

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

ASSEMBLYMEMBER WENDY CARRILLO, CHAIR

TUESDAY, FEBRUARY 2, 2021

1:30 PM – STATE CAPITOL, ROOM 437

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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 54 202***

ITEMS TO BE HEARD

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT (GO-BIZ)

OVERVIEW

In the Governor's budget, the Governor's Office of Economic Development (GO-Biz) proposes eight proposals with a mix of budget changes proposals, additional funding to existing programs and trailer bill language for the creation of new programs. For the hearing, the Subcommittee will focus on the Small Business Relief grants early action item, followed by tax credit programs, and other new programs in the small business issue area. All of these proposals are significant and merit additional discussion beyond this hearing.

ISSUE 1: SMALL BUSINESS RELIEF GRANTS

The Governor's budget proposes \$575 million one-time General Fund in 2020-21 to provide support to small businesses impacted by COVID-19 and the health and safety restrictions. The Office of Small Business Advocate (CalOSBA) will provide micro grants up to \$25,000 to help support impacted small businesses-both for profit and nonprofit. \$25 million is designated for cultural institutions. This supplements \$500 million that was provided in December.

PANEL 1

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

- Isabel Guzman, Director, California Office of Small Business Advocate
- Brian Weatherford, Senior Fiscal & Policy Analyst, Legislative Analyst's Office
- Somjita Mitra, Chief of Economic Research, Department of Finance Q&A only

BACKGROUND

In December 2020, the state created the California Relief Grant program to award grants to small businesses and nonprofits. This program was created very quickly and very limited information about the program is available. The California Relief Grant program awards grants to businesses and nonprofits with annual revenues below \$2.5 million. The grant amounts vary based on the entities' annual revenue:

- Annual revenue \$1,000 to \$100,000: \$5,000 grant.
- Annual revenue \$100,000 to \$1 million: \$15,000 grant.

- Annual revenue \$1 million to \$2.5 million: \$25,000 grant.

Eligible entities must be in operation—or have a clear plan to re-open once the state and county permits re-opening of the business—and they also must certify that their operations were affected by the pandemic and will comply with conditions limiting how the funds may be used.

The California Relief Grants were issued through an intermediary, Lendistry, which is a California-based Community Development Financial Institution (CDFI) selected by the Office of the Small Business Advocate (CalOSBA) and the GO-Biz through a competitive Request for Proposal (RFP) process in early December.

The grants are being distributed in two rounds, and CalOSBA reported over 334,000 applications requesting nearly \$4.4 billion in grants were successfully completed in the first round. The program was oversubscribed; the first round funding pool is \$237.5 million (half of the available funds of \$475 million, which is \$500 million allocated minus intermediary fee). As a result, just over 21,000 applicants have been selected for award, or just over 6 percent of the total first round requests.

According to the Department of Finance, the selection for awards was based on impact due to the COVID-19 pandemic including geography, industry, and disadvantage/underserved demographics and by definition, all recipients were either in underserved groups or impacted industries.

The second round of the CA Relief Grant will open on February 2, 2021, and close on February 8, 2021. Applicants that were not selected in the first round will be automatically rolled into the pool of applicants for the second round. All applicants moving forward to Round 2 will be contacted by Lendistry by email on January 25th.

The three tables below were provided to the Legislature in a letter dated January 25, 2021, from the Department of Finance.

Table 1: Geographic Distribution of CA Relief Grant Round 1

County	Amount Requested	% of Total	Number of Requests	% of Total	Total Population	% of Total	Total Working Age Pop	% of Total
Alameda	\$10,097,744	4.3%	884	4.2%	1,671,329	4.2%	956,523	4.5%
Alpine	\$45,000	0.0%	5	0.0%	1,129	0.0%	533	0.0%
Amador	\$175,000	0.1%	17	0.1%	39,752	0.1%	20,608	0.1%

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Butte	\$1,276,500	0.5%	94	0.4%	219,186	0.6%	102,943	0.5%
Calaveras	\$250,000	0.1%	24	0.1%	45,905	0.1%	22,489	0.1%
Colusa	\$102,000	0.0%	14	0.1%	21,547	0.1%	10,553	0.1%
Contra Costa	\$6,820,499	2.9%	627	3.0%	1,153,526	2.9%	614,668	2.9%
Del Norte	\$150,000	0.1%	9	0.0%	27,812	0.1%	14,804	0.1%
El Dorado	\$1,125,000	0.5%	96	0.5%	192,843	0.5%	99,125	0.5%
Fresno	\$6,070,092	2.6%	527	2.5%	999,101	2.5%	495,065	2.3%
Glenn	\$135,000	0.1%	13	0.1%	28,393	0.1%	13,756	0.1%
Humboldt	\$769,494	0.3%	78	0.4%	135,558	0.3%	67,709	0.3%
Imperial	\$1,072,500	0.5%	92	0.4%	181,215	0.5%	87,480	0.4%
Inyo	\$85,000	0.0%	5	0.0%	18,039	0.0%	8,920	0.0%
Kern	\$5,495,000	2.3%	466	2.2%	900,202	2.3%	450,207	2.1%
Kings	\$771,000	0.3%	62	0.3%	152,940	0.4%	78,999	0.4%
Lake	\$349,750	0.1%	28	0.1%	64,386	0.2%	31,676	0.2%
Lassen	\$130,000	0.1%	12	0.1%	30,573	0.1%	17,624	0.1%
Los Angeles	\$60,827,462	25.7%	5,314	25.2%	10,039,107	25.4%	5,547,860	26.3%
Madera	\$818,010	0.3%	79	0.4%	157,327	0.4%	77,006	0.4%
Marin	\$1,430,000	0.6%	116	0.6%	258,826	0.7%	131,001	0.6%
Mariposa	\$115,000	0.0%	7	0.0%	17,203	0.0%	8,437	0.0%
Mendocino	\$500,000	0.2%	37	0.2%	86,749	0.2%	42,283	0.2%
Merced	\$1,672,000	0.7%	153	0.7%	277,680	0.7%	133,782	0.6%
Modoc	\$45,000	0.0%	5	0.0%	8,841	0.0%	4,165	0.0%
Mono	\$65,000	0.0%	5	0.0%	14,444	0.0%	8,235	0.0%
County	Amount Requested	% of Total	Number of Requests	% of Total	Total Population	% of Total	Total Working Age Pop	% of Total
Monterey	\$2,638,990	1.1%	233	1.1%	434,061	1.1%	217,745	1.0%
Napa	\$830,000	0.4%	68	0.3%	137,744	0.3%	71,192	0.3%
Nevada	\$565,000	0.2%	52	0.2%	99,755	0.3%	48,773	0.2%
Orange	\$19,070,461	8.1%	1874	8.9%	3,175,692	8.0%	1,715,453	8.1%
Placer	\$2,344,000	1.0%	214	1.0%	398,329	1.0%	202,009	1.0%

Plumas	\$92,500	0.0%	12	0.1%	18,807	0.0%	9,019	0.0%
Riverside	\$14,537,499	6.2%	1172	5.6%	2,470,546	6.3%	1,255,213	5.9%
Sacramento	\$9,338,601	4.0%	973	4.6%	1,552,058	3.9%	834,234	4.0%
San Benito	\$335,000	0.1%	34	0.2%	62,808	0.2%	32,804	0.2%
San Bernardino	\$13,112,992	5.5%	1082	5.1%	2,180,085	5.5%	1,130,499	5.4%
San Diego	\$19,929,371	8.4%	1988	9.4%	3,338,330	8.4%	1,803,720	8.5%
San Francisco	\$5,347,500	2.3%	463	2.2%	881,549	2.2%	561,258	2.7%
San Joaquin	\$4,622,997	2.0%	386	1.8%	762,148	1.9%	384,980	1.8%
San Luis Obispo	\$1,655,000	0.7%	135	0.6%	283,111	0.7%	132,075	0.6%
San Mateo	\$4,561,966	1.9%	381	1.8%	766,573	1.9%	428,936	2.0%
Santa Barbara	\$2,704,999	1.1%	211	1.0%	446,499	1.1%	208,307	1.0%
Santa Clara	\$11,656,695	4.9%	1030	4.9%	1,927,852	4.9%	1,082,519	5.1%
Santa Cruz	\$1,593,993	0.7%	133	0.6%	273,213	0.7%	133,480	0.6%
Shasta	\$1,045,869	0.4%	93	0.4%	180,080	0.5%	89,623	0.4%
Sierra	\$65,000	0.0%	5	0.0%	3,005	0.0%	1,410	0.0%
Siskiyou	\$235,000	0.1%	19	0.1%	43,539	0.1%	20,474	0.1%
Solano	\$2,610,195	1.1%	232	1.1%	447,643	1.1%	237,978	1.1%
Sonoma	\$2,911,000	1.2%	252	1.2%	494,336	1.3%	257,233	1.2%
Stanislaus	\$3,304,698	1.4%	290	1.4%	550,660	1.4%	277,262	1.3%
Sutter	\$590,000	0.2%	48	0.2%	96,971	0.2%	48,591	0.2%
Tehama	\$317,500	0.1%	31	0.1%	65,084	0.2%	31,974	0.2%
Trinity	\$56,648	0.0%	5	0.0%	12,285	0.0%	6,021	0.0%
Tulare	\$2,831,500	1.2%	285	1.4%	466,195	1.2%	222,974	1.1%
County	Amount Requested	% of Total	Number of Requests	% of Total	Total Population	% of Total	Total Working Age Pop	% of Total
Tuolumne	\$282,014	0.1%	19	0.1%	54,478	0.1%	27,064	0.1%
Ventura	\$4,954,000	2.1%	439	2.1%	846,006	2.1%	440,979	2.1%
Yolo	\$1,301,011	0.6%	105	0.5%	220,500	0.6%	101,721	0.5%
Yuba	\$450,000	0.2%	34	0.2%	78,668	0.2%	39,461	0.2%
Total California	\$236,284,050	100.0%	21,067	100.0%	39,512,223	100.0%	21,101,432	100.0%

Table 2: Underserved Small Businesses Awarded CA Relief Grant Round 1

	Number of Awardees	% of Total Selected in Round 1	Amount Awarded	% of Total Amount Awarded in Round 1
<i>Underserved Small Businesses</i>	16,240	77.1%	\$174,746,860	74.0%
Minority	11,210	53.2%	\$116,987,000	49.5%
Women	10,312	48.9%	\$105,249,000	44.5%
Rural	2,998	14.2%	\$33,668,772	14.2%
Low-to Moderate Income (LMI) Tract	12,292	58.3%	\$134,503,000	56.9%
Veteran	519	2.5%	\$7,150,200	3.0%
*Please note that applicants can fit into more than one category above				

Table 3: Highly Impacted Industries Awarded CA Relief Grant Round 1

	Number of Awardees	% of Total Selected in Round 1	Amount Awarded	% of Total Amount Awarded in Round 1
<i>Highly Impacted Industries</i>	12,878	61.1%	\$147,932,429	62.6%
Personal Care	5,651	26.8%	\$49,303,826	20.9%
Restaurant and Other Eating Places	2,089	9.9%	\$36,827,533	15.6%
Child Daycare Services	670	3.2%	\$6,078,996	2.6%
Clothing Stores	653	3.1%	\$7,801,566	3.3%
Specialty Food	442	2.1%	\$5,765,500	2.4%
Other Highly Impacted industries	3,373	16.0%	42,155,008	17.8%

LAO COMMENTS

The LAO notes that the program was established quickly and without much communication with stakeholders or with the Legislature, and many details of the program are still unknown. Partner organizations and applicants have raised a number of concerns about the existing program, including an application that was only available online and in English, and was not appropriate for nonprofit organizations, among other issues. Establishing a brand new program often involves unforeseen implementation challenges. Some of the problems with this program listed above might have happened under other circumstances. However, some stakeholders felt that better communication and outreach from the administration and the third-party vendor could have addressed some potential issues before the program began. The program was also intended to target underserved businesses in locations and industries most affected by the pandemic, but the LAO is unable to assess whether it actually is much better targeted than the federal PPP program

because they do not have detailed information about how the program is making grant award decisions.

More information also should be provided about how the program was designed, including details about fraud prevention and CalOSBA's selection of and contract with the third-party vendor who administered the program. The LAO suggests that the Legislature also should consider other details of the program, including potentially prioritizing businesses that did not receive a PPP loan, working out the tax implications of the grants, and considering different definitions of small business.

STAFF COMMENTS

Limited detail and oversight. With an additional allocation, the Legislature may wish to codify the program and provide additional oversight including additional parameters on access to the program and language access. The Legislature may wish to include parameters to obtain better data moving forward.

First round recipients. Can CalOSBA provide more information on the first-round recipients? How were the first-round recipients were chosen? Was Lendistry in charge of choosing those recipients? Did the CALOSBA have any input into evaluating those applications?

Additionally, the letter from the Department of Finance states "all recipients were either in underserved groups or impacted industries." Can you explain further what this means?

With the speed of the program release, was adequate time provided to do outreach to underserved groups?

Program Oversubscribed. According to the information provided by the Department of Finance, the program was oversubscribed by about \$4 billion. The Subcommittee may wish to ask why only \$575 million is being proposed and consider increasing the amount of funding available.

Cultural Institutions. The Subcommittee may wish to ask the CalOSBA to provide additional detail on the cultural institution set aside. How did they determine the set aside and why are cultural institutions the only entity receiving targeted funding?

Related tax issues. As noted by the LAO, the tax status of these grants needs to be clarified with the Administration. The December federal aid package legislation states that small business assistance—including PPP forgiven funds, emergency EIDL grants, Targeted EIDL Advances, certain loan repayment assistance, and grants for shuttered

venues—will not be taxable as income and clarifies that deductions are allowed for otherwise deductible expenses paid with the proceeds of this small business assistance.

Staff Recommendation: There is overall support to help our small businesses through the continuation of the grant program. The Legislature should consider including oversight provisions and requesting specific data on who receives the grants.

ISSUE 2: SMALL BUSINESS TAX CREDIT PROPOSALS

The Governor’s budget includes two tax credit proposals to support businesses, one related to early action and one for the regular budget process. More information is provided below.

PANEL

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

- Isabel Guzman, Director, California Office of Small Business Advocate
- Scott Dosick, Deputy Director, GO-Biz
- Brian Weatherford, Senior Fiscal & Policy Analyst, Legislative Analyst’s Office
- Jay Chamberlain, Department of Finance

BACKGROUND

1. **California Competes Tax Credit.** The budget includes \$430 million General Fund for California Competes to provide two types of assistance aimed at attracting or retaining businesses to California (\$250 million for grants and \$180 million for tax credits over two years).

The GO-Biz administers California Competes, a program intended to attract or retain businesses that are considering making new investments in California. Companies seeking tax credits apply to GO-Biz, and the administration negotiates tax credit agreements with selected applicants. GO-Biz awards up to \$180 million in credits each fiscal year, plus any unallocated or recaptured credits from the prior year. (The state may recapture the credit if the taxpayer does not satisfy the terms of the agreement.) Businesses can use these credits to reduce their tax liabilities

for the personal income tax (PIT) or the corporation tax. In 2019, the California Competes credit reduced state General Fund revenues by \$38 million.

The Governor proposes 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. The administration estimates that the resulting reductions in General Fund revenue would be \$10 million in 2021-22, \$35 million in 2022-23, \$50 million in 2023-24, and \$85 million in later years.

The Governor's budget also includes \$250 million one-time General Fund to allow the California Competes program to provide cash grants. GO-Biz would award grants, instead of credits, using the existing California Competes application and evaluation processes. The Administration could pay grants to successful applicants either in full upon approval or in increments based on hiring and investment milestones. In addition to existing program criteria, an applicant would need to meet one of the following criteria to qualify for a grant:

- Establish at least 500 net new jobs.
- Make a significant infrastructure investment, as defined by the director of GO-Biz.
- Commit to a high-need or high-opportunity area of the state
- Receive a designation from the Director of GO-Biz that the application is a strategic priority to the state.

If a business violated the terms of its agreement, including not meeting its hiring and investment commitments, GO-Biz would instruct FTB to recapture the grant. FTB would attempt to collect the amount in the same manner that FTB attempts to collect a delinquent tax liability.

2. **Mainstreet Business Tax Credit.** \$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.

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.

The federal government created the ERC in March 2020 as part of the Coronavirus Aid, Relief, and Economic Security Act. The ERC provided firms with 100 or fewer employees a credit for 50 percent of wages paid to employees they retained in 2020 (up to \$5,000 per employee). Similar to the Main Street Credit, businesses are eligible for the ERC if their quarterly gross receipts dropped by at least half compared to the same quarter in 2019. Firms with smaller drops in gross receipts were eligible if they had to suspend or curtail operations in response to governmental shutdown orders.

Trailer Bill Language. The Administration has stated that it plans to pattern the credit after the newly extended federal ERC, but has not yet provided new statutory language.

LAO COMMENTS

1. **Reject Proposed Expansions of California Competes.** These proposals would not assist the businesses hit hardest by the pandemic. The idea of adding grants to California Competes raises questions that require significant Legislative deliberation. Due to these concerns and others, we suggest that the Legislature instead focus on expanding the Main Street Credit proposal.
2. **Expand Main Street Credit Proposal.** Among the Governor's proposals, this one is best suited to assisting the businesses hit hardest by the pandemic. Consequently, the LAO suggests that the Legislature prioritize expanding this program. For example, the Legislature could broaden eligibility and increase the value of the credit.

STAFF COMMENTS

The Subcommittee may wish to have CalOSBA to discuss their strategy in providing tax credits to small businesses. The budget includes a variety of programs to help small businesses, but how do they interact and target those businesses most affected by the pandemic.

Staff Recommendation: Both of these proposal reflect major policy proposals that may require the Subcommittee to revisit at a later time.

ISSUE 3: OTHER SMALL BUSINESSES PROPOSALS

The Governor's budget includes four additional proposals related to the GO-Biz small business programs.

PANEL 3

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

- Isabel Guzman, Director, California Office of Small Business Advocate
- Brian Weatherford, Senior Fiscal & Policy Analyst, Legislative Analyst's Office
- Somjita Mitra, Chief of Economic Research, Department of Finance

BACKGROUND

1. ***Innovation Hub Grants to Local Entities.*** GO-Biz requests a \$2.5 million one-time General Fund allocation to relaunch the California Innovation Hub program in its Office of Small Business Advocate as the Inclusive Innovation Hub program (iHub2) to incentivize a focus on diversity, equity and inclusion in the state's tech and science-based startup ecosystem.

CalOSBA will designate 10 ihubs2 for a three-year program and award them \$150,000 for year one to incentivize and launch inclusive programming and \$50,000 in each subsequent year. These initial grants will be leveraged to attract further investment and support sustainability. The iHubs2 will be designed to serve as vehicles for highroad jobs and wealth creation that strengthen the development of underserved regions and emerging, diverse entrepreneurs.

Trailer bill language is not available at this time.

2. ***Office of Small Business Advocate, Outreach Engagement.*** GO-Biz is requesting budget authority of \$901,000 from the General Fund and permanent authority for six positions in 2021-22 and ongoing as part of the California Office of the Small Business Advocate (CalOSBA) to provide direct support to small businesses.

The team would focus on conducting the required direct support, outreach, engagement and marketing/content creation necessary, increasingly online, to connect with small businesses and help them prepare and be more resilient as a result of disaster impacts across the state as required in Government Code Section 12098.4 and 12098.5. The team's strategies would be driven by equity measures

and would prioritize underserved business groups, including women, minority, and veteran-owned businesses and businesses in low-wealth, rural, and disaster-impacted communities, especially African-American and Latinx businesses.

Resources were provided in 2019-20 to allow CalOSBA to lay the groundwork – to create models for statewide scalable campaigns and communications, and to build critical statewide stakeholder networks --the Office is not staffed to continue to sustain this level of programming, which has been well-received by the small business community and diverse business leaders. Further support is needed in order to serve a broader audience of small businesses and deliver the most relevant and timely state guidance and regulatory information to the ever-changing 4.1 million small businesses in California with a focus on equity and inclusion and removing opportunity gaps to our diverse founder

3. ***Small Business Loan Guarantees.*** GO-Biz requests a \$50 million one-time General Fund allocation to the Small Business Expansion Fund to use across the Small Business Finance Center (SBFC) programs with a focus that will benefit the underserved businesses by supporting and providing financial assistance where needed.

Originally funded by the General Fund and the federal Small Business Jobs Act's State Small Business Credit Initiative (SSBCI), the SBLGP is the prominent program of the SBFC. The \$84 million authorization from SSBCI received by IBank in 2011 was used to guarantee up to 80 percent of loan amounts in support of small businesses, and funds continue to revolve and serve thousands of additional small businesses through this year. However, the program is approaching full capacity and it will require additional funding.

The current funds available for small business guarantees (from the IBank SBLGP) will be fully leveraged by the summer 2021. This allocation provides a one-time infusion of \$50 million in 2021-22, so the program can continue to provide loans as businesses recover from the economic impacts of COVID-19. The \$50 million can be leveraged to \$250 million of loans, the expected annual run rate. This program is utilized by larger small businesses with larger loan sizes (average \$500,000 or more).

4. ***California Dream.*** The Budget proposes \$35 million one-time General Fund to support micro-grants up to \$10,000 to seed entrepreneurship and small business creation in underserved groups that are facing opportunity gaps. These California Dream Fund startup grants will be made available through small business technical assistance centers to eligible startups actively participating in trainings and

advisory services to help provide greater acceleration rates and successful outcomes. This is part of a package of proposals on which the Administration requests the Legislature take action early in 2021.

This proposal is related to the \$10 million one-time General Fund for the Social Entrepreneurs for Economic Development Initiative (SEED) included in the 2020 Budget Act to provide training and business startup supports for targeted low-income populations including immigrants and Californians with limited English proficiency. While the California Dream Fund proposal is separate from the SEED program, it is intended to provide the benefits of SEED through an existing grant program to expand the reach of the funds.

Trailer language was provided on January 28, 2021.

STAFF COMMENTS

To evaluate the current programs under GO-Biz and CalOSBA, it would be helpful to understand how the current programs and new programs work together? Who does each program target, do they work collectively, is there overlap, redundancies, or even ways to streamline? How does a small business know how to navigate all the programs provided by CalOSBA?

1. The Subcommittee may wish to ask about the original iHub program? Why is a relaunch necessary? What does this program seek to achieve? Additionally, this program will be difficult to analyze until trailer bill language is available.
2. The Subcommittee may wish to ask the CalOSBA to provide an overview of their staffing and how the new office of Small Business will work?
3. The refilling of the buckets for the small business loan guarantees is reasonable, but again, the subcommittee may wish to explore how the programs interact with each other.
4. The Subcommittee may wish to ask why CalOSBA proposes a new program on top of SEED program. Why not just expand the existing program. Additionally, the subcommittee may wish to ask why the trailer bill establishes the Ca Dream program but leaves it up to CalOSBA to provide the parameters. If the Legislature would like to move forward with this program, they may want to further develop the program instead of delegating that authority to CalOSBA.

Staff Recommendation: These proposal reflect major policy proposals that may require the Subcommittee to revisit at a later time.

ISSUE 4: CALIFORNIA INFRASTRUCTURE AND ECONOMIC BANK (IBANK), SMALL BUSINESS CENTER

The Governor's budget proposes a \$50 million one-time General Fund allocation to the Small Business Expansion program for the Small Business Finance Center (SBFC) to provide financial assistance needed by small businesses.

PANEL 4

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

- Scott Wu, Add title, IBank
- Brian Weatherford, Senior Fiscal & Policy Analyst, Legislative Analyst's Office
- Tamara Johnson, Department of Finance

BACKGROUND

This proposal requests a \$50 million one-time General Fund request for small business be left to IBank's discretion to use across any SBFC program with a funding priority for underserved California small businesses, which could be used in any or a multitude of the California Rebuilding Fund subordinated debt, Jump Start start-up loans, ClimateTech guarantees, and new initiatives that address Jobs, Economy Recovery, Small Business Innovation and Climate priorities within the SBFC.

IBank was created in 1994 to finance public infrastructure and private development that promote a healthy climate for jobs, contribute to a strong economy and improve the quality of life in California communities. IBank operates pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act contained in the California Government Code Sections 63000 et seq. IBank is located within GO-Biz and is governed by a five-member Board of Directors consisting of the Director of GO-Biz, the State Treasurer, the Secretary of Transportation, the Director of the Department of Finance and a Governor's Appointee. IBank also provides credit enhancements, farm loans, small business micro loans, and partners with other agencies for programs that leverage State and Federal funds SBFC.

IBank's SBFC manages small business loan guarantees, disaster loan guarantees, Climate Tech guarantees, direct lending programs such as Jump Start start-up loans, and can quickly add new programs aimed at small businesses. These programs provide financial assistance needed by small businesses and will contribute to the long-term recovery of California's economy. IBank recently provided an anchor investment commitment to help create the California Rebuilding Fund to aggregate funding from

private, philanthropic, and public sector sources to address the capital needs of California's small businesses as they re-open and recover from the COVID-19 health and economic crisis.

STAFF COMMENTS

Staff has concerns about providing funding for new programs and not defining the parameters of the programs. In order to provide adequate oversight and implementation, metrics need to be included. The Legislature should ask IBank, what they plan to do with program, and if the Legislature would like to move forward work together to craft a program or run the program through the policy process and seek an appropriation the following year.

Staff Recommendation: This proposal reflects major policy proposal that may require the Subcommittee to revisit at a later time.

7730 FRANCHISE TAX BOARD**OVERVIEW**

The Franchise Tax Board has one early action item and four additional budget change proposals which will be discussed in the issues below.

ISSUE 5: GOLDEN STATE STIMULUS

The Governor's budget proposes \$2.4 billion one-time General Fund in 2020-21 to provide a one-time \$600 refund to taxpayers who received the California Earned Income Tax Credit (CalEITC) for the 2019 tax year, as well as individual tax identification number (ITIN) filers who will receive the credit for the 2020 tax year.

PANEL 5

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

- Jeanne Harriman, Franchise Tax Board
- Chas Alamo, Legislative Analyst's Office
- Jay Chamberlain, Department of Finance

BACKGROUND

The Golden State Stimulus is intended to provide immediate cash support to families most likely to have suffered economically from the COVID-19 Pandemic. Regardless of income, all Californians pay a variety of taxes, including on the purchase of taxable goods. This proposal would refund \$600 of those taxes to all 2019 taxpayers who received a California Earned Income Tax Credit (Cal EITC) in 2020 as well as to 2020 taxpayers with individual tax identification numbers (ITINs) who receive a Cal EITC in 2021. Focusing on EITC recipients allows for a timely identification and location of the population that likely started 2020 with few resources. Lower-wage workers also disproportionately lost their jobs during the pandemic. The payments would be sent in February and March of 2021. ITIN taxpayers would receive the additional tax refund after they file their 2020 tax return, typically in February through April of 2021.

Federal relief programs have provided assistance to low-income individuals during the pandemic through Unemployment Insurance and stimulus checks. However, federal relief programs have helped most low-income Californians, undocumented individuals have been left out of these federal programs. In order to address this shortfall, the state has

directed assistance by creating the Disaster Relief Assistance for Immigrants (DRAI) Program and also expanding the California Earned Income Tax Credit (CalEITC) to include taxpayers who file using an ITIN.

LAO COMMENT

The LAO recommends focusing on filling gaps in federal relief. While many 2019 EITC recipients have faced income losses during the pandemic, most have received significant federal income support. Due to enhanced unemployment insurance (UI) benefits and stimulus checks, income in 2020 for most EITC workers was similar, if not higher, than their 2019 income. In contrast, ITIN taxpayers and other undocumented workers have faced significant income losses but have not received UI benefits or stimulus checks. In addition, using the EITC to target pandemic relief may leave out some low-income Californians, including the over 20 percent of low-income workers who are eligible for the EITC but do not claim it.

The LAO proposes that the Legislature consider using a different approach to target populations in need. The LAO suggests narrowing the Governor's proposal to only include ITIN filers whose incomes fell below a certain amount in 2019 or 2020, and to increase the payment to these taxpayers above \$600. As an example, the state could provide a larger, \$1,800 refund per adult (equal to the federal stimulus payments) to ITIN filers with incomes below \$30,000. This approach likely would cost between \$700 million and \$1 billion. The Legislature could use the remaining funds to target the half or more of the state's undocumented workers who do not use an ITIN and would not be eligible for the refund, and the recipients of safety net programs.

STAFF COMMENTS

The Subcommittee may wish to consider the following:

Tax year 2019 versus 2020. The Governor's proposal provides hybrid approach to providing funding the stimulus payments. For those individuals who received an EITC in 2019, a check would be mailed after a verification check had taken place. However, in 2019, ITINs were not eligible for EITC. Therefore, an ITIN filer would receive the stimulus check after they filed for the 2020 EITC. The Legislature needs to consider whether to they want to use this hybrid approach or whether to provide stimulus checks based on the 2020 filing year. The advantage to the 2020 filings include the most up-to-date information and treatment of all filers the same. The disadvantage include a slower roll out of the stimulus check and older information on taxpayers.

Excluded Populations. Using the CalEITC population is one way to target low-income individuals, however it does not cover all who need may need aid. The Subcommittee may wish to ask why the state chose this approach and whether it would make sense to supplement this population with other targeted aid programs?

Fraud concerns. The Franchise Tax Board can immediately verify SSNs, but not ITINs. Some portion of CalEITC claims filed each year are fraudulent. A large, direct payment may drive additional fraudulent claims this year, especially for unverifiable ITINs. The Subcommittee may wish to ask FTB how they plan to address fraud through this program and to discuss what amount of fraud they detect on the current EITC program.

Resources. What resources will FTB use to implement the Golden State Stimulus and how will FTB outreach to let filers know that they must apply or have applied for EITC to receive a stimulus.

Staff Recommendation: Support the Golden State Stimulus to provide additional funding for low-income Californians.

ISSUE 6: LEGISLATION

This item provides resources for legislation enacted during 2020.

PANEL 6

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

- Jeanne Harriman, Franchise Tax Board
- Chas Alamo, Legislative Analyst's Office
- Jay Chamberlain, Department of Finance

BACKGROUND

1. **AB 1876 Earned Income Tax Credit / ITINs.** The Governor's proposal includes \$2 million General Fund and 17.0 permanent and 1.0 permanent-intermittent positions in 2021-22, and \$1.7 million General Fund and 17.0 permanent and 1.0 permanent-intermittent positions in 2022-23, and ongoing to implement and administer provisions of Assembly Bill (AB) 1876 (Chapter 87, Statutes 2020). These resources are critical in order to successfully implement the California

Earned Income Tax Credit (CalEITC) – Individual Tax Identification Number (ITIN) Expansion.

An estimated 200,000 families with ITINs will qualify for this CalEITC expansion. These potential CalEITC recipients do not generate the same types of data that FTB usually uses to calculate and validate CalEITC amounts. People using ITINs cannot receive a federal EITC, meaning FTB cannot use claimant data from the IRS when checking on the credit amount someone is claiming. Nor can they use their ITINs to receive a W-2, as such, FTB cannot use W-2 data to match information they report on their tax returns. The resources in this BCP provide FTB with the resources to ensure returns are processed and refunds are issued timely as well as ensuring improper payments are minimized.

2. **SB 1447 Small Business Hiring Credit.** The Governor's Budget includes \$377,000 General Fund and 4.0 positions for 2021-22, and \$189,000 General Fund and 4.0 positions for 2022-23, (ending December 31, 2022). These resources will be used to administer provisions of Senate Bill (SB) 1447 (Chapter 41, Statute 2020).

SB 1447 requires FTB to implement areas of the new tax law provisions. This bill creates a small business hiring credit fund. The fund will allow small business employers to reserve a credit that can be applied against qualified sales, use, or income taxes.

The California Department of Tax and Fee Administration (CDTFA) will administer the tentative credit reservation process and allocate the credit. FTB will be responsible for managing, processing, and ensuring the tax credit under the Personal Income Tax (PIT) law and/or the Corporations Tax law is claimed accurately.

Beginning January 1, 2020, a small business employer could receive a tentative credit reservation equal to \$1,000 for each net increase in qualified employees. The credit must be reserved between December 1st and January 15, 2021 before January 1, 2021 and shall not exceed \$100,000 for any qualified small business.

STAFF COMMENTS

1. AB 1876 was part of the budget and not the policy process. Because of this, there is no appropriation analysis available. The Subcommittee may wish to ask FTB how much data they currently maintain for tax filers who use an ITIN and how will the process differ for a CalEITC recipient and a recipient with ITIN number?

Staff Recommendation: The resources requested by these two BCPs will be used to implement legislation approved by the Legislature in 2020. Staff has no concerns at this time.

ISSUE 7: OTHER FTB PROPOSALS

The Governor's budget contains two BCPs for FTB that deal with technology and security. These proposals are summarized below.

PANEL 7

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

- Jeanne Harriman, Franchise Tax Board
- Brian Weatherford, Legislative Analyst's Office
- Derk Symons, Department of Finance

BACKGROUND

- 1. Enterprise Data to Revenue Project – Phase 2 (EDR2).** The Governor's budget includes an augmentation of \$55.6 million General Fund and 22.0 permanent positions, 1.0 permanent-intermittent position, and 13.0 limited-term positions in 2021-22 to begin the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan. This proposal represents the first requests for resources to support the EDR2 project.

The EDR2 project represents phase 2 of an enterprise-wide TSM effort to align FTB's IT infrastructure with its strategic business plan. The project will move FTB's siloed compliance systems onto an enterprise CM platform (infrastructure implemented in phase 1 of the EDR project). According to FTB, the transition will improve efficiency, provide a better taxpayer experience and increase revenue.

The EDR2 project will support replacement of two legacy systems that are near end-of-life: Accounts Receivable Collection System (ARCS) and Professional Audit Support System (PASS). In addition to taking steps to address the tax gap.

This step will provide technology to more effectively manage the tax gap by transitioning the Audit, Legal, Filing Enforcement (FE) and Underpayment SOWs to FTB's enterprise platform and implementing new Audit, FE, and Underpayment strategies that will identify new revenue streams.

The following table shows the systems FTB plans to replace with EDR2 and their original implementation dates and ages.

System	Date Implemented	System Age in Years (as of 2021)
ARCS	1999	22
INC	2001	20
PASS	1997	24

The EDR2 objectives are as follows:

- Increase revenue and efficiencies by:
 - Making data available from the Filing Processes, Audit, Legal, FE, and Underpayment BSOWs available to support all compliance activities across the enterprise
 - Allowing for communication across all departmental compliance activities (Enterprise CM Platform).
 - Automated workflows with manageable and reusable processes which use common tools and services.
 - Implement new compliance models for noncompliance discovery and fraud detection, tracking, and prevention.
- Implement new taxpayer self-service capabilities to enhance taxpayer self-compliance, education, and communication capabilities.
- Transition the EDR2 solution's Maintenance and Operations to the State.
- Retire FTB's legacy systems by working collaboratively with legacy teams to identify and manage negative impacts to systems.

2. Privacy and Security Assessments. The Governor's Budget proposes 12 permanent positions and \$1.73 million General Fund and \$42,000 Special Funds in 2021-22; and \$1.60 million General Fund and \$39,000 Special Funds in 2022-23 and ongoing.

These resources will accommodate newly mandated state and federal workloads within the critical functions of FTB's Privacy Program and Information Security Oversight Unit (ISOU). The requested positions will support enhanced levels of effort required under Federal Publication 1075 and conduct the newly mandated Privacy Threshold Assessments (PTAs), Privacy Impact Assessments (PIAs) and System Security Plans (SSPs) to ensure that FTB meets the state and federal mandates. The resources will play a key strategic role in ensuring that FTB expands and validates the privacy, security framework, reportable technology projects, and security measures for the department's business processes, projects and systems.

STAFF COMMENTS

1. Staff has no concerns with resources required to meet state and federal mandates for privacy and security assessments. Approving privacy and security assessments is consistent with past actions of the Subcommittee on security issues across the board.

Staff Recommendation: The EDR 2 proposal is a new major IT proposal for FTB. FTB's last IT project was very successful, however, since this is a new program, the Subcommittee may wish to revisit this BCP at a later time. Staff has no concerns with the security BCP.

7600 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION**OVERVIEW**

The California Department of Tax and Fee Administration has three budget change proposals in the Governor's budget.

ISSUE 8: THE HOME PROTECTION FOR SENIORS, SEVERELY DISABLED, FAMILIES, AND VICTIMS OF WILDFIRE OR NATURAL DISASTERS ACT

The Governor's budget proposes a General Fund appropriation of \$1.6 million in 2021-22, \$266,000 and 1.5 positions in 2023-24, and \$245,000 in 2024-25, and ongoing to address the costs associated with the passage of Proposition 19.

PANEL 8

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

- Jason Mallet, California Department of Tax and Fee Administration
- Seth Kerstein, Legislative Analyst's Office
- Derk Symons, Department of Finance

BACKGROUND

Proposition 19 (Prop. 19) was approved by California voters in the November 3, 2020, General Election. Beginning April 1, 2021, Prop 19 amends Article XIII A of the California Constitution to:

- Define "taxable value" as the base year value plus any adjustments specified in the constitutional amendment.
- Allow up to three taxable value transfers per taxpayer for taxpayers who are severely disabled, over the age of 55, or victims of a wildfire or other natural disaster, regardless of the replacement property's value or location, provided the replacement property is purchased or constructed within two years of the date the original property is sold.
- Limit the parent-child and grandparent-grandchild exclusion from change in ownership of a principal residence or family farm.

Prop. 19 allocates any additional revenues or savings to the state to the newly created California Fire Response Fund and the County Revenue Protection Fund, and continuously appropriates money to those purposes, as follows:

- 75 percent of the amount certified by the Director of Finance for the applicable year to the California Fire Response Fund to expand fire suppression staffing.
- 15 percent of the amount to the County Revenue Protection Fund to reimburse counties with “negative gain” resulting from implementation of the new limitation on property tax increases on primary residences for seniors, the severely disabled, wildfire and natural disaster victims, and families.

CDTFA’s Role in implementation of Prop. 19. CDTFA is required to determine each eligible local agency’s aggregate gain every three years, based on the amounts determined by the counties. Counties with a negative gain are eligible to receive funds from the County Revenue Protection Fund. If the County Revenue Protection Fund is insufficient to reimburse all claims, CDTFA is required to allocate available funds based on each local agency’s pro rata share, as specified. The State Controller is required to transfer any remaining funds less reimbursements from the County Revenue Protection Fund to the General Fund after reimbursing each eligible local agency that has experienced a negative gain during that three-year period.

The CDTFA will utilize the Centralized Revenue Opportunity System (CROS) to administer this program. CROS is specifically designed for integrated tax administration and provides full functionality for processes such as registration, returns, payments, refunds, collections, revenue accounting, audit, correspondence, imaging, analytics, and workflow. The CDTFA is requesting \$1.4 million in 2021-2022 to administer changes to CROS. The CDTFA will contract with FAST Enterprises Inc. (FAST) to design and administer changes to online services, administration, financial disbursement and other administrative processes in the CROS system.

Counties will need to register with the CDTFA and annually report the revenue effect for each county, city, and special district. The CDTFA will need to program CROS Online Services to allow 58 counties and approximately 2,800 jurisdictions to report their revenue impact, determine each eligible aggregate gain every three years based on the amounts determined by the counties, calculate any needed proration of funds, and provide reimbursements to each special district with a negative gain at the end of the three years.

STAFF COMMENTS

There are several issues related to the implementation of Proposition 19 including resources to implement the program. Staff anticipates that other implementation process issues will arise with Prop. 19 as well.

Staff Recommendation: This proposal reflects a policy proposal that may require the Subcommittee to revisit at a later time.

ISSUE 9: OTHER CDTFA PROPOSALS

The Governor's January budget includes two other BCPs related to CDTFA. They are summarized below.

PANEL 9

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

- Jason Mallet, California Department of Tax and Fee Administration
- Seth Kerstein, Legislative Analyst's Office
- Derk Symons, Department of Finance

BACKGROUND

1. **Centralized Revenue Opportunity System (CROS) Project Implementation Phase – Fiscal Year 2021-22:** Proposes \$23.9 million to provide resources required to support the final phases of the Project and the transition to Production Support Maintenance and Operations. Of this amount, \$7.5 million is for Operating Expenses and Equipment and \$16.4 million is for contractor compensation in 2021-22.

The CROS Project is a tax collection and distribution information technology system approved in 2011 and designed to improve the efficiency and effectiveness of the CDTFA's operations, expand tax and fee payer services, and enhance the CDTFA's ability to generate increased revenues. The first production release, Rollout 2, included the Sales and Use Tax Program and was implemented on May 7, 2018. The second production release, Rollout 3 included Special Taxes (such as Alcoholic Beverages, Cigarette and Tobacco, and Fuel Taxes) and was implemented on August 12, 2019. The final production release, Rollout 4 included all remaining CDTFA tax programs and was implemented on November 9, 2020.

Provisional Language. This item includes provisional language to augment unencumbered funds for vendor compensation payments with reporting to the joint legislative budget committee within 30 days.

The following table provides a summary of the CROS Project Schedule, including start and completion dates:

Phase	Description	Scheduled Start Date	Implementation Date	Scheduled End Date
Solution Installation	Creates the technical environment and installs Solution environment and workstations, provide training to Department developers.	10/03/16	n/a	03/02/17
Proof of Concept	Build and demonstrate Proof of Concept for a web application that integrates with Avaya, Documentum, and external partners for automated data exchanges.	10/03/16	n/a	01/30/17
Rollout 1	Configure, use, and refine business intelligence functions that drive benefits and increase revenue opportunities.	10/03/16	03/06/17	03/06/17
Rollout 2	The development and implementation of the CROS Solution that includes Sales & Use Tax, Lumber, Cigarette, Retailer License Fee, Tire, Electronic Waste Tax Programs.	10/03/16	05/07/18	04/06/19
Rollout 2 Legacy Changes	Transitioning legacy systems functionalities to GenTax and sunset each system.	02/23/17	05/03/18	05/03/18
Rollout 3	The development and implementation of the CROS Solution that includes Timber and Special Taxes – Alcohol, Cigarette/Tobacco, and Fuels Tax Programs.	04/09/18	08/12/19	12/11/19
Rollout 4	The development and implementation of the CROS solution that includes the	06/03/19	11/09/20	03/01/21

Phase	Description	Scheduled Start Date	Implementation Date	Scheduled End Date
	remaining Special Taxes and Fees Programs.			
Transition Period	The transition period is nine months. This will encompass the transition of hardware, software and support for daily operations.	11/10/20	n/a	08/15/21
Final State Acceptance	Final State Acceptance transfers ownership of the entire Solution and related project materials to the State.	08/16/21	n/a	08/16/21
Warranty Period	A 12-month period after Final State Acceptance where the CROS Contractor is guaranteeing the Solution production system be free from any operational defects and maintain good running order.	08/17/21	n/a	08/16/22
Maintenance and Operations Period (Two, 24-month periods)	A 24-month period after Final State Acceptance where the Prime Vendor would provide CDFTA with a select menu of services and provide GenTax service package upgrades.	08/17/21 08/17/23	n/a	08/16/23 08/16/25
Project Closeout	Closing all project phases and producing the Post Implementation Evaluation Report (PIER).	8/17/21	n/a	08/16/23

2. Local Prepaid Mobile Telephony Services Surcharge Sunset Removal.

Senate Bill 1441 (2020) extends the sunset date of the Local Prepaid Mobile Telephony Services Act, from December 31, 2020 to December 31, 2025. As a result, the CDTFA will continue to manage operating requirements on the local program at least through 2025 and is requesting to continue resources of \$347,000 and 2 positions in fiscal year 2021-22, \$326,000 and 2 positions in 2022-23, \$415,000 and 2.5 positions in 2023-24, \$469,000 and 3 positions in 2024-25 and ongoing to administer the Local Prepaid MTS collection program. If the program sunsets in 2025, the CDTFA will submit a negative BCP retaining only the resources needed to close out the program.

The provisions of the Prepaid MTS Surcharge Collection Act (Chapter 885 of the Statutes of 2014 (AB 1717)) imposed a new prepaid MTS surcharge and local charge to be administered and collected by the CDTFA, which became operative January 1, 2016, on the sale of prepaid MTS. The prepaid MTS surcharge is imposed pursuant to the Prepaid MTS Surcharge Collection Act and the local charges are imposed pursuant to the Local Prepaid MTS Collection Act of 2014, which are separate acts within the tax law that were both added by AB 1717. Both the Prepaid MTS Surcharge Collection Act of 2014 and the Local Prepaid MTS Collection Act of 2014 contained a sunset date of December 31, 2019. Chapter 642 of the Statutes 2019 (Senate Bill 344) extended the sunset date for the Local Prepaid MTS Collection Act from December 31, 2019, to December 31, 2020.

STAFF COMMENTS

1. The subcommittee may wish to have CDTFA explain costs associated with adding a new program component to the CROS system. In the past, CROS was marketed as a way to be able to easily include new components as new legislation was enacted, but the Subcommittee rarely discussed how much it costs to implement a new bill. Can CDTFA comment on this?
2. On the Local Prepaid Mobile Telephony Service Surcharge – can CDTFA explain the difference in cost from the Assembly Appropriation analysis and the costs contained in the BCP. Why is the cost much lower to implement in the BCP?

Staff Recommendation: The resources included in this proposal are consistent with projected costs for the implementation of the CROS program.

****** PUBLIC COMMENT ******