AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER WENDY CARRILLO, CHAIR

TUESDAY, MARCH 2, 2021

1:30 P.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: **437 13 15**.*

ITEMS TO BE HEARD

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0845 CALIFORNIA DEPARTMENT OF INSURANCE

OVERVIEW

The Governor's budget includes two budget change proposals for the California Department of Insurance (CDI). The Subcommittee both proposals in one panel.

ISSUE 1: CALIFORNIA DEPARTMENT OF INSURANCE BUDGET PROPOSALS

CDI's budget proposals include a request for permanent funding for whistleblower investigation staff, funding for a subscription service, and funding to implement legislation.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Julia Cross, Deputy Commissioner, California Department of Insurance
- Brian Weatherford, Senior Fiscal and Policy Analyst, Legislative Analyst's Office
- Charlene Manning, Staff Finance Budget Analyst, Department of Finance

BACKGROUND

The Governor's budget includes the following two proposals:

1. **Continuation of Enhanced Fraud Investigation and Prevention Activities.** The Governor's budget requests $6,139,000 General Fund ongoing to convert 34 limited-term positions to permanent positions to support enhanced fraud investigation and prevention efforts in civil whistleblower cases. Additionally, beginning in 2023-24 and every three fiscal years thereafter, CDI is requesting $640,000 to continue the eDiscovery Software-as-a-Service (SaaS) subscription.

   Under the Insurance Frauds Prevention Act, the Insurance Commissioner is authorized to use CDI attorneys to handle civil whistle-blower litigation (Qui-Tam) and recover assessments and fees, and recover attorneys' fees and costs. If assessments and fees are awarded, the funds are paid to the General Fund and provides for the Legislature to appropriate these funds to the CDI for enhanced fraud investigation and prevention efforts.

   Since November 2013, CDI has reached settlement agreements in a number of major whistleblower lawsuits resulting in $139.2 million in settlement payments, more than

$66 million of which was paid to the General Fund. CDI has deposited an average of $9.0 million per year in to the General Fund over the last five fiscal years. As a result of these resources the CDI has been able to increase recoveries for the state. The trend has improved dramatically over the last 24 months as CDI recovered $14.6 million in assessments to the General Fund and has already recovered $15 million in 2020-21. Since 2014-15 the Legislature has approved multiple requests totaling $54.9 million for CDI to utilize these funds for Enhanced Fraud Investigation and Prevention efforts. Below is a chart that lists what CDI has recovered for civil whistleblower cases and what the General Fund has provided:

California Department of Insurance
Qui-Tam Position Summary

	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Beginning Balance	$0	$20,628,657	$15,990,685	$22,103,647	$28,138,555	$23,521,975	$18,294,111	$16,969,939
Qui-Tam Revenues [1/ 2/]	20,628,657	5,028	12,373,962	14,153,908	3,989,421	5,151,136	9,642,828	20,000,000
GF Expenditure Authority [3/ 4/]	0	4,643,000	6,261,000	8,119,000	8,606,000	10,379,000	10,967,000	11,316,000
Ending Balance	$20,628,657	$15,990,685	$22,103,647	$28,138,555	$23,521,975	$18,294,111	$16,969,939	$25,653,939

[1/] Data per Year-End Financial Statements.
[2/] FY 2020-21 Qui-Tam Revenues are projected collections with $15M already deposited in summer 2020.
[3/] Total GF Qui-Tam Authority per Budget Act GB Display when
[4/] Excludes funding for Brace and Bolt Program since not Qui-Tam Related $3M FY 2015-16 & FY 2016-17.

The department has had up to 50 limited-term positions and associated authority over the last seven years. All General Fund resources currently authorized will expire June 30, 2021. Below is a chart of positions that CDI has to work on whistleblower cases and the positions that CDI is requesting to make permanent:

California Department of Insurance
Qui-Tam Position Summary

Existing LT BCP Positions [1/]	Current Vacancy [2/]	LT to Perm BCP Positions	Classification
4.0	2.0	2.0	Associate Governmental Program Analyst
1.0	0.0	0.0	Associate Insurance Compliance Officer
2.0	1.0	0.0	Associate Management Auditor
3.0	2.0	1.0	Attorney I
2.0	0.0	2.0	Attorney III
2.0	1.0	2.0	Attorney IV
2.0	0.0	2.0	Attorney V
12.0	2.0	12.0	Investigator
3.0	1.0	3.0	Legal Analyst
3.0	2.0	3.0	Legal Secretary
11.0	6.0	7.0	Special Investigator
2.0	0.0	0.0	Staff Services Analyst
1.0	0.0	0.0	Staff Services Manager I
2.0	0.0	0.0	Supervising Special Investigator I (Non-Peach Officer)
50.0	**17.0**	**34.0**	**TOTAL**

In April 2017, Fraud Liaison Bureau (FLB) implemented eDiscovery Software-as-a-Service (SaaS) in order to better handle the large volume of materials associated with pending whistle-blower cases. The FLB has automated 100% of processing, organizing, searching and retrieving of discovery documents in whistleblower cases and has been able to intervene in twice as many cases since moving from the manual process to the eDiscovery SaaS tool.

2. **Mental Health or Substance Use Disorders (SB 855).** The Governor's budget includes $81,000 from the Insurance Fund in 2021-22 and $70,000 in 2022-23 and ongoing to monitor insurer compliance as mandated by Chapter 151, Statutes of 2020 (SB 855).

SB 855 expands the universe of mental health conditions found in the existing California Mental Health Parity Act for which health insurance companies must cover medically necessary treatment under the same terms and conditions applied to other medical conditions from nine specifically enumerated mental health conditions to encompass all mental health conditions, including substance use disorders. SB 855 also establishes specific enforceable standards for utilization review (the process under which health insurance companies review care and services for which benefits are being sought to evaluate whether they are medically necessary in the insurer's view) not present under existing law.

An examination of a health insurance company requires an average of 2,500 examiner hours to complete, of which approximately 750 or 30% of the hours are spent on evaluating compliance with mental health parity requirements in place prior to SB 855. It is estimated that the complex legal structure of SB 855 coupled with federal mental health parity law will double the examiner time necessary to evaluate compliance, or an additional 750 hours per examination, as well as require 92 hours per year developing and maintaining technical resource materials for use on the relevant examinations. Therefore, beginning in 2021-22 and ongoing, it will take an additional 1,967 examiner hours per year to conduct two to three examinations, or the equivalent of 1.1 position.

STAFF COMMENTS

Staff has made the following observations about these proposals:

1. **Continuation of Enhanced Fraud Investigation and Prevention Activities.** Staff notes that funding for these positions have historically been for limited-term and not permanent due to the fact that funding from these cases fluctuate and may not be consistent. However, staff points out that recovery from the program to the General Fund has been higher than what becomes appropriated from the General Fund to the program.
2. **Mental Health or Substance Use Disorders (SB 855).** Staff does not have concerns with this proposal at this time.

Staff Recommendation: Absent member questions or input from the public relating to these issues at this hearing, staff recommends these items be considered for a vote-only calendar whenever the Committee takes action.

0840 STATE CONTROLLER'S OFFICE

OVERVIEW

In the Governor's 2021 Budget, the State Controller's Office (SCO) proposes four budget change proposals. For the hearing, the Subcommittee will first from a panel to discuss a payroll system project. The second panel will discuss local government audit costs and the last panel will be on information security and operational costs.

ISSUE 2: CALIFORNIA STATE PAYROLL SYSTEM (CSPS) PROJECT

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 CSCRF) in 2023-24.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Jennifer Urban, Budgets and Accounting Chief, State Controller's Office
- Brian Metzker, Senior Fiscal and Policy Analyst, Legislative Analyst's Office
- Dominick Guidera, Staff Finance Budget Analyst, Department of Finance

BACKGROUND

The California State Payroll System (CSPS) is a project that will set up the new system of payroll and HR for the state, which currently relies on 1970s-era legacy systems. A modern payroll system will allow SCO to meet its strategic objectives to promote financial integrity and accountability; provide better customer service; deliver core services more effectively through innovative business processes and technology solutions, invest in its employees to create a skilled, motivated, and diverse workforce; and enhance communications and information sharing.

The CSPS project received CDT approval on PAL Stage 1 in October of 2017. In September 2020 the project team submitted PAL Stage 2 documentation which encompass the results of the following key project planning milestones:

- Created mid-Level and detailed project requirements.
- Conducted completed market research to catalog lessons learned on procurement, implementation, change management, process reengineering, and related topics.
- Completed an assessment of current business processes, an alternatives analysis, financial analysis worksheets, data analysis, organizational assessments, project management plans, and initial project assessment.
- Completed business rules for approximately 100 functional requirements.

SCO is working closely with CDT as it completes each of the stages in the PAL process and will seek continued legislative approval through future budget requests.

Below are the PAL approval and expected submission dates:

- Stage 1: approved October 2017
- Stage 2: submitted in September 2020
- Stage 3: estimated for submission July 2021
- Stage 4: estimated for submission May 2023

SCO requests funding to support 6 new positions in 2021-22 and ongoing and 1 continuing (one-year limited-term) position to continue to work on the project activities that will drive the process of assessing options and designing a new statewide personnel and payroll solution.

LAO

Withhold Action on Budget Proposals Until CDT Approves Stage 2 Alternatives Analysis. We recommend the Legislature withhold action on the CSPS budget proposals in the 2021-22 Governor's Budget until CDT approves the proposed CSPS IT project through Stage 2 of the PAL process. The Stage 2 Alternatives Analysis documentation will allow our office to more fully assess and recommend action on these budget proposals.

Ask Administration Questions While Awaiting CDT Approval of Stage 2 Alternatives Analysis. Awaiting the availability of Stage 2 Alternatives Analysis documentation (once CDT approves the project through Stage 2), we recommend the Legislature consider asking some of the following questions during the budget subcommittee process:

- Why is SCO proposing to replace the current Uniform State Payroll System? Have these reasons changed over time? If so, why?
- What is the recommended solution for this proposed project? Explain the costs and benefits of this solution. What other solutions were considered?
- In light of the state's projected out-year deficits, is now an appropriate time to embark on such a costly project?

- What change management efforts will be necessary to implement this proposed project? How will the project team coordinate these efforts to modernize how the state performs its payroll functions?
- How will the administration mitigate risks and address issues to avoid the outcome of the 21st Century Project, the predecessor to the proposed CSPS IT project?

Require Reporting From Administration to Allow for Evaluation of Proposed Project Cost, Schedule, and Scope. Once the Stage 2 Alternatives Analysis documentation is approved, we also recommend the Legislature direct SCO, CalHR, CDT, and the Department of Finance (DOF) to provide a report with all of the options and technical solutions considered during Stage 2 and their associated preliminary project cost, schedule, and scope (if known). This report could help the Legislature consider options other than the proposed project scope and the approach to development and implementation, and inform future hearings or meetings with the project team.

Consider Options for Legislative Oversight. We recommend the Legislature establish an oversight framework for this proposed IT project. Given the proposed project's complexity and cost, the Legislature could consider budget bill language that requires: (1) monthly oversight meetings with our office (on behalf of the Legislature), SCO, CalHR, CDT, and DOF to receive project updates and review oversight documents such as CDT independent project oversight reports and independent verification and validation reports with the project team, and (2) quarterly briefings to update other legislative staff on the proposed project. The Legislature could revisit this oversight framework once the proposed project completes the PAL process and begins development and implementation.

STAFF COMMENTS

While the SCO provides an annual financial project report to the Joint Legislative Budget Committee per statute, staff concurs with the LAO's assessment that additional Legislative oversight may be necessary given the scale and potential costs of this project. Following the LAO's report on CSPS, State Controller Betty Yee responded in a letter on February 10, 2021 stating that her office would meet with LAO, legislative, and budget as often as necessary on this proposal:

> "*I wholeheartedly support your report recommendation to provide as many ongoing briefings to you and the legislature as is necessary to ensure your understanding of the effectiveness of the PAL process, as well as the status of – and need to – continue this important and critically needed project without delay*."

Staff Recommendation: Absent member questions or input from the public relating to these issues at this hearing, staff recommends these items be considered for a vote-only calendar whenever the Committee takes action.

ISSUE 3: LOCAL GOVERNMENT OVERSIGHT – INTERNAL CONTROL REVIEWS

The Governor's budget requests $406,000 General Fund and $306,000 Central Service Cost Recovery Fund (CSCRF) ongoing, and a corresponding decrease in reimbursement authority to fund 5 existing positions to perform investigative audits and reviews of the oversight of local government agencies, a total of $712,000.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Jennifer Urban, Budgets and Accounting Chief, State Controller's Office
- Ann Hollingshead, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Dominick Guidera, Staff Finance Budget Analyst, Department of Finance

BACKGROUND

SCO has the authority to conduct investigative audits and reviews related to local agencies' internal control, which is critical to detecting and preventing improper accounting practices, and fraudulent and improper use of taxpayer funds.

Although SCO has the ability to recover costs incurred in completing its investigations, SCO can only bill for the actual costs directly attributable to the entities being investigated and/or reviewed. Costs associated with the preliminary analysis, research, and evaluation necessary for SCO to determine whether a particular entity should be investigated or reviewed are not reimbursable. Statute does not allow SCO to collect audit costs if there is not a "trigger" such as the agency failing to provide their financial report or if there is an error on the report that SCO Audits has identified for SCO to perform an audit, which requires SCO to absorb these costs.

A shift to General Fund will allow SCO to focus its investigations on evaluating local government agencies' internal controls in place, in comparison with the Government Accountability Office's general recommendations for internal control elements. SCO is requesting GF in place of existing reimbursement authority to continue support of 5 positions that provide local government oversight on behalf of the state.

STAFF COMMENTS

Staff notes that the SCO conducts internal control audits for local agencies that have been identified as high risk, whistleblower complaints, and news reporting. Under statute, the SCO cannot recover costs associated with determining whether or not an agency should be investigated or audited for these cases. The Subcommittee may wish to ask the SCO if they have explored making a complaint a "trigger" under statute and therefore allow SCO to recover costs. Additionally, if the SCO has had issues recovering these costs from local agencies, the Subcommittee may wish to discuss what avenues for recovery are available to the SCO.

Staff Recommendation: Absent member questions or input from the public relating to these issues at this hearing, staff recommends these items be considered for a vote-only calendar whenever the Committee takes action.

ISSUE 4: OTHER STATE CONTROLLER'S OFFICE BUDGET PROPOSALS

The Governor's budget includes two proposals relating to information security and other operational costs.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Jennifer Urban, Budgets and Accounting Chief, State Controller's Office
- Ann Hollingshead, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Dominick Guidera, Staff Finance Budget Analyst, Department of Finance

BACKGROUND

The Governor's budget includes the following two proposals:

1. **SCO Information Security Program Workload and Continuity of Operations Program.** The Governor's budget requests $ 234,000 General Fund and $74,000 Unclaimed Property Fund (UPF) ($308,000 total), and $218,000 General Fund and $69,000 UPF ongoing ($287,000 total) for 2 positions to validate compliance with statewide information security policy, standards, and procedures; verify SCO's internal information security systems and policies are in place and functioning as intended; and to support business continuity operations.

   Due to the COVID-19 pandemic, most of SCO's workforce has been working remotely. This resulted in the need for a greatly expanded remote workforce, which introduced new information security risks along with significantly increased phishing attacks and cybercrimes being committed in an attempt to exploit public fear. SCO's Information Security Office (ISO) has determined a need for ongoing resources to implement a more robust Information Security (IS) Program.

A critical component of an overall IS Program is the Continuity of Operations Program (COOP). The COOP is a necessary component of the IS Program, as a failure to maintain a safe and orderly response in the event of an adversarial attack or natural disaster would jeopardize SCO's ability to maintain or resume mission critical statewide operations and ensure full continuity of SCO's business operations. A permanent resource is needed to serve as a BCC in order to establish and maintain an effective COOP.

This request enables SCO to maintain compliance with the various laws, regulations, standards, and policies, and mitigate increased information security risks that are the result of an expanded telework presence. A failure to discover and remediate security control deficiencies puts SCO's security posture at risk and its ability to carry out mandated responsibilities, potentially compromising the integrity of essential state programs, and possibly resulting in violating individuals' right to privacy.

Therefore, SCO is requesting 2 permanent positions to validate compliance with statewide information security policy, standards, and procedures, verify SCO's internal information security systems and policies are in place and functioning as intended, and support business continuity operations.

2. **SCO Infrastructure and Operational Costs.** The Governor's budget includes $1.126 million General Fund, $474,000 Unclaimed Property Fund (UPF) ($1.6 million total) ongoing to support increased infrastructure and operational costs associated with personnel services, training, statewide fees, and contracted costs.

In recent years, SCO has experienced increased operational costs which has eroded baseline funding. SCO is charged with fulfilling a variety of mandated functions in support of the State and erosion of baseline funding puts in jeopardy the ability to continue performing these workloads while keeping pace with rising costs. A table with the history of increased operational costs is below:

Table 1

(Dollars in whole dollars)

Category	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Cost Growth
DGS Statewide Surcharge	$237,112	$251,982	$317,423	$345,155	$385,104	$404,777	$167,665
Warrant and Envelope Purchases	$1,184,871	$1,084,873	$1,128,391	$1,188,661	$1,393,525	$1,318,517	$133,646
Contract Costs	$37,998	$42,872	$53,094	$42,013	$51,209	$51,938	$13,940
Infrastructure (CPU) Costs	$1,346,916	$1,478,546	$1,446,605	$1,832,818	$1,948,985	$2,056,121	$709,205
TOTAL	**$2,806,897**	**$2,858,273**	**$2,945,513**	**$3,408,647**	**$3,778,823**	**$3,831,353**	**$1,024,456**

SCO requires additional funding for training to implement new statewide leadership training requirements. SCO is unable to absorb the cost of the new mandates without jeopardizing the department's ability to provide job-required training and invest in staff development for rank and process, while reducing rank and file training would create a situation in which future leaders are not being developed from within SCO's existing employee pool. SCO is requesting ongoing funding of $448,000.

To comply with various state laws and mandates, SCO is requesting funding for Performance and Learning Management System (PLMS) licenses. This funding will support consolidated solutions that facilitate sharing of processes, capabilities, data, and technology to address the growing needs of SCO's workforce. PLMS will allow HR to track mandated trainings and performance reviews accurately and efficiently with the ability to notify employees who are in danger of not meeting the mandates. SCO is requesting ongoing funding of $125,000.

STAFF COMMENTS

Unclaimed Property Fund. The SCO operates California's unclaimed property fund program, which collects property or financial assets from accounts that have not had activity for a period of time. Examples of unclaimed property includes bank accounts, stocks, or safe deposit boxes. Holders of these accounts, generally banks, corporations, and businesses, must send notice to the accountholder to their last known address before turning over the property to the SCO, which holds the property for safekeeping, if there is no response from the accountholder. The SCO sends notices to all accountholders whose property will soon be transferred to the SCO.

According to a press release from the SCO, the unclaimed property program is holding $10.2 billion in property. In 2019-20 when the unclaimed property program was holding $9.3 billion in property, SCO reunited $258 million, a rate of less than 3%, back to property owners.

Both proposals from the SCO includes both General Fund and UPF. Under statue, UPF funds may be used to pay claims, administration, operating expenses, legal costs, and systems related to operating the Unclaimed Property Program. Additionally, UPF can be used to refund overpayments, auctioneers for safe deposit box auctions, interest payments for claims, third party audit contractors, certificate fees, replacement fee of a lost bond, enforcement-related legal costs, costs associated with maintenance of property, and payments of costs of advertising in connection with the sale of property held. The Subcommittee may wish to ask the SCO how the requests for UPF moneys fall under the above-noted parameters.

Staff Recommendation: Absent member questions or input from the public relating to these issues at this hearing, staff recommends these items be considered for a vote-only calendar whenever the Committee takes action.

7501 DEPARTMENT OF HUMAN RESOURCES

OVERVIEW

In the Governor's 2021 Budget, the California Department of Human Resources (CalHR) proposes three budget change proposals. For the hearing, the Subcommittee will hear from one panel to discuss the payroll system project and the second panel will discuss all other proposals.

ISSUE 5: CALIFORNIA STATE PAYROLL SYSTEM (CSPS) PROJECT

The Governor's budget requests $230,000 General Fund and 1 permanent position to serve as the Enterprise Human Resources Project Director.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Nick Schroeder, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Patrick Campion, Staff Finance Budget Analyst, Department of Finance

BACKGROUND

CalHR is working with Department of Technology (CDT) and the State Controller's Office (SCO) to re-engineer the California State Payroll System (CSPS), which will be the new HR management and payroll system. The Enterprise HR solution will provide tracking and reporting on all state employees with an employee ID throughout their state career, and it will be the central location that tracks all employee information for all statewide HR solutions that come on board.

As the next initiative of the Enterprise HR solution, the CSPS Project intends to modernize and improve the efficiency of the current Uniform State Payroll System (USPS) or replace it entirely. While SCO is the lead on this initiative, CalHR is responsible for all statewide civil service HR programs, Labor Relations (LR) and workforce data reporting requirements necessitates its involvement in SCO's efforts to develop and implement the

CSPS Project. This project will require the project director to oversee and ensure the new system not only appropriately applies requirements set by laws, regulations, and bargaining agreements, but also effectively supports statewide HR and LR programs' business policies, practices, and processes. The requested Enterprise HR project director will also be driving timelines, developing and monitoring work breakdown structures, acquiring resources, managing scope, risks, and issues, and all other project director duties necessary.

LAO

LAO has provided recommendations in this proposal found in Issue 2.

STAFF COMMENTS

Staff concurs with the LAO's assessment that additional Legislative oversight may be necessary given the scale and potential costs of this project.

Staff Recommendation: Absent member questions or input from the public relating to these issues at this hearing, staff recommends these items be considered for a vote-only calendar whenever the Committee takes action.

ISSUE 6: OTHER DEPARTMENT OF HUMAN RESOURCES BUDGET PROPOSALS

The Governor's budget includes two proposals for funds related to workload increases and to align programs.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Nick Schroeder, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Patrick Campion, Staff Finance Budget Analyst, Department of Finance

BACKGROUND

The Governor's budget includes the following two CalHR proposals:

1. **Statewide Human Resources Support.** The Governor's budget requests $836,000 General Fund ongoing for 5 permanent positions to provide direct assistance and oversight in supporting departmental personnel units with complex

workload, resolving audit findings, assisting with surge staffing for crises, and other human resources needs.

The Personnel Management Division (PMD) within CalHR provides 150 department personnel offices statewide with day-to-day expert technical consultative services related to statewide personnel management policy, and interpretation of applicable HR laws and regulations. The CalHR Selection Division (SD) serves as the state's principle advisor on matters related to recruitment strategies and job branding, examination development, validation, administration, selection, and hiring for state and county civil service.

PMD's role has been shifting from a paper review of departmental requests and periodic consultation on issues to a more hands-on role in providing actual day-to-day HR leadership and direction to departments on-site. In some instances, departments recognize critical gaps in their HR operations and roughly six times in recent years departments have requested that CalHR provide either an on-site HR subject matter expert for extended periods of time or provide staff resources to assist with hiring efforts. Most recently due to the COVID-19 pandemic, CalHR has provide emergency HR to the Office of Emergency Services for a massive hiring surge for the California Health Corps and Employment Development Department.

These Statewide Human Resources Support staff will consist of both PMD and SD providing a variety of support avenues to assist departments in operating within acceptable HR standards as defined by law, regulation, and policy. PMD staff provide hands-on support, training, and extensive interactive consultation for departments that are struggling on their own. Similarly, SD staff provide departments expertise on test development, exam administration, and technical interpretation of classification minimum qualifications. CalHR staff provide policy and procedure support regarding a wide variety of HR functions, as well as training and technical guidance. While these programs provide a valuable service to departments needing HR guidance, there is an ongoing need to help agencies with hiring surges, internal HR process improvement, and training regarding best hiring practices within the merit system.

Due to the cumbersome nature of civil service and state HR, CalHR has been responsible for a growing volume of new, demanding, consultation work related to resolution of unlawful appointments and other inappropriate HR practices discovered during either CalHR's routine delegation reviews, or revealed by formal audits and special investigations by other oversight entities such as the California State Auditor (CSA) and the State Personnel Board (SPB) Compliance Review Unit (CRU). When SPB finds sufficient evidence of impropriety, they may revoke a department's appointing authority, which has occurred in the last few years. In each instance, SPB's order designates that CalHR's PMD will perform an oversight role of the restricted department's hiring. This represents a significant ongoing workload based on the department size.

This proposal requests five positions to assume hands-on HR support, intervention work for departments with ongoing restricted delegation, as well as any departments anticipated to end up with restricted delegation in the future. These positions will enable CalHR's PMD and SD to effectively rehabilitate faltering departments and ensure that all operational and regulatory requirements are met without delay.

2. **Substance Abuse Testing Program Alignment.** The Governor's budget includes a proposal to permanently transfer the Controlled Substance Abuse Testing Program from the Benefits Division to the Pre-Employment Division.

CalHR is responsible for administering the Controlled Substance Abuse Testing (CSAT) Program, which provides state agencies access to testing of: 1) state employees for employment and pre-employment and; 2) state employees subject to controlled substances testing under Federal Department of Transportation, Federal Highway Administration, United States Coast Guard regulations, California Peace Officer Standards and Training Commission regulations, and random and reasonable suspicion testing under various Memoranda of Understanding. To better align activities within the appropriate program, CalHR is moving the CSAT Program from the Benefits Division to the Pre-Employment Division, under the authority and purview of the State Medical Officer.

The Benefits Division currently administers the CSAT Program, and is also responsible for the statewide benefit plans for employees, retirees, and dependents designed to support the state in attracting and retaining a qualified workforce. Controlled substance abuse testing, as performed under the CSAT Program, is employer mandated medical testing—not an employee benefit. As such, it is more closely aligned with the purview of the State Medical Officer in Pre-Employment, who is responsible for conducting post-offer, pre-employment medical evaluations of employment candidates for state agencies and, if requested by the State Personnel Board, evaluations of candidates requesting medical reinstatement to a previous civil service appointment. Transferring the CSAT Program to Pre-Employment fits within the scope of the State Medical Officer role to administer.

STAFF COMMENTS

Staff has made the following observations about the proposals:

1. **Statewide Human Resources Support.** Staff notes that the Board of Equalization and the Department of Industrial Relations have restricted delegation and the Department of Insurance and State Compensation Insurance Fund have restricted

delegation authority. CalHR does not have an estimate available of how many departments may receive restricted delegation in the future but states that special investigations and whistleblower complaints will help CalHR determine which departments may need delegation restrictions.

While workload may have increased due to COVID-19 and increased restricted delegation, this workload may not be permanent, especially if some departments are able to come off restricted delegation. The Subcommittee may wish to ask CalHR why these proposed positions are permanent and not limited-term.

2. **Substance Abuse Testing Program Alignment.** Staff has no concerns with this proposal at this time.

Staff Recommendation: Absent member questions or input from the public relating to these issues at this hearing, staff recommends these items be considered for a vote-only calendar whenever the Committee takes action.

0890 SECRETARY OF STATE

OVERVIEW

In the Governor's 2021 Budget, the Secretary of State (SOS) has nine budget change proposals. For the hearing, the Subcommittee will first hear from a panel discussing the two Help America Vote proposals. The second panel will discuss funding requests to implement legislation, and the last panel will discuss business services and administrative support for the SOS.

ISSUE 7: HELP AMERICA VOTE BUDGET PROPOSALS

The Governor's budget includes two budget proposals related to the Help America Vote Act.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Susan Lapsley, Deputy Secretary of State Help America Vote and Special Counsel, Secretary of State
- Nick Schroeder, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Tamara Johnson, Staff Finance Budget Analyst, Department of Finance

BACKGROUND

The Governor's budget includes the proposals below:

1. **Help America Vote Act - VoteCal**. The Governor's budget requests $9.789 million in spending authority in 2021-22 from the Federal Trust Fund to cover the maintenance and operations, data analysis, security assessment, further increased Department of Motor Vehicles (DMV) and California Department of Technology (CDT) connectivity costs, and Election Management System (EMS) support and verification for the VoteCal statewide voter registration system.

The Help America Vote Act (HAVA) of 2002 (107th Congress) mandates that each state implement, maintain and administer at the state level, a uniform, centralized, interactive, computerized voter registration database. VoteCal serves as the single system for storing and managing the official list of registered voters in the state. Additionally, HAVA mandates that the voter registration system utilize data that is contained in systems at the DMV, the California Department of Public Health, and the California Department of Corrections and Rehabilitation for voter identification or verification and list maintenance purposes. The VoteCal system also interfaces with the Employment Development Department to validate and correct address information against the U.S. Postal Service's National Change of Address system as required by state and federal law.

In January 2020, $425 million in HAVA dollars was approved in the Consolidated Appropriations Act of 2020. Of this appropriation, California received approximately $38.944 million "New HAVA Funds". The funds do not have an expiration date.

The requested $9.789 million in spending authority for VoteCal includes funding for: maintenance and operations, data analysis, security assessment, further increased DMV-CDT connectivity costs, and EMS support and verification.

2. **Help American Vote Spending Plan.** The Governor's budget includes $22.735 million in expenditure authority for 2021-22 from the Federal Trust Fund to continue implementation of the statewide mandates of the Help America Vote Act of 2002.

The Help America Vote Act (HAVA) of 2002 (107th Congress) mandates statewide modernization or replacement of voting equipment, education and training programs for election officials and poll workers, development and dissemination of voting information to increase voter participation and confidence, voting systems testing and approval, county assistance for improving voting systems, implementing risk limit auditing, ensuring election assistance for individuals with disabilities, and improving the secure administration of elections.

In January 2020, $425 million in HAVA dollars was approved in the Consolidated Appropriations Act of 2020. Of this appropriation, California received approximately $38.944 million "New HAVA Funds". The funds do not have an expiration date. For 2021-22, the SOS proposes to expend $22.735 million to implement the statewide mandates of HAVA:

HAVA Spending Plan for FY 2021-22

Activity	Amount	HAVA Citation
HAVA Activities		
Voting System Testing & Approval – Support	$ 550,000	HAVA Required – Section 301
Voter Education – Support	$ 500,000	HAVA Required – Section 302
Administration – Support	$ 1,421,000	HAVA Allowable – Sections 101, 251
Performance Measures – Support	$ 200,000	HAVA Allowable – Section 254
Ballot Tracking System	$ 500,000	HAVA Allowable – Sections 101, 251
Local Assistance – Support*	$19,564,000	HAVA Allowable – Sections 101, 251
HAVA Activities Total [1]	**$22,735,000**	

*$13,000,000 of the 19,564,000 is to re-encumber existing county contracts.

STAFF COMMENTS

Staff does not have concerns about the two budget proposals related to HAVA.

Staff Recommendation: Absent member questions or input from the public relating to these issues at this hearing, staff recommends these items be considered for a vote-only calendar whenever the Committee takes action.

ISSUE 8: LEGISLATIVE WORKLOAD

The Governor's budget includes three budget proposals to implement legislation.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Julie Waddell, Political Reform Division Chief, Secretary of State
- Janessa Huez, Supervising Attorney, Secretary of State
- Mary Mooney, Attorney III, Secretary of State
- Nick Schroeder, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Tamara Johnson, Staff Finance Budget Analyst, Department of Finance

BACKGROUND

The Governor's budget includes funding for the SOS to implement legislation:

1. **California Automated Lobbying and Campaign Contributions and Expenditure Search System (CAL-ACCESS) Replacement System Project**. The Governor's budget requests $7.4 million ongoing for 12 positions and maintenance and operation of the CAL-ACCESS Replacement System to meet the mandates of Chapter 845, Statutes of 2016 (SB 1349, Hertzberg) and Chapter 30, Statutes of 2019 (SB 84, Committee on Budget and Fiscal Review).

CAL-ACCESS is a directory run by the SOS to furnish financial information provided by state candidates, donors, lobbyists, and others. CAL-ACCESS is an integral part of the administration of the state's campaign finance and lobbying activity programs not only by the SOS, but also the Fair Political Practices Commission (FPPC) and the Franchise Tax Board (FTB). The FPPC relies heavily upon CAL-ACCESS for investigation, enforcement, and oversight activities.

SB 1349 requires development of a new automated campaign and lobbying reporting and disclosure system. SB 84 extends the implementation date to February 2021. The new system is being built to allow campaign and lobbying entities to meet the filing requirements of the Political Reform Act more efficiently; improve data quality; expand public access to data; allow for system modifications and improvements to respond to statutory and regulatory changes; and improve the ability of the SOS, the FPPC and the FTB to fulfill mandated duties.

The SOS requests an augmentation of $7,439,000 ($6,939,000 General Fund and $500,000 Political Disclosure, Accountability, Transparency, and Access Fund) and funding for 12 positions for the maintenance and operations of the new system. These activities include performing ongoing program software modifications and changes to the system to enhance security and functionality; responding to increasing external expectations from the public, providing continuous improvements to user experience; and renewal of software licensing and maintenance agreements.

Additionally, this request includes funding for information technology costs, broken down below:

Table 3. IT Cost Breakdown

Description	Total
Salesforce Subscription	$2,137,000
Salesforce External User Licenses	TBD
Heroku / Drawloop / MuleSoft	$523,000
Cloud Architecture Subscriptions	$577,000
Cloud Support Services	$500,000
SLP Vendor Configuration Support	$1,800,000
TOTAL	$5,537,000

2. **Corporations: Boards of Directors: Underrepresented Communities (AB 979).** The Governor's budget requests $343,000 in 2021-22 and $333,000 ongoing from the Business Fees Fund to for 2 positions needed to implement Chapter 316, Statutes of 2020 (AB 979).

AB 979 requires a publicly held domestic general stock corporation or foreign corporation, with a principal executive office located in California to have a minimum of one director from an underrepresented community on its board of directors no later than December 31, 2021. The law requires, no later than December 31, 2022, such a corporation with more than 4 but less than 9 directors to have a minimum of 2 directors from underrepresented communities, and such a corporation with 9 or more directors to have a minimum of 3 directors from underrepresented communities. AB 979 requires the SOS to publish a compliance report on or before March 1, 2022 and annually thereafter.

The SOS is requesting funding for 1 Attorney III to provide legal review and 1 Associate Governmental Program Analyst to collect and maintain data to implement AB 979.

3. **Statements of Information Labor Judgment Language (AB 3075).** The Governor's budget includes $216,000 in 2021-2022 and $79,000 in 2022-23 ongoing from the Business Fees Fund to support 1 permanent Program Technician II position to implement Chapter 357, Statutes of 2020 (AB 3075).

AB 3075 requires corporations and limited liability companies to certify whether specified officers/directors or managers/members of the entity have an outstanding final judgment issued by the Division of Labor Standards Enforcement or a court of law. This requirement will be set forth on the Statement of Information form and an entity will need to assert whether or not there is an existing outstanding judgment against any officer, director, member or manager.

SOS will need 1 position at the Program Technician II level to process the increased rejections and respond to the resulting increase in phone calls and email inquiries. The documents submitted via paper will not only require manual review but also will increase our call volume and emails due to customers unfamiliar with the new requirement. Rejections will require our staff to create and mail out more correspondence and respond to more email inquiries and phone calls from customers. This is necessary to provide assistance to customers unfamiliar with the law, assist customers whose filings are rejected for failure to comply with AB 3075 and ensure affected business entities are aware of the bill's changes to existing law.

In order to properly implement AB 3075, there will also be upfront IT costs associated with updating the corporation and limited liability company SI Online Apps. The Statements of Information for corporations and limited liability companies are located on different online systems. Updating these systems will reduce rejections for online filings since edits can be built into the SI Online Apps to require an entity to pick the applicable requirement before proceeding. Additionally, without the updates, the two existing SI Online Apps would not be compliant with AB 3075. These one-time IT costs are expected to total $80,000 to update each SI Online App.

STAFF COMMENTS

Staff has made the following observations about these proposals:

1. **California Automated Lobbying and Campaign Contributions and Expenditure Search System (CAL-ACCESS) Replacement System Project.** The Appropriations Committee analysis for SB 1349 found that there would be $2.8 million ongoing maintenance costs. Since then, costs have grown because the prior assessment of costs were based on the assumption that a majority of the software would be compatible out of the box, but that has not been the case and SOS has made changes to focus on subscription-based platforms and using cloud services. Additionally, changes to the Political Reform Act has caused additional system changes that are necessary. Staff notes that most of the costs associated with this proposal are for IT costs.

2. **Corporations: Boards of Directors: Underrepresented Communities (AB 979).** Staff does not have concerns with this proposal at this time.

3. **Statements of Information Labor Judgment Language (AB 3075).** Staff does not have concerns with this proposal at this time.

Staff Recommendation: Absent member questions or input from the public relating to these issues at this hearing, staff recommends these items be considered for a vote-only calendar whenever the Committee takes action.

ISSUE 9: BUSINESS SERVICES AND ADMINISTRATIVE BUDGET PROPOSALS

The Governor's budget includes four budget proposals relating to business services that the SOS provides as well as administrative funding.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Betsy Bogart, Business Programs Division Chief, Secretary of State
- Grecia Staton, Management Services Division Chief, Secretary of State
- Nick Schroeder, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Tamara Johnson, Staff Finance Budget Analyst, Department of Finance

BACKGROUND

The Governor's budget includes four other SOS budget proposals:

1. **California Business Connect Project.** The Governor's Budget requests $11.6 million in 2020-21 special funds to continue implementation of the California Business Connect (CBC) project.

   The SOS has the responsibility for processing and filing important commerce and trade documents including business formations, changes, and terminations. Many business entity documents and information requests are submitted to the SOS via mail or in-person in Sacramento and Los Angeles. The SOS currently relies on several antiquated electronic and "paper" databases systems in order to process more than 2 million business filings and requests for information submitted on an annual basis.

   CBC is a comprehensive technology solution that will increase online services for business filings and requests for information. CBC will allow the SOS to process business formation documents within a few hours or days and avoid processing fluctuations that vacillate depending on the time of year. Because businesses cannot open their doors, create bank accounts, acquire loans, hire employees, generate income, or pay taxes until their formation documents are processed by the SOS, CBC will make the State a friendlier business environment.

Without the CBC solution, Business Entities backlogs will only be maintained at the legislatively recommended and the SOS established goal of an average of five business days by permanently funding the additional positions, overtime, and temporary help using the current manual processes. The CBC solution will provide California businesses with the ability to file online and receive a response from the SOS within a few minutes, hours or days rather than weeks and would automate the remainder of its labor-intensive manual processes.

2. **Business Programs Division Processing Times.** The Governor's budget includes $5.1 million from the Business Fees Fund in 2021-22 for 47 positions, temporary help, and overtime maintain the five business day or better turnaround time for Business Filings and Statements of Information, as sought by the SOS and Legislature until California Business Connect (CBC) is fully implemented.

CBC will alleviate a majority of the manual, labor-intensive workload; improve customer service; and meet the needs of the business, financial, and legal communities. However, manual processing of paper-based filings will continue until CBC is fully implemented and backlogs will be inevitable without the augmentation of funds and personnel (including overtime).

Due to the unforeseen delays in the automation project, the SOS was approved for spending authority of $5.5 million to support the additional positions, temporary help and staff overtime in both 2016-17 and 2017-18 in order to maintain the five business day turnaround times. Automation efforts outside of the project, and increasing improvements to online services as parts of the project are implemented, has enabled SOS to reduce this request for ongoing support by 16% from the initial request, from 56 positions down to 47 positions, additional temporary help and overtime in the amount of $5.1 million to reach and maintain the five business day or better turnaround times.

However, the COVID-19 Pandemic has negatively impacted SOS's ability to maintain acceptable processing times. Due to stay-at home restrictions at the outbreak of the pandemic, along with guidance from governmental agencies to continue to offer telecommuting to staff when feasible, SOS is once again struggling to process business entity paper documents in a timely manner. Although the Pandemic has impacted our paper processing times, once the SOS is able to have full staff back in the office, it is expected that the 47 positions are sufficient until CBC is fully implemented and stable.

Therefore, the SOS is requesting an extension of the spending authority for positions, temporary help and overtime for 2021-22 in order to allow the SOS to once again reach and maintain the average processing time of five business days or better for business filings and statements of information in the current manual paper process environment.

3. **Continuation of Limited-term Accounting Resources.** The Governor's budget requests $1.6 million ($1.1 million Businesses Fees Fund and $463,000 General Fund) in 2021-22 and ongoing for 12 positions, 10 of which are existing and 2 new positions, to reduce ongoing backlogs that cause staff overtime, challenges with employee retention, and delays in payment.

The SOS is mandated to maintain a fully automated accounting and program cost accounting system and in 2018-19, the SOS transitioned to the State of California's financial system of record, FI$Cal from the CalSTARS system.

The agency's transition from its legacy CalSTARS system increased quantity of and time required for transactions related to personnel, accounting, purchase orders, contracts and grants. Post transition, this workload remains constant and has resulted in the need for the previously granted limited funding for additional resources to be made permanent in order for the agency to meet the administrative and operational requirements. The SOS is requesting ongoing funding for a total of 12 positions (10 existing positions and 2 new positions): 6 in the accounting and budget areas, and 6 for procurement to address the continued workload for recruitment and onboarding for the new employees.

4. **Human Resources Bureau Critical Administrative Support.** The Governor's budget includes $783,000 ($555,000 from the Business Filings Fees Fund [BFF] and $228,000 General Fund [GF]) in 2021-22 and $753,000 ($534,000 BFF and $219,000 GF) in 2022-23 and ongoing to fund 6 permanent full-time positions for the Human Resources Bureau (HRB).

The scope and complexity of the SOS's programs and services provided to California's constituents have increased throughout the years. The changes are considerable as it relates to technological evolution, business process reviews, and organization restructuring. New legislatively mandated programs, such as Cannabis Filings (SB 94), Vote Centers (SB 450), Voting Modernization, and Voting Systems Replacements for Counties are just a sample of new responsibilities that have been added to the SOS. Consistent with this growth, the number of employees within the Agency has increased from 485 to 629 in the last 10 years.

As the SOS has grown in the number of employees, programs and statewide projects, there has been proportionate growth in workload associated with providing administrative support. Increased staffing in HRB is needed to provide sufficient resources to support the personnel management needs of the SOS. The HRB current staff resources include 17 permanent positions and 2 student assistants. Based on a review of other human resource offices in similar size agencies, the current staffing level is low. Departments of similar size and complexity average 25 to 30 human resource positions. The SOS is requesting funding and position authority for 6 new positions.

STAFF COMMENTS

Staff has made the following observations about these requests:

1. **California Business Connect Project.** Staff notes that the CBC project began in March 2011 and will be completed in December 2021. When CBC was first proposed, the project was scheduled to go live in June 2016. However, starting in 2016, the project scope, schedule, and cost were updated and modules went live in phase rather than all at once. Staff clarifies that request is for the last module to complete the project.

2. **Business Programs Division Processing Times.** Staff points out that SOS has had to hire temporary staffing for four years as noted above because of the CBC project changes. Due to the projected completion of the CBC project at the end of the year, it should not be necessary to appropriate funds after 2021-22.

3. **Continuation of Limited-term Accounting Resources.** Staff has no concerns with this proposal at this time.

4. **Human Resources Bureau Critical Administrative Support.** Staff has no concerns with this proposal at this time.

Staff Recommendation: Absent member questions or input from the public relating to these issues at this hearing, staff recommends these items be considered for a vote-only calendar whenever the Committee takes action.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

OVERVIEW

In the Governor's 2021 Budget, the Department of Alcoholic Beverage Control (ABC) has one budget change proposal. For the hearing, the Subcommittee will hear from one panel to the proposal.

ISSUE 10: BUSINESS MODERNIZATION AND RESPONSIBLE BEVERAGE SERVICE

The Governor's budget requests $2,943,000 from the Alcohol Beverage Control Fund in 2021-22 for ongoing support costs following the completion of the Business Modernization and Responsible Beverage Service (BizMod/RBS) project.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Eric Hirata, Director, Department of Alcoholic Beverage Control
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office
- Charlene Manning, Staff Finance Budget Analyst, Department of Finance

BACKGROUND

In May 2010, ABC launched the Alcoholic Beverage Information System (ABIS). The primary function of ABIS is to register, manage, and maintain licenses for ABC. ABIS was developed by an external vendor using the company's proprietary commercial off-the-shelf (COTS) software. When the software was developed, it did not include the option of electronic payment or functionality supporting online applications. This outdated operation has frustrated applicants and ABC staff for years and has ultimately led to ABC's renewed vision for the modernization of the department.

The Responsible Beverage Service (RBS) Training Program Act of 2017, Chapter 487, Statutes of 2017 (AB 1221) requires that alcohol servers receive training on responsible beverage service within 60 days of their employment date beginning July 1, 2021. The new law is designed to educate alcohol servers about a variety of dangers related to the service of alcohol to patrons and is intended to curb alcohol-related harm within local communities, particularly in regard to drunk driving, under-aged drinking, and other alcohol-related crimes.

In 2019-20, ABC received the first phase of funding for the BizMod/RBS project based on estimates contained in the Stage 2 Alternatives Analysis project approval document. This funding was requested and approved before final project approval was secured because the development work would need to begin in 2019-20 in order to meet the requirements of AB 1221, which at the time, imposed training requirements on all beverage servers starting July 1, 2021.

In 2020-21, ABC received the second phase of funding for the BizMod/RBS project based on updated project costs estimates contained in the Stage 4 PAL documents. This second phase will fund the second (optional) year of the contract with the solution provider who will be tasked with the extension of electronic payment, notifications, and application functionalities developed for RBS, to ABC's core public-facing functions such as license renewal and online application origination in order to provide licensees the ability to interact with ABC in a more efficient and customer centric manner.

The project is defined as the delivery of the RBS system and the development of electronic payment, notification, and application functionalities that could be extended to ABC's core public-facing functions through an ongoing development effort to modernize the department's processes.

STAFF COMMENTS

Staff does not have concerns at this time.

Staff Recommendation: Absent member questions or input from the public relating to these issues at this hearing, staff recommends these items be considered for a vote-only calendar whenever the Committee takes action.

7900 PUBLIC EMPLOYEES' RETIREMENT SYSTEM
7920 STATE TEACHERS' RETIREMENT SYSTEM

ISSUE 11: SUPPLEMENTAL PAYMENT

The Governor's budget proposes to use Proposition 2 funds in 2021-22 to accelerate pay off of all three of the state's retirement liabilities through one-time payments totaling $2.8 billion. Specifically, the Governor proposes one-time payments of:

- $1.5 billion as a supplemental pension payment to California Public Employees' Retirement System (CalPERS) state pension plans (apportioned across the plans based on the annual General Fund contributions to each plan). The Administration estimates a net savings of $1.9 billion.

- $926 million toward the state's retiree health unfunded liabilities ($616 million of this would be intended to make up for employee contributions that were suspended during personal leave program (PLP) in 2020-21).

- $410 million as a supplemental pension payment to California State Teachers' Retirement System (CalSTRS) to help pay down the state's share of unfunded liabilities. The Administration estimates a net savings of $313 million. The proposed payment to CalSTRS is equal to the difference between the statutorily-required state contributions and the actuarial need for state contributions.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Gabi Santoro, Department of Finance
- Nick Schroeder, Legislative Analyst's Office

BACKGROUND

State Has Large Retirement Liabilities. The state has significant unfunded liabilities associated with retirement benefits for state employees and teachers. As of June 30, 2019, the state has $186 billion in unfunded liabilities associated with retirement benefits—$92 billion for state retiree health benefits, $61 billion for state employee pension benefits administered by CalPERS, and $33 billion for teacher pension benefits (the state's share of the total $106 billion CalSTRS unfunded liability).

State Retiree Health. The state provides health benefits to retired state employees. Prior to 2015, the state essentially put no money aside to pay for this benefit while the eventual retiree was still working. As a result, the state accrued a significant unfunded liability associated with retiree health. In 2015-16, the state began a policy to prefund this benefit by setting aside funds annually. (Over the last few years, the state's General Fund costs of prefunding have been paid using Proposition 2.) The state retiree health unfunded liability is estimated to be $86 billion as of the most recent actuarial valuation.

State and CSU Employee Pensions. CalPERS administers pension benefits for state employees, state judges, certain elected state officials, and employees of local governments that contract with CalPERS (and their beneficiaries). The state's unfunded liabilities at CalPERS total about $63 billion, which includes about $60 billion associated with state and California State University (CSU) employee pension benefits and about $3 billion associated with pension benefits for judges first appointed or elected before 1994.

Under the California Constitution, CalPERS has full rate setting authority. With full rate setting authority, contribution requirements might change year over year in response to actuarial changes. This rate setting authority is important because it allows the system to (1) make up for losses that occur when actuaries determine that more funds are necessary to pay for benefits than what has already been set aside (that is, to address an unfunded liability over time) and (2) not charge employers more than is necessary for the system to become fully funded.

Teachers' Pensions. CalSTRS administers pension and other retirement programs for current, former, and retired K-12 and community college teachers and administrators, as well as their beneficiaries. According to CalSTRS' most recent actuarial valuation, total unfunded liabilities for its defined benefit program are $107 billion. Under state law, currently about one-third of these liabilities are the responsibility of the state ($33 billion) and about two-thirds are the responsibility of school districts.

Prior to 2014, base contribution rates paid by districts, teachers, and the state were established in statute, and the CalSTRS board had limited authority to set a supplemental contribution rate for the state. Given its constraints, CalSTRS projected those losses would result in the system running out of assets in the mid-2040s.

In 2014, the Legislature approved a plan AB 1469 (Bonta), Chapter 46, Statutes of 2014, to fully fund the CalSTRS defined benefit program by 2046. The funding plan scheduled increases to the contribution rates paid by districts, teachers, and the state to the system for several years and—after that point—granted the CalSTRS board limited rate setting authority. Specifically, the funding plan phased in increases to the state's contribution rates until 2016-17, after which the funding plan gave the CalSTRS board limited authority to adjust those rates. In particular, the board may increase the state's rate by 0.5 percent of pay each year.

Policies in 2020-21 Grew Retirement Liabilities. Policies enacted in 2020-21 to generate General Fund savings during the COVID-19 emergency directly contributed to growth in state retirement liabilities that will be reflected in future actuarial valuations.

- **Pensions.** The state and employees each contribute to CalPERS a specified percentage of pay to fund pension benefits. During 2020-21, state employees are subject to a PLP, which reduces state employee pay in exchange for time off. During PLP, state and employee contributions to CalPERS are based on the reduced pay levels; however, the benefits earned by state employees are based on their full salary, systematically creating an unfunded liability.

- ***Retiree Health.*** The state and employees each contribute about one-half of normal cost—expressed as a percentage of pay—to prefund retiree health benefits. Labor agreements between the state and state employees suspended employee contributions to prefund retiree health benefits for the duration of PLP. The suspension of employee contributions combined with lower state contributions being made because of lower salary levels during PLP resulted in growth in retiree health unfunded liabilities.

- ***CalSTRS.*** The state, school employers, and teachers each contribute a percentage of pay to fund teachers' pension benefits. CalSTRS' board holds limited authority to adjust these contribution rates each year, pursuant to the provisions of the CalSTRS funding plan (AB 1469, Bonta). In 2020-21, as a way to reduce state costs, the budget suspended the board's ability to increase the state's rate, holding the state's rate flat for one year. This budget action resulted in (1) General Fund savings of $169 in 2020-21 and (2) beginning in 2021-22, the state's contribution rate starting at a level that is lower by 0.5 percentage points relative to what it would have been in the absence of this action. The lower state contribution rate increases state unfunded liabilities over the long term.

Proposition 2 Debt Payments Vary From Year to Year. Proposition 2 (2014) contains a formula that requires the state to spend a minimum amount each year to pay down specified debts. The result of the formula is that the required debt payments vary significantly from year to year depending on the state's General Fund revenues, namely revenues from taxes on capital gains.

Administration Estimates Sizeable Capital Gains for 2021-22, Resulting in Large Debt Payment Requirements. Under the administration's revenue estimates for 2021-22, the state will be required to set aside roughly $3 billion for debt payments. This is substantially higher than the debt payment requirement has been since Proposition 2 passed in 2014. (Typically, the requirement is in the range of $1.5 billion to $2 billion.) The key reason the estimate is significantly higher this year is that the administration is estimating revenues from capital gains taxes will be high in 2021-22.

LAO COMMENTS

The LAO states that the proposed use of Proposition 2 funds is consistent with past LAO recommendations. In March 2020, the LAO recommended that Proposition 2 funds be used to keep existing funding plans for CalSTRS and retiree health benefits on track to pay off the unfunded liabilities by the mid-2040s. In a 2019 analysis, the LAO noted that additional capacity in Proposition 2 could be directed toward CalPERS because that would achieve the highest chances of state savings over the next few years. The proposed payment to CalPERS is also consistent with that consideration.

STAFF COMMENTS

The proposed use of Proposition 2 funds is consistent with past actions by the Subcommittee.

Staff Recommendation: Hold open until after May Revision when additional information about the state's revenues will be known.

7920 STATE TEACHERS' RETIREMENT SYSTEM

ISSUE 12: MULTI-YEAR INTERNAL MANAGEMENT PLAN

The California State Teachers' Retirement System (CalSTRS) requests $38.2 million in permanent funding to establish 104 authorized positions distributed from 2021–22 through 2025–26, as part of a Multi-Year Internal Investment Management Plan (Plan). The Plan is a five-year resource strategy to continue the implementation efforts of the Collaborative Model (Model) and manage growth in assets under management (AUM).

In addition, this proposal requests administrative authority for CalSTRS to implement resources earlier, on an as-needed basis, pursuant to the Teachers' Retirement Board (board) approval and notification to the Department of Finance (DOF).

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Julie Underwood, CalSTRS
- Scott Chan, CalSTRS
- Ryan Wienberg, Department of Finance
- Nick Schroeder, Legislative Analyst's Office

BACKGROUND

This proposal requests to augment staff in the Investments Branch and in seven Investment Administrative Support areas across the organization to support investment functions. The Plan is a five-year resource strategy to (1) continue successful implementation efforts and growth of the Model as more investment assets are transitioned to internal management and (2) manage growth in AUM. The primary objectives of the Model are to reduce costs, increase expected investment returns, control portfolio risk and leverage external partnerships to achieve similar benefits–all for the benefit of California's educators and their beneficiaries.

This proposal includes additional resources to manage the increase in AUM. CalSTRS AUM growth is largely correlated with projected net investment returns and changes in member, employer and state contribution rates. CalSTRS portfolio was valued at $248.3 billion as of June 30, 2020, and is projected to grow to $302.5 billion by 2025–26. Increases in AUM have a direct impact on the number of investment staff required to manage and make prudent investment decisions and support investment activities. Overall growth in AUM has required additional investment resources to successfully manage the size and complexity of the CalSTRS portfolio. As assets increase, the need for additional investment staff are projected to rise.

Administrative Authority and Operational Flexibility. Additionally, this proposal requests additional administrative authority and operational flexibility for CalSTRS to bring on resources more quickly, on an as-needed basis, pursuant to board approval and written notification to the DOF. According to CalSTRS, this approach strikes a balance between administrative and legislative oversight with some limited organizational flexibility for CalSTRS to implement resources earlier. In current practice, when a new investment strategy is identified and requires additional staff, the time between obtaining approval for new positions and final establishment can take as long as 18 months as part of the state budgetary approval process. This would reduce the time for onboarding investment resources and ultimately lead to faster deployment of collaborative strategies.

STAFF COMMENTS

Similar language to provide administrative authority and operational flexibility to CalSTRS was included in the 2018 Budget Act. During that time the budget bill language was used twice as follows:

1. Off budget cycle to drawdown 15 investment positions and associated funding with a letter to JLBC
2. Early drawdown built into the normal budget cycle for 5 investment positions and associated funding.

Staff Recommendation: Absent any questions from members or comments by the public, staff has no additional concerns with this proposal and recommends a vote-only item whenever the Committee takes actions.

0950 STATE TREASURER

ISSUE 13: ELECTRONIC RESOURCES AUGMENTATION

Beginning in 2021-22, the Investment Division requests an ongoing augmentation of $400,000 in reimbursements to meet the increasing cost of electronic services necessary to invest state money for the Pooled Money Investment Account (PMIA) according to Government Code Section 16430.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Kristin Szakaly-Moore, State Treasurer's Office
- Eunice Roh, Legislative Analyst's Office
- Jim Doyle, Department of Finance

BACKGROUND

The Investment Division's role is to assist the State Treasurer in meeting her constitutional obligations as the State's banker and chief investment officer. The Investment Division invests temporarily idle funds in the Centralized Treasury System in the PMIA portfolio. The PMIA, created by legislation in 1955, is made up of commingled monies from the General Fund, Surplus Money Investment Fund (SMIF), and the Local Agency Investment Fund (LAIF).

The goal of the Investment Division is to manage and invest the State's idle or surplus monies to maximize the earnings and to meet the cash flow needs of the State. There is a high degree of visibility and sensitivity regarding the investment of public funds and the subsequent outcome of these investments. The investment program includes a wide variety of investment instruments which requires ongoing analysis and review from the management team. The program utilizes more than 100 brokers, dealers, banks and direct issuers of commercial paper and corporate debt. As of June 30, 2020, the PMIA totaled $101 billion with daily investment activity for the month averaging $1.6 billion.

The STO's Investment Division currently utilizes seven fee-based electronic services on a daily basis. These services are critical to the business and operational needs of the division, as well as standard in the investment community. The PMIA has grown by over $30 billion in the past five years, from $69.6 billion on June 30, 2015, to $101.0 billion on June 30, 2020, with no increase to staffing levels.

STAFF COMMENTS

There is no General Fund impact with this proposal. Staff has no concerns at this time.

Staff Recommendation: Absent member questions or input from the public relating to this issue at this hearing, Staff recommends this item be considered as for a vote-only item whenever the Committee takes action.

0981 CALIFORNIA ACHIEVING A BETTER LIFE EXPERIENCE (ABLE) ACT BOARD

ISSUE 14: CONTINUED ADMINISTRATION OF THE CALABLE BOARD

The California Achieving a Better Life Experience Act Board (Board) requests an ongoing General Fund appropriation of $1,195,000 to provide the following resources:

(1) $845,000 to fund administrative costs and the continued implementation of the California Achievement a Better Life Experience (CalABLE) Program; which includes funding for staff, funding for external consultants and funding necessary for operating and overhead costs; and

(2) $350,000 to support the marketing and outreach activities of increasing awareness and participation in the Program.

In addition, CalABLE requests budget bill language to extend the repayment date of the General Fund loans made to CalABLE, beginning in 2016-17 through 2019-20 to 2024-25.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Dante Allen, California Achieving a Better Life Experience Act Board
- Eunice Roh, Legislative Analyst's Office
- Nina Hoang, Department of Finance

BACKGROUND

On December 19, 2014, President Obama signed the Stephen Beck Jr., Achieving a Better Life Experience Act of 2014 (ABLE), which allows individuals who become blind or disabled before reaching age 26 to create tax-free savings accounts. ABLE accounts generally follow the same rules as 529s: individuals can make nondeductible cash contributions to an ABLE account in the name of a specified beneficiary, and with tax-free earnings. The ABLE Act directs states to establish one ABLE account for each eligible beneficiary.

SB 324, (Pavley, Chapter 796, Statutes of 2015) established the California Achieving a Better Life Experience Act Board and the California ABLE Program Trust for the purpose of creating a statewide program known as the Qualified ABLE Program. Under the Qualified ABLE Program, a person may make contributions for a taxable year, for the benefit of an individual who is an eligible individual for that taxable year, to an ABLE account that is established for the purpose of meeting the qualified disability expenses of the designated beneficiary of the account.

In July of 2020, CalABLE began developing projections for strategic planning purposes. These preliminary projections are based on a number of assumptions (including growth rate, number of enrollees and their contribution levels and withdrawal rates), show that program expenditures will exceed fee revenues annually for an extended period. Because of this shortfall, CalABLE requests an ongoing General Fund appropriation rather than additional funding through General Fund loans. Additional loans will serve to increase the amount owed and extend the repayment period.

Proposed Budget Bill Language:

Notwithstanding any other provision of law, including the scheduled repayment dates of June 30, 2022, June 30, 2023, and June 30, 2024, pursuant to Provision 1 of Item 0981-011- 0001 of the Budget Act of 2016 (Ch. 23, Stats. 2016), Budget Act of 2017 (Ch. 14, Stats.2017), and Budget Act of 2018 (Ch. 29, Stats. 2018), the loans shall be repaid to the General Fund when sufficient revenue is available, but no later than June 30, 2025, with interest calculated at the rate earned by the Pooled Money Investment Account at the time of transfer.

Senate recommended the following addition to the language at their February 17, 2021, hearing.

If one or more of the loans are unable to be repaid in full by the specified date of June 30. 2025, a repayment plan will be provided for each outstanding loan at that time, based on the projected annual revenues.

STAFF COMMENTS

This is a change in direction on the CalABLE program; in the past the Subcommittee has approved General Fund loans and this proposal includes ongoing General Fund funding.

The Subcommittee may wish to ask CalABLE for a timeline for loan repayment and also a timeline when the ongoing General Fund appropriation will end.

Staff Recommendation: Continued support for the program would be consistent with past actions.

0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

ISSUE 15: CAEATFA SALES TAX EXCLUSION

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.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Derek Chernow, California Alternative Energy and Advanced Transportation Financing Authority
- Brian Uhler, Legislative Analyst's Office
- Jacob Kirn, Department of Finance
- Matthew Westbrook, Department of Finance

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.

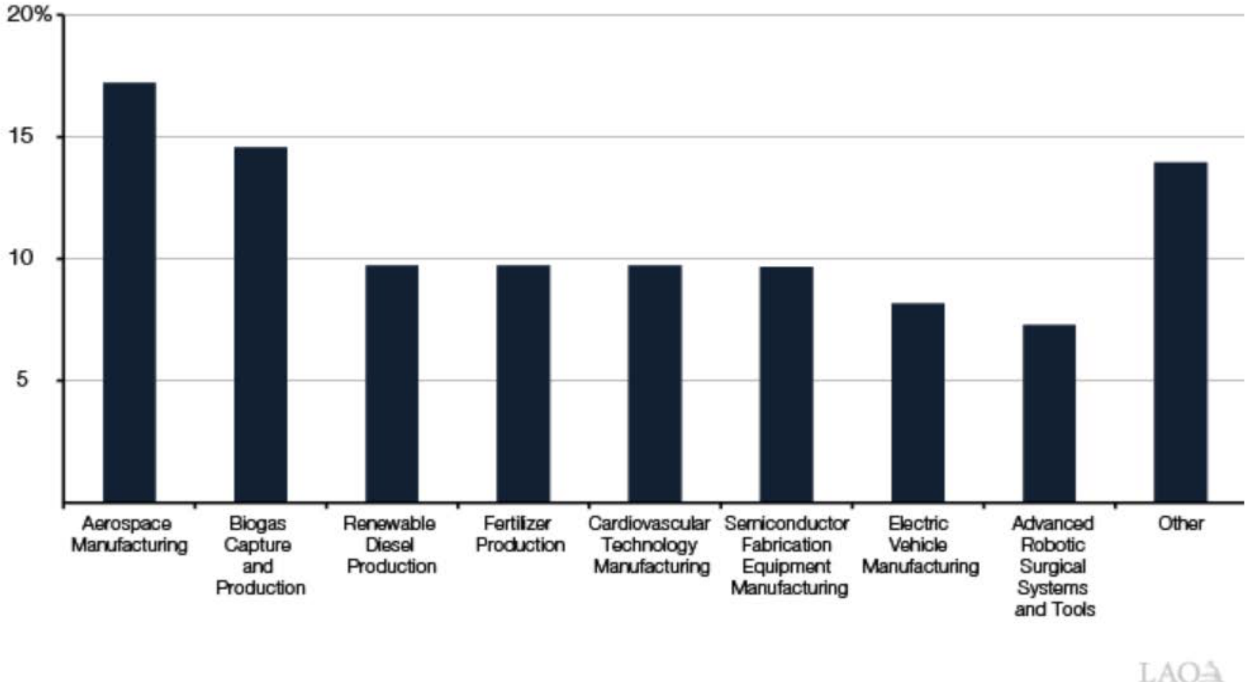
Under the STE Program, applications are evaluated to determine the extent to which the anticipated benefits to the state from a project exceed the estimated cost of the avoided sales and use tax. Specifically, through the net benefits test established in the STE Program's regulations, applicants are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

Exclusions Recently Awarded by Industry

Share of Exclusions Awarded, 2019 to 2020



LAO COMMENTS

The LAO notes that in addition to the CAEATFA exclusion, the state offers a partial exemption that allows manufacturers and some other types of businesses to buy equipment without paying the 3.94 percent state General Fund portion of the sales tax. Most purchases made under the CAEATFA exclusion would be eligible for the partial exemption, but some would not. Businesses cannot apply both discounts to the same purchase.

The LAO analysis states that the increase in the annual cap would have a direct fiscal cost to the state and local governments totaling $38 million over a five-year period, starting in 2021-22 with local governments bearing roughly two-thirds of the cost.

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.

The LAO recommends rejecting this proposal because it relies primarily on local funding and does not provide rapid relief to the businesses most severely impacted by the pandemic.

STAFF COMMENTS

The CAEATFA STE was part of the Governor's proposal for equitable and broad-based recovery for climate innovation. The subcommittee discussed most of these proposals in Subcommittee 4 on February 9, 2021. The second climate innovation proposal will be heard in Subcommittee 3 on March 3, 2021.

Staff Recommendation: This proposal should be discussed in the larger context of economic recovery for all businesses across California during the normal budget process. The Legislature should develop a plan with priorities for how to help businesses recovery across California.

PUBLIC COMMENT