AGENDA – PART II

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION

ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR

THURSDAY, MAY 19, 2016

11:00 A.M. - STATE CAPITOL, ROOM 437

VOTE-ONLY CALENDAR

0840 STATE CONTROLLER'S OFFICE

VOTE-ONLY ISSUE 1: OTHER POST-EMPLOYMENT BENEFITS (OPEB) WORKLOAD AUTOMATION

The State Controller's Office (SCO) requests $883,000 ($503,000 General Fund [GF]; $380,000 Central Service Cost Recovery Fund [CSCRF]) in 2016-17 for 8.0 positions and $573,000 ($327,000 GF; $246,000 CSCRF) in 2017-18 for 5.0 positions to automate the deduction, remittance and reporting for Other Post-Employment Benefit (OPEB) prefunding.

BACKGROUND

Signed on December 28, 2006 Executive Order S-25-06 created the Public Employee Post-Employment Benefits Commission (Commission). The Commission consisted of twelve members tasked with delivering a report to the Governor and Legislature on post-employment benefits. During the first year of the Commission, it was determined that pension and health care components of compensation are critical to both active and retired public employees and the way to ensure that government promises are kept is to prefund those benefits. The Commission developed recommendations meant to facilitate compliance with new reporting standards for OPEB benefits and ensure the fiscal integrity of California's pension systems.

As a result of findings by the Commission, OPEB was first adopted by Bargaining Units (BUs) in 2009-10 as a way to prefund post-employment benefits. The first BU to adopt OPEB prefunding was BU05 (7,159 employees) and the first deduction went into effect 01/01/2010. By 2012, BU12 (12,904 employees) and BU16 (1,747 employees) followed with prefunding originally set to become effective 07/01/2012 but postponed until 07/01/2013.

The Personnel Payroll Services Division (PPSD) currently creates OPEB deductions outside of the payroll system for bargaining units 5, 12 and 16. This process consists of using a monthly, point in time program, which involves creating deduction transactions and then deducting approved amounts from eligible employee payments during the master payroll process. Those amounts plus approved corresponding employer share amounts, if applicable, are then transferred to specific accounts in the California Public Employees' Retirement System (CalPERS). Unfortunately, the current program being utilized to create OPEB deductions runs two days prior to master payroll. Departments are able to make changes to employment history records after OPEB deductions are created. Therefore, the existing point-in-time program does not allow for automated system calculations related to retroactive adjustments in pay. Fortunately, the BUs currently being processed are subject to deductions calculated off of base pay, are small in population, and have little movement by their employees. Because of these static factors, PPSD has been able to process the correct deductions, with some manual corrections along the way

Because of current labor negotiations, BU 6 will begin adopting the OPEB program as early as July 1, 2016. Tentative agreements for BU 9 and BU 10 will become effective July 1, 2017. PPSD cannot accommodate the introduction of any new BUs to the current point-in-time program that creates deductions outside of the normal payroll process, and does not have sufficient resources to develop and implement OPEB as a real time payroll deduction. As the population of employees subject to deductions grow, the risk of applying incorrect deductions may also increase. With a larger population, and more complex criteria, there is a greater chance that employment history transactions affecting pay may occur between when the program is run and the end of the pay period. Furthermore, BUs 6, 9 and 10 utilize pensionable pay as the basis for OPEB deductions. Pensionable pay consists of base pay and any Special pay types an employee is due payment for. Special pays, if entered in employment history, are included in the master payroll run but when those pays are not locked into employment history they are issued separately as part of the daily pay cycle process. Continuing the current process would require staff to manually review the monthly deductions for accuracy and calculate any adjustments.

While the SCO could continue to utilize the monthly point-in-time program to create deduction transactions, the OPEB program continuously changes as new components and BUs are added and has no consistent criteria on which to build and maintain an effective and efficient point in time program for creating deductions outside of the normal payroll process. Changes to the current program have resulted from agreements between CalHR, California Association of Highway Patrolmen (CAHP), CalPERS, and the SCO. These include eligible classifications, employee and employer contribution amounts, funding sources for employer contributions, funds to which the contributions are deposited and the procedures with which the contributions are processed.

In addition to the changing aspects of OPEB, there is also growth in the number of deductions. The original three BUs (BU 5, 12 and 16) were comprised of 21,810 employees. Recently BU 6 brought a contract forward for ratification with OPEB provisions effective July 1, 2016 for approximately 30,000 employees. Effective July 1, 2017, it is estimated that the number of employees with OPEB deductions will grow by another 12,936 (BU 9 and 10), bringing the total employee population to 64,746. As more BUs adopt OPEB, larger numbers of the state employee population will require deductions to be withheld. As the program continues to change and expand, automation of the process is necessary to allow for the flexibility needed to accommodate future program changes and new BUs moving into the program.

STAFF COMMENTS

The additional resources will allow SCO to implement the new changes from the OPEB requirements. The Subcommittee may wish to inquire about how a new payroll system will handle the above changes? Will the OPEB changes be something that would easily fold into a larger payroll system?

Staff Recommendation: Adopt May Revision proposal.

ITEMS TO BE HEARD

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT
7120 CALIFORNIA WORKFORCE INVESTMENT BOARD
MAY REVISION PROPOSALS

ISSUE 1: UNEMPLOYMENT INSURANCE PROGRAM ADMINISTRATION

PANEL

- Employment Development Department
- Department of Finance
- Legislative Analyst's Office
- Public Comment

PROPOSAL

The Employment Development Department (EDD) requests a reduction of $4.5 million and 46.9 Personnel Equivalents (PEs) in Unemployment Administration (UA) authority for 2016-17 due to updated workload estimates. In addition, this request also includes a proposal to reduce Benefit Audit Fund (BAF) by $23.6 million, and replace it with increases of $19.7 million in General Fund and $3.9 million in Contingent Fund. General Fund and Contingent Fund resources are needed due to revenue collections for the Treasury Offset Program (TOP) coming in lower than previously anticipated.

The EDD is the only state entity impacted by this proposal. In recent years, the state's UI program drew significant attention for its poor service levels. The 2013-14, 2014-15, and 2015-16 augmentations have offset the program's underfunding at the federal level, increased service levels, and helped the EDD achieve the benchmarks set forth in each request. The federal underfunding is expected to continue, leaving the state to rely on ongoing alternate funding sources to maintain the gains in service that have been achieved to date.

Updated UI Workload Projections. This proposal seeks to change the level of staffing identified in the 2016-17 UI BCP due to updated workload projections (see table 1 below). The overall decrease in workload accounts for a 13.0 PE reduction for EDD and a 33.9 PE reduction for the California Unemployment Insurance Appeals Board (CUIAB), amounting to $4.5 million.

Although workload has dropped resulting in a reduction of expenditures, this also results in EDD and the CUIAB receiving less money from the federal government. The decrease in federal dollars amounts to approximately $4.5 million.

Table 1 - Workload Comparisons

Workload Category	2016-17 October 2015	2016-17 May 2016	Variance	Percentage Change
Initial Claims	2,486,000	2,462,000	-24,000	-0.97%
Weeks Claimed	20,620,000	20,019,000	-601,000	-2.91%
Non-Monetary Determinations	810,000	839,000	29,000	3.58%
Appeals	237,000	213,000	-24,000	-10.13%

Treasury Offset Program. 2014-15 marked the first full year of TOP collections for California, which included almost $185 million dollars being deposited into the UI Trust Fund, BAF, and Contingent Fund. Due to the large influx of additional revenue tied to the first year of TOP collections, the 2016-17 Governor's Budget estimated that Year 2 of TOP would decrease from Year 1 by approximately 25 percent. EDD leveraged other states' experiences because there was only one year of data for California available.

In analyzing the TOP data across the larger states (collections more than $10 million), the Year 1 to Year 2 trends were fairly inconsistent. For example, Florida decreased over 76 percent from Year 1 to Year 2, yet New York only decreased 3 percent. Some states even saw gains from Year 1 to Year 2 (Wisconsin, Pennsylvania, and North Carolina). However, across all of the larger states the total amount of revenue collected dropped approximately 24 percent from Year 1 to Year 2.

Table 2 – TOP State Experience[1]
(Dollars in millions)

State	Year 1	Year 2	% Change
Alabama	10.5	5.8	-44.8%
Arizona	21.5	11.1	-48.4%
Arkansas	19.3	8	-58.5%
Florida	19.6	4.6	-76.5%
Illinois	37.6	29.7	-21.0%
Maryland	16.3	12.6	-22.7%
Minnesota	15.3	10.1	-34.0%
Mississippi	14.5	10.3	-29.0%
Missouri	20.2	13	-35.6%
New York	30.0	29.2	-2.7%
North Carolina	10.4	14.9	43.3%
Pennsylvania	9.4	16.9	79.8%
South Carolina	11.6	11.5	-0.9%
Tennessee	16.1	9.5	-41.0%
Wisconsin	11.6	13.3	14.7%
Total	**263.9**	**200.5**	**-24.0%**

[1]Data taken from Fiscal Year 2014 Report to the States published by the U.S. Department of the Treasury Bureau of Fiscal Services

[2] Year 1 reflects first full year

Unfortunately, as the bulk of the Year 2 TOP revenue was realized in the month of February 2016, EDD experienced a significant reduction compared to what was previously estimated. The revenue collections tied to the TOP BAF component came in over 75 percent lower than estimated for that month. This resulted in a $12.4 million reduction compared to estimates for the month of February 2016. TOP BAF collections for March 2016 have slightly increased over February, coming in about 57 percent lower than estimated. Overall, TOP BAF collections through March 2016 are tracking approximately 67 percent lower than previously estimated for 2015-16, or $15.3 million.

Continuing the trend of TOP collections in the current year and further reducing in budget year (tied to other states experience) results in an estimated loss of almost $40 million of BAF revenue. With TOP collections trending lower over the next few years, BAF will not be able to provide the level of support previously estimated to the UI Program. In order to fill the remaining funding gap, EDD is requesting $19.7 million from the General Fund, an increase of $3.9 million from the Contingent Fund, and a decrease of $23.6 million in BAF. These changes, along with the reduced expenditure level and reduced above-base earnings are highlighted in Table 3 below.

Table 3 - Funding and Expenditure Changes[1]
(Dollars in millions)

	Governor's Budget	May 2016 Update	Variance
Program Funding			
Federal Funds (Base/Above-Base)	$362.1	$357.6	($4.5)
Benefit Audit Fund	51.3	27.7	(23.6)
Contingent Fund	95.4	99.3	3.9
Electronic Base Period Revenue	1.2	1.2	-
Grand Total Funding	**$509.9**	**$485.8**	**($24.2)**
Estimated Expenditures	**$509.9**	**$505.4**	**($4.5)**
Funding Gap (Funding less Expenditures)			**($19.7)**

[1] Does not include resources or expenditures for "base" pro-rata.

If the revenue projections do not materialize to the level that EDD anticipates, EDD would need to reduce expenditures, which could impact UI program service levels.

BACKGROUND

Over the past several years, the Unemployment Insurance (UI) program has received multiple augmentations from state and special funds in order to address a structural funding deficit and to increase service levels. These augmentations have made it possible for EDD to continue to meet the service level targets which were identified as part of the 2014-15 Finance Letter. Specifically, these resources were used to increase the number of telephone calls answered and to reduce call demand by processing Internet and paper claims, Internet inquiries (EDDComm messages), and scheduling eligibility determination interviews more timely.

In 2013-14, the EDD implemented the TOP to leverage Federal Income Tax refunds of UI claimants with overpayment liability owed due to fraud or claimant's failure to report earnings. Through March 2016, the Department has collected over $245 million dollars by leveraging the TOP collection tool. Due to the anticipated revenue collection tied to the second year of TOP (2015-16), the EDD was appropriated $27.8 million of BAF and $14.0 million of Contingent Fund in the 2015 Budget Act to continue to support the UI Program Service levels which began in 2013-14. The amount appropriated in the 2015 Budget Act replaced $40.9 million of General Fund in support of the UI program.

The 2016-17 Governor's Budget included EDD's proposal for a reduction of $33.9 million and 148.2 PEs in UA Fund authority for updated workload estimates, reduced federal carryforward, and reduced Electronic Benefit Payment (EBP) earnings. To offset the decrease in federal earnings, carryforward, and EBP revenue, the request also included an increase of $10.4 million of Contingent Fund and $10.4 million of BAF to continue to support the UI Program. The 2016-17 BCP also proposed budget language that would allow EDD to adjust its state supplemental funding in both the BAF and the Contingent Fund. This proposal was approved by the Assembly Budget Subcommittee No.4 on April 12, 2016, and the Senate Budget and Fiscal Review Subcommittee No.5 on April 21, 2016.

STAFF COMMENTS/QUESTIONS

In January, EDD proposed to increase funding for UI administration from the Benefit Audit Fund (BAF) and the Contingent Fund (CF) to backfill a loss in federal funds. A portion of available BAF and CF funds were anticipated to come from the Treasury Offset Program (TOP), which allows the state to collect from UI claimants with overpayment liabilities by deducting the overpayments from claimants' federal income tax refunds. Revenues to BAF and CF from TOP were higher than expected in 2015-16. However, revenues from TOP in 2016-17 are now anticipated to be significantly less than estimated in EDD's January proposal. As a result, EDD estimates that $19.7 million of General Fund support is needed to continue meeting service level targets.

The LAO views this change as a technical adjustment to reflect better information about available fund sources and does not have any concerns at this time.

Staff Recommendation: Hold Open.

ISSUE 2: PAID FAMILY LEAVE AND STATE DISABILITY INSURANCE RATE INCREASE

PANEL

- Employment Development Department
- Department of Finance
- Legislative Analyst's Office
- Public Comment

PROPOSAL

This May Revision request is for a one-time augmentation of $5,028,000 in 2016-17, along with a one-time augmentation of $629,000 in 2017-18, to support the costs incurred as a result of Assembly Bill (AB) 908 (Chapter 5, Statutes of 2016).

These resources will be used to fund vendor contracts and 16.4 Personnel Equivalents to performmodifications to the State Disability Insurance (SDI) program applications and processes as required to comply with AB 908. AB 908 modifies the SDI program by increasing the wage replacement rate to 60 percent for middle and high income workers, and to 70 percent for low income workers. In order to comply with AB 908, extensive programming of the Employment Development Department’s automated systems is required along with updates to SDI forms, publications, procedures, and training.

The benefit changes proposed by AB 908 would result in estimated additional SDI benefits paid of $348 million in 2018, an increase of approximately five percent over the projected benefit amounts estimated under current law. This bill would also increase the projected contribution rate that workers would pay. Based on EDD’s October 2015 SDI Fund Forecast, the projected contribution rate in 2019 is 1.1 percent. Under AB 908, the contribution rate in 2019 is projected to be 1.2 percent. The maximum rate allowed by law is 1.5 percent. Removing the waiting period for all PFL claims instead of solely for new mother claims and increasing the Weekly Benefit Amount (WBA) issued to DI/PFL claimants supports California’s emphasis on customer service. These actions will also align with the DI Branch Strategic Plan goal of improving the quality of customer service.

Eliminating the waiting period for PFL benefits will have a minimal impact on the DI Fund and will allow claimants to exhaust their PFL benefits after 6 weeks (under current law, approximately 44 percent of the PFL claimants, including transitional bonding claims which do not have the waiting period requirement, only receive the full six weeks of paid PFL benefits after being out of work for a total of seven weeks).

IT Changes. The EDD will need to make programming changes to two major IT systems - the Single Client Database (SCDB) and the SDI Online system. The SCDB is EDD’s main database and contains the wage and benefit data for the Unemployment Insurance and SDI programs. The SDI Online system allows customers to file SDI claims online. These systems would need to be programmed to capture the state average weekly wage for benefit calucation, and provide editing capabilities to accommodate future increases to the average weekly wage. EDD IT staff will be utilized to make changes to the SCDB, while vendor staff will be leveraged to make changes to the SDI Online system.

For SFY 2016-17, EDD requires 11.1 PEs of state IT staff and one program position for the following activities in addition to the vendor:

- Project management including scheduling, identifying and managing project risk
- Requirements elicitation and refinement
- Developing test scripts, test plans for system, interface, user, penetration, end to end and stress testing (these are done by non-prime vendor staff to ensure the solution truly meets the Department's needs)
- Analysis, design, coding, and testing of mainframe (SCDB) changes to both the SDI and PFL calculations
- Setting up performance environments, databases, and providing support during project phases
- Updating of SDI/PFL forms and publications, updating of information on the EDD website, and updating manuals and procedures for staff along with providing staff training on the new program changes

Additionally, a significant portion ($3.3 million) of the estimated one-time IT costs would be for a vendor to make changes to the SDI Online system, and for testing of those changes by vendor staff (along with EDD staff). Changes would also be required to the PFL application and the claims scanning/data capture system that EDD uses.

For SFY 2017-18, EDD requires 4.3 PEs of state IT staff for continued testing of the changes to the SCDB and SDI Online applications and to ensure that they will be able to revert to the previous calculation methodologies (effective January 1, 2022, per the provisions of AB 908). The required legislative reports will also be developed during this time period.

In order to meet the January 1, 2018, implementation date for AB 908, the EDD will need to begin a number of tasks in late SFY 2015-16. These tasks include beginning to outline the new business requirements that will result from AB 908 and refining the vendor procurement schedule.

Outcomes and Accountability. The main outcome of this BCP will be compliance with the legislatively mandated requirements of AB 908. The DI Branch also anticipates a slight increase in the number of initial and continued claims as a result of removing the PFL waiting period and increasing the WBA. This workload increase is projected to be approximately 1 percent in initial DI claims and 3 percent in DI continued claims. For PFL, the workload increase is anticipated to be approximately 8 percent in initial claims filed, with no increase in continued claims. Provisional language in the Budget Act allows the EDD to adjust its staffing and benefit amounts for the DI and PFL programs associated with workload changes in October and April each year.

The EDD project management framework will ensure accountability for the requested funds. All vendor contracts related to this project will be deliverables-based to ensure delivery of appropriate hardware, software, documentation, etc., prior to payment. The vendor contracts will include language that states EDD shall be the sole judge of the acceptance of all work performed and all work products produced by the contractor to ensure quality standard are met.

The EDD uses the Cost and Resources Management Group within the Information Technology Branch to account for all dollars spent on staffing, hardware, software, and vendor contracts. EDD management will review staffing reports to ensure all project team members are fully engaged on the project.

EDD will report to the Legislature by March 1, 2021, how DI and PFL benefits are utilized based on income categories, the cost of the increased wage replacement rates, and on the SDI contribution rates. EDD will also perform a cost/benefit analysis of the one-week waiting period for DI claims.

BACKGROUND

California SDI is a partial and temporary wage replacement insurance plan for California workers. The SDI program is state-mandated and funded through employee payroll deductions. Workers covered by SDI are covered by two benefits: Disability Insurance (DI) and Paid Family Leave (PFL). An estimated 17 million California workers are covered by the SDI program. The DI program provides short-term benefits to workers who suffer a wage loss when they are unable to work due to a non-work-related illness, injury, or pregnancy. Benefits are payable for up to 52 weeks.

In 2002, the PFL program was established in California – the first state in the nation to have such a program. This program provides benefits to individuals who take time off work to bond with a new child or to care for a seriously ill family member, including a spouse, registered domestic partner, child, parent, parent-in-law, grandparent, grandchild, or sibling. The PFL benefits are payable for up to six weeks.

The benefit amounts and the contribution rate for both DI and PFL are the same. For claims beginning on or after January 1, 2016, weekly benefits range from $50 to a maximum of $1,129. The maximum weekly benefit amount is increased each year by a statutory formula. The weekly benefit amount is calculated based on the calendar quarter with the highest earnings in the claimant's base period. The base period covers 12 months and is divided into four consecutive quarters each consisting of 13 consecutive calendar weeks. The wages the claimant was paid approximately 5 to 18 months before the claim begins are included in the base period. The weekly benefit amount for PFL and DI is approximately 55 percent of the claimant's earnings up to the maximum weekly benefit amount.

The SDI program is funded by workers through a payroll deduction. The contribution rate is calculated each year according to a formula in statute, with a maximum allowable rate of 1.5 percent. The contribution rate for 2016 is 0.9 percent. Covered employees have paycheck withholdings up to a designated wage ceiling, which is also calculated by a formula in statute. The taxable wage ceiling is $106,742 in 2016.

The first week of a claim for DI or PFL benefits is an unpaid waiting period week lasting for seven days. Individuals may use any available leave from their employers to cover that week; however, no benefits are payable for the first week of the claim.

AB 908 modifies the SDI program by increasing the wage replacement rate for both the DI and PFL programs to 60 percent for middle and high income workers, and to 70 percent for low income workers. This increase will take effect in January 2018, and would sunset on January 1, 2022. This bill also repeals the unpaid one-week waiting period for PFL benefits and requires a report to the Legislature on the impact of reducing or eliminating the current one-week waiting period for the DI program.

STAFF COMMENTS/QUESTIONS

The LAO states that estimated costs to implement the AB 908 changes appear reasonable and raises no issues at this time.

Staff Recommendation: Hold Open.

ISSUE 3: WORKFORCE INNOVATION OPPORTUNITY ACT (WIOA) DISCRETIONARY FUND ADJUSTMENTS

PANEL

- California Workforce Development Board
- Employment Development Department
- Department of Finance
- Legislative Analyst's Office
- Public Comment

PROPOSAL

The May Revision includes a proposal for the use of Workforce Innovation Opportunity Act (WIOA) additional funds for a mix of purposes.

California's total WIOA state allocation increased $21.3 million, from $400.3 million in 2015-16 to $421.6 million in 2016-17. In addition, the percentage allowable for discretionary use was increased from 10 percent to 15 percent of the total allotment. This results in a 2016-17 WIOA Discretionary Fund level of $63.2 million (or 15 percent of $421.6 million). The 2015-16 WIOA Discretionary Fund level is $41.1 million (10 percent of $400.3 million plus $1 million of 2014-15 carry forward).

	2015-16	2016-17	Change
State Allocation for WIOA	$400.3	$421.6	$21.3
Less: Formula Allocations to Locals and Rapid Response Allotment	-360.2	-358.4	1.8
WIOA Discretionary Funds	$40.1	$63.2	$23.1
2014-15 Carry-Forward	1.0	0.0	-1.0
Total WIOA Discretionary Funds	$41.1	$63.2	$22.1

The administration has proposed a mix of new programs and augmentations to previously existing programs, as shown in the table below. As in recent years, the administration's proposal prioritizes the use of discretionary funds to develop the capacity of the state's local workforce development system in areas that are emphasized by the federal WIOA legislation, including regional coordination and planning, program alignment, data sharing, and sector strategies. A portion of the discretionary are also provided to support programs that directly provide services to certain target populations. For example, the May Revision proposal includes additional funding for the Governor's Award for Veteran's Services and the Regional Workforce Accelerator program, focusing on ex-offender and immigrant populations.

Proposed Allocation of Increased WIOA Discretionary Funds in 2016-17

Funding for New Programs/Activities	
Technical assistance and training for state and local staff to implement State Strategic Workforce Plan	$5.0
Funding to place unemployment insurance staff in AJCC's	3.5
Awards for development of model multiple-employer industry sector programs	2.0
Awards for "high performing boards," pursuant to Chapter 497 of 2011 (SB 985, Lieu)	1.7
Improvements to the CalJOBS system	1.6
WIOA program evaluation	1.5
Increased staff capacity for regional planning	1.2
Performance and Participant Data Alignment	1.0
Support for Local Workforce Area consolidation planning	0.6
Labor market information support for local boards	0.5
Subtotal	*($18.6)*
Augmentations to Existing Programs/Activities	
Governor's Award for Veteran's Grants	$2.3
Regional Workforce Accelerator Program (focusing on formerly incarcerated and immigrant populations)	2.0
Disability Employment Initiative	0.6
Local program oversight and technical assistance	0.5
CWDB administration, policy development, and program partner coordination	0.5
Financial management and information technology	0.3
EDD administration	0.1
Subtotal	*($6.3)*
Total	***$24.9a***

a. Reflects a $23.1 million year-over-year increase discretionary funds plus $2.8 million in funds freed up by year-over-year reductions in funding for certain items, partially offset by a $1 million year-over-year reduction in WIOA discretionary funds available to be carried in from the prior year.
AJCC = America's Job Center of California (formerly known as OneStops), WIOA = Workforce Innovation and Opportunity Act, CWDB = California Workforce Development Board, and EDD = Employment Development Department.

The Administration has provided the following detail on their WIOA expenditure plan. The requested budget items can be classified in groups of Staff Resources and Training, Grant Expansions, Technological Upgrades and Local Support, and State and Local Program Development.

The below breakout covers the significant changes from the approved October 2015 WIOA Revision. These figures do not reflect the $2.8 million in decreases from the approved October Revision.

Staff Resources and Training (Total resources: $10.4 million and 67 positions)

- **Employment Development Department, Local Program Oversight and Technical Assistance, Finance Management and Information Technology, Labor Market Information Support for Local Boards**
  $1.4 million and 10 positions for Employment Development Department to process and review an increased level of grants, provide system support to local partners with extracting and manipulating system data, and fund yearly annual employment projections and tools to measure skills gaps in the workforce.

- **Comprehensive Services in AJCCs**
  $3.5 million and 48 positions for Employment Development Department to fund at least one UI trained individual in a designated comprehensive America's Job Centers of California to train existing workforce service staff and provide UI assistance.

- **CWDB Administration, Policy Development and Program Partner Coordination**
  $0.5 million and 9 positions for the California Workforce Development Board to handle the increased workload and responsibilities associated with WIOA implementation.

- **Technical Assistance and Staff Training**
  $5.0 million to provide training to program staff and improve one-stop procedures to improve the integration of services in the AJCC system through Customer Centered Design.

Grant Expansions (Total resources: $8.6 million)

- **Regional Workforce Accelerator Program: Focus on Ex-Offender and Immigrant Populations**
  $2.0 million for additional Workforce Accelerator grants award to local programs to develop strategies and services to remove barriers and create improvements in training and job placement.

- **Model Multiple-Employer Industry Sector Programs**
  $2.0 million for competitive Industry Sector grants for local workforce areas of coalitions to develop multi-employer workforce initiatives to develop career pathways for sectors with projected job growth.

- **High Performing Boards (State Requirements)**
  $1.7 million to provide grant awards to 33 local workforce investment boards that have received High-Performing Board status to engage businesses and workforce partners.

- **Governor's Award for Veterans' Grants**
  $2.3 million to fund competitive grants with a focus on transitioning veterans into high-wage, high-demand occupations.

- **Disability Employment Initiative**
  $0.6 million to expand funding for the Disability Employment Accelerator to support people with disabilities gain the necessary skills for employment.

Technological Upgrades and Local Support (Total resources: $1.6 million)

- **CalJOBS**
  $1.6 million to develop a mobile job search application, enhance document management and scanning capabilities, automate tracking of services using scan card technology, and develop a customer relationship management system.

- State and Local Program Development (Total resources: $4.3 million)

- **Performance and Participant Data Alignment**
  $1 million to fund the development and implementation of state-level and local data sharing to improve services for job seekers as required under WIOA.

- **Regional Staff Capacity for State Plan Implementation**
  $1.2 million to support regional staff capacity to provide assistance and consulting grantee communities, Slingshot work, and the development of WIOA regional plans.

- **Local Workforce Area Consolidation Grants**
  $0.6 million to support and assist multiple local workforce areas to within a planning region to facilitate the re-designation into a single workforce area.

- **WIOA Required Program Evaluation**
  $1.5 million for research and evaluation of program practices from all discretionary and other CWDB and EDD investments.

BACKGROUND

Federal law provides that a certain portion of federal Workforce Innovation and Opportunity Act (WIOA) funding, up to 15 percent, may be held by the state for "statewide workforce investment activities," while the remainder of WIOA funds are passed on to Local Workforce Development Boards to provide services to unemployed or underemployed adults and youth. The statewide funds are sometimes referred to as "discretionary funds." The actual amount of discretionary funds that may be reserved at the state level, subject to the 15 percent cap, depends on congressional appropriations. In 2015-16, the state was able to reserve 10 percent of WIOA funds as discretionary funds. In 2016-17, the state may reserve 15 percent of WIOA funds as discretionary workforce funds. This results in an increase in total discretionary funds in 2016-17 of $23.1 million relative to the prior year.

STAFF COMMENTS/QUESTIONS

The LAO states that the May Revision proposal is consistent with federal law and with the recently completed State Strategic Workforce Plan. The LAO raises no issues at this time, but notes that the Legislature may have different priorities for discretionary programs and activities than those reflected in the May Revision proposal.

Staff Recommendation: Hold Open.

ISSUE 4: WIOA DATA SHARING TRAILER BILL LANGUAGE

PANEL

- California Workforce Development Board
- Employment Development Department
- Department of Finance
- Legislative Analyst's Office
- Public Comment

PROPOSAL

The May Revision includes a trailer bill proposal that would allow various departments to share information to support performance measurement and program evaluation under the WIOA. Specifically, the language:

- Provides the California Workforce Development Board and other state agencies access to any relevant quarterly wage data for performance evaluation purposes under WIOA along with other groups such as the Adult Education Grant Consortia and the community college Strong Workforce Taskforce.

- Authorizes the Department of Education to share necessary confidential information for performance tracking purposes with the Employment Development Department.

The Administration states that these changes will address data sharing gaps and legal barriers that could impede reporting requirements detailed under the WIOA. Without access to this information, under WIOA the failure to report timely or complete performance data could result in a sanction to the Governor's Discretionary fund. While late quarterly reports (which begin later this year) do not appear to specifically be subject to sanctioning, they are necessary to track performance goals.

The proposed trailer bill language can be found at:
http://www.dof.ca.gov/budgeting/trailer_bill_language/forcasting_labor_and_transportation/documents/408WorkforceInnovationandOpportunityActDataSharing.pdf

STAFF COMMENTS/QUESTIONS

No issues have been raised with this request.

Staff Recommendation: Hold Open.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS
MAY REVISION PROPOSALS

ISSUE 5: CONCRETE DELIVERY AND PUBLIC WORKS TRAILER BILL LANGUAGE

PANEL

- Department of Industrial Relations
- Department of Finance
- Legislative Analyst's Office
- Public Comment

PROPOSAL

The May Revision includes a trailer bill proposal that involved ready-mix concrete delivery and public works projects. A Department of Industrial Relations BCP proposal heard on April 12, 2016 allotted a position for DIR to implement AB 209, which included ready-mix concrete in the definition of public works. The trailer bill language makes technical changes to provide greater clarity for its implementation. Specifically, the language:

- Clarifies that nothing in the section shall cause an entity to be treated as a contractor or subcontractor for any purpose other than this section.

- Extends the time an entity hauling ready-mixed concrete can submit certified payroll records from three to five days.

- Clarifies that the section does not apply to public works contracts that are advertised for bid or awarded prior to July 1, 2016.

- Given the impending implementation date, it is requested that these technical clean ups happen as early as possible.

The proposed trailer bill language can be found at:
http://www.dof.ca.gov/budgeting/trailer_bill_language/forcasting_labor_and_transportation/documents/407ConcreteDeliveryandPublicWorks.pdf

STAFF COMMENTS/QUESTIONS

No issues have been raised with this request.

Staff Recommendation: Hold Open.

0840 STATE CONTROLLER'S OFFICE

ISSUE 6: 21ST CENTURY PROJECT: PROJECT ASSESSMENT AND PROJECT APPROVAL LIFECYCLE

The State Controller's Office (SCO) requests $2,720,000 ($1,550,000 General Fund [GF] and ($1,170,000 Special Funds [SF]) to support 4.0 positions (8.0 continuing positions effective January 1, 2017) in 2016-17 and $2,831,000 ($1,060,000 GF; 799,000 SF; $972,000 Reimbursements [Reimb]) in 2017-18 and $2,607,000 ($932,000 GF; $703,000 SF; $972,000 Reimb) in 2018-19 to support 8.0 positions to complete the assessments identified by the Legislative Analyst's Office, convey the results of the project management assessment in a Post Implementation Evaluation Report, perform business process re-engineering of human resource management and payroll processing practices to refine the scope of the future project and complete the Stage 1 Business Analysis of the Department of Technology Project Approval Lifecycle (PAL).

BACKGROUND

The requested resources are related to the assessment of the 21st Century Project, which has been terminated. Currently, the state's payroll technology needs are being met by a reconstituted legacy system. The proposal also includes components that will begin the process of designing and procuring a new statewide payroll approach.

LAO COMMENTS

The Legislative Analyst's Office (LAO) has recommended in that past that an independent third party assess the 21st Century Project. It appears, however, that the alternatives assessment would instead be conducted through the Department of Technology's new IT project approval process, which presumably would involve SCO working directly with the Department of Technology. LAO expresses concern that this approach would result in relatively narrow set of alternatives considered in the assessment. The LAO indicates that a fresh approach using an outside party may result in possible designs that depart from the state's current payroll practices. In light of the challenges of the 21st Century Project and the complexity of the state's workforce, the LAO indicates that new approaches should be considered before the state commits to spend hundreds of millions of dollars on a new project. LAO recommends that the Legislature approve the first year of the request only and the Legislature adopt supplemental reporting language requiring SCO to provide more detail on future assessment activities, as drafted:

> *It is the intent of the Legislature to continue funding assessment activities relating to the 21st Century Project efforts to replace the state's human resources and payroll management systems. No later than January 10, 2017, the State Controller's Office shall provide to the Joint Legislative Budget Committee and the fiscal committees of both houses a report that details proposed assessment*

activities beginning in 2017-18. The report shall at a minimum detail: (1) the results of assessments already completed and preliminary findings from ongoing assessments; and, (2) alternatives to be considered as part of Stage 2 of the Project Approval Lifecycle process before restarting efforts to replace the state's payroll system. Concerning the alternatives, the report shall address whether: (1) an independent third party should conduct the alternatives assessment; (2) the assessment should consider incrementally replacing business processes through a series of smaller projects; (3) the assessment should consider a decentralized model that integrates less complex payroll departments together and considers alternative approaches for modernizing the payroll systems of complex departments; (4) other state departments or agencies should be involved in the project in addition to the State Controller's Office. This reporting requirement may be satisfied by the submission of a budget change proposal as part of the Governor's 2017-18 Budget that addresses the issues listed above.

STAFF COMMENTS

Given the major challenges to the 21st Century project with implementing a payroll system, staff agrees with the LAO assessment. Also given the complicated nature of implementing any new payroll system project for the state, an approach that includes outside and independent perspectives on how to proceed would provide the state with alternative ways to look at future technology.

Staff Recommendation: Adopt the first year of funding and the SRL as discussed above.

0860 BOARD OF EQUALIZATION

ISSUE 7: AB 1717 PREPAID MOBILE TELEPHONY SERVICES (MTS) SURCHARGE

The May Revision proposes 3.7 positions and $1.3 million (Special Funds) in 2016-17, and 2.3 positions and $188,000 in 2017-18, and ongoing, to continue processing mandated workload associated with AB 1717 (Perea, Chapter 885, Statutes of 2014). AB 1717 imposes a surcharge on prepaid mobile communication services. The additional resources would include funding for personnel in the data analysis section, return analysis unit, audit and information section, and compliance and technology section.

BACKGROUND

AB 1717 enacted the Prepaid Mobile Telephony Services (MTS) Surcharge Collection Act and the Local Prepaid Mobile Telephony Services Collection Act (Prepaid MTS Collection Acts), which imposed upon each prepaid consumer a prepaid MTS surcharge and local charge to be collected by a seller on each retail transaction involving prepaid mobile telephony services, effective January 1, 2016. The bill defines "prepaid consumer" to mean a person who purchases prepaid mobile telephony services in a retail transaction. The statute will sunset on January 1, 2020. The prepaid MTS surcharge and local charges are imposed upon the consumer of prepaid MTS, but are required to be collected by the retail seller and the direct seller. The program for retailers of prepaid MTS will be administered by the Sales and Use Tax Department of the BOE, while the program that applies to direct sellers is administered by the Special Taxes and Fees Department.

The prepaid MTS surcharge rate is subject to calculation each year by BOE. The state rate consists of the 911 surcharge rate, determined by the Office of Emergency Services, plus the California Public Utilities Commission (CPUC) end-user surcharges, which includes the annual user fee established by the CPUC. The local charge rates are to be provided by local jurisdictions to the BOE annually. The BOE is responsible for publishing the combined rate for each jurisdiction by December 1 of each year, with the published rates becoming operative April 1 of the following year.

STAFF COMMENTS

Last year, the Legislature approved resources for administering the fee and approved positions on a limited term basis. The recommendation at the time stated that if additional resources were needed, BOE would have to justify the reasoning. The BOE should be prepared to discuss the justification for the additional staff. Given the vacant positions at BOE, they also should be able to discuss if those positions are currently vacant of filled.

Staff Recommendation: Adopt limited term funding for four years, with funding terminating with the expiration of the fee on January 1, 2020 for the limited term positions. Reject new permanent position for external affairs.