

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

ASSEMBLYMEMBER WENDY CARRILLO, CHAIR

TUESDAY, MARCH 15, 2022

1:30PM – STATE CAPITOL, ROOM 447

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. All are encouraged to watch the hearing from its live stream on the Assembly's website at <https://www.assembly.ca.gov/todaysevents>.

The hearing room will be open for attendance of this hearing. Any member of the public attending a hearing is strongly encouraged to wear a mask at all times while in the building. The public may also participate in this hearing by telephone.

*To provide public comment, please call toll-free:
877-692-8957 / Access Code: 131 54 47*

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NON-DISCUSSION ITEMS

8955 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS

ISSUE 1: CEMETERY OPERATIONS

The California Department of Veterans Affairs (CalVet) requests five positions and \$492,000 General Fund in 2022-23, and \$483,000 General Fund annually thereafter, to support operational, custodian, and security requirements at the Northern California Veterans Cemetery (NCVC) and California Central Coast Veterans Cemetery (CCCVC).

Currently, the NCVC does not have a contract in place for janitorial services. Although the NCVC attempted to secure a custodian contract, no contractor was selected due to higher than anticipated bid proposals. The NCVC notes that it has attempted to provide janitorial services through alternative means, such as through the Department of General Services (DGS), but the isolated location of the NCVC made option challenging. As an interim solution, janitorial duties are being split among staff including the Staff Services Manager II, the Office Technician, the Associate Governmental Program Analyst, the Supervising Groundskeeper II, and Groundskeeper.

Security duties are performed by independent contractors at both the NCVC and the CCCVC. Contractors only operate on weekends and holidays in order to allow visitation for eight hours each day. Security contractors unlock and open cemetery gates, patrol the facility, unlock the restrooms, and ensure all locations that are off-limits to the public are closed. CalVet cemetery staff perform these functions Monday through Friday. CalVet reports experiencing security incidents at the cemeteries, such as water repeatedly stolen during the weekends and fuel siphoned from the fuel tanks.

CalVet requests to establish four 0.5 full-time equivalent Custodian positions and four 0.5 full-time equivalent Security Guard positions, two at each cemetery to allow for coverage of janitorial and security services. CalVet additionally requests an AGPA to provide ongoing administrative support for all cemeteries.

Staff Recommendation: Hold Open

ISSUE 2: FACILITIES PLANNING AND CONSTRUCTION MANAGEMENT STAFF

CalVet requests three positions and \$515,000 General Fund in 2022-23, and \$498,000 General Fund annually thereafter, to address the increased workload in facilities planning and construction management for Veterans Homes.

CalVet operates eight Veterans Homes that provide eligible veterans domiciliary programs. In addition to independent living, Veterans Homes may also provide assisted living, intermediate nursing care, and access to skilled nursing facilities. These facilities require ongoing maintenance and repairs to ensure veterans resident care is not compromised. Existing laws and regulations allows CalVet to provide pursue construction design work independently of DGS.

According to CalVet, the Department has only two staff positions with the technical knowledge needed to plan and oversee large maintenance and repair projects associated with the Veterans Homes. For example, such projects can include repair and maintenance of roofs, boiler room, and electrical systems. CalVet notes that as newer facilities begin to age and their building systems reach the end of their expected useful life, current staffing levels will not be able to manage the scope and size of projects needed to maintain CalVet facilities.

This proposal would provide CalVet with two Associate Construction Analysts that would be responsible for the management oversight, and implementation of the Department's architectural and engineering programs. CalVet also requests an Office technician to manage and track the various projects across CalVet facilities.

Staff Recommendation: Hold Open

ISSUE 3: NORTHERN CALIFORNIA VETERANS CETEMERY, IGO: COLUMBARIA EXPANSION

The California Department of Veterans Affairs (CalVet) requests \$2,154,000 for the construction phase of the columbarium expansion project at the Northern California Veterans Cemetery in Igo, California. The scope includes the construction of 10 new columbaria, each consisting 100 niches on each side totaling 2,000 additional niches; new walk-ways, ramps, curb and gutters; landscaping; and irrigation. CalVet's pre-application for federal grant funds was accepted by the United States Department of Veterans Affairs (USDVA) Veterans Cemeteries Grants Program in July 2018, and when funded will provide 100 percent reimbursement of allowable costs.

Staff Recommendation: Hold Open

2100 DEPARTMENT OF ALCOHOL AND BEVERAGE CONTROL

ISSUE 4: BUSINESS MODERNIZATION AND RESPONSIBLE BEVERAGE SERVICE

The Department of Alcoholic Beverage Control (ABC) requests 4.0 positions and an increase in expenditure authority of \$2,799,000, Alcohol Beverage Control Fund in 2022-23 and 2023-24, \$2,299,000 in 2024-25, and \$1,799,000 ongoing, for support costs following the completion of the Responsible Beverage Service project, as well as continuing support of ABC's business modernization efforts.

Background. ABC is responsible for the licensing, education, and enforcement of the manufacturing, sale, and service of alcoholic beverages. Over the years, ABC undertook two major IT modernization projects: eServices, which aimed to register, manage, and maintain all licenses under the Department; and Responsible Beverage Service (RBS), which is a statutory requirement established in 2017 requiring all alcohol services to receive training within 60 days of their employment date. After considering project timing and technology requirements, ABC decided to merge these two projects into a broader modernization effort now known as the Business Modernization and Responsible Beverage Service Project (BizMod/RBS).

In 2019-20, ABC received the first phase of funding for the BizMod/RBS project. This funding was requested and approved before final project approval was secured in order to meet associated deadlines set in statutes.

In 2020-21 and 2021-22 ABC received additional funding based on updated project cost estimates, as well as resources to execute additional functionality such as extension of electronic payment, notifications, and online license renewal and application.

In order to minimize risks and ensure that statutory deadlines are met, ABC made the decision to focus on completing the RBS project first before moving on to the eServices portion. In March 2021, ABC went live with RBS and met the project objectives by its target date of June 30, 2021. The scope of the formal project did not include the full implementation of all proposed eServices functionalities. ABC notes that these improvements will be made incrementally.

This funding proposal has two major components:

1. **Staffing:** This proposal would fund six existing positions included in each of the three previous years of funding. This proposal would add an additional three positions that would otherwise need to be contracted out. The proposal also adds a Records Manager position that would be responsible for managing the ABC's transition from paper to electronic records.

2. Development Contract: This proposal includes funding to continue level of resources to fund contract developers and provide ABC with capacity to develop online licensing services, expand additional functionalities, and provide ongoing maintenance and support for services in production.

Staff Recommendation: Hold Open

ISSUE 5: SAN JOSE, SAN DIEGO, AND STOCKTON DISTRICT OFFICE RELOCATIONS

ABC requests an increase in expenditure authority to support increased rent costs related to the relocation of the San Jose, San Diego, and Stockton district offices. These three offices are required to move to private buildings because the state buildings within which they currently reside have been moved into the surplus process by the Department of General Services. ABC notes that its operating budget does not contain sufficient funds to absorb the anticipated costs related to these office relocations. As such, ABC is asking for additional expenditure authority of \$254,000 Alcohol Beverage Control Fund in 2022-23, \$439,000 in 2023-24, and incremental increases over the next four years, to address the assumed annual increases of four percent in rent costs for the Department and to avoid the need to redirect funds from the licensing and enforcement programs these facilities support in the San Jose, San Diego, and Stockton regions.

The San Jose, San Diego, and Stockton State Buildings have been on the decline, leading DGS to pursue new office locations that will allow ABC to maintain an appropriate presence in those regions. DGS proposes to relocate the ABC office in San Jose by December 31, 2022, the office in San Diego by October 1, 2022, and the Stockton office by December 31, 2022.

Staff Recommendation: Hold Open

0840 STATE CONTROLLER

ISSUE 6: AFFORDABLE CARE ACT (ACA) WORKLOAD

The State Controller's Office (SCO) requests 4.0 permanent positions and \$500,000 (\$300,000 General Fund, \$200,000 Central Service Cost Recovery Fund) in 2022-23 and ongoing to support compliance with provisions of the Affordable Care Act (ACA).

Under the ACA, applicable large employers must offer minimum essential health care coverage to their full-time employees. As such, these employers are subject to information reporting responsibilities regarding coverage offered to employees. There are significant penalties for non-compliance if an applicable employer fails to offer health coverage to at least 95% or if the employer reports data incorrectly.

As an applicable large employer, California, through the SCO, implemented processes to ensure health benefits meet the ACA definitions and are offered to a minimum of 95% of the state's federally qualified full-time employees and their dependent children. In 2015, the SCO received 1.6 two year limited-term positions to support ACA-related workload and began efforts to collect required data. In 2016-17, the SCO received funding to support 5.7 two year limited-term positions to continue this work and implement business processes and system changes to comply with reporting requirements. In 2018-19, the SCO received an additional 6.0 permanent positions and 4.0 four-year limited-term positions. Workload for the ACA team includes generating corrected 1094-C and 1095-C records for 2015, 2016, and 2017, and developing a process to appeal IRS ACA penalty B assessments. The SCO is requesting 4.0 additional positions to support the ongoing maintenance of the ACA program and implement and accommodate additional system changes to maintain compliance with the federal ACA.

Staff Recommendation: Hold Open

ISSUE 7: AUDITS OF CALIFORNIA CANNABIS TAX FUND – PROPOSITION 64

The SCO requests \$502,000 in 2022-23 and \$489,000 in 2023-24 and ongoing from the California Cannabis Tax Fund (CCTF) to support 3.0 existing permanent positions to begin performing audits of the CCTF as required by Proposition 64.

The Control, Regulate and Tax Adult Use of Marijuana Act (Proposition 64) enacted in November 2016, allows adults of years of age and over to grow, possess, and use cannabis for recreational purposes. Proposition 64 created two new taxes, one levied on cultivation and the other on retail price. The measure allocates revenue from these taxes for drug research, treatment, and enforcement; health and safety grants addressing cannabis; youth programs; and preventing environmental damage resulting from illegal cannabis production.

Proposition 64 requires the Controller to periodically audit the CCTF to ensure that those funds are used and accounted for in a manner consistent with California law. The SCO would begin audit operations in 2022-23, which would include performing risk assessments and evaluations, designing the audit program structure, and identifying the necessary audit parameters to ensure that all expenditures comply with statutory requirements.

Staff Recommendation: Hold Open

ITEMS TO BE HEARD

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

OVERVIEW

The California Public Employees' Retirement System (CalPERS) administers retirement benefits for active employees and retirees of state and local agencies in California. Benefits include retirement, disability, and survivor retirement benefits. CalPERS also provides health benefits for active and retired state, local government, and school employees and their family members. CalPERS develops, negotiates, and administers contracts with health maintenance organizations, group hospitals, and medical insurance plans. In addition, CalPERS administers a long-term care program for members and eligible individuals.

The California State Teachers' Retirement System (CalSTRS) provides pension benefits, including disability and survivor benefits, to California full-time and part-time public school teachers from pre-kindergarten through community college and certain other employees of the public school system. CalSTRS administers a defined benefit plan, two defined contribution plans, a post-employment benefit plan, and a fund used to account for ancillary activities associated with various deferred compensation plans and programs.

ISSUE 1: DIVESTMENT FROM RUSSIAN HOLDINGS, STATE RETIREMENT LIABILITIES & OTHER PROPOSALS

The Subcommittee will receive an update on the Systems' investments in Russia following the military conflict in Ukraine. The Subcommittee will also hear the Governor's various budget proposals to address unfunded liabilities, and CalSTRS request for additional staffing resources.

PANEL

- Michael Cohen, Chief Financial Officer, CalPERS
- Julie Underwood, Chief Financial Officer, CalSTRS
- Chris Ailman, Chief Investment Officer, CalSTRS
- Art Martinez, Director of Financial Planning and Reporting, CalSTRS
- David Lamoureux, Deputy System Actuary, CalSTRS
- Danielle Brandon, Principal Program Budget Analyst, Department of Finance
- Aston Tennefoss, Staff Finance Budget Analyst, Department of Finance
- Ryan Weinberg, Finance Budget Analyst, Department of Finance

- Angela Short, Senior Fiscal and Policy Analyst, Legislative Analyst's Office
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

BACKGROUND

Divestment from Russian Holdings. On February 22, 2022, Russia launched a full-scale military invasion of Ukraine – a conflict that continues to escalate in violence and casualties at the time of this writing. On February 28, Governor Newsom issued a letter calling for CalPERS, CalSTRS and the University of California to restrict Russian access to California's capital and investments, and to cease the purchase of Russian debt. The Administration notes in its letter that out of all the state pension funds investments, over \$1.5 billion are held in a variety of assets, such as multinational corporations, private equity and real asset investments, and debt that have some nexus or relation to Russia's financial markets. In response to the crisis in Ukraine, the Legislature is also considering legislation prohibiting pension funds from making additional or new investments or renewing existing investments in Russia and Russia government affiliated entities.

On March 2, 2022, the CalPERS Board of Administration outlined in a response letter to the Governor with the following information:

1. In terms of investments in Russia, CalPERS owns approximately \$420 million of public stocks and \$345 million in illiquid real estate assets. CalPERS notes it does not have holdings in Russian government debt. CalPERS' investments in Russia represent about 0.17% of CalPERS total investment portfolio, which totals approximately \$480 billion.
2. CalPERS has ceased all transactions in Russian publicly traded equity and has stopped the flow of any new investments into the country
3. CalPERS is currently assessing its real estate investments and determining a path forward.
4. CalPERS is reviewing all its investments in emerging markets, including Russia, due to the impacts the crisis has had on all financial markets.

CalSTRS reports in its response letter the following information:

1. CalSTRS' holdings in Russia totaled \$171.5 million, or 0.05% of CalSTRS \$319 billion portfolio. With the significant market fluctuation caused by the Ukraine crisis, CalSTRS estimates as of early March that the value of its public market holdings to be less than \$100 million.

2. CalSTRS has ceased all new purchases of Russian securities and bonds, which has stopped the flow of CalSTRS capital into any new investment in the country.

Both CalPERS and CalSTRS indicate that they will be following all regulatory requirements promulgated by U.S. Office of Foreign Assets Control and the sanctions that are in place. The Office of Foreign Assets Control (OFAC), a division under the United States Department of the Treasury, is responsible for administering and enforcing economic and trade sanctions based on US foreign policy and national security goals against targeted foreign countries and regimes. Following US federal sanctions on Russia, OFAC has been updating guidance documents on Russian-related sanctions.

State Retirement Liabilities

Unfunded Liabilities. Generally, the normal cost to provide retirement benefits is the amount of money that actuaries estimate is necessary – combined with assumed future investment earnings – to pay the cost of pension benefits that employees earn in a given year. In the event that actual investment returns are less than what actuaries assume, the situation results in an “unfunded liability.”

California has significant unfunded liabilities for retirement benefits for state employees and teachers. Most up to date actuarial valuations estimates CalPERS pension liabilities to total \$63 billion. CalSTRS Unfunded Actuarial Obligation (UAO) totals \$105.9 billion.

Proposition 2 & CalSTRS Funding Plan. In 2014, California voters passed Proposition 2. Among other requirements, Proposition 2 requires that California provides a minimum amount of funding each year to pay down specified debts through 2029-30, including unfunded liabilities for pensions and retiree health benefits.

In 2014, the Legislature approved AB 1469 (Bonta, Chapter 46, Statutes of 2014) that established a plan to fully fund CalSTRS defined benefit program by 2046. The funding plan phased in higher contribution rates from employers and the state over multiple years. Under the funding plan, the state and employers each pay a fixed base contribution rate, in addition to a supplemental rate that the board may adjust annually, with certain limitations.

Over the past few budget cycles, California has provided supplemental payments for the CalPERS state plans and the state share of the CalSTRS unfunded liability.

Governor's Budget Proposals

CalPERS:

- The Budget includes \$3.9 billion Proposition 2 debt repayment funding for a supplemental pension payment in 2022-23 to further reduce the state's CalPERS unfunded liability. Of this figure, \$3.5 billion will be a supplemental pension

payment to CalPERS, \$365 million will pay the state's portion of normal cost to prefund state retiree health benefits, and \$56 million will pay down the General Fund's portion of a loan from 2017-18 that funded a one-time \$6 billion supplemental CalPERS payment.

- The Governor's budget assumes that the state required contributions to CalPERS will be \$8.4 billion in 2022-23 to pay for state employee pension benefits.

CalSTRS:

- The Budget includes \$3.7 billion General Fund for the state's required contributions to CalSTRS in 2022-23.
- The Administration does not propose to direct any supplemental payments to CalSTRS for 2022-23.
- The Governor's budget includes two budget change proposals for CalSTRS. The first is a request for \$17,320,000 from the in permanent funding for fiscal year 2022–23 (Teachers' Retirement Fund) to address various operational support and management activities. This request includes \$15,686,000 for service contracts related to property management services for the CalSTRS headquarters property, and various on-going information technology capabilities. The request also includes \$1,634,000 to establish funding for 10 permanently authorized positions to address enterprisewide workload management.

The second request is a reclassification of 27 full-time tenured staff performing permanent ongoing work in a blanket classification to a permanent authorized status. According to CalSTRS, this adjustment does not require additional funding authority for salaries and benefits.

LAO COMMENTS

Proposition 2 Debt Payment

Framework for Proposition 2 Payments. In the past, LAO has recommended the state focus on using Proposition 2 to keep funding plans on track for CalSTRS and retiree health—that is, to use the requirements to support the state's plans to fully fund these systems by the mid-2040s. Given recent investment returns, it does not appear that additional payments are needed this year to accomplish this goal. That being said, investment returns in the future might fall short of actuarial assumptions, warranting supplemental payments to CalSTRS or retiree health to put these funding plans back on track. In such a case, we recommend the state look to addressing unfunded liabilities with an eye toward budgetary benefit and reducing total UAO. As explained by the LAO previously, additional payments to CalPERS would have more budgetary benefit—

because the system has a higher discount rate—while additional payments to retiree health could *eventually* result in the state’s total unfunded liabilities declining by more—because with enough prefunding, actuaries will eventually grant the state a higher discount rate for that system.

Administration’s Proposal Reasonable, but Other Options Available. The state continues to have significant unfunded liabilities attributed to state employee CalPERS pensions. The administration’s proposal to use \$3.5 billion of Proposition 2 funding to make a supplemental payment to CalPERS is reasonable. There are also other reasonable options, however. For example, the Legislature could consider using these funds to make an additional contribution toward the retiree health unfunded liability. While this would have less budgetary benefit compared to a supplemental CalPERS payment, it could eventually have a much larger impact on the state’s total unfunded liabilities.

CalSTRS Proposals

State’s Share of UAO Projected to Be Eliminated Within a Few Years. No supplemental payments are proposed for CalSTRS in 2022-23 because the state’s share of CalSTRS’ UAO is projected to be eliminated in the next few years. This is a result of the extremely high investment returns (27.2 percent) CalSTRS experienced in 2020-21 and the effect that investment return volatility has on the state’s share of UAO under the funding plan. According to current law, if the state’s share of UAO is eliminated, the state’s required contribution rate to CalSTRS’ Defined Benefit program would drop to the base rate of 2.017 percent of creditable compensation. As such, assuming no new significant actuarial losses occur over the next few years, the state’s Defined Benefit program contribution would decrease from the estimated rate of 8.328 percent in 2022-23 to 2.017 percent in the next few years (around 2024-25). This rate decrease would result in a reduction in required contribution to CalSTRS of more than \$2 billion annually. (Notably, the administration’s multiyear forecast does not currently account for the potential rate drop should the state’s share of UAO in fact be fully eliminated. Rather, the administration’s estimate holds the state’s contribution rate constant at 8.328 percent throughout the multiyear period.)

Counterintuitively, Projected Elimination of State’s UAO Could Make Addressing Future Losses More Challenging. As described above, the state’s required contribution rate is projected to fall to 2.017 percent in a few years, assuming the state’s share of UAO is eliminated in that time frame. However, between then and the end of the funding plan in 2046, CalSTRS may experience lower-than-assumed investment returns in any number of years, resulting in new losses and the accrual of new UAO. Responsibility for paying down that UAO would fall to the state, though under statute, its contribution rate would be only 2.017 percent. Due to the limitations that the funding plan places on CalSTRS’ ability to increase the state’s contribution rate (allowing a maximum increase of 0.5 percent annually), once the state’s rate drops down to the base, it could take many

years to increase the state's rate to required levels to pay down any new UAO that is accrued in future years.

LAO Recommendations on CalSTRS

Allow CalSTRS to Increase the State's Rate by More Than 0.5 Percent Annually.

This change would help ensure CalSTRS could more successfully address future UAO and eliminate the state's portion by 2046, especially if the state's rate drops to 2.017 percent in the next few years.

Specify a Fixed Proportional Division of UAO Between the State and Employers.

The exceedingly complex theoretical calculations employed by CalSTRS result in an ever-changing proportional division of UAO between the state and employers, extra sensitivity to investment returns in terms of the state's contribution rate, and counterintuitive (but less significant) impacts on the employers' contribution rate. CalSTRS' 27.2 percent investment returns in 2020-21 provide an extreme example of the complex and counterintuitive effects of these calculations. By eschewing the current complex UAO calculations and adopting a fixed proportional division of UAO between the state and employers, the Legislature would be able to lessen the volatile effects of investment returns on the state's actuarially required contribution rate, and align impacts of investment returns across the state's and employers' actuarially required contribution rates.

Staff Recommendation: Hold Open

8955 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS

OVERVIEW

CalVet is the state entity responsible for ensuring that California veterans are connected to and have access to a broad range of state and federal benefits. This includes providing the state's aged or disabled veterans with rehabilitative, residential, and medical care and services in a home-like environment through California Veterans Homes; facilitating homeownership through direct low-cost loans; and representing veterans and families with their claims and appeals for benefits before the U.S. Department of Veterans Affairs.

The Governor's budget includes nine budget change proposals related to CalVet. This Subcommittee will hear six of them. The first panel will present a request for additional staffing support for CalVet's Homes, Legal Affairs, Administration and Communications Divisions. The second panel will present CalVet's various IT-related proposals.

ISSUE 2: ADMINISTRATIVE SUPPORT

The Subcommittee will hear CalVet's request for additional staff support for its Homes, Legal Affairs, Administration, and Communications Division.

PANEL

- Beth Muszynski, Assistant Deputy Secretary, Veterans Homes Division, CalVet
- Daniel Muallem, Chief Counsel, Legal Affairs Division, CalVet
- David Gerard, Chief, Facilities and Business Services Division, CalVet
- Lindsey Sin, Deputy Secretary, Communications, CalVet
- Tim Weber, Principal Program Budget Analyst, Department of Finance
- Jacqueline Barocio, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

BACKGROUND

Request. CalVet requests 10 positions and \$1,562,000 (\$1,508,000 General Fund and \$54,000 Farm and Home Building Fund of 1943) in 2022-23, and \$1,505,000 (\$1,454,000 General Fund and \$51,000 Farm and Home Building Fund of 1943) annually thereafter, for administrative support in the Homes, Legal Affairs, Administration, and Communications Divisions.

Background.

Homes Division. CalVet's Veterans Homes of California program offers long-term care to aged and disabled veterans as well as their eligible spouses and domestic partners. The Department operates eight homes across the state (Barstow, Chula Vista, Fresno, Lancaster, Redding, Ventura, West Los Angeles and Yountville) which provide a range of home-like services ranging from independent living programs with minimal support, to supervised assisting living, to 24/7 skilled nursing care. All eight homes are subject to state and federal regulatory licensing and oversight.

Since CalVet's expansion of three Homes to eight since 2009, the Department reports increasing challenges in navigating and maintaining compliance with state and federal clinical requirements. Specifically, dietary services staff are required by regulation, and Registered Dietitians (RDs) play a role in overseeing ensuring resident health and welfare. However, because RDs are highly specialized, recruitment can pose a challenge when the Homes have vacancies. Because RD services are required for operations, CalVet has occasionally struggled to identify temporary backfills.

As part of this budget request, CalVet requests a Clinical Oversight Registered Dietitian. This position would support dietary compliance across all eight Homes, and backfill any temporary RD shortages and carry out responsibilities related to food and nutrition services.

CalVet also requests a Clinical Oversight Standards Compliance Coordinator (SCC), who would provide statewide support for its clinical compliance operations. The SCC will be responsible for conducting internal compliance audits, identify regulatory deficiencies, monitor program metrics, and take related actions to protect the resident health and safety.

Fiscal and Revenue. CalVet requests a position to serve as Chief Financial Officer (CFO) for the Homes. This position will be responsible for oversight of revenue collection statewide for the Department's Homes operations. According to CalVet, the Department manages several revenue streams, generally generated by U.S. Department of Veterans Affairs per diem and Aid and Attendance allowances, member fees, Medicare, Medi-Cal and other health insurance. Each revenue source is subject to its own eligibility criteria, compliance regulations, reporting and records requirements, and billing practices. CalVet notes there is no unified structure within CalVet to manage revenue collected by or on behalf of the Homes.

The CFO will be responsible for general oversight of the Homes' revenue programs. This includes conducting inspections and reviews of financial, business, and accounting practices in headquarters and at the Homes. Within the Homes, this will include reviews of USDVA per diem tracking and collection, invoicing, and adherence to accounting standards.

Legal Division. CalVet's Legal Affairs Division supports all of the Department's legal work, including representing CalVet in litigation. According to CalVet, existing staff resources are insufficient to represent CalVet adequately. The Department notes that in 2019-20, CalVet was sued in 19 separate actions. In 2020-21, CalVet was sued in 11 separate actions. CalVet is currently a defendant in 16 cases currently pending in Superior Courts throughout California. These cases are generally tort, contract, real property, and employment law matters, which the Department notes require representation by its most experienced attorneys.

As part of this budget request, CalVet requests three positions for its Legal Affairs Division: an Attorney IV to represent the Department in litigation, as well as a Legal Analyst and a Senior Legal Typist to provide litigation and administrative support.

Administrative Services Division. CalVet's Office of Procurement and Contracts (OPC) supports all of the Department's programs with the necessary non-information technology (IT) service contracts. Prior to the increase in the number of Homes, CalVet indicates that the contracting unit would process an average of 500 new and renewal contracts and service orders annually. Currently, OPC is exceeding 1,000 requests annually.

In 2018, OPC has also absorbed additional responsibilities, including operating the Small Business (SB) and Disabled Veterans Business Enterprise (DVBE) Advocate (Advocate). Those programs require performing outreach to the SB/DVBE community, and providing technical assistance on how to do business with CalVet. The Advocate is responsible for working with internal staff to locate certified SB/DVBE firms and processing proper paperwork for waivers if no firms are found.

To respond to the increased workload, CalVet requests two Associate Governmental Program Analysts (AGPA) for the Contracts Unit, who will be responsible for processing and developing non-IT service contracts for the eight Homes. Additionally, CalVet requests an upgrade of the AGPA Advocate position to a Staff Services Manager 1, which will continue reaching out to small business community, participate in outreach events, processing waivers, and create all data and reports on behalf of the Department.

Communications. CalVet's Communications Division is comprised of five staff members. According to the Department, this level of staffing is no longer sufficient to meet the graphic design, digital media, Americans with Disabilities Act (ADA) compliance requirement, event management, emergency response, and report production needs of CalVet.

The Department notes as an example that its Communications Division is not sufficiently staffed to produce the annual Homes' Master Plan reports due to the Legislature at the end of each year, which includes a Master Plan for the eight Homes every five years and one report for each Home in the intervening years. These annual reports require significant graphic design and digital layout, which require significant staff resources.

In addition, the Communications Division supports outreach efforts including an annual statewide conference and several regular annual outreach events to transitioning veterans; LGBTQ veterans; and women and minority veterans. In this area, the Communications Division produces media advisories, conducts stakeholder outreach, supports social media operations, and provides graphic design and printing. CalVet notes that due to increased workloads and lack of sufficient staff, the Department had to contract out for the CalVet Resource Book, which is normally completed by the Communications Division.

CalVet requests an additional Graphic Designer who will accommodate division requests for graphic art/design/video/branding that are otherwise being contracted out, such as the biennial CalVet Resource Book. CalVet notes that the position would provide sufficient staffing to accommodate the development and publication of required annual reports, without incurring significant overtime.

STAFF COMMENTS

The Subcommittee may wish to ask the following questions:

1. Can CalVet describe the types of regulatory compliance challenges at the Veterans Homes and how the additional resources would be used to improve resident care?
2. What factors are leading to an increase in litigation involving CalVet?
3. How will the additional resources improve outreach and communications to veterans?

Staff Recommendation: Hold Open

ISSUE 3: INFORMATION TECHNOLOGY-RELATED PROPOSALS

The Subcommittee will hear a presentation on CalVet's five IT-related proposals.

PANEL

- Isaiah Mall, Chief Information Officer, CalVet
- Tim Weber, Principal Program Budget Analyst, Department of Finance
- Jacqueline Barocio, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

BACKGROUND

The Governor's Budget includes five IT-related proposals for CalVet, outlined below:

BCP 1: CalVet Electronic Health Record Project

CalVet requests a one-time augmentation of \$433,000 General Fund in 2022-23 for the third year of implementation of a new long term care electronic health record system (EHR) in the Veterans Homes of California and the Department's headquarters.

CalVet's long term care Homes are transitioning to updated EHR technology. Most long-term care facilities today use EHRs to complete and transmit required data to federally required repositories.

The Department began modernizing its EHR in 2016, working with the California Department of Technology (CDT) to submit a proposal for the CalVet Electronic Health Record (CEHR) system. The 2020 Budget Act included a one-time augmentation of \$1,195,000 General Fund for the first year of the CEHR Project. The 2021 Budget Act provided an additional one-time augmentation of \$10 million General Fund for the second year of implementation. CEHR is now active in six of the eight Veterans Homes. Of note, because CalVet encumbered the full budget authority from the approved 2021 Budget, only an additional \$433,000 is needed in 2022-23 to complete Phase 3, which would implement HER at the two remaining homes in Redding and Fresno.

BCP 2: CalVet Timekeeping Tool

CalVet requests \$120,000 (\$116,000 General Fund and \$4,000 Farm & Home Building Fund of 1943) in 2022-23 and \$270,000 (\$262,000 General Fund and \$8,000 Farm & Home Building Fund of 1943) annually thereafter for planning, procurement, implementation, and ongoing maintenance of CalVet timekeeping tool. This tool will replace the current paper process and will be used by all employees in the Veterans Homes of California, district offices, cemeteries, and headquarters. This request follows a 2019 Compliance Review report issued by the State Personnel Board (SPB), which found CalVet to be in violation of a timekeeping documentation process. Additionally,

CalVet is currently going through another SPB audit and in review of this audit, CalVet will be in violation in the timekeeping documentation process, due to the inability to conduct a second monthly in-house leave usage audit required by the California Department of Human Resources policy and California regulations regarding accurate and timely leave accounting.

BCP 3: Health Informatics Support

CalVet requests 4 positions and \$657,000 General Fund in 2022-23, and \$635,000 General Fund annually thereafter, to address the staffing needs of its Information Services Division (ISD). Two positions are for the CalVet Health Informatics Program unit (also known as Health Informatics) and two positions are for the Application & Development Services (ADS) unit. According to the Department, the positions are necessary to provide support for CalVet infrastructure, applications, websites, SharePoint sites, data analytics, healthcare system management, and maintenance of various environments.

BCP 4: Information Services Division Information Technology Refresh

CalVet requests \$1,356,000 ongoing General Fund for information technology refresh. Refresh generally includes replacing current desktop computing devices (computers, printers, monitors, etc.); replacing core network infrastructure; and replacing medical IT equipment.

CalVet provides the table below outlining the number of devices by device type as well as the amount needed to refresh annually. CalVet notes that it needs a total of \$2.1 million annually; however, in 2007-08, CalVet received \$715,000 in annual refresh funding, representing 29 percent of the amount needed annually. Therefore, CalVet is requesting \$1.4 million in additional funds per year to address this hardware refresh deficiency.

Device Type	Quantity	Refresh Cycle (Years)	Total Portfolio Value	Amount Needed for Refresh (Annually)
Computer	2215	4	\$1,552,417	\$310,483.40
Computer Peripheral	744	1	\$156,021	\$52,007.00
Desk Phone	2038	5	\$798,394	\$79,839.40
Display Hardware	3436	5	\$634,875	\$126,975.00
Laptop	318	5	\$380,961	\$76,192.20
Pharmacy Dispenser	20	7	\$3,306,640	\$330,664.00
Mobile Phone	549	3	\$159,664	\$53,221.33
Multifunction Printer	363	5	\$964,415	\$192,883.00
Network Appliance	305	7	\$1,185,408	\$169,344.00
Network Firewall	9	5	\$196,787	\$39,357.40
Printer	503	5	\$300,671	\$60,134.20
Scanner	172	5	\$101,792	\$20,358.40
Server	29	5	\$459,989	\$91,997.80
Storage Device	4	5	\$344,573	\$68,914.60
Tablets	466	4	\$757,468	\$189,367.00
UPS	129	5	\$313,310	\$62,662.00
Wireless Access Point	1675	7	\$1,028,348	\$146,906.86
TOTAL			\$12,641,733	\$2,071,307.59

BCP 5: Information Technology Security Operations

CalVet requests 2 positions and \$365,000 (\$354,000 General Fund and \$11,000 Farm & Home Building Fund of 1943) in 2022-23, and \$354,000 (\$343,000 General Fund and \$11,000 Farm & Home Building Fund of 1943) annually thereafter, to improve the information technology security operations. The requested resources will fund overall information security program, including implementing new security solutions and mitigating security risks and incidents. CalVet notes that it does not have any full-time staff dedicated to technical security operations activities.

STAFF COMMENTS

The Committee may wish to ask the following questions:

1. When is the anticipated completion date of the CalVet Electronic Health Records Project?
2. In addition to the timekeeping tool, is CalVet taking any additional steps to address the timekeeping documentation violations found in the State Personnel Board audit?

Staff Recommendation: Hold Open

7501 CALIFORNIA DEPARTMENT OF HUMAN RESOURCES

OVERVIEW

The California Department of Human Resources (CalHR) is responsible for managing the state's personnel functions and represents California in all matters concerning state employer-employee relations. CalHR is responsible for issues related to recruitment, selection, salaries, benefits, and position classification, as well as provides a variety of training and consultation services to state departments and local agencies.

The Governor's budget requests significant investments and staffing augmentations for CalHR, which would implement proposals to make the state of California a better employer. Among these proposals is the "California Leads as an Employer" initiative, a set of recommendations issued by a task force created by the Governor to improve diversity, equity and inclusion in state civil service.

In the first panel, the Subcommittee will receive an overview of the "California Leads as an Employer" proposal. The second panel will cover other CalHR staffing augmentation requests and other proposals.

ISSUE 4: CALIFORNIA LEADS AS AN EMPLOYER

This Subcommittee will hear CalHR's "California Leads as an Employer" proposal.

PANEL

- Jodi LeFebre, Legislative Coordinator, CalHR
- Stephanie Cochran, Legislative Consultant, CalHR
- Ted Ryan, Staff Finance Budget Analyst, Department of Finance
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

BACKGROUND

Request. The Department of Human Resources (CalHR) is requesting 43.0 permanent positions and \$7,614,000 (\$6,327,000 General Fund, \$1,037,000 Reimbursement, and \$250,000 other funds) for fiscal year 2022-23, and \$6,761,000 (\$5,536,000 General Fund, \$986,000 Reimbursement, and \$239,000 other funds) for 2023-2024 and ongoing. This request would fund the recommendations of the "California Leads as an Employer" taskforce.

Breakdown of the funding for this proposal is outlined below.

Fund Summary

Fund Source - State Operations						
0001 - General Fund	0	6,327	5,536	5,536	5,536	5,536
0821 - Flexelect Benefit Fund	0	59	56	56	56	56
0915 - Deferred Compensation Plan Fund	0	7	7	7	7	7
0995 - Reimbursements	0	1,037	986	986	986	986
9740 - Central Service Cost Recovery Fund	0	184	176	176	176	176
Total State Operations Expenditures	\$0	\$7,614	\$6,761	\$6,761	\$6,761	\$6,761
Total All Funds	\$0	\$7,614	\$6,761	\$6,761	\$6,761	\$6,761

Governor's Task Force. In September 2019, the Governor convened a forum of state Secretaries, Undersecretaries, Department Directors, and Chief Deputy Directors to discuss potential ways to create a more inclusive, respectful, and equitable workplace. Forum attendees volunteered to participate in four task forces addressing the following topics: Sexual Harassment and Discrimination Prevention and Response, Diversity and Inclusion, Public Safety Diversity, and Racial and Gender Pay Equity. These task forces were overseen by the Government Operations Agency with assistance from CalHR, the State Personnel Board, and Department of Finance. Final recommendations of the task forces were presented to the Governor's Office in July 2021. These recommendations include various proposals on how the state should recruit, onboard, develop, manage, and retains talent. According to CalHR, this budget change proposal represents the first request of a multi-year approach to begin implementing those California Leads as an Employer recommendations.

Proposal. This budget proposal has eight components, each detailed below: (1) Anonymous hiring; (2) CalCareers; (3) Key Data Initiative; (4) Learning Management System and Data Sharing Projects; (5) Equal Employment Opportunity Academy; (6) Statewide Apprenticeship Program; (7) Statewide Engagement Program; and (8) Diversity, Equity, and Inclusion Strategic Plan.

NOTE:

CalCareers is the public facing online portal used by job applicants to search and apply for state employment. CalCareers is used by all state departments to interact with potential and current state employees for recruitment and hiring.

The Examination and Certification Online System (ECOS) is the business side of CalCareers that currently serves as the state's certification system. ECOS is undergoing development and implementation, and upon completion will replace various legacy software systems to provide a central platform to process certification, online job application, examination and reporting.

Component 1: Anonymous Hiring

CalHR requests 3 positions and \$430,000 for this component.

Anonymous hiring is a technique that redacts the personal information about the candidate from a hiring manager or recruiter that can lead to implicit bias negatively impacting the candidate. Demographic information on a candidate's job application or resumé may produce implicit bias from the application reviewers, which has an effect on the merit of the selection process.

CalHR lists the following demographic factors as potential source of implicit bias:

- Name
- Address
- Dates and Educational Milestones
- Hobbies and Interests
- Volunteer Work
- Name of College

Currently, in CalCareers, candidates insert information in predesignated fields and upload supplemental documents such as resumes, statement of qualifications, educational degrees and certificates of completion. CalHR notes that ECOS does not have the built-in features that can address anonymous hiring needs, such as the option to redact certain information from uploaded documents.

CalHR requests one Software Developer, one ECOS Business Development Specialist and one Policy Analyst that will collectively (1) design, develop, test and maintain an anonymous hiring process in ECOS; (2) train and support departmental personnel units with the new features; (3) develop policies to assist with navigation of application and hiring processes.

Component 2: CalCareers

CalHR requests 3 positions and \$476,000 for this component.

The Department proposes using these resources to make improvements to CalCareers in areas of user-friendliness, security, and accessibility. Examples include making CalCareers mobile friendly, automated matching of an applicant's skills and education to available jobs, and providing hiring managers with additional tools to identify most suited candidates.

CalHR requests two Database Administrators to perform work in data modeling and report generation (e.g. creating dashboards showing time-to hire per successful candidate broken down by Department); a Software Developer to perform programming work and systems enhancement; one Associate Personnel Analyst to create business requirements by gathering feedback through meetings with stakeholders.

Component 3: Key Data Initiative

CalHR requests 7 positions and \$1,224,000 for this component.

The Key Data Initiative (KDI) focuses on data collection and analysis to enable CalHR to make data-driven decisions. CalHR notes that KDI will immediately focus gender and racial pay equity analysis across all classifications and departments. In this process CalHR will collect, report and analyze detailed state employee data including race/ethnicity, gender identity, sexual orientation, age, and disability. CalHR explains that this information is scattered across many sources, several of them on outdated legacy systems that are not suitable for collection and data analysis.

CalHR requests three positions for data analysis, and four positions for pay equity analysis.

Component 4: Learning Management System and Data Sharing Projects

CalHR requests 3 positions and \$877,000 for this component.

State employees receive a mix of mandatory and optional trainings through their employer departments. For example, mandatory training includes Sexual Harrassment and Prevention training. CalHR notes that there is currently no avenue for departments to share their employee training information, and thus no way to generate and report statewide training data.

The proposed Learning Management System and Data Sharing project would create agency-level and statewide reports on the training data collected from departments. In practice, this would enable departments to track compliance with mandated trainings, as well as make recommendations on optional trainings such as Reducing Implicit Bias training.

CalHR requests one Programmer/Developer to develop and test the project and one Data Analyst to perform data collection and reporting.

Component 5: Equal Employment Opportunity Academy

CalHR requests 4 positions and \$617,000 for this component.

Generally, each state department has a dedicated Equal Employment Opportunity (EEO) professional whose responsibilities is to maintain a diverse, inclusive, and respectful workplace. CalHR proposes to re-establish a statewide EEO academy that will be placed within CalHR's Office of Civil Rights. The Academy would establish standards and provide necessary training to all state EEO professionals and other relevant disciplines, including training on preventing and addressing discrimination and harassment.

CalHR requests four Staff Services Manager Specialists to develop and maintain courses and resources for new and current EEO professionals across all state departments.

Component 6: Statewide Apprenticeship Program

California currently has very limited apprenticeships available that are targeted to state service jobs—generally limited to trades, like mechanics. Under the proposal, CalHR would work to develop more varied apprenticeship programs in an effort to establish a pipeline for job applicants who historically have been underrepresented in certain job classifications.

CalHR requests 10 positions and \$1,484,000 for this component, which will provide staff augmentations in three divisions, as outlined below.

Workforce Development Division (4 positions)

CalHR plans to use additional staffing to address statewide workforce planning and succession management challenges, and develop program infrastructure to support statewide non-traditional civil service apprenticeship programs.

Selection Division: ECOS Consultation and Support (3 positions)

CalHR proposes to make enhancements to ECOS to track applicants, collect data, and generate reports to support statewide non-traditional civil service apprenticeship programs.

Office of Civil Rights (3 positions)

CalHR proposes using additional resources to develop programs to train and support upward mobility coordinators statewide as well as aligning statewide civil rights and statewide workforce development efforts.

Component 7: Statewide Engagement Program

CalHR requests 3 positions and \$487,000 for this component.

This proposal is focused on developing employee engagement. The resources would be used for contracts to establish a cloud-based virtual conference platform that will be used to support half-days, themed training throughout the year as well as an annual conference. This includes providing a platform for employee wellness, employee recognition, and highlighting employee assistance programs. As an example, the statewide engagement initiative will provide information on wellness programs, dental, vision, flexible spending accounts, COBRA, life insurance, long-term disability insurance, travel, retirement services.

Component 8: Diversity, Equity and Inclusion (DEI) Strategic Plan

CalHR requests 5 positions and \$1,307,000 for this component.

CalHR notes that it does not have enough staff resources to implement the additional recommendations proposed by the California Leads as an Employer task force. The Department proposes to use the requested resources to create a DEI strategic plan, and hire an internal team in addition to a contractor to implement DEI-related recommendations. CalHR estimates this to be a long-term project that will take approximately 12 months to develop and at least another 12 months to fully implement.

LAO COMMENTS

Approve Proposal. We raise no objections to the merits of the proposal and think that it is a reasonable first step in identifying and addressing diversity, equity, and inclusion issues in the state workforce. However, the administration's work in developing this diversity, equity, and inclusion policy is in its infancy. As such, as we discuss below, we think that legislative oversight of the process as CalHR more fully develops the state's specific policies in this area will be very important.

Provide Legislative Oversight of Process. This proposal, in conjunction with four other proposals to augment CalHR's budget, constitute a significant increase in CalHR's resources and staffing levels in 2022-23. Relative to 2021-22, these proposals would increase CalHR's appropriation authority by 15 percent and its position authority by 22 percent—a large and fast increase in staffing. While we understand the proposal is informed by the findings of the California Leads as an Employer taskforce, because the full taskforce report is not publicly available, assessing how the administration decided to pursue certain policy recommendations from the report over others is difficult. Because the proposal is to fund the initial stages of what ultimately would be a more developed initiative, we anticipate that the administration will submit additional proposals related to diversity, equity, and inclusion in the state workforce over the next several years. The policies that will be developed in the future as a result of this proposal likely will have significant implications for the state as an employer. As such, we think it is important that the Legislature actively oversee the development of this policy going forward.

Due to the iterative nature of this initiative—and its current early stage of development—going forward, we recommend that the Legislature require regular, reporting on its progress. Specifically, we recommend that the Legislature require the administration to report to the Legislature on or before January 10, 2023 (1) its progress in filling the positions requested for 2022-23; (2) its progress in developing a diversity, equity, and inclusion strategy; (3) any changes it would recommend to existing legislative reporting requirements of CalHR regarding the demographic makeup of the state workforce in light of new data made available from the implementation of this proposal; (4) any challenges it experiences in the implementation of the initial stages of the initiative; and (5) what the administration sees as its next steps in its overarching plan to make the state a better

employer. Going forward, we recommend that the Legislature continue to require the administration to provide regular reporting on the progress of this initiative.

STAFF COMMENTS

The Subcommittee may wish to ask the following questions:

1. How will CalHR measure the success of the California Leads as Employer initiative? What metrics will be used to determine program effectiveness and how will CalHR identify areas for improvements?
2. How will CalHR report the short and long-term outcomes of the initiative?
3. Can CalHR provide additional details about the statewide apprenticeship program? Will CalHR focus on specific trades? How does this effort expand current apprenticeship programs managed by the state?
4. What are other components of the Diversity, Equity, and Inclusion strategic plan have been recommended by the task force?

Staff Recommendation: Hold Open

ISSUE 5: STAFFING AUGMENTATION AND OTHER CALHR PROPOSALS

The Subcommittee will hear three other proposals for CalHR included in the Governor's budget.

PANEL

- Jodi LeFebre, Legislative Coordinator, CalHR
- Stephanie Cochran, Legislative Consultant, CalHR
- Ted Ryan, Staff Finance Budget Analyst, Department of Finance
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

BACKGROUND

The Governor's budget includes other proposals for CalHR, such as conducting a review of learning and development (L&D) systems, various staff augmentations, and changes to CalHR's funding structures.

BCP 1: Statewide Learning and Development Assessment

CalHR requests \$750,000 in General Fund for consulting services to conduct a system review and analysis of all learning and development (L&D) systems and make recommendations for a statewide L&D strategy.

Currently, each state departments and agencies maintain and conduct their own training programs for managers, leadership staff, as well as custom trainings for department-specific needs. As a result, departments have their own internal programs or procure vendor contracts to provide trainings.

CalHR notes that such decentralized training structure has resulted in multiple departments using internal or vendor resources to offer similar trainings, often with varied goals, curriculum or disparate approaches to assessing whether trainings are effective. Through this proposal, CalHR will contract with a consulting service to inventory what L&D programs are offered by each department, their current associated costs, assess what is needed to reduce skill gaps, and observe where duplicative efforts may exist. The consultant would also assess best practices and delivery platforms used in the public and private sector. This assessment hopes to provide recommendations for a statewide training strategy for state employees.

BCP 2: Department Workload

CalHR requests 22.5 positions and \$6,334,000 (\$3,905,000 General Fund and \$2,429,000 other funds) for fiscal year 2022-23, and \$4,777,000 (\$1,809,000 General Fund and \$2,968,000 other funds) in 2023-24 and ongoing. According to CalHR, these resources are to address: 1) staffing issues in the Administrative Services and Information

Technology Divisions; 2) realignment of the Legal Division funding and obtain a single legal management system; 3) create a new Dependent Reverification Unit; and 4) increase funding for the Savings Plus Program.

Breakdown of the funding for the proposal is provided below:

Fund Summary

Fund Source - State Operations						
0001 - General Fund	0	3,905	1,809	1,809	1,809	1,809
0821 - Flexelect Benefit Fund	0	38	32	32	32	32
0915 - Deferred Compensation Plan Fund	0	1,061	1,865	1,865	1,865	1,865
0995 - Reimbursements	0	808	624	624	624	624
9740 - Central Service Cost Recovery Fund	0	522	447	447	447	447
Total State Operations Expenditures	\$0	\$6,334	\$4,777	\$4,777	\$4,777	\$4,777
Total All Funds	\$0	\$6,334	\$4,777	\$4,777	\$4,777	\$4,777

Executive, Administrative Services, and IT Divisions

CalHR is requesting 7 positions and \$1,060,000 for its Executive Office; 9 positions and \$1,189,000 for its Administrative Division, and 2 positions and \$1,526,000 for its IT division.

The resources in the executive office will support the various initiatives included in the Governor's budget that involve CalHR, several of them discussed in Issue 5 (Apprenticeship/Upward Mobility Program; Key Data Initiative; EEO Academy; Removing Implicit Bias from Hiring; Employee Engagement; Diversity, Equity and Inclusion Strategic Plan, as well as the California State Payroll System Project).

The resources in the Administrative Services Division would augment CalHR's accounting office, budget office, and human resources office to meet increased workload.

The resources in the IT Division will be used to hire a vendor to review and remediate documents that have been found non-compliant with California accessibility standards, as well as respond to increase internal demand for IT and technology support.

Legal Division & Legal Accounting and Work Management System

CalHR requests \$917,000 to transition from Reimbursement to General Fund for its Legal Division and \$1,947,000 for a legal accounting and work management system.

CalHR's legal unit is primarily funded by reimbursements for services provided to other state departments. However, CalHR explains that in 2013, its Legal department expanded its support to the Government Operations Agency and the Governor's Office, providing non-reimbursable work (CalHR cites high-level labor and personnel issues, statewide reorganization matters and initiatives as examples). As a result, CalHR requests realignment of its three Legal management positions from reimbursable positions to positions funded by the General Fund.

Additionally, CalHR notes that its Legal team has been using outdated software platforms to create its monthly client invoices, produce management reports, and case tracking. These software platforms include Lexis Nexis Juris System, Sharepoint, Compulaw, TAB Fusion, as well as Microsoft Access and Excel. CalHR explains that these aging standalone systems do not interface effectively, and are creating challenges in billing accuracy, managing and tracking workload, and obtaining the appropriate software technical support.

The requested resources would implement a new legal management system that combines all of the functionalities required by the CalHR Legal division.

Dependent Reverification Unit

CalHR requests 5 positions and \$671,000 in Reimbursement funding to conduct Dependent Eligibility Reverification (DRV).

DRV is a process to verify the eligibility of employee dependents for continued enrollment in state-sponsored health benefits. CalHR inherited the responsibility to conduct DRV through Assembly Bill 138 (Chapter 78, Statutes of 2021). The DRV cycle is set as a three-year verification period that checks dependents' eligibility for health, dental, and vision benefits.

Currently, CalPERS provides the online system for all HR offices to maintain the health enrollment of eligible dependents. However, the system does not include dental or vision: these reverifications are completed manually by the HR offices which are noted to often overlook these requirements or fail to complete the verifications timely. In addition, there is no mechanism to automatically remove ineligible dependents from dental or vision benefits.

The requested resources will go towards creating a DRV unit dedicated to providing the mandated oversight for the DRV process. CalHR outlines the following planned activities: creating templates to assist departmental personnel offices in communicating DRV requirements to employees, generating tracking mechanisms to assist departmental HR offices in following up with employees who have not removed the ineligible dependents timely, providing ongoing training, consultation, oversight of departmental HR office compliance, and creating guidance resources.

Savings Plus Program

CalHR requests 0.5 position and \$747,000 in Deferred Compensation Fund to cover anticipated increase in costs for the Third Party Administrator (TPA) of the Savings Plus Program.

CalHR's Savings Plus Program administers a voluntary retirement program that allows state employees to supplement retirement benefits through tax-deferred and Roth payroll contributions. Currently, a TPA administers the Savings Plus Program. The TPA contract

is based on a pricing structure that is dependent upon the number of participants in Savings Plus. CalHR anticipates additional increase in TPA costs based upon an annual participant growth rate assumption of approximately 4.61 percent in 2021-22 and 5.16 percent in 2022-23. Additionally, CalHR is requesting to reclassify and increase the time-base of the current halftime Office Technician to a full-time Staff Services Analyst. The Program has a need for additional analytical resources due to the increase in complexity of the work and demand in workload.

BCP 3: Funding Model Realignment

This proposal requests that a portion of CalHR funding structure be converted from reimbursement authority to General Fund. Specifically, CalHR is requesting to substitute \$3,012,000 Reimbursement for \$3,012,000 General Fund in 2022-23 and ongoing.

Currently, CalHR charges other state departments for services, such as providing exam guidance of legal advice about HR matters and labor issues. CalHR notes that other state departments are hesitant to request guidance and assistance because they are required to pay for it. By substituting the funding structure, the following services will be accessible by all state departments:

- Exams and Testing for all exams/tests that are not department specific
- Examination and Certification Online System
- Discrimination Complaint Tracking System

STAFF COMMENTS

The Subcommittee may wish to ask the following questions:

1. When does CalHR estimate completing the statewide Learning and Development assessment, should the resources for a vendor be granted?
2. How will CalHR engage with state departments to encourage them to use services that would no longer require reimbursements?

Staff Recommendation: Hold Open

1703 CALIFORNIA PRIVACY PROTECTION AGENCY

OVERVIEW

The California Privacy Protection Agency (CPPA), established through a ballot proposition in 2020, has jurisdiction to implement and enforce the California Consumer Privacy Act of 2018, which is aimed at protecting Californians' personal information and the promotion of public awareness and understanding of the risks, rules, and rights related to the collection, use, sale, and disclosure of personal information, including the rights of minors. The agency is governed by a five-member board, including the chairperson. The chairperson and one member of the board are appointed by the Governor. The Attorney General, the Senate Rules Committee, and the Speaker of the Assembly each appoint one member. These appointments must be made from among Californians with expertise in the areas of privacy, technology, and consumer rights.

ISSUE 6: UPDATE ON CPPA AND PROPOSAL FOR IMPLEMENTATION AND ENFORCEMENT

The Subcommittee will hear an update on the startup efforts to create the California Privacy Protection Agency (CPPA) and its request for initial staff resources.

PANEL

- Ashkan Soltani, Executive Director, California Privacy Protection Agency
- Andrew Hoang, Finance Budget Analyst, Department of Finance
- Kimberly Harbison, Principal Program Budget Analyst, Department of Finance
- Brian Metzker, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

California Privacy Rights Act. In November of 2020, voters approved Proposition 24, the California Privacy Rights Act (CPRA). Among other items, CPRA made changes to data privacy laws, which businesses will be required to meet to comply with state consumer data privacy requirements. CPRA also provides new consumer privacy rights, such as limitation on sharing personal data, correction of personal data, and limitation on the use of sensitive personal data.

CPRA also created a new state agency, the California Privacy Protection Agency (CPPA), tasked with overseeing and enforcing the state's consumer privacy laws. The CPPA is governed by a five-member board, which was inaugurated in March 2021, and overseen by an Executive Director.

The CPPA's responsibilities include engaging in rulemaking, investigating violations, assessing penalties, cooperating with other jurisdictions, and promoting public awareness

including providing guidance to consumers and businesses on complex matters relating to online privacy, cybersecurity, and automated decision making.

Of note, the CPPA is required to adopt final regulations as mandated by CPRA by July 1, 2022, with enforcement of those regulations to begin July 1, 2023.

Establishment of the CPPA. To implement the law, Proposition 24 directly appropriated from the General Fund \$5 million for 2020-21 and \$10 million per fiscal year thereafter, for expenditure to support the operations of the CPPA. To startup the new agency, CPPA has entered in interagency agreements with the Department of General Services and the Department of Consumer Affairs to provide temporary services for human resources, finance and budget, and information technology services. The Business, Consumer Services and Housing Agency also provides extensive logistical support. In September of 2021, the Office of the Attorney General began providing legal services and limited administrative services on a fee-for-service basis.

Proposal for Initial Staffing. As a startup agency, the CPPA currently has limited staff resources, with 7 administratively established positions to date. CPPA it thus requesting 34 positions for fiscal year 2022-23 and ongoing to provide the initial staff resources to allow CPPA to fulfill its statutory responsibilities. Those positions would be funded by the existing annual appropriation of \$10 million General Fund provided through Proposition 24.

CPPA proposes to structure its initial operation in six divisions, as outlined below:

1. Executive Function (6 positions)

The executive office will include the Executive Director and specialized staff that will oversee day-to-day operations and support research, rulemaking, and auditing activities of the CPPA. The executive office will seek guidance from and provide support to its Board for the policy direction and enforcement resolution.

2. Legal Division (9 positions)

The CPPA's Legal Division will include General Counsel, supporting attorneys, and legal staff. The General Counsel will act as the Agency's principal legal advisor and work with the Board and the Executive Director in the formulation, administration, and implementation of departmental policies and procedures. The General Counsel will serve as the primary contact on all legal issues before the Governor's Office, the Legislature, the Office of the Attorney General, control agencies, and others.

3. Enforcement Division (1 position)

The Enforcement Division will carry the Agency's responsibility for handling the administrative actions associated with enforcing the provisions of California's consumer privacy laws that fall under the jurisdiction of the CPPA.

4. Policy / Legislative Affairs Division (3 positions)

The Policy and Legislative Affairs Division will be responsible for providing legislative and policy analysis and liaising with the Legislature on policy matters, including responding to legislative requests.

5. Public Affairs Division (7 positions)

The Public Affairs Division will be responsible for developing the CPPA's public engagement and awareness plans, communications and media strategies, internal and external publications, and educational efforts.. The Division's primary responsibilities will include media relations, communications, web services, social media, and development of publications and educational materials on consumer privacy, data security, automated decision-making, and artificial intelligence.

6. Administrative Division (8 positions)

The Administrative Division will provide services to facilitate day-to-day operations and administrative oversight. The Administration Division will include three key functions: Information Services, Human Resources, and Financial Management.

STAFF COMMENTS

The Subcommittee may wish to ask the following questions:

1. Can CPPA provide its anticipated timeline to conduct recruitment and hiring of its inaugural staff?
2. Does CPPA have a plan to transition services from interagency agreements to in-house?
3. Does CPPA anticipate its team to continue working in a virtual environment through the foreseeable future?

Staff Recommendation: Hold Open

0855 CALIFORNIA GAMBLING CONTROL COMMISSION

OVERVIEW

The California Gambling Control Commission (CGCC) has regulatory authority over gambling establishments, third-party providers of proposition player services, and certain aspects of Tribal casinos, pursuant to its authority under state law and Tribal-State Gaming Compacts. The Commission also has jurisdiction over gaming policies, regulations, criteria, and standards.

ISSUE 7: SUPPORT STAFFING

The Subcommittee will hear the Commission's request for additional staffing resources.

PANEL

- Stacey Luna Baxter, Executive Director, California Gambling Control Commission
- Adrianna Alcala-Beshara, Deputy Director Legislative and Regulatory Affairs, California Gambling Control Commission
- Kevin Clark, Finance Budget Analyst, Department of Finance
- Mark Jimenez, Principal Program Budget Analyst, Department of Finance
- Anita Lee, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

Proposal. The California Gambling Control Commission requests \$494,000 (\$217,000 Indian Gaming Special Distribution Fund and \$277,000 Gambling Control Fund) and 4.0 positions in 2022-23, and \$486,000 in 2023-24 and ongoing to support implementation of recommendations by the California State Auditor and to address an increase in workload within the Licensing, Information Technology and Support, and Legislative and Regulatory Affairs Units.

As part of this proposal, the CGCC specifically requests:

- 1 Information Technology specialist to improve IT operations and cybersecurity
- 1 Staff Management Auditor to perform review work of the Commission's licensing fees, workload database, and policies and procedures
- 1 Staff Services Manager for the Licensing Division to provide oversight and management of the Commission's daily licensing operations.
- 1 Staff Services Manager for the Legislative and Regulatory Affairs Division to support regulatory work and statutory analysis.

State Auditor Recommendations. The Gambling Control Act and state regulations provide the California Department of Justice's Bureau of Gambling Control and the

California Gambling Control Commission distinct responsibilities for a range of licensing and enforcement activities related to gaming businesses in California. Generally, the bureau is responsible for performing background investigations of applicants seeking licenses and for enforcing gaming laws and regulations. The commission has a different role, in which it makes licensing decisions in consideration of the bureau's recommendations and, when applicable, issues disciplinary actions against licensees, such as license revocation.

In May of 2019, the State Auditor conducted an audit of both the bureau and the commission. Although most of the Auditor's recommendations focused on the Bureau, the Auditor provided some recommendations for the commission as well.

Among its recommendations, the Auditor suggested that the commission implement procedures for tracking the number of license applications it receives from the bureau each fiscal year; conduct cost analyses to ensure they align with actual cost of oversight; and revise inconsistent or conflicting regulations

STAFF COMMENTS

The Subcommittee may wish to ask for a status update on implementing the State Auditor's recommendations, and how those resources would be used to facilitate improvements at the commission.

Staff Recommendation: Hold Open
