

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, MARCH 26, 2019
1:30 P.M. - STATE CAPITOL, ROOM 447

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ITEMS FOR VOTE-ONLY**0845 DEPARTMENT OF INSURANCE**

VOTE-ONLY ISSUE 1: LONG-TERM CARE INSURANCE DISCLOSURE REQUIREMENT

The Department of Insurance proposes new resources to implement recent legislations.

BACKGROUND

The California Department of Insurance is requesting an increase in Special Fund expenditure authority of \$756,000 in Fiscal Year (FY) 2019-20 and \$725,000 in FY 2020-21 and ongoing to support three (3.0) positions to comply with the mandates of AB 2395 (Calderon, Chapter 651, Statutes of 2018).

AB 2395 requires all insurers with long-term care insurance contracts covering more than 10,000 lives to file annual disclosure reports with the Insurance Commissioner and the Financial Surveillance Branch - Office of Principle-Based Reserving, starting with the valuation year 2019 reports to be submitted April 1, 2020. These reports must comply with the long-term care requirements that were developed and currently contained in Actuarial Guideline (AG) 51 as well as the requirements that will be contained in any successor to AG51 when these requirements are incorporated into the National Association of Insurance Commissioners' (NAIC) *Valuation Manual*.

The proposed disclosure requirement is in response to the liquidation of a large long-term care insurer in 2017. That failed insurer had accrued \$4 billion in liabilities with only \$700 million in assets, resulting in policyholders from other insurers to be assessed to cover the lost claims. This disclosure requirement is intended to prevent such a failure in the future.

STAFF COMMENTS

The proposed resources are in line with the expected cost of the bill estimated by the Senate Appropriations committee.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 2: WORKER'S COMPENSATION INSURANCE FRAUD

The Subcommittee will consider augmenting worker's compensation fraud efforts with special fund.

BACKGROUND

The California Department of Insurance is requesting a Special Fund expenditure authority increase of \$2,805,000 for Local Assistance in Fiscal Year 2019-20 and ongoing, to fund workers' compensation fraud investigation and prosecution workload increases. This increase is consistent with the increased assessment approved by the Governor-appointed Fraud Assessment Commission (FAC) on September 5, 2018.

Pursuant to California Insurance Code Section 1872.83, the Workers' Compensation Fraud Program) was established through the passage of Senate Bill 1218 (Chapter 116, Statutes of 1991) and made workers' compensation fraud a felony, required insurers to report suspected fraud, and established a mechanism for funding enforcement and prosecution activities.

This same law established the FAC. The FAC is made up of seven (7) Commission members appointed by the Governor to serve a four-year term. The FAC meets annually to determine the level of funding necessary to support investigation and prosecution of workers' compensation insurance fund. The funding comes from insured or self-insured California employers. The FAC met on September 5, 2018, and approved a total assessment amount of \$72,138,372, which is a 7.47 percent increase to the Workers' Compensation Assessment effective for FY 2019-20 and ongoing.

The Department of Insurance estimates that the district attorney investigations and prosecutions has resulted in identifying over \$1 billion in "chargeable fraud" in 2018-19. In 2017-18, this program resulted in the arrest of 724 suspects and 617 convictions of fraud.

STAFF COMMENTS

The Subcommittee has approved similar increases to this activity in the last three fiscal years

Staff Recommendation: Approve as Budgeted

3100 EXPOSITION PARK

VOTE-ONLY ISSUE 3: PARK SECURITY INCREASE

The Governor's budget includes a proposal to increase funding for Exposition Park security.

BACKGROUND

The Exposition Park requests \$2,075,000 General Fund ongoing to enter into an inter-agency contract with the CHP to provide around-the-clock public safety support and management at Exposition Park. The new plan would improve the operations and staff management to more efficiently address the daily public safety needs of Exposition Park. Public safety is part of the park's mission and is a service that is required to be provided to various parties across various lease and operating agreements held with joint powers (State of California, County of Los Angeles, City of Los Angeles), County of Los Angeles, City of Los Angeles, University of Southern California (USC), Los Angeles Football Club, and the Lucas Museum of Narrative Art. B.

Exposition Park has experienced increased notoriety and visibility due to the arrivals of its two newest tenants—Los Angeles Football Club and Lucas Museum of Narrative Art. These two new high-profile tenants have created an increased demand for quality public safety. To help address the growing needs and limit liability, the proposed plan would move towards a combined operational model with CHP management, officers and administrative support along with consolidated team of state museum security officers.

STAFF COMMENTS

This request appears reasonable given the workload articulated in the Budget Change proposal

Staff Recommendation: Approve As Budgeted

VOTE-ONLY ISSUE 4: PARK UTILITIES RATE INCREASE

The Governor's budget includes a proposal to increase funding to cover recent utility rate increase.

BACKGROUND

This proposal requests a baseline budget augmentation to address LADWP utility increases that can no longer be absorbed by the operating budgets of the Science Center, OEPM, and CAAM without negatively impacting the ability of the departments to safely conduct daily operations within Exposition Park. The LADWP electricity rate will increase by another 3.7 percent each year or cumulatively, 18.5 percent by end of the year 2020 and, as such, the Department is submitting this BCP for a baseline budget consideration to address this increase. LADWP Meters: There are a total of 23 active LADWP Meters located throughout Exposition Park that get read and billed monthly. CAAM is solely responsible for one, OEPM is solely responsible for four, and the Science Center is solely responsible for two. The remaining 16 Meters are paid according to a fund split between the Science Center at 78 percent and OEPM at 22 percent.

STAFF COMMENTS

This request appears reasonable given the workload articulated in the Budget Change proposal

Staff Recommendation: Approve As Budgeted

0840 STATE CONTROLLER'S OFFICE**VOTE-ONLY ISSUE 5: IT SYSTEM UPGRADES**

The Subcommittee will consider a proposal for routine IT costs at the Controller's Office.

BACKGROUND

The State Controller's Office (requests \$835,000 [\$687,000 General Fund (GF), and \$148,000 Unclaimed Property Fund (UPF)] in 2019-20, and \$169,000 [\$163,000 GF, and \$6,000 UPF] in 2020-21 and ongoing for the replacement of the Computer Coordinated Universal Retrieval Entry (CCURE) Security System, and 1.0 position for increased workload related to the development of the Personnel and Payroll Services Division (PPSD) Affordable Care Act (ACA) Reporting System.

CCURE Security System Upgrade: The CCURE system provides physical security management at the Controller's Office through a variety of products such as card readers, keypads, biometrics, electromagnetic locks and strikes. The Controller's Office maintains five (5) separate physical locations throughout the state of California, with a solution called the CCURE 800 PACS. As security technology has improved, a CCURE 9000 PACS solution has become available and the CCURE 800 PACS system is no longer going to be supported by the vendor. The Controller's Office is requesting funds to upgrade this new version.

PPSD ACA Reporting System: The 2016-17 BCP, budget authorized the Controller to design, build, and implement a system to create the 1094-C and 1095-C data that is submitted to the IRS on an annual basis. Ongoing maintenance of the web-based solution was expected to be minimal resulting in SCO not requesting an ongoing resource to support the PPSD ACA Reporting system in 2018. However, this proved to be incorrect, as unexpected errors in the 2016 and 2017 1095- C transmissions were detected by the IRS requires that addition of one position to address these errors.

STAFF COMMENTS

These two small IT projects requests appear routine reflection of the evolution of existing technology at the Controller's Office.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 6: LEASING COST INCREASES

The Controller's Office requests \$455,000 General Fund (GF) in 2019-20 and ongoing to adjust the department budget to reflect increasing office leasing costs.

BACKGROUND

The Controller's Office requests \$455,000 General Fund (GF) in 2019-20 and ongoing to adjust the department budget to reflect increasing office leasing costs.

Usually departmental leasing increases would be reflected in the baseline budget adjustments for a department, but that did not occur for the Controller's Office. Chapter 12 of the 2009-10 Fourth Extraordinary Session adds Section 11019.10 to the Government Code, which provides that "except as provided in the Budget Act and implementing statutes, no automatic increases shall be provided to the University of California, California State University, the state courts, or to state agency operations, included, but not limited to, annual price increases to state departments and agencies."

STAFF COMMENTS

This proposed increase reflects an increase in the cost of doing business by the Controller's Office. Not making this adjustment is essentially making an unallocated cut to the Controller's Office resources.

Staff Recommendation: Approve as Budgeted

7760 DEPARTMENT OF GENERAL SERVICES

VOTE-ONLY ISSUE 7: STATE ARCHITECT FUND INCREASE

The Subcommittee will consider a proposal to increase expenditure authority for the Division of the State Architect.

BACKGROUND

The Department of General Services, Division of the State Architect (DSA) requests a two-year budget authority increase of \$9.6 million (\$8.1 million Public School Planning, Design, and Construction Review Revolving Fund (Fund 0328) and \$1.5 million Disability Access Account (Fund 0006)) to support future costs to manage the increased public school construction workload.

In 2017-18, the DSA received Structural, Fire/Life Safety and Access Plan Review projects valued at \$9.2 billion in construction cost.

Accord to the Department of General Services, based upon the \$59 billion in local school district bond funds available, and a conservative construction project budget estimate of \$9 billion per year, DSA projects the increased workload will continue for at least the next five years. DSA also projects Personal Services, OE&E, and Distributed Administration costs associated with Structural and Fire/Life Safety Plan Review, paid pursuant to Fund 0328, will exceed the current budget authority of \$54.8 million.

STAFF COMMENTS

The Department provided committee staff with detailed justification for the proposed spending authority increase.

Staff Recommendation: Approve as Budgeted

8885 COMMISSION ON STATE MANDATES

VOTE-ONLY ISSUE 8: ADMINISTRATIVE STAFF INCREASE

The Commission on State Mandates requests a small increase to administrative staff.

BACKGROUND

The Commission on State Mandates (Commission) requests an ongoing augmentation of \$53,000 and a one-half position to its baseline budget in order to hire one half-time Associate Governmental Program Analyst (AGPA). The additional staffing will enable the Commission to better comply with statutory, regulatory, and state requirements including the State Administrative Manual (SAM), State Contracting Manual (SCM), and CalHR Manual, and to support a well-functioning and effective state agency to ensure the operational needs of the Commission are met.

STAFF COMMENTS

This proposal seems reasonable given the workload of the Commission.

Staff Recommendation: Approve as Budgeted

0650 OFFICE OF PLANNING AND RESEARCH

VOTE-ONLY ISSUE 9: ADMINISTRATIVE WORKLOAD INCREASES

The Office of Planning and Research has requested funding for administrative workload increases.

BACKGROUND

The Office of Planning and Research (OPR) requests \$334,000 General Fund in 2019-20 and \$329,000 General Fund in 2020-21 and ongoing to establish 3.0 positions to assist with the implementation of the Financial Information System of California (FI\$Cal). The increased level of work and complexity of FI\$Cal related tasks has increased the workload of the entire Administration Unit within OPR.

In July 2018, OPR transitioned to FI\$Cal and now needs more extensive staff to help support complex processes and increased workload. FI\$Cal is a central system where all accounting, budgeting, procurement, and reporting functions are performed within that one system, unlike the previous system, CalSTARS, which was used strictly for accounting purposes. FI\$Cal requires a more proficient staff and a skill set to ensure compliance with control agencies guidelines, rules and regulations. Furthermore, OPR has seen a consistent increase in workload.

STAFF COMMENTS

The proposed increase in resources appears to be in line with the increases in the complexity and scope of workload provided by the Office.

Staff Recommendation: Approve As Budgeted

VOTE-ONLY ISSUE 10: IMPLEMENTATION OF RECENT LEGISLATION

The Budget includes funding to implement two recent enacted pieces of legislation.

BACKGROUND

The Governor's budget includes funding for two bills signed last year.

SB 1072

OPR requests 3.0 positions and \$392,000 General Fund in 2019-20 until 2028-29 to implement SB 1072 (Leyva, Chapter 377, Statutes of 2018). SB 1072 requires SGC to complete the following tasks:

- Develop technical assistance guidelines by July 1, 2020.
- Establish a Regional Climate Collaborative Program to assist under-resourced communities to access statewide public and other grant moneys.

SB 1072 requires SGC to develop technical assistance guidelines by July 1, 2020. The bill also creates the Regional Climate Collaborative Program to assist under-resourced communities with accessing statewide public and other grant moneys. The Regional Climate Collaboratives Program includes establishing criteria for the development of regional collaboratives and a grant program to support established collaboratives pursuant to the program. In FY 2015-16, the Legislature appropriated \$500,000 from the Greenhouse Gas Reduction Fund (GGRF) to SGC to establish a pilot program for technical assistance (TA) through Affordable Housing and Sustainable Communities (AHSC), for disadvantaged communities. The AHSC Pilot TA Program provided individualized, direct application assistance for applicants located in disadvantaged communities. SGC contracted with three regional teams to assist applicants that were not successful in the first round of AHSC and intended to apply again. SGC also allocated a subset of the pilot funds for capacity building activities (e.g., to convene potential project partners from transportation, housing, and local government entities). SGC commissioned UC Davis researchers to assess the effectiveness of the AHSC Pilot TA Program. In this report, the evaluators found that the applicants who received comprehensive technical assistance through the pilot program "overwhelmingly outcompeted those who did not."

SB 961

OPR requests \$190,000 in one-time General Fund to implement SB 961 (Allen, Chapter 559, Statutes of 2018). SB 961 requires OPR to complete a study on the effectiveness of tax increment financing tools for increasing housing production. The study must also address the feasibility of extending financing tools to areas around bus stops, and be completed before January 1, 2021.

SB 961 requires OPR to complete a study on the effectiveness of tax increment financing tools for increasing housing production by January 1, 2021. After the dissolution of redevelopment agencies in 2011, the Legislature created several other mechanisms for local governments to use tax increment financing to assist with economic development. The most successful of these efforts is enhanced infrastructure financing districts, created by SB 628 (Beall, Chapter 785, Statutes of 2014). Enhanced infrastructure financing districts build off of infrastructure financing districts that issue bonds to pay for community scale public works such as highways, transit, water systems, sewer projects, flood control, child care facilities, libraries, parks, and solid waste facilities. Infrastructure financing districts can divert property tax increment revenues, except from school districts

STAFF COMMENTS

The proposed resources to implement these recent bills are consistent with the Appropriations fiscal analysis.

Staff Recommendation: Approve As Budgeted

0511 GOVERNMENTAL OPERATIONS AGENCY

VOTE-ONLY ISSUE 11: BLOCKCHAIN EVALUATION

The Governor's budget includes funding to implement a recent bill relating to blockchain study.

BACKGROUND

The Government Operations Agency requests 1.0 position and \$241,000 General Fund in 2019-20 to administer the provisions of Assembly Bill 2658 (Allen, Chapter 875, Statutes of 2018). This bill requires the Secretary of GovOps to appoint a working group and evaluate the uses of blockchain technology in state government and California business. Blockchain technology, commonly defined as a peer-to-peer digital ledger that records data in a distributed and decentralized computing system, is designed to improve transparency, efficiency and availability of data while also ensuring integrity and security. The principle of the system is that it transparently shares data among members of a decentralized network in a way that ensures that all peers agree via consensus that a transaction is legitimate and indisputably authentic.

In order to comply with this legislative mandate, GovOps is requesting 1.0 Staff Services Manager I (SSM I) and funding to contract with a professional facilitator. The primary function of the SSM I will be to provide support to the working group. This will include scheduling and organizing the meetings (which could include subgroup meetings), communicating with working group members and any information or other requests made by them, processing members' reimbursements expenses (as specified in the bill), and compiling and editing the report mandated in the bill. Most of these tasks will need to be completed with significant autonomy

STAFF COMMENTS

This request is consistent with the Appropriations estimate for this bill.

Staff Recommendation: Approve As Budgeted

VOTE-ONLY ISSUE 12: DIRECTOR PERFORMANCE IMPROVEMENT

The Governor's budget proposes to continue the Director of Performance Innovation.

BACKGROUND

The Government Operations Agency (GovOps) requests ongoing expenditure authority of \$200,000 for one position to continue its Performance Improvement and Data-Driven Management initiatives. GovOps' Director of Performance Improvement leads the development of government transformation programs and consults with state departments to help them implement organizational performance improvement initiatives.

GovOps initiated several efforts focused on these areas and in 2017 the Agency received limited-term authority to establish a director position for performance improvement activities with the goal of designing a framework to develop, deliver and align tools, training and techniques that drive organizational performance improvement. In keeping with its mission, GovOps proposes to permanently establish the Director of Performance Improvement to continue developing the framework for systematically improving department-level results, one that integrates the training tools it already offers and shares best practices in use by other states and public agencies.

STAFF COMMENTS

The Agency has demonstrated that this position adds value and should be continued.

Staff Recommendation: Approve As Budgeted

ITEMS TO BE HEARD

0690 OFFICE OF PLANNING AND RESEARCH

ISSUE 1: STATEWIDE INSURANCE POOL

The Subcommittee will consider a proposal for establishing a statewide health insurance pool that will offer coverage to individuals.

BACKGROUND

The Subcommittee will consider a proposal from Enact Universal Healthcare for California to develop a state-backed health insurance pool. The group labels this a “Soft Single Payer” proposal, as they believe it allows for all coverage to uninsured individuals not covered by Medicaid and Medicare.

The new insurance pool would be a stand-alone public enterprise fund, similar to the State Compensation Insurance Fund.

The proposed new health care pool would have the following features:

- Premiums based upon income.
- Covers medical, dental, vision, and mental health.
- No co-pays, out-pocket costs, or deductibles.
- Requires all state's health providers to participate as in-network:
 - Provides a rate floor of the Medicare rate + 25 percent
 - Providers could negotiate higher rates, but would be required to disclose all of their existing rates as a condition of receiving a rate above the floor.
 - Providers get tuition forgiveness and retirement assistance in exchange for practicing in the state for 10 years and the mandate of accepting the new insurance company.
- State would subsidize re-insurance to help cover catastrophic losses.

PANELISTS

- Dale Fountain, Enact Universal Healthcare for CA

STAFF COMMENTS

The proponent of this proposal believe that creating a large statewide pool would result in lower insurance premiums, ultimately driving down the costs of insurance. This would create a lower premium level that would help drive down the overall level of health care costs. The concept is that this insurance plan would become affordable and attractive enough to encourage individuals that are currently without coverage to purchase insurance. Eventually, as the plan achieved larger scale, it would likely become the most attractive option for insurance, thus achieving the benefits of a single payer system without compelling individuals to make that choice.

There is evidence that such a large pool could result in insurance premium reduction. A 2007 study by Mercer Consulting suggested that offering a single mandatory pool for school employee in California could reduce premium costs by over 3 percent.

However, for the pool to attain savings, it must be large enough to achieve the economies of scale to generate the savings. But without lower premiums, the new pool would not be attractive to perspective enrollees to achieve the scale. This paradox has plagued the Affordable Care Act health benefit exchanges as well.

The Insure the Uninsured Project issued a report on March 20, 2018 entitled “Exploring Public Options in California” which considered various approaches for establishing a public options, including establishing a new statewide health plan. The report included the following table, which contrasts this approach with other options:

Table 2
Scenarios for Public Options in California
(For Analysis Purposes Only)

	Scenario 1 Exchange Public Option (Existing Local health plans)*	Scenario 2 Exchange Public Option (New state health plan)	Scenario 3 Medi-Cal Buy-in Public Option
Description	Increased participation of local public health plans in the state exchange, as the public plan choice in Covered California and individual market	A state-operated public health plan choice offered through the state exchange and outside individual market	Public coverage choice offered for private purchase through the Medi-Cal program infrastructure
Potential Policy Objective(s)	<p>Offer publicly operated alternative to compete with private health plans</p> <p>Improve affordability through choice and competition that lowers premiums and health care costs</p> <p>Increase choice in underserved areas with only one plan on the exchange</p> <p>Improve continuity for individuals whose eligibility fluctuates between exchange and Medi-Cal</p> <p>Make it easier for families to choose the same health plan if some family members are in Medi-Cal and some in the exchange</p> <p>Strengthen the state safety net</p>	<p>Offer publicly operated alternative to compete with private health plans</p> <p>Improve affordability through choice and competition that lowers premiums and health care costs</p> <p>Increase choice in underserved areas with only one plan on the exchange</p> <p>Offer a public plan choice in areas without local health plans available or willing to participate</p>	<p>Offer publicly operated alternative to compete with private health plans</p> <p>Improve affordability through choice and competition that lowers premiums and health care costs</p> <p>Increase coverage choices in areas with only one or two health plan choices</p> <p>Strengthen the state safety net</p>

Table 2
Scenarios for Public Options in California
(For Analysis Purposes Only)

	Scenario 1 Exchange Public Option (Existing Local health plans)*	Scenario 2 Exchange Public Option (New state health plan)	Scenario 3 Medi-Cal Buy-in Public Option
Target population: Eligibility	1) Individuals not eligible for Medi-Cal who are eligible to enroll in the exchange or are seeking to purchase non-group, individual coverage outside of the exchange 2) Could also include small employers through Covered California for Small Business	1) Individuals eligible to buy coverage through the exchange or seeking non-group, individual coverage outside of the exchange 2) Could also include small employers through Covered California for small business	Individuals not eligible for Medi-Cal who are either: 1) Not eligible for exchange subsidies because of income or immigration status, and/or 2) Eligible for subsidies in the exchange (with federal ACA Section 1332 waiver or approved Basic Health Plan) 3) Could include small employers
Program Structure	1) Individual local health plans <u>or</u> 2) Consortium of existing local health plans sharing common infrastructure and operational resources to facilitate greater participation in the exchange <u>or</u> 3) Combined health plan choice through one lead local health plan that subcontracts with some or all existing local plans, collectively offered as one health plan option	State would design and implement a state health plan choice that could include: 1) Direct operation of the health plan by the state (provider contracting, claims payment, quality and utilization management, customer service, etc.) <u>or</u> 2) Subcontract(s) with external administrator to organize the network and manage some or all operational elements	Existing Medi-Cal infrastructure State contracts with local health plans and private health plans in MCMC Benefits need to be adjusted beyond what MCMC plans currently cover because of MCMC “carve-outs,” such as mental health and substance use disorder services
Administering agency	Covered California	State agency (other than Covered California) with expertise in contracting for health coverage (e.g., CalPERS, County Medical Services Program, DHCS) <u>or</u> New state agency with independent board; governance structure like Covered California	Department of Health Care Services (DHCS) Depending on the program design, DHCS may not have existing capacity to organize and operate a public health plan choice to compete with private insurers DHCS would also have to ensure separate tracking and accounting of federal Medicaid funds

Table 2
Scenarios for Public Options in California
(For Analysis Purposes Only)

	Scenario 1 Exchange Public Option (Existing Local health plans)*	Scenario 2 Exchange Public Option (New state health plan)	Scenario 3 Medi-Cal Buy-in Public Option
Federal authority	Affordable Care Act, including requirements for exchange QHPs, unless federally exempted or waived	Affordable Care Act, including requirements for exchange QHPs, unless federally exempted or waived	No federal restrictions on program design for a state-administered and funded program; states can determine eligibility, benefits, cost sharing, delivery system, etc. Federal approval/waiver required to use federal exchange subsidies Federal requirements for health insurance issuers would potentially apply if the buy-in offers coverage to individuals and small employers
State authority	State ACA implementing laws, state licensure to meet QHP requirements (Knox-Keene license or California Department of Insurance certificate) In California, Local Initiatives must be licensed for Medi-Cal. Most County-Organized Health Systems are exempt and not licensed for Medi-Cal. If one lead local health plan contracts with other local health plans for assignment of lives and risk, contracted plans may require a Knox-Keene full service or restricted license depending on the risk arrangement May require changes to state enabling statutes for local plans and/or to local ordinance authority for each plan	State legislation would be required to establish the program Enabling legislation would need to address, in addition to issues above: <ul style="list-style-type: none"> ▪ Extent to which the state health plan must meet federal and state requirements for QHPs, including state licensure and regulatory oversight ▪ Terms of negotiation between the state plan and the exchange, including whether Covered California would be required to include the state health plan as a choice in regions where available 	State legislation would be required to establish and define the program Enabling legislation would need to address, in addition to issues above: <ul style="list-style-type: none"> ▪ Whether health plans participating in the buy-in would meet the same requirements as MCMC plans <u>or</u> ▪ All buy-in plans must be state licensed, and ▪ State funding level and timeline, including whether the buy-in would have to be financially self-sustaining

Additionally, without clear actuarial data, it is difficult to project where premium levels would stabilize and how large a state subsidy may be needed to make such a proposal viable, especially during startup of the program. Last year’s budget package included AB 1810, which established the Council on Health Care Delivery Systems which will consider options to ensure all Californians have access to affordable coverage, address health care workforce shortages, and ensure access for all Californians to culturally and linguistically-appropriate health care. That entity will issue a report and recommendations by October 1, 2021 that may include a further exploration of the costs.

Staff Recommendation: No Action Needed, Informational Item

7760 DEPARTMENT OF GENERAL SERVICES**ISSUE 2: STATEWIDE TRAVEL OFFICE TRANSACTION FEE TECHNICAL ADJUSTMENT**

The Department of General Services is requesting a technical adjustment to their budget to reflect Statewide Travel Office activities.

BACKGROUND

The Department of General Services is requesting position authority, with no additional funding authority, for the establishment of 40.0 positions consisting of 6.0 blanket positions to permanent authorized positions, 23.0 positions in the Contracted Fiscal Services Program, 11.0 positions in the Administration Division and a permanent increase in expenditure authority of \$1,523,000 in Service Revolving Fund authority to offset transaction fees on behalf of the Statewide Travel Program's client agencies.

Over the last five years, the Legislature approved several budget increases for new programs and new positions across several DGS programs. As part of each Budget Change Proposal, the Administration Division has included either an 11 percent increase in distributed administration authority for BCP's with positions or a 3 percent increase for nonposition BCP's in order to provide the requisite level of services commensurate with program growth. This amount totals approximately \$1,585,000 in new distributed administration spending authority to support program needs. However, the Administration division has not requested new positions to handle the increased administrative workload resulting from the creation of the new positions and programs.

PANELISTS

- Andrew Sturmfels, Department of General Services
- Department of Finance
- Legislative Analyst's Office

STAFF COMMENTS

The Administration's proposal reconciles the position control for administrative functions at the Department of General Services with funding already approved for this purpose.

SEIU has approached the Subcommittee with concerns relating to the loss of health care benefits by California airport workers employed by subcontractors. This travel purchase agreement results in \$ millions of purchases each year for the vendor.

The loss of these benefits may reduce costs for airlines, but given the State's role in providing health insurance, these practices likely result in higher costs to the State in other areas.

SEIU wishes the Subcommittee to consider adopting placeholder trailer bill language to give preference for the state travel contract to airline bidders who can provide independent verification that their aviation services contractors provide their California employees with fully employee-paid gold standard medical coverage.

Staff Recommendation: Approve As Budgeted and Adopt Placeholder Trailer Bill

ISSUE 3: INFRASTRUCTURE TRAILER BILL

The Subcommittee will consider the three trailer bills related to infrastructure.

BACKGROUND

The budget contains three bill proposal related to infrastructure.:

- Changes the administration of the Golden State Financial Marketplace Program (GS\$mart) to remove the application of the program to services, revise the financing process, and require that the Department of Finance and the Treasurer's office approve the terms and conditions of any funding agreement.
- Allows the Public Works Board to exempt a renovation of a State building from requiring the installation of a diaper changing station if the installation is not feasible or would result in a failure to comply with building standards. Previous law gave building inspectors or local building permit entity this authority.
- Clarifies that California Highway Patrol dispatch center and radio equipment is exempt from the requirement of the Seismic Safety Act or any provisions that do not usually apply to California Highway Patrol office space.

PANELISTS

- Jason Kenney, Department of General Services
- Sally Lukenbill, Department of Finance
- Legislative Analyst's Office

STAFF COMMENTS

The G\$Mart proposed language which limits the use of the program to only state agencies. Staff recommends adopting placeholder trailer bill language that would remove the prohibition.

Staff Recommendation: Approve Placeholder Trailer Bill Language

ISSUE 4: SACRAMENTO REGION STATE PROPERTY IMPROVEMENTS

The Subcommittee will consider the Department of General Services' plans for various Sacramento facilities.

BACKGROUND

The Department of General Services has proposed three Sacramento-area project:

- \$1,014,598,000 lease revenue bond financing for the design-build phase of the new Richards Boulevard Office Complex project. Total project costs are estimated to be \$1,032,651,000 (\$18,053,000 for performance criteria, which was provided 2018-19, and \$1,014,598,000 for design-build). This project would continue implementation of the Ten Year Sequencing Plan by constructing a new office campus of approximately 1 million net usable square feet (NUSF)/1.3 million gross square feet (GSF) on the state property at the corner of Richards Boulevard and North Seventh Street, through the design-build project delivery method. The site is currently occupied by the State Printing Plant, which is approved for demolition and hazardous materials remediation. Proposed tenants include the Department of Tax and Fee Administration and various Business, Consumer Services and Housing Agency departments.
- \$21,471,000 General Fund for the construction phase of the State Printing Plant Demolition project. Funding for preliminary plans was provided in 2017-18, and funding for working drawings were provided in 2018-19. Phase I and limited Phase II environmental site assessments were completed in spring 2017 through separate funding. All demolition and site clean-up will be completed by late 2020. Total project costs are estimated to be \$23,195,000 (\$909,000 for preliminary plans, \$815,000 for working drawings, and \$21,471,000 for construction). The project includes the demolition and hazardous materials mitigation of the 17-acre property to prepare it for new office space development. The Office of State Publishing (OSP) has secured leased space with planned relocation by early 2019.
- \$8,874,000 General Fund for the performance criteria phase of a project to renovate the Old Resources Building located at 1416 Ninth Street in Sacramento. Total project costs are estimated to be \$375,874,000 (\$8,874,000 for performance criteria and \$367,000,000 for design-build). This project would continue implementation of the Ten Year Sequencing Plan by renovating the existing structure of approximately 520,000 net usable square feet (NUSF)/659,000 gross square feet (GSF), through the design-build project delivery method. Proposed tenants include Employment Development Department tenants currently located in the headquarters building at 800 Capitol Mall and the Solar Subterranean and Annex Buildings at 750/751 N Street

PANELISTS

- Jason Kenney, Department of General Services
- Sally Lukenbill, Department of Finance
- Legislative Analyst's Office

STAFF COMMENTS

These three proposals are central to the reshaping of the future workspaces of several state departments.

Staff Recommendation: Approve as Budgeted

ISSUE 5: DISABLED VETERAN BUSINESS ENTERPRISE PROGRAM

The Subcommittee will consider the compliance with Disabled Veteran Business Enterprise Program.

BACKGROUND

The Disabled Veteran Business Enterprise (DVBE) program directs California governmental entities, such as state agencies and departments, to procure goods and services from firms that the Department of General Services (General Services) has certified as meeting the DVBE eligibility criteria required by law (DVBE firms).

The DVBE program requires that state governmental entities that award contracts for goods and services (awarding departments) strive to expend not less than 3 percent of the cumulative value of all their contracts on DVBE firms (3 percent goal). In its most recent annual report on state contracting activity, General Services reported that, overall, the State achieved the 3 percent goal each year during fiscal years 2014–15 through 2016–17.

The DVBE program continues to benefit only a small percentage of DVBE firms. Just 133 (or 8 percent) of the 1,671 certified DVBE firms received contracts directly from awarding departments during fiscal year 2017–18. Further, 30 of those 133 DVBE firms captured most of the revenue associated with these contracts. Awarding departments stated that they often struggle to find a DVBE firm that can provide the services or products they need, and they attribute this difficulty to a lack of qualified DVBE firms and the complexities involved in using General Services' procurement system to identify such DVBE firms

PANELISTS

- Andrew Sturmfels, Department of Template
- Department of Finance
- Helen Kerstein, Legislative Analyst's Office

STAFF COMMENTS

The Subcommittee has heard feedback from a Disabled Veterans Business Enterprise vendors that recent procurement efforts have failed to include efforts to include these vendors in procurement and to increase the number of vendors that sell to California.

Staff Recommendation: Hold Open

ISSUE 6: ELECTRIC VEHICLE SERVICE EQUIPMENT

The Subcommittee will consider a proposal to expand State electric vehicle service equipment.

BACKGROUND

The Department of General Services, Office of Sustainability, requests a one-time augmentation of \$18.6 million (50 percent General Fund and 50 percent Service Revolving Fund) in 2019-20 to continue activities related to the installation of Electric Vehicle Service Equipment at state facilities. This funding will support the continued planning, design and construction of electric vehicle charging infrastructure to support the charging of an additional 1,400 Zero Emission Vehicles by 2022. The 2016 Zero Emission Vehicle Action Plan requires the Department of General Services to oversee plans to make electric vehicle charging infrastructure available in at least five percent of workplace parking spaces at state facilities.

This request is to fund year three of the DGS Zero Emission Vehicle (ZEV) Five-Year Infrastructure Investment Plan (2017-18 through 2021-22) to install electric vehicle service equipment (EVSE) in state facilities to support both the state fleet and state employee charging needs. This funding will enable all activities that will result in the installation of EVSE to support charging of an additional 1,400 ZEVs prior to the expiration of the requested funding.

PANELISTS

- Andrew Sturmfels, Department of General Services
- John Fitzpatrick, Department of Finance
- Helen Kerstein, Legislative Analyst's Office

STAFF COMMENTS

The Subcommittee could consider the following questions:

- Is there a plan for where this charging infrastructure will be deployed?
- How close will we be to achieving the 5 percent goal for EV charging at state facilities?

Staff Recommendation: Approve as Budgeted

0690 OFFICE OF PLANNING AND RESEARCH**ISSUE 7: PRECISION MEDICINE**

The Subcommittee will consider recent changes in the administration of the precision medicine program.

BACKGROUND

The California Initiative to Advance Precision Medicine (CIAPM), administered by the Governor's Office of Planning and Research (OPR), has continued to support innovative projects in precision health and medicine. Launched by the State in 2015 with \$3 million in state funding, CIAPM has grown into a \$53 million state initiative — the only state-run program of its kind nationwide. The program has continued to mature. In addition to proof of concept demonstration projects, OPR has started to bring together additional expertise to create a policy framework to support precision health and medicine. The University of California, San Francisco (UCSF) has served as a fiscal agent for this program.

The 2018 budget proposed to remove UCSF as the fiscal agent and instead establish a non-profit corporation named the California Institute to Advance Precision Health and Medicine. The plan for the institute was to create a board of directors including the OPR director, directors professionally active in precision health and medicine from across California, with directors appointed by the Senate Rules Committee as well as the Speaker of the Assembly. This board would have had fiduciary responsibility and would have represented precision health and medicine efforts statewide, beyond any one institution. The Assembly rejected this proposal and it was not included in the 2018 budget package.

The University of California, San Francisco has informed the Subcommittee that the Office of Planning and Research has chosen unilaterally to remove UCSF as the fiscal agent of this program, despite the Legislature rejecting this proposal last year.

PANELISTS

- Elizabeth Baca, Office of Planning and Research
- Emma Jungwirth, Department of Finance
- Legislative Analyst's Office

STAFF COMMENTS

In last year's budget negotiations, the Assembly's support for Precision Medicine funding was contingent on the structure of the underlying program not changing. OPR has essentially broken its agreement with the Assembly by unilaterally removing UCSF as the fiscal agent.

Staff Recommendation: Hold Open

ISSUE 8: EMERGENCY PREPAREDNESS

The Subcommittee will receive an update on the use of emergency preparedness funding provided to the Office in February.

BACKGROUND

AB 72 (Chapter 1, Statutes of 2019) provided \$30 million to the Office of Planning and Research for emergency preparedness campaign primarily focused on California's most vulnerable populations, including the elderly, disabled, and those in disadvantaged communities.

PANELISTS

- Karen Baker, Office of Planning and Research
- Emma Jungwirth, Department of Finance
- Legislative Analyst's Office

STAFF COMMENTS

When the Legislature approved the \$30 million for emergency preparedness, there was an understanding that more detail regarding the proposal would be forthcoming.

The Administration has commented that it intends to provide additional information to the Subcommittee prior to the hearing, but this information was not available at the time of the publication of this agenda.

Staff Recommendation: Hold Open

ISSUE 9: AMERICORP EXPANSION

The Governor's budget includes an expansion to State support for AmeriCorp.

BACKGROUND

As the State Service Commission for California, California Volunteers manages programs and initiatives aimed at increasing the number of Californians engaged in service and volunteering. California Volunteers supports nearly 4,000 AmeriCorps members serving statewide in programs that address critical community needs in education, public safety, health and human needs, and the environment. AmeriCorps members are recruited, trained, supervised, and managed by eligible organizations, and may receive a living allowance and other benefits while serving.

Upon successful completion of their service, AmeriCorps members are eligible to receive a Segal AmeriCorps Education Award from the National Service Trust that they can use to pay for higher education expenses or apply to qualified student loans. Currently, the Segal AmeriCorps Education Award is \$6,095 for a full-time AmeriCorps participant.

The budget includes \$20 million General Fund to begin the expansion of the state's AmeriCorps members to 10,000—more than double the current number—and to supplement the federal award to reach a target of \$10,000. It is anticipated that private funds will supplement the state's investment.

PANELISTS

- Karen Baker, Office of Planning and Research
- Emma Jungwirth, Department of Finance
- Legislative Analyst's Office

STAFF COMMENTS

Staff have heard from AmeriCorp providers that are not affiliated with California Volunteers whose services would not expand and whose participants would not benefit from the expansion in the award level. These advocates may comment at the hearing.

Staff Recommendation: Hold Open

ISSUE 10: TAXPAYER OUTREACH AND PREPARATION ASSISTANCE

The budget proposes to continue funding for taxpayer outreach and assistance at the Office of Planning and Research.

BACKGROUND

The Franchise Tax Board has administered grant funding to organizations that provide taxpayer outreach and free tax preparation. The 2018-19 budget included \$10 million for this purpose.

The proposed budget includes \$5 million to continue these efforts, but moves this effort to the Office of Planning and Research.

PANELISTS

- Office of Planning and Research
- Chris Hill, Department of Finance
- Legislative Analyst's Office

STAFF COMMENTS

The Assembly has prioritized this activity for additional funding in recent budgets, provide the Franchise Tax Board with funding to assist in improving the utilization of the CalEITC. There appears to be no value in moving this activity to the Office of Planning and Research.

The Subcommittee may wish to revisit this issue to increase the level of investment in outreach and tax preparation later in the budget process.

Staff Recommendation: Approve \$5 million at the Franchise Tax Board for taxpayer outreach, in lieu of funding at the Office of Planning and Research.

**0840 STATE CONTROLLER'S OFFICE
8880 Fi\$CAL****ISSUE 11: UPDATE ON Fi\$CAL PROJECT IMPLEMENTATION AND PROMPT PAYMENT TRAILER
BILL**

The Subcommittee will receive an update on the Controller's Office's progress in migrating accounting functions to the Fi\$Cal system.

BACKGROUND

The Financial Information System for California (Fi\$Cal) is California's statewide accounting, budget, cash management and procurement IT system. The State Controller, the State Treasurer, and the Directors of the Departments of Finance and General Services signed a Memorandum of Understanding (MOU) in 2007 to formalize the cooperative partnership to support the development of the Fi\$Cal system. In July 2016, Fi\$Cal was formally recognized as a new department that implements, maintains and operates the Fi\$Cal system.

Both the Treasurer and Controller perform key financial management roles for the state. Among the financial management roles that are most impacted by Fi\$Cal are both offices' cash management functions and Controller's accounting functions. In particular, Controller produces the state's annual Comprehensive Annual Financial Report (CAFR), a report that informs stakeholders, such as bond rating agencies, of the state's financial condition and how the state manages public resources.

In the 2018 budget, the Fi\$Cal project adopted a framework set forward in a Special Project Report (SPR 7) that would end the "project" part of the Fi\$Cal system and transition the project into a maintenance and operations before all of the expected functionality was implemented and many departments had yet to transition to the system.

One key element of SPR 7 is use an interim solution to migrate Controller Office activities on to Fi\$Cal. While SPR 7 does not identify a timeline for fully transitioning onto Fi\$Cal, SCO indicates that it plans to use the Fi\$Cal system to produce the state's CAFR for the 2019-20 fiscal year. If the CAFR is produced successfully, the Controller's Office anticipates it would decommission its legacy systems beginning in 2022-23.

LETTER FROM THE CONTROLLER

On March 18, 2019, the State Controller sent a letter to the Legislature which stated concerns that the Fi\$Cal system could cause delays in the reporting of accurate fiscal statements for the state's Comprehensive Annual Financial Report (CAFR).

The letter urges that the system refocus implementation toward onboarding new departments, rather than addition additional functionality.

TRAILER BILL

The Administration proposes “prompt payment” trailer bill language that clarifies the role of the Fi\$Cal system in the payment of penalties related to incorrect claims.

PANELISTS

- Miriam Ingenito, Fi\$Cal
- George Lolos, State Controller’s Office
- Cathy Leal, State Controller’s Office
- Department of Finance
- Brian Metzker, Legislative Analyst’s Office

STAFF COMMENTS

The transition of Fi\$Cal out of a project-based initiative means that the systems has less routine reporting requirements. Until the Controller’s Office functionality is fully merged with the Fi\$Cal system, the State’s investment will not yield the benefits expected when the project was initiated. Therefore, staff believes the Subcommittee should annually ask the Controller’s Office and the Fi\$Cal department to update at budget hearings the status of the interim solution and the progress of migrating Controller functions to the system.

The letter from the Controller proposes to change the implementation plan to further delay the migration of the Controller’s cash functions into the Fi\$Cal system. The joining of the Department of Finance-dominated accrual accounting side of the State’s ledger with the Controller-dominated cash accounting side of the books into one system is a key feature of the Fi\$Cal system. This combined system would provide a much sharper level of oversight of state spending by both the administration and the legislature and would make it much more difficult for departments to hide funding, which most visibly occurred at the State Parks.

This functionality will also help with oversight of the budget’s largest program, Medi-Cal, which is administered on a cash basis. The complications of matching the program’s cash basis to the state budget’s accrual approach have resulted in multi \$ billion errors in recent years.

The Controller's Office has always asserted that its management of the cash system is much stronger than the management on the accrual side and that the Fi\$Cal system was not reliable enough to allow them to begin implementation. As a result, the Controller functionality, which was once intended to be implemented earlier in the project's implementation, was delayed repeatedly and is still years away from being realized. In addition, the Subcommittee provided more resources for this interim solution to reduce risk for the Controller and give that department more time to onboard. This extra level of implementation, in part, requires more complexity for other departments. It is hard to be sympathetic to the calls for yet another delay, using the same arguments of impending doom that have been used for the last five years.

The proposed trailer bill clarifies the role of Fi\$Cal in payment penalties.

Staff Recommendation: Adopt Proposed Trailer Bill

0840 STATE CONTROLLER'S OFFICE**ISSUE 12: UNCLAIMED PROPERTY FUND**

The Subcommittee will consider a proposal for the Controller to continue compliance with California Unclaimed Property Law.

BACKGROUND

The State Controller's Office requests \$1,571,000 Unclaimed Property Fund (UPF) in 2019-20 and ongoing to support 11.0 permanent positions, to perform audits of holders to ensure compliance with the California Unclaimed Property Law (UPL), reunite unclaimed property with its rightful owners or heirs, and provide administrative support.

SCO performs field audits of California holders of unclaimed property, including, but not limited to, banks, hospitals, retailers, utility companies, manufacturers, insurance companies, major financial institutions, escrow companies, brokerage firms, casinos, professional sports teams, and Fortune 500 companies to ensure compliance with the UPL and reunite unclaimed property with its rightful owners or heirs. SCO also contracts with third-party contractors to perform audits of out-of-state holders.

This BCP continues limited term propositions that are currently in place into permanent ongoing positions. The 2016-17 budget included 6.0 permanent positions and 11.0 three-year limited-term positions to perform audits of non-compliant holders and provide administrative support. Fourteen of the 17.0 positions perform field audits of non-compliant holders. Two of the 17.0 positions were redirected to oversee third-party contractors performing audits of out-of-state holders of unclaimed property and one of the 17.0 positions provides administrative support. Prior to 2016-17, SCO received an average of 17.0 three-year limited-term positions through BCPs to conduct audits of unclaimed property holders.

LAO COMMENTS

Increasing Holder Compliance Has Merit. To increase holder compliance, the Governor proposes allocating resources to SCO for more audits of potential holders. We agree with the Governor's goal to increase holder compliance. However, the scale of SCO's audits cannot address the significant lack of compliance. With only a couple of dozen audits conducted each year, SCO cannot change the behavior of hundreds of thousands of California businesses.

Two Options to Address Holder Compliance. This report contains two options to try to substantially increase holder compliance with unclaimed property law. In particular we suggest the Legislature consider:

- **Including an Unclaimed Property Question on Businesses' Tax Forms.** The Legislature could amend tax law to require businesses to respond to a question about unclaimed property as part of their tax filings. This question would be purely informational (it would not have tax implications for the business) and likely would significantly increase businesses' awareness of the law.
- **Providing One-Time Amnesty for Noncompliant Holders.** The Legislature also could provide one-time amnesty for holders who voluntarily report past-due unclaimed property by temporarily waiving the penalty associated with delinquent reports. This could be an effective way to address the problem of willful noncompliance.

The Legislature might want to consider pursuing both of these options. This would be even more effective at increasing holder compliance than either of these options alone and would avoid placing undue financial hardship on businesses. Effectively increasing holder compliance would mean more property reunited with its rightful owners and could result in hundreds of millions of dollars in General Fund benefit.

PANELISTS

- Jennifer Urban, State Controller's Office
- Gary Qualset, State Controller's Office
- Lisa Hughes, State Controller's Office
- Department of Finance
- Ann Hollingshead, Legislative Analyst's Office

STAFF COMMENTS

Over the last 12 years, the Controller's Office has demonstrated a need for ongoing resources to address the unclaimed property compliance at the level requested in this proposal.

The Subcommittee could consider asking staff and the LAO to developing an actionable item related to unclaimed property for future consideration this year.

The Subcommittee may wish to inquire why members of the public must search for unclaimed property instead of the department proactively contacting individuals with unclaimed property.

Staff Recommendation: Hold Open

8260 ARTS COUNCIL**ISSUE 13: ONGOING ARTS INVESTMENT**

The Subcommittee will consider a \$10 million ongoing investment in grants provided by the Arts Council.

BACKGROUND

The California Arts Council (CAC) requests \$10 million General Fund to expand and further develop grant programs that offer support for public access to the arts, arts education, and the state's cultural infrastructure. Grant programs utilizing these funds, shall require a match, to enhance the State's investment. In addition, the CAC requests provisional language to transfer up to \$500,000 of this amount for operational support.

To maximize the State's investment, the CAC shall require a dollar-for-dollar match of grants funded by this augmentation. The appointed Council determines if a grant program's policy should require a match based on the program's goals and considering factors such as equity and accessibility. This matching policy follows longstanding philanthropic and government funding practice to encourage diverse and sustainable sources of organizational revenue and to ensure that there are other sources of support for the grant activities. As such, the CAC becomes only a partial funder for any specific project or organization.

In 2019, the CAC will also undergo a new strategic framework planning, envisioning the agency through a lens of equity and taking into account all the other pressing challenges of our state, such as rising housing costs and the impact of natural disasters. Strategic framework is an innovative tool that will serve in place of a traditional strategic plan. The framework will be a clear guide for choosing current and future courses of action, priorities, and policies for the CAC. The CAC includes both appointed Council members and the state agency staff. The CAC is committed to building a roadmap that will be relevant, beneficial, and adaptable to the future of the arts field in our state. The new strategic framework will be adopted in December 2019.

PANELISTS

- Ayanna Kiburi, California Arts Council
- Department of Finance
- Legislative Analyst's Office

STAFF COMMENTS

The grant proposal appears to be similar to investments made by the Assembly in previous years.

Possible Questions for the Arts Council:

- Your BCP highlights many different activities funded by these grants, are there particular areas you expect to be highlighted in 2019?
- How will stakeholders be incorporated into the strategic planning effort? How will this effort engage the Legislature?

Staff recommends holding open this item until May so that the Subcommittee can consider the total level of investment in arts for 2019.

Staff Recommendation: Hold Open

0895 CALIFORNIA ACHIEVING A BETTER LIFE EXPERIENCE (CALABLE) ACT BOARD

ISSUE 14: CALIFORNIA ACHIEVING A BETTER LIFE EXPERIENCE (CALABLE) IMPLEMENTATION

The budget includes a proposed General Fund loan of \$1,070,000 to continue the ramp up of the CalABLE program.

BACKGROUND

CalABLE was established in 2015 to assist individuals and families to save privately for the purpose of supporting persons with disabilities. The program creates tax-free savings accounts for individuals who become blind or disabled before age 26 that generally follow the same rules as 529 Plans for higher education expenses. The program officially launched to the public on December 18, 2018.

The Board administers this program and is supported by a 0.44 percent fee to the assets in CalABLE plans. Because the program has just begun, the General Fund has loaned the program funding in 2016. The 2019-20 budget proposes an additional loan of about \$1 million, which would pay for \$820,000 of administrative costs for the program plus \$250,000 for outreach activities.

PANELISTS

- Dante Allen, CalABLE
- Dominick Guidera, Department of Finance
- Legislative Analyst's Office

STAFF COMMENTS

Given the recent implementation of the program, the Subcommittee will receive an update on the initial enrollment in the program.

Staff Recommendation: Approve as Budgeted

0511 GOVERNMENT OPERATIONS AGENCY**ISSUE 15: OFFICE OF DIGITAL INNOVATION**

The Subcommittee will consider the proposed Office of Digital Innovation.

BACKGROUND

The Government Operations Agency (GovOps) requests \$36,156,000 (\$33,656,000 General Fund and \$2,500,000 Reimbursements) in 2019-20 and \$14,584,000 (\$9,584,000 General Fund and \$5,000,000 Reimbursements) ongoing beginning in 2020-21 to establish the Office of Digital Innovation (Office) within GovOps. Funding includes start-up costs, personal services, an innovation fund, and operational costs including 50 positions.

According to the Administration, establishing the Office will enhance the usability and reliability of our state's most important services by using business process improvement and leveraging digital innovation, as appropriate, to transform government services.

The proposal has three elements:

- **Planning, Business Process, Digital Services, Policy and Strategy:** The bulk of the proposed office is staff dedicated to assisting state departments with innovation efforts. The vision for the Office is modeled upon similar programs operating in the federal government.
- **Innovation Academy:** The Office will address these needs through training on areas such as continuous process improvement, human-centered design, change management, service design, product management and more. Once established, and in coordination with existing training academies, the training will be mandatory for state supervisors, managers, and executives.
- **Innovation Fund:** This proposal includes a one-time \$20 million innovation fund to allow the Office to work on several small-scale demonstration projects with various state entities. The Office will identify which entities would best benefit from their services, such as DMV. After accessing needs or gaps in an entity's service delivery, the Office will develop or assist in developing projects that better meet its customers' needs. The innovation fund will provide resources to help state entities acquire the information technology goods and services they need in real-time.

The Department will utilize contracted Administrative Services for fiscal services, human resources, and IT support, modeled after the current GovOps structure. Additional operational costs are standard expenses for a new programmatic function and include expenses for operating a unit in separate office space. We note that when the Office is

fully implemented, there may be a need to consider and change the organizational structure based on the assessed needs at that time.

EXECUTIVE ORDER

On January 8, 2019, the Governor issued an Executive Order, N-04-19, related to information procurement that created two new approaches toward procurement derived from existing authority provided by the Legislature:

- Request for Innovative Ideas (RFI2): an alternative process to procure technology.
- Innovative Procurement Sprint: a focused effort to use alternative procurement methodology to address a problem.

TRAILER BILL

The Administration has proposed trailer bill language that:

- Establishes the Office of Digital Innovation;
- Allows the Director to make changes to the State Administrative Manual on issues related to service delivery;
- Creates a new Digital Innovation Services Revolving Fund; and
- Allows the Office of Digital Innovation to procure goods and services using the Public Contract Code 6611 provisions.

PANELISTS

- Julie Lee, Government Operations Agency
- Richard Gillihan, Department of Finance
- Brian Metzker, Legislative Analyst's Office

STAFF COMMENTS

The goal of this program is to modernize the State's approach to technology by bringing a different innovative vision to the Governmental Operations to drive innovation across state government. This Office is intended to address a void in the state's capability to have the tools and vision to drive its own innovations by (1) attracting the world class talent to Sacramento, (2) building the capacity of the State's existing management core to lead, and (3) creating an entity dedicated to learning and evolving the core elements of service innovation—citizen empowerment, customer services, efficiency, and adapting to emerging technology.

The potential benefits to implementing this office are enormous, as the State has the capacity and the appetite to be more innovative, but has lacked the know-how and strategy to make transformational changes of its systems. California is often innovative, but often only in response to a disaster, failure, or tragedy. This Office could allow the State to be proactive and evolve in our way of serving to reflect the way Californians live their life today.

But successfully implementing this office will be an amazing challenge that will require incredible leadership from the new administration. Similar approaches have been tried before and has left the State with a costly legacy of failed projects and years adrift in a culture that has spurns investment in technological innovation. IT project fail in Sacramento because of either a lack of ownership, governance, or training by the end user. Seldom does a project fail because of the underlying technology. Conversely, usually a project succeeds because a small group of state employees take charge and persevere through the months of thankless meetings, lost weekends, and stressful deadlines it takes to make real change.

The main challenge for this new office is to find a way to foster innovation in an existing culture that does not tolerate risk or failure. In the private sector, one publication estimated 68 percent of all IT projects fail. Employees stay at large tech firms for an average tenure of about a year. The State is culturally and politically incompatible with these elements of tech because it values stability, predictability, and reliability over innovation, change, and growth. Changing the culture at the State is a laudable goal, but becoming more innovative can never be at the expense of being the solid governmental foundation that California residents expect.

How Fast Can This Office Grow?

While there might be a case to be made that this office should eventually be 50 staff members in size, history has shown that trying to build such an office in one year is a mistake. The Department of Technology attempted to create a similar functionality with its Project Management Office (PMO), which was intended to help departments articulate their business process case for an IT project. The PMO attempted to hire too many positions at once, which led to having to make compromises on the talent that was eventually retained because of the size of the Sacramento labor force and the rushed process that didn't curate the candidate pool effectively. Instead of becoming a helpful resource for departments trying to implement technology, this unit developed a reputation as "DGS East" because it forced departments to fill out forms and go through approval processes that didn't seem to provide any value to the department's end users. The Office of Digital Innovation should not repeat this mistake.

Agile Procurement, Promising but Risky

The Budget Change Proposal refers to the use of “agile” procurement. An agile approach is like a DIY approach to home improvements, it is so much cheaper and easier to control a big house project if you buy and install the parts yourself and only hire outside help for specific tasks. But it is also riskier, your DIY paint job might have missed spots and you might have wired the lights wrong. It may end up costing more to fix your DIY mistakes if you lack the skills to do it well the first time. The savings and control you get in an agile project comes with the assumption of additional risk.

The State hasn’t had the skillset or the expertise to take on a true agile project, but has explored using this approach on various projects or for components of projects. The State is in a position to take more control over IT innovations in departments, but it is hard to see the State being able to perform the key system integrator role of a large agile project in the near future.

Innovation Fund Seems Useful, but General Fund?

The proposed “innovation fund” seems like a good way to seed resources so that there are people in place in anticipation of project needs. However, the proposal should be modified to allow for reimbursements after these projects are identified and undertaken. Using General Fund to underwrite this investment give the department flexibility, but the State should be attributing costs to special funds and drawing down federal matching funds when appropriate for the end users.

State Workers Need To Be the Office’s Target Audience

The primary barrier to innovation in state government has been the state workforce. Projects have been created that lack the ownership, training, and support of the end users. We have routinely allowed technology vendors to design our business processes instead of our own administrators. Part of this has been a lack of knowledge, skills, and abilities of the state workforce, particularly during the era when staff could not attend conferences or trainings due to budget cuts. But the State has underinvested in engaging with staff at every stage of the process, from problem definition, to change management, to training. The future success of this office is going to hinge on convincing state workers, managers, and administrators to trust, take risks, and own the work necessary to innovate. The Office will need to help overcome confusing word salad featuring TechCrunch’s hottest keywords that dominate technology conversations, but alienate the most important stakeholders, state employees.

What is Office's Role in Procurement?

The proposed trailer bill allows the Office of Digital Innovation to use Public Contract Code Section 6611 to procure goods and services. It is unclear how this new Office's authority would fit with Department of General Services and the Department of Technology, the two control agencies that current have this role.

Committee staff have been contacted by members of the public that wish to provide comment on the proposed office and the recent change in procurement.

Staff Recommendation: Hold Open

ISSUE 16: 2020 CENSUS OUTREACH

The Subcommittee will consider the Administration's plan for Census outreach.

BACKGROUND

The upcoming 2020 Census is critical to California because the data collected by the decennial census is used to determine the number of seats California will have in the U.S. House of Representatives and federal funding levels for local communities. This will be the first census conducted online, and this and other aspects of the federal census design may adversely impact resident participation. California has the largest number of hard-to-count residents—putting its population at risk of being underreported.

Launched in 2017-18, California's Complete Count effort will be an extensive statewide outreach and awareness campaign designed to encourage and support full participation by all Californians in the upcoming 2020 Census. The Budget includes an additional \$50 million for statewide outreach efforts related to increasing the participation rate of Californians in the decennial census, bringing the total funding available to \$140.3 million. This effort will span multiple years, be conducted in multiple languages, and implement specific strategies to obtain a complete and accurate count of all California residents. The budget also includes \$4 million for the California Housing and Population Sample Enumeration, which is a survey that will identify barriers to a complete count and successful approaches taken by the various outreach efforts and help develop recommendations for the 2030 Census.

PANELISTS

- Justyn Howard, Government Operations Agency
- Ditas Katague, California Complete Count Census
- Emma Jungwirth, Department of Finance
- Legislative Analyst's Office

STAFF COMMENTS

The Subcommittee has received requests from advocates to increase funding for outreach conducted by Community-Based Organizations by \$93.4 million, for a total of \$120.4 million.

Additionally, a statewide coalition of Latino, African American, and Asian American print, radio, television, and online media outlets has submitted to letter to the Subcommittee recommending that the funding for media outreach be increased by \$6 million.

The State's Complete Count effort is in the early process of implementation, recently awarding the foundational contracts that will serve as fiscal agents for outreach efforts at the State and local levels.

The intent is for the efforts to be underway this fall, likely after the Legislature has recessed for the year. As a result, staff is working on some reporting language to allow the Subcommittee and/or the Select Committee on the Census to conduct oversight during this period. In addition, staff will recommend adding provisional language to allow funds for this item to be increased, if deemed necessary by the Department of Finance.

Staff Recommendation: Hold Open

ISSUE 17: 2020 CENSUS LANGUAGE ACCESS

The Subcommittee will receive a briefing on addressing language access issues in relations to the 2020 Census outreach efforts.

BACKGROUND

Last year the Subcommittee had a discussion regarding the importance of addressing language access issues in the State's census outreach efforts. Since that time, the Agency has developed a plan that creates both as state and regional approach to reaching hard-to-count populations. The Subcommittee will receive a briefing on how the State intends to address language access issues within this new structure.

PANELISTS

- Justyn Howard, Government Operations Agency
- Ditas Katague, California Complete Count Census
- Emma Jungwirth, Department of Finance
- Legislative Analyst's Office

STAFF COMMENTS

Advocates cite language access as the most significant barrier to participation in the census by hard-to-count populations.

Advocates have noted that the Census Language Access approach is a passive set of guidelines for contractors that will conduct outreach. However, this approach is not sufficient to insure that the principles and practice necessary to address these issues is operationalized throughout the State's efforts.

These advocates have requested that the Census effort take additional steps to identify additional languages that often aggregated into groups in data tables "other Asian" and "other Native American" to target hard-to-count populations.

Staff recommends that the Subcommittee ask the Census Outreach effort to revisit its approach to language access and reflect a more proactive approach to their language access approach and standards. The Subcommittee can then revisit this issue on May 7 to be informed of the progress made by the Census Outreach effort on addressing language access issues.

Staff Recommendation: Hold Open

7502 DEPARTMENT OF TECHNOLOGY

ISSUE 18: SECURITY OPERATIONS CENTER

The Subcommittee will consider a proposed increase in security staffing at the Department of Technology.

BACKGROUND

The California Department of Technology (CDT) requests that 9.0 permanent positions be established in 2019-20 to support the Security Operations Center (SOC)—which monitors for and protects the California Government Enterprise Network (CGEN) against malicious activity 24 hours a day and seven days a week (24x7). If approved, CDT will internally redirect \$1,425,000 (\$1,355,000 ongoing) from the Technology Service Revolving Fund (TSRF) to support these 9.0 positions. The requested position augmentation is necessary for the SOC to manage current workload and extend its services to new resources that are connected to CGEN.

CDT established the SOC in 2017 to monitor CGEN traffic and throughout 2017-18 and 2018-19 incrementally expanded its monitoring and protection capabilities. For example, in addition to monitoring CGEN traffic and blocking access attempts, the SOC added security technologies with the capacity to protect approximately 6,000 CGEN connected resources and process 185,000 security alerts. However, the SOC's workload has reached operational capacity. In order for the SOC to continue adding CGEN connected resources to its monitoring and protection portfolio, additional staff are required. If this request is approved, the SOC will begin monitoring cloud resources, provide increased levels of endpoint protection, monitor internal network traffic, and continue enhancing the SOC's infrastructure. In aggregate, 9.0 new staff would allow the SOC to monitor and process alerts for 6,947 CGEN connected resources.

Projected Outcomes						
Workload Measure	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Monitored Resources*	6,000	6,947	12,000	14,000	14,000	14,000
Annual Security Alerts Processed*	185,000	277,500	370,000	430,000	430,000	430,000
Alerts Processed Per Analyst (Per Hour)*	11.1	11.5	11.5	11.5	11.5	11.5

*Projected outcomes are estimates only as the number of alerts and alerts processed per analyst per hour are based on existing data and may not accurately reflect the complexity or magnitude of the future threat climate.

PANELISTS

- Brian Metzker, Legislative Analyst's Office
- Miles Burnett, Department of Technology
- Vitaliy Panych, Department of Technology
- Ted Ryan, Department of Finance

STAFF COMMENTS

This issue provides the Subcommittee and opportunity to receive an update on the Department of Technology's efforts to improve security.

Staff Recommendation: Approve as Budgeted

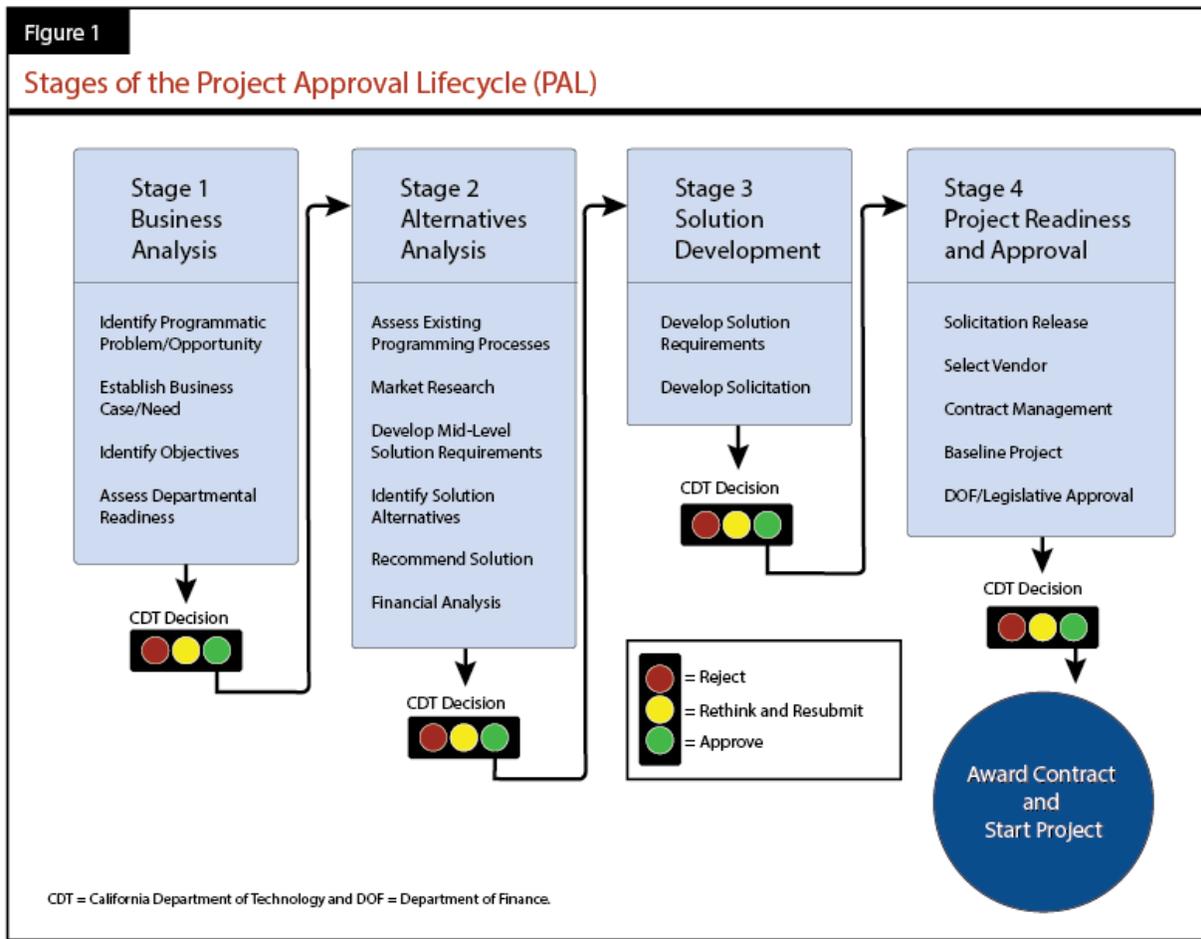
ISSUE 19: PROJECT APPROVAL LIFECYCLE

The Subcommittee will consider an LAO Recommendation regarding IT project approval.

BACKGROUND

To improve the planning quality of IT project proposals, CDT fully implemented a new project approval process—PAL—in 2016. Established administratively under CDT’s authority to approve and oversee IT projects, PAL divides CDT’s project approval process into four stages: (1) business analysis, (2) alternatives analysis, (3) solution development (including procurement analysis), and (4) project approval and readiness (including bid analysis and finalization of project details).

Figure 1 provides a visual depiction of the PAL process:



LAO COMMENTS

Governor’s Budget Proposals Reveal That PAL Does Not Always Align With Budget Cycle. One emerging trade-off of PAL is that it does not always align with the annual budget process. While the Governor’s 2019-20 budget includes funding requests for at least three IT projects that have fully completed PAL process, it also includes funding requests for seven project proposals that have not completed the PAL. Because PAL requires more work upfront to complete, it generally takes longer for agencies and departments to complete than the former FSR approval process. This means an agency or department could receive approval from CDT for Stage 4 of the PAL process midway through a state fiscal year for which funding is being requested. Although funding requests should ideally be made after a project has been approved at all four stages, there have been recent requests that indicate that, if an agency or department *anticipates* that development and implementation activities for an IT project could occur in the same fiscal year that Stage 4 is *anticipated* to be approved, they could request project funding before Stage 4 documents are approved by CDT. In these cases, the Legislature is being asked to approve funding without the benefit of a complete project plan.

Better Alignment of PAL With the Budget Process Will Likely Require Process Improvements. In our initial analysis of the PAL process, we acknowledged potential misalignment of CDT’s approval of planning documents through the PAL process and the budget cycle, and the need for the Legislature to build in additional oversight methods such as budget bill language. The number of proposals submitted by departments asking for significant amounts of funding (often multiyear) without completing the PAL process, however raises concerns highlighted in this report. As more projects are funded prior to completing the PAL process, the relative benefits of PAL over the prior FSR process are potentially diminished. Additionally, project-specific factors such as the agile implementation approach will further prevent the Legislature from fully realizing the benefits of PAL. The Legislature could require CDT and DOF to address these issues, including providing a list of potential changes that could be made to the PAL process to better align it with the budget cycle. In preparing for these discussions, the Legislature should consider the following questions:

- What information does the Legislature require before it approves funding for a project, particularly for projects with a legislatively mandated deadline?
- What information does the Legislature require when considering one or more modules of a larger project using the agile approach?
- Based on the information the Legislature requires, how should CDT and DOF advise agencies and departments that are submitting funding requests for project proposals in PAL? Are there exceptions to this advice, and in what circumstances?
- When setting implementation dates in future legislation, how can the Legislature identify projects that require IT system changes and build in time for PAL? How much time should be built in for PAL?

- When should the Legislature evaluate PAL? In evaluating PAL, how would the Legislature determine its effectiveness and define project “success”?

Budget Bill Language Could Increase Legislative Oversight in Certain Circumstances. While one of the 2019-20 requests did propose budget bill language that would make funding for an IT project proposal contingent on approval of PAL documents by CDT and DOF, others did not include similar language. Additionally, the proposed language stops short of providing legislative oversight by not including written notification of, and approval by, the Legislature. We acknowledge that each project proposal should be considered by the Legislature on a case-by-case basis. If, based on this consideration, the Legislature is interested in funding any of these proposals prior to completion of the PAL process—for example, to meet legislatively mandated deadlines or to avert a potential loss of federal funding—it should consider approving the funding request with budget bill language that conditions the funding on prior written notification of, and approval by, the Legislature once PAL documents have been approved. This would allow the Legislature to review and approve any updates to the cost, schedule, and scope of the project after Stage 4 approval. A review period would give the Legislature an opportunity to realize the benefits of PAL by again considering project funding after vendors are selected and a complete project plan is available. If the project finishes PAL before the completion of the Legislature’s 2019-20 budget deliberations, the Legislature could require that agencies and/or departments involved in the project update their funding requests to reflect the project’s most recent approved PAL document.

PANELISTS

- Brian Metzker, Legislative Analyst’s Office
- Miles Burnett, Department of Technology
- Ted Ryan, Department of Finance

STAFF COMMENTS

The budget process has been the Legislature’s most constant vehicle to provide oversight for technology initiatives. Budget oversight worked especially well with the old “waterfall” model of procurement, where there were large and easily identifiable milestones to mark the progress of projects. As the State moves away from these large projects, the Subcommittee will need to consider the best way to continue providing oversight.

Staff Recommendation: Hold Open
