021-22 budget process.

Staff Recommendation: Deny Without Prejudice

0650 OFFICE OF PLANNING AND RESEARCH

VOTE-ONLY ISSUE 87: ADMINISTRATIVE STAFF AUGMENTATION

The Subcommittee will conform to Senate Action on OPR administrative staffing.

BACKGROUND

The Governor's budget included $1.1 million General Fund and 7 positions to support increasing OPR workload. The Subcommittee approved this proposal on May 4, 2021.

STAFF COMMENTS

The Senate Budget Subcommittee #4 heard this issue on May 5, 2021 and partially approved the request: $622,000 to fund increased personnel in the CEQA Clearinghouse and OPR's cross-programmatic administrative functions.

Staff recommends conforming to the Senate to resolve this issue and allow the Legislature to put forward a unified budget proposal.

Staff Recommendation: Conform to Senate

VOTE-ONLY ISSUE 88: PRECISION MEDICINE: ADVERSE CHILDHOOD EXPERIENCES

The May Revision includes a proposal to study adverse childhood experiences in youth homelessness.

BACKGROUND

The May Revision requests $12.4 million to the Precision Medicine program. The funding would be used f to expand Adverse Childhood Experiences (ACEs) research which assists in detecting toxic stress to prevent long-term health impacts of youth homelessness. It is also requested that provisional language be added to specify that the resources provided are available for encumbrance or expenditure until June 30, 2026.

STAFF COMMENTS

The Assembly has long supported the administration and Surgeon General's research and advocacy in ACEs.

However, the Assembly remains disappointed that this appears to be the only significant investment in youth homelessness in the budget, as the Homekey program largely ignore this vulnerable population. The Assembly believes that this research is needed, but action is needed even more.

Staff Recommendation: Adopt May Revision

VOTE-ONLY ISSUE 89: OPR CLIMATE RESILIENCE PROPOSALS

The May Revision includes funding for climate programs operated by the Office of Planning and Research as part of the Climate Resilience package.

BACKGROUND

The May Revision includes five new climate proposals that are part of an initiative packaged as the "climate resilience" that spans several departments. These include:

- Climate Resilience—Transformative Climate Communities: $140 million General Fund per year for 3 years to continue funding transformative climate communities grants
- Climate Resilience—Adaptation and planning grants: $25 million General Fund over two years for ICARP to support local and regional planning needs
- Climate Resilience: 5th Climate assessment$11 million for OPR's portion of the 5th climate assessment/
- Climate Resilience—Regional Climate Collaboratives$10 million General Fund per year for 2 years for grants to help local community groups apply for grants
- Climate Resilience—CalAdapt mapping: $5 million General Fund for website and data visualization tools

STAFF COMMENTS

The proposed OPR Climate Resiliency portfolio reflects some important initiatives that the Assembly agrees with. The Assembly, in particular, supports the sizable investment in the Transformative Climate Communities program.

At its May 26th hearing, Subcommittee 3 deferred action on the Climate Resiliency proposals as the Assembly intends to supplement the level of investment to allow existing priorities of Members to be included in a final investment agreement. The Assembly intends to identify an overall amount of General Fund investments for this area and adopt that amount at the Full Committee on June 2nd. That will allow these programs, as well as other climate resiliency, clean energy, Zero Emission Vehicle, wildfire, Cap and Trade, and drought/water to be included in an agreement between the Senate, Assembly and the Administration.

Staff Recommendation: Conform to Subcommittee 3's Direction on Climate Resiliency

VOTE-ONLY ISSUE 90: CALIFORNIA VOLUNTEER'S STATEWIDE EMERGENCY RESPONSE FRAMEWORK

The May Revisions includes a proposal for 7 positions for CalVolunteer for disaster response.

BACKGROUND

The May Revision includes a proposal for California Volunteer's Statewide Emergency Response Framework at $1,324,000 and 7 positions ongoing to maintain an emergency response framework to prepare and train for future disaster response.

STAFF COMMENTS

This small proposal seems in line with the capabilities of the Office, which is in contrast to some of the more ambitious proposals described in other issues.

Staff Recommendation: Approve May Revision

VOTE-ONLY ISSUE 91: OPR EDUCATION AND HIGHER EDUCATION PROPOSALS

The May Revision includes large new proposals related to education and higher education.

BACKGROUND

The May Revision includes several large budget proposals related to K-12 and Higher Education. These for proposal are:

- Californians For All College Service Program: $285 million ($45 million General Fund) to create the Californians For All College Service Program in partnership with the University of California, California State University system, and California Community Colleges. This program will provide 12,500 part-time service opportunities to college students in critical issue areas such as climate action, education and youth development, specifically tutoring and mentoring, health, and disaster response.

- Regional K-16 Education Collaboratives: $250 million one-time General Fund to provide support for a regional K-16 education collaborative grant program to promote educational alignment across institutions and workforce and economic development in specific regions.

- Student Success Coach Grants: $15 million one-time General Fund to create a grant program that will establish student success coaches in communities to nurture relationships with K-12 students and collaborate with teachers to help prepare students with skills to achieve their goals.

- Science, Technology, Engineering, and Mathematics (STEM) Teacher Recruitment Grants: $3 million one-time to provide grants to help recruit STEM professionals into the teaching profession by connecting them with teaching, tutoring, and speaking opportunities in K-12 schools. These grants are intended to address the shortage of STEM teachers in California by providing learning and training opportunities for potential future teachers, especially in under-resourced communities.

STAFF COMMENTS

The May Revision envisions a further expansion of the Office of Planning and Research's diffuse portfolio, this time into education. While these proposals address real needs of California students, the proposals are disconnected from the active and vibrant conversation in Subcommittee 2 on Education on how to improve existing programs at CDE, CCC, UC, CSU, and the Student Aid Commission and instead propose new grant program supported by an office that has no relationship or experience with the major stakeholders or institutions in this policy area.

Staff recommends denying these proposals, which allows $553 million in resources available for programs to be used for existing program, with proven track records, in education that assist students and recruit teachers.

Staff Recommendation: Deny May Revision

VOTE-ONLY ISSUE 92: YOUTH WORKFORCE DEVELOPMENT

The May Revision includes a two proposal for youth workforce development and AmeriCorp.

BACKGROUND

The May Revisions includes a Youth Workforce Development Program request for $200 million ARP federal funds for a one-time for grants to cities or counties to create or expand youth volunteer and job opportunities. The funding, which would be administered by California Volunteers, will be provided both directly to large cities on a per capita basis and to other cities and counties through a competitive grant process. The goal of this funding is to increase employment opportunities, such as part-time work or summer jobs, for youth to provide them an opportunity to gain valuable work experience.

Additionally, the May Revisions includes $4.7 million General Fund 3 years, then $823,000 ongoing for a new AmeriCorp program related to climate change mitigation.

STAFF COMMENTS

These proposals appear to resemble investments in AmeriCorp and CityYear that the Assembly has supported in the past. However due to the overwhelming volume of May Revision proposals, staff is unable to fully examine these two proposals to determine how these investments would fit with previous Assembly requests.

Staff recommends deferring action on these items, but to assume the funding as part of the budget package. This approach will allow the Legislature time to more fully examine and discuss this proposal later in the budget process.

Staff Recommendation: Defer Action on May Revision proposals

CONTROL SECTION 11.96

VOTE-ONLY ISSUE 93: FEDERAL STIMULUS FUND USE

The May Revision includes provisional language related to the use of federal funds.

BACKGROUND

The May Revision includes a proposed control section that allows the Department of Finance to allocate and change the use of federal American Rescue Plan Act funding.

According to Finance, the language:

- Ability to offset expenditures in the current year (back to March 3, 2021 as allowed by federal law).
- Provide for a longer time to encumber or obligate the funds.
- Ensure that funds are spent quickly by imposing an expenditure end date of June 30, 2024 and providing flexibility to reallocate unspent/unobligated funds.
- Specify the end of the liquidation period is December 31, 2026 specific with the Interim Final Rule.
- Flexibility shift funds between state ops and local assistance to make sure that new programs are fully supported and local assistance (funding to various priorities) are maximized.
- Ability to increase funds to meet federal audit requirements and/or address any audit findings that may arise.
- Ability to modify these dates if federal regulations/guidance allows (currently the Interim final Rule has a 60-day comment window which could change current guidance).
- Specifies that if state priorities (as would be outlined in the final budget agreement) are not permitted in federal regulations/guidance that General Fund may be used instead.
- Requires all changes to go to the JLBC for review and specifies a more standard 30-day review as we have more time to expend and obligate the funds than we did for CRF.

STAFF COMMENTS

Finance will need some of the authority outlined in this control section to make sure the state claims and used the federal stimulus funding effectively and accurately. Staff is concerned that the scope of the proposed authority goes further than necessary and the language needs more discussion. Staff recommends that this section be denied at this time and to allow further discussion on a version of the Control Section that can be included in the budget bill at a later point in the process.

Staff Recommendation: Deny May Revision

VOTE-ONLY ISSUE 94: COVID 19 EMERGENCY EXPENDITURES

The May Revision includes two control sections related to COVID-19 emergency expenditures.

BACKGROUND

The Governor's budget includes two control sections that provide the Department of Finance authority:

- Control Section 11.91 authorizes the Department to adjusting the appropriations in certain departments to reflect COVID-19 spending and the use of federal relief revenue provided for disaster response. This section also authorizes the Department of Finance to create new budget items to allow departments to receive federal or private funds for COVID-19 state expenditures.

- Control Section 11.92 authorizes the use of the Disaster Response-Emergency Operations Account for expenditures to respond to the March 4, 2020 proclamation of a state of emergency for COVID-19 is hereby authorized for the 2021–22 fiscal year.

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STAFF COMMENTS

This issue was considered in Assembly Budget Subcommittee 6 on March 18, 2021

The Assembly has vocally advocated for limitations on these Control Sections to allow for better collaboration between the Administration and the Legislature. While an expedited ad hoc process for marshalling resources was necessary at the start of the pandemic, most COVID-19 related expenditures no longer have the urgency that requires using this process. This is especially true given that the Legislature has enacted several budget amendments this year.

Legislative staff is working with the administration to require notification for the use of either of these provisions and to limit the use of DREOA to a set amount of funding, and only during a timeframe when the Legislature is not in session. The goal is to continue to empower the Governor to intervene proactively in any disaster, or if the pandemic were to suddenly worsen, but to reflect the expectation that as the State reopens and returns to normal, so should the appropriations process.

Staff Recommendation: Adopt placeholder Budget Bill Language

VOTE-ONLY ISSUE 95: COVID 19 BCP

The January Budget included a proposed $1.4 billion Budget Change Proposal.

BACKGROUND

The Governor's budget includes one large Budget Change Proposal the covers COVID-19 expenditures in several departments.

Figure 1

Governor's Budget Provides $1.4 Billion General Fund for COVID-19-Related Activities

2021-22 (In Millions)

Department	Description	Amount
Public Health	Statewide testing, primarily at the Valencia Branch Lab, including specimen collection.	$820.5
Corrections and Rehabilitation	Testing, treatment, surge capacity, and vaccination of staff and incarcerated persons.	281.3
Governor's Office of Emergency Services	California Disaster Assistance Act grant funds to reimburse local governments for certain coronavirus disease 2019 (COVID-19) response costs.	119.8
General Services	Hotels for health care workers, housing for vulnerable people released from prison and agricultural workers, and specimen transportation.	84.4
State Hospitals	Increased operating costs primarily related to increased sanitation, purchase of personal protective equipment, and testing staff and patients.	52.0
Developmental Services	Surge sites for individuals served by the Department of Developmental Services who have been exposed to or are at high risk of COVID-19.	36.7
Board of State and Community Corrections	Probation department supervision of people released from prison to county supervision.	12.1
Veterans Affairs	Increased operating costs primarily related to increased sanitation, purchase of personal protective equipment, and testing staff and residents.	5.3
Social Services	Rapid Response program to support services to immigrants.	5.0
Total		**$1,417.1**

STAFF COMMENTS

This issue was considered in Assembly Budget Subcommittee 6 on March 18, 2021.

Staff Recommendation: Approve as Budgeted

ITEMS TO BE HEARD

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

ISSUE 1: VARIOUS PROPOSALS

The May Revision contains a number of proposals from the Employment Development Division (EDD). Among them are:

- $6.0 million in 2021-22, and $2.7 million in 2022-23, funded equally by the General Fund and the Unemployment Compensation Disability Insurance Fund in order to be in compliance with the legislatively mandated requirements to remove social security numbers from the majority of EDD forms.

- $11.8 million General Fund in 2021-22 to begin to re-focus the Benefit Systems Modernization (BSM) project providing an opportunity to implement new customer-centric processes, leverage new technologies, and create a modular approach to focus on customer experience.

- $11.4 million General Fund and 92 positions in 2021-22, and $11.4 million General Fund and 92 positions in 2022-23, to expand the presence of Unemployment Insurance (UI) trained staff in the America's Job Center of California locations to perform UI activities.

- The Governor's January budget proposed to provide $555 million General Fund one-time to make an estimated interest payment on the federal loan that was necessary to pay benefits when the Unemployment Insurance (UI) Trust Fund became insolvent. The UI Trust Fund is the fund from which weekly UI benefits are paid to eligible claimants and the first interest payment is due by September 30, 2021. The May Revision proposes an updated estimate of the UI loan interest payment of $35.77 million to reflect the federal government extended interest-free borrowing through September 26.

- A decrease of 762.0 personnel equivalents associated with the updated workload estimates. This proposal also includes a $73.8 million decrease in federal authority for Unemployment Administration Fund to align with estimated expenditure levels.

- $2.0 million General Fund in 2021-22 to address deferred maintenance needs on Department owned and managed facilities. Funding will be used for building modernization in Chico. Specifically for replacement of an outdated heating, ventilation and air conditioning system, fire alarm system, roof replacement and carpet.

BACKGROUND

As a result of the COVID-19 pandemic, the unemployment rate in California ballooned from 4.3 percent in February 2020 to 16.2 percent in April of 2020. By March of 2021, EDD has processed over 22 million claims representing more than $140 billion in unemployment insurance benefits. This unprecedented number of claims was caused in part by provisions of the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act, which extended unemployment insurance benefits to independent contractors and business owners in an attempt to provide wage replacement benefits to as many workers affected by the pandemic as possible.

The program did not have sufficient anti-fraud measures, leading to the now well documented instances of unemployment insurance fraud. The State Auditor provided a series of recommendations to EDD regarding its operations as a result of the massive system fraud. Among the recommendations were proposals for the Legislature to take action by implementing a recession plan and assessing fraud prevention and detection tools.

Backlog issues at EDD have been well reported as well. In March 2021, EDD launched an expanded online dashboard containing data about unemployment claims, payments and related data. EDD's strategy for managing call center demand includes directing claimants to online resources and increasing the number of permanent trained staff.

Finally, follwing the September 202 Strike Team report, EDD halted its BSM Project. Now, leveraging work already done and the lessons learned during the COVID-19 pandemic, EDD is proposing to restart the program to better assist customers.

STAFF COMMENTS

This subcommittee has held numerous hearings on issues related to EDD operations. The subcommittee has asked EDD to work to improve staffing in order to resolve consumer issues in a timely manner. Additional requests have included increased anti-fraud measures and updates to the overall customer experience. These proposals appear to address many of the subcommittee's concerns.

Staff Recommendation: Approve May Revision proposal

ISSUE 2: ADDRESSING DEFERRED/PROSPECTIVE WORKLOADS

The May Revision proposes $276.3 million one-time General Fund to enter into a contract with a vendor to provide assistance to EDD staff in completing both the deferred and prospective workload.

BACKGROUND

At the onset of the pandemic, EDD temporarily suspended a subset of procedures for conducting eligibility determinations in order to expeditiously pay claimants in need of UI benefits. These temporary policy suspensions resulted in significant levels of deferred workloads, some of which have yet to be addressed. Although EDD has resumed normal business operations for determinations workload as of the beginning of this calendar year, it does not have adequate staffing levels to complete all of the deferred workloads in addition to the continued incoming workload volumes. Because this workload is one-time in nature, EDD proposes to enter into a contract to provide assistance to EDD staff in completing both the deferred and prospective workload to ensure the Department is meeting customer needs.

Vendor services would include contacting claimants for intake information related to the determination, reviewing employer protests, screening benefit crossmatch data, and prescreening of identity documentation to ensure it meets the criteria for either determinations, redeterminations, or pre-appeal review.

STAFF COMMENTS

This complex proposal includes contracting for work otherwise done by merit employees subject to an extensive training process. The subcommittee may want to carefully consider the sufficiency of a shortened training period for employees evaluating eligibility for unemployment insurance benefits.

Staff Recommendation: Adopt placeholder trailer bill language

ISSUE 3: DIRECT DEPOSIT

EDD requests $5.5 million General Fund and 23 positions (14 permanent and 9.3 temporary) in 2021-22, and $5.5 million General Fund, and 23 positions in 2022-23, to begin planning and implementation of a direct deposit solution.

BACKGROUND

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

The UI program is a federal-state program that provides weekly payments to eligible workers who lose their jobs through no fault of their own. In addition to the regular UI program the Department has also been operating multiple federal pandemic programs including Pandemic Unemployment Assistance, Pandemic Emergency Unemployment Compensation, and Federal Pandemic Unemployment Compensation.

Currently, EDD offers two methods of payments to these claimant populations which is either via check or debit card. Debit card holders can request to establish direct deposit, but only after they have received a debit card. During the recent COVID-19 pandemic it was highlighted that debit card options can be compromised by being stolen or mailed to the incorrect address. Furthermore, there exist only a handful of states, including California, that do not offer a direct deposit option for benefit programs.

EDD previously conducted an analysis to determine the viability of using the Automated Clearing House (ACH) (i.e., direct deposit) as another payment option. Findings from this analysis determined that the addition of an ACH payment option would require complex programing changes in multiple EDD systems including the mainframe, UI Online, SDI Online, PFL application, and the Interactive Voice Response.

STAFF COMMENTS

This subcommittee has previously discussed the potential of EDD offering a direct deposit option. The COVID-19 pandemic made clear the many problems associated with the lack of a direct deposit option. Checks and debit cards can be stolen in the mail, leaving individuals in need of their unemployment insurance benefits without recourse until another check/card can be issued. Debit cards and checks also require access to banking services. This was particularly difficult at a time when many Californians struggled with transportation. Finally, ATMs have limits on how much money can be withdrawn at a time, which presents challenges for Californians who rely on unemployment insurance benefits to pay bills and provide for their families. There are a number legislative proposals introduced to require direct deposit as well.

Staff Recommendation: Approve the budgeted amount with placeholder trailer bill language

ISSUE 4: IMPROVING ACCESS TO EMPLOYMENT DEVELOPMENT DEPARTMENT SERVICES

EDD requests $11.8 million General Fund and 39 positions in 2021-22 and $9.2 million General Fund and 39 positions in 2022-23 to improve education and outreach in communities requiring multilingual access to EDD services and programs. The numerous proposals to improve language access include:

- The creation of a language access portal as the primary limited English proficiency resource
- Expansion of the existing telephone interpretive service for over 150 languages and dialects
- Grants to community based organizations to provide targeted outreach and education services to limited English proficiency communities.
- Creation of a multilingual language access coordinator position to manage new language access initiatives
- Additional staff in the unemployment insurance program to process multilingual paper, fax, and phone applications
- Marketing and promotion of EDD multilingual services with marketing materials. Multilingual press releases and promotional videos for the general public.

BACKGROUND

The EDD Strike Team report found that individuals who are not fluent in English face insurmountable barriers to receiving assistance.

EDD notes that they have dedicated phone lines in English, Spanish, Cantonese, Mandarin and Vietnamese. Additionally, EDD's 2018-2021 plan noted telephone-based interpretive services were also available in more than 100 languages to assist Limited English Proficient customers.

According to the EDD's 2018-2021 Language Access Plan, EDD provided services in 2016 to Californians in 56 languages, and about 2.5 million EDD customers were serviced in languages other than English. The report noted that EDD maintains a bilingual services directory containing more than 2,000 employees speaking more than 60 languages.

STAFF COMMENTS

At various hearing on EDD issues, this subcommittee has requested that EDD invest in increased language access. The COVID-19 pandemic has made clear how vital access to unemployment insurance benefits can be for California families. Ensuring that all eligible Californians are able to connect with EDD services and clearly understand how to navigate the unemployment insurance system is of critical importance. There a are a number of proposals around EDD access moving though the legislative process as well.

Staff notes the Administration has proposed one-time funds for this purpose although the need for equitable language access to unemployment insurance benefits information in ongoing. The subcommittee may want to consider approving ongoing funds to ensure that efforts to expand language access continue beyond budget year 2022-2023.

Staff Recommendation: Adopt trailer bill language to provide additional requirements around language access and provide $6.8 million ongoing General Fund to support expanding telephone interpretive services, the multilingual language access coordinator, additional staff to process paper applications and the marketing and promotion of EDD multilingual services