AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, MAY 21, 2019
1:30 P.M. - STATE CAPITOL, ROOM 447

ITEMS FOR VOTE-ONLY

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ITEMS TO BE HEARD

ITEMS FOR VOTE ONLY

0840 STATE CONTROLLER'S OFFICE
8880 FI$CAL
CONTROL SECTION 8.88

VOTE-ONLY ISSUE 1: SPRING FISCAL LETTER: FI$CAL

The Fi$Cal Project requests $37 million ($23.7 million General Fund) for increased Fi$Cal training and additional cash management functionality to reflect an anticipated delay in the project. The May Revision further requests a conforming change to the Budget's Control Section 8.88.

BACKGROUND

The Fi$Cal Project has issued a Spring Fiscal Letter requesting additional resources to reflect an extension of the project's implementation to allow for additional training and slower transition of departments on the system. Additional resources are also requested on a one-time bases to assist in cash management functionality and Comprehensive Annual Financial Report (CAFR) data integrity. This effort is, in part, due to recommendations of the Controller's office.

The proposed request includes $31 million for end user training and client department support in the budget year, with additional funding in 2020-21 and 2021-22. This reflects an extension of the project, outlined in the forthcoming
Special Project Report (SPR) 8.

Additionally, the proposal contains $6 million one-time is set aside to assist with immediate needs for functionality related to the State Controller's office functions.

While the BCP offers some details regarding the new project schedule, the full picture of the revised implementation will accompany the full SPR 8 in a few months.

In addition, the May Revision proposes that Control Section 8.88 be amended to read $2.1 million to align the Fi$Cal funding for design, development, and implementation costs with its funding formula, as approved in Special Project Report 4.

STAFF COMMENTS

The Assembly Budget Subcommittee #6 is intending to hold a joint hearing with Assembly Accountability on the Fi$Cal system on June 19, 2019.

This proposal is a large and significant request that arrives later in the budget process, but must be acted upon before key pieces of information regarding the use of the requested funds will be available in the SPR 8. However, the request reflects the project attempting to adapt to emergent issues in real time and as fast as possible.

Staff believes that delaying approval of these funds could result in additional costs from delays and further challenges to closing out the 2019-20 fiscal year. Approving the funding will allow the project to extend the existing contract with the vendor for a final extension period and provide certainty to departments regarding their staffing plans for the coming fiscal year—both appear necessary if the project wants to address the implementation concerns.

The Fi$Cal project has had a history of transparency and communication with the Legislature, including a long-standing practice of holding quarterly briefings for staff on the project's status. Staff believes that project will be responsive to the Subcommittee after these resources are approved, and there is no advantage to hold back funding for the project to allow for oversight. As this project nears completion, there is still time to pivot the conversation to lessons learned from the last ten years and the recent challenges in implementation.

Staff Recommendation: Approve Spring Fiscal Letter and May Revision

VOTE-ONLY ISSUE 2: CALIFORNIA STATE PAYROLL SYSTEM

The State Controller's Office (SCO) requests 6.0 permanent positions to support the California State Payroll System (CSPS) Project through the continuation of the California Department of Technology (CDT) Project Approval Life Cycle (PAL) and to support data conversion and independent verification and validation consultant contracts.

BACKGROUND

The State Controller's Office is responsible for issuing pay to employees of the state civil service, California State University and Judicial Council.

There are currently over 150 departments, 23 CSU campuses, and CSU Chancellor's Office in the State of California. The State workforce is comprised of approximately 286,000 employees, represented by 21 State civil service bargaining units and 13 CSU bargaining units. Employees are located throughout California and in other states, and range from elected officials, managers and supervisors, and higher education faculty, to rank and file workers in a variety of occupations.

Beginning in 2016, SCO began to assess current information technology and the latest industry standards, and initiated the re-engineering of a new human resource management and payroll system. This new initiative is named the California State Payroll System Project (CSPS).

This project would attempt to modernize the State's payroll system, a difficult task which the previous automation effort, the 21st Century Project (also called MyCalPays), failed to achieve, ending with that project failing in 2013.

Given the risk and the history of the project, the new effort's business case is being defined by the Department of Technology's Project Approval Lifecycle (PAL) process. This thorough effort is intended to reduce risk, but will delay the expected procurement until after 2024.

In order for a new effort to be approved by Department of Technology, the Department of Finance , and the Legislature, the Controller's Office must complete all four stages of the PAL process including:

- Stage 1 Business Analysis (S1 BA),
- Stage 2 Alternatives Analysis (S2AA),
- Stage 3 Solution Development (S3SD) and
- Stage 4 Project Readiness and Approval (S4PRA),

Each of which are separated by "gates" of approval. The Controller's Office is working closely with Department of Technology as it completes each of the stages in the PAL process and will seek continued legislative approval through future budget requests.

The Controller's Office is currently completing the second of the four "gates" and is expecting to need ongoing resources as this project evolves.

STAFF COMMENTS

The Subcommittee heard this issue on May 14th and no concerns were raised.

Staff Recommendation: Adopt May Revision Proposal

7760 DEPARTMENT OF GENERAL SERVICES

VOTE-ONLY ISSUE 3: FAIRVIEW DEVELOPMENTAL CENTER

The Department of General Services is $2.2 million to perform a site assessment of the Fairview Developmental Center.

BACKGROUND

The Department of General Services' (DGS) Asset Management Branch (AMB) requests a one-time $2.168 million General Fund (GF) appropriation to perform a comprehensive site assessment for the Department of Developmental Services' (DDS) Fairview Developmental Center (FDC), located in Costa Mesa.

The 2017-18 Budget Act provided DGS with one-time Property Acquisition Law Money Account (PAL) expenditure authority and a commensurate GF loan of $2,168 million to complete a site evaluation of disposition options for FDC. However, the authority for the GF loan was never exercised because FDC was not designated as surplus property—which is a requirement for exercising the loan.

On January 15, 2019, Governor Newsom signed Executive Order N-06-19, which directs DGS to take an inventory of all state-owned lands for potential development of low-income housing no later than April 30, 2019. On March 9, 2019, DDS officially notified DGS that FDC is scheduled to go into warm shutdown beginning January 1, 2020. While the process for the future disposition of FDC is being evaluated, given its impending closure, DGS is requesting a GF appropriation to begin the assessment immediately.

Regardless of the future disposition of the campus, DDS will retain portions of FDC as currently authorized by statute and lease agreements. Specifically, DDS will retain jurisdiction of the Harbor Village mixed use housing development, the homes on Mark Lane being developed for use as Stabilization, Training, Assistance and Reintegration (STAR) homes, along with the property commonly referred to as Shannon's Mountain—which is designated for the development of additional mixed-use housing.

STAFF COMMENTS

At the hearing on this issue, the Subcommittee learned that funding this assessment would not trigger the property becoming a surplus property. Thus, taking this action does not prejudice any future decisions on the disposition of this site.

Staff Recommendation: Adopt May Revision Proposal

0511 GOVERNMENT OPERATIONS AGENCY

VOTE-ONLY ISSUE 4: 2020 CENSUS OUTREACH

The May Revision further updated the Administration's Census Outreach plan.

BACKGROUND

The May Revision includes changes to the Census Outreach plan:

- $2.9 million General Fund to strengthen current statewide outreach and communication coordination and increase Native American outreach efforts.
- $938,000 General Fund for Planning, Coordination, and Analysis Improvements, including $750,000 to utilize Political Data Inc.'s data and application to assist in census outreach.
- Provisional language to provide program flexibility by allowing, upon request to the Legislature, the Census Office to augment the resources available for the 2020 Census effort by up to $22.5 million should program gaps be identified over the summer.

STAFF COMMENTS

The Subcommittee heard this issue on March 23, May 7, and May 14.

Staff recommends the following action:

1. Approve as Budgeted the $50 million of funding proposed in January Budget and the $3.8 million proposed in the May Revision.

2. Approved proposed provisional language allowing the administration to request additional resources for the census mid-year, but remove the $22.5 million cap on that request.

3. Add an additional $30 million above the May Revision for Census Outreach for the following activities:

    a. $5 million for the Statewide to translate materials into other languages, to supplement regional efforts.
    b. $2 million of additional funding for K-12-focused Census educational programs so that schools have a robust curriculum and material during the 2019-20 school year.
    c. $5 million for additional Bay Area county census outreach efforts.

   d. $5 million for Los Angeles County census outreach efforts.
   e. $13 million for additional community-based outreach efforts.

4. Approve resources for the California Housing and Population Sample Enumeration but delay the survey until at least August 2020, to reduce competition for resources and attention between these two different efforts.

5. Adopt Placeholder Trailer Bill Language to require the Complete Count Committee to report on various milestones to the Legislature prior to quarterly meetings.

Staff Recommendation: Approve as Budgeted January proposal, Adopt May Revision Proposal with modified budget bill language, Appropriate an additional $30 million and adopt placeholder trailer bill language.

ISSUE 5: DISASTER RECOVERY FUNDING

The May Revision includes additional funding for Disaster Recovery for local governments.

BACKGROUND

The May Revision proposes $10.5 million in additional funding for funding for local governments impacted by disasters. Specifically:

- $518,000 to reflect new or updated property tax loss information received from eight counties (Los Angeles, Mendocino, Napa, Orange, San Diego, Solano, Tuolumne, and Ventura) for the 2018 wildfires.

- $10 million to support communities in their recovery from the 2018 Camp Fire.

In the Early Budget Action, $31,331,000 was already appropriated to backfill property tax losses suffered by cities, counties, and special districts caused by various wildfires. That amount was subsequently amended in the 2018 Budget Act by Chapter 1, Statutes of 2019 (AB 72).

STAFF COMMENTS

The Assembly is considering a wide array of requests to address local disaster needs from several jurisdictions across the State. The proposed $10 million does not appear to be sufficient to allow the State to have even a small roll in meeting all of the needs identified.

The proposed additional $25 million added by this action also does not fully meet all of the identified needs, but instead is a placeholder to recognize that a fuller discussion is needed to determine the State's appropriate role in helping communities that have been severely impacted by disaster. As the State helps victims of recent disasters with the recovery and rebuilding effort, it also is implicitly promising future Californians similar treatment. Therefore, staff recommends that further deliberation is necessary to insure that the State's role in helping with disasters is one that can be reliably sustained if the disaster continue or even grow in future years.

In addition to the new funding, staff has developed a draft proposal to allow some disaster-impacted counties to retain a portion of reimbursements they collect on behalf of the State if these counties meet certain conditions. This proposal will provide a small amount of additional relief to counties that have been the most severely affected by recent disasters as well as help compensate them for providing this service on behalf of the State.

Staff Recommendation: Appropriate an additional $25 million for disaster relief for local governments and adopt placeholder trailer bill language.

XXXX VARIOUS

VOTE-ONLY ISSUE 6: DEFERRED MAINTENANCE

The Subcommittee will clarify the Assembly action on Deferred Maintenance

BACKGROUND

The Governor's Budget includes one-time resources of $315.8 million ($287.2 million General Fund and $28.6 million Proposition 68 bond funds) to address statewide deferred maintenance projects.

STAFF COMMENTS

At the direction of the Chair, Subcommittees held open deferred maintenance requests to allow the Assembly the option to consider the total package at one time. However, Subcommittees were permitted to reject the proposals, which occurred for at least one project.

The Assembly intends to approve any project proposed that has not been explicitly rejected by action of a Subcommittee.

Staff Recommendation: Reflect conforming action to approve any deferred maintenance project that was held open.

ISSUE 7: CONTINUED IMPLEMENTATION OF THE NEW MOTOR VOTER PROGRAM

The May Revision requests $2.9 million General Fund on a one-time basis allow the Secretary of State (SOS) to continue providing accurate voter registration data to counties.

BACKGROUND

This proposal will allow SOS to continue to use its system integrator to review and verify the integrity of voter registration data received from DMV before it is processed into VoteCal and transmitted to counties ensuring accurate voter registration data is provided to counties.

The SOS estimates the additional costs and efforts through 2019-20 at $2.9 million. This proposal funds work since April 2018 and continued work through 2019-20. It also includes $300,000 to allow additional data fields to be transmitted from the DMV to SOS, which will aid in creating more accurate voter information for counties. Future requests may be necessary to make ongoing improvements.

Staff Recommendation: Approve as Proposed.

ISSUE 8 : VOTING SYSTEMS REPLACEMENT FOR COUNTIES AND TRAILER BILL LANGUAGE

The May Revision provides $87.3 million General Fund to replace and upgrade county voting systems and proposes trailer bill language to guide the use of these funds.

BACKGROUND

Most counties election systems are old and outdated. The 2018 Budget Act provided $134 million to help cover the cost of replacing these systems which was the estimated equivalent of 50 percent of the total costs. While this funding was a good start to implementing new, modern voting technology in the state, the funding needed is greater. The 50/50 match is too much for most, if not all counties, especially at a time when there is no federal funding forthcoming to assist with match funding and the counties resources for elections are being spent on conducting statewide special elections.

The Governor proposes making an additional $87.3 million available to counties to replace and upgrade voting systems. This amount would cover (1) an additional 25 percent of the estimated vote center model costs for counties with over 50 precincts ($65.7 million), (2) full funding of the estimated costs to upgrade or replace voting equipment at counties with 50 or fewer precincts ($3.6 million), and (3) $18 million for county election management system replacements. (Election management systems are the systems that counties use to register voters and update voter information. The information from these systems feeds into the statewide voter registration database, known as **VoteCal**.)

Rather than a 1:1 match where counties must pay an equal cost as the state to receive state funds to replace voting systems, the Governor proposes amending state law so that (1) counties with more than 50 precincts receive $3 from the state for $1 of county money spent and (2) counties with fewer than 50 precincts have no matching requirement. This proposal will provide an additional 25 percent of the estimated vote center model costs for counties with over 50 precincts ($65.7 million), which brings the state's investment to 75 percent of total estimated costs; full funding of the estimated polling place model costs for counties with 50 or fewer precincts ($3.6 million); and $18 million for county election management system replacements.

The funding will be provided to counties as reimbursements and covers the costs for the replacement of voting systems, including all tabulation equipment, accessible equipment, election management system software and hardware, electronic poll books, and ballot on demand printers.

STAFF COMMENTS

This item was previously heard on 5/14/2019. Staff has no concerns.

Staff Recommendation: Approve as Proposed and Adopt Placeholder Trailer Bill Language.

ISSUE 9: CAL-ACCESS (CALIFORNIA AUTOMATED LOBBYING AND CAMPAIGN CONTRIBUTIONS AND EXPENDITURE SEARCH SYSTEM) REPLACEMENT PROJECT (APRIL FINANCE LETTER) AND TRAILER BILL LANGUAGE

An April Finance Letter requests a one-time augmentation of $7.7 million ($7 million General Fund and $700,000 Political Disclosure, Accountability, Transparency, and Access Fund) in 2019-20 to meet the mandates of SB 1349 (Hertzberg, Chapter 845, Statutes of 2016) to continue funding for seven positions and contracted services to implement the CAL-ACCESS (California Automated Lobbying and Campaign Contributions and Expenditure Search System) Replacement Project.

In addition, the Subcommittee proposes trailer bill language to delay implementation of the system until after the 2020 presidential election.

BACKGROUND

SB 1349 requires the Secretary of State (SOS), in consultation with the Fair Political Practices Commission (FPPC), to develop and certify for public use a new online filing and disclosure system for statements and reports that provides public disclosure of campaign finance and lobbying information in a user-friendly, easily understandable format to replace the current system.

The funding request supports staff resources and continues consulting contracts for development and implementation of the project.

Stakeholders have requested that implementation be pushed back by a year because there are concerns that the current implementation timeline does not allow enough time for user acceptance testing and training. The current launch date would be in the midst of a mandatory 24-hour reporting period which could lead to inadvertent confusion and non-compliance as well as cause insufficient time for filers and users to understand the functionality of the new system. Delaying implementation greatly reduces the risks associated with delivering this project successfully. The FPPC intends to take a formal position on approving a delay until February 2021 at its May 17, 2019 meeting.

STAFF COMMENTS

This item was previously heard on 5/14/2019. Staff has no concerns with the request for continued funding for implementation of the project. Staff also recommends approval of the placeholder trailer bill language to delay implementation until after key dates have passed. The conflict of the launch date was not anticipated when passed by the Legislature since the primary was anticipated to occur in June. The concerns noted would not have been an issue at the time the legislation was passed because the primary date was not in March.

Staff Recommendation: Approve as Proposed and Adopt Placeholder Trailer Bill Language.

ISSUE 10 : VOTER OUTREACH AND EDUCATION FOR SB 450 (LEGISLATIVE PROPOSAL)

This proposal would provide $3.8 million General Fund over two years to SOS for outreach and education in counties using Vote Centers for the Presidential Primary Election in March of 2020 and the Presidential Election of November 2020. In each year, $1.5 million would be provided to counties as reimbursements and $400,000 to SOS for developing outreach and education materials and administration.

BACKGROUND

SB 450 (Allen, Chapter 832, Statutes of 2016) allows counties to replace the current precinct model of voting with a new “vote center” model that enables voters to cast their votes over a period of days prior to election day. As allowed, five of the 14 counties implemented the new model in 2018 and several counties including Los Angeles plan to adopt the model in 2020.

Transitioning to a vote center model is a significant change and in order to ensure that voters successfully make the transition requires voter outreach and education. Researchers, election officials and advocates have all stressed the importance of public education when making significant changes.

The 2017-18 budget appropriated $250,000 for voter outreach and education to the five counties using Vote Centers at a cost of about $0.20 per registered voter. Using this same level of funding per voter results in an estimated cost of about $1.5 million in 2019-20 and 2020-21. In addition, this proposal would provide funding to SOS for staff to create consistent outreach materials and conduct a social media campaign. SOS would also need staff to award contracts to counties to allow for reimbursement and to review claims submitted by counties for the cost of education materials and services.

STAFF COMMENTS

This item was previously heard on 5/14/2019.

Staff Recommendation: Approve $3.8 million General Fund for SOS for outreach and education efforts in counties using Vote Centers in 2019-20 and 2020-21.

ISSUE 11: TECHNICAL CHANGE TO AB 801 (LEGISLATIVE PROPOSAL)

This proposal makes a technical change to AB 801 (Weber, Chapter 711, Statutes of 2017) to assign the redistricting role to the County Clerk of the Board of Supervisors rather than to the Registrar of Voters. The proposal would adopt trailer bill language that would where it says “county elections official” substitute with “Clerk of the Board of Supervisors” and where it says “Clerk of the County of San Diego” substitute with “Clerk of the Board of Supervisors”.

Staff Recommendation: Adopt Placeholder Trailer Bill Language.

0911 CITIZEN’S REDISTRICTING INITIATIVE

ISSUE 12: STATEWIDE OUTREACH PROGRAM FOR THE REDISTRICTING PROCESS

The Budget proposes $17 million one-time General Fund for the Citizens Redistricting Initiative. These funds would be available for a three-year period. The funding will support efforts of the Citizen Redistricting Commission and the State Auditor throughout the redistricting process associated with the 2020 Census.

BACKGROUND

Proposition 11, the Voters FIRST Act, was approved by the voters on the November 4, 2008 General Election Ballot. Proposition 11 changed the redistricting process by establishing a 14-member Citizens Redistricting Commission (Commission) to draw the new district boundaries for the State Assembly, State Senate, and Board of Equalization beginning with the 2010 Census. Pursuant toGovernment Code Section 8252, the State Auditor is responsible for administering the selection process for the Commission. Existing law specifies that a minimum of $3 million in funding be provided to the State Auditor and the Commission, or the amount appropriated for the previous redistricting plus CPI, whichever is greater. The total amount provided during the last redistricting cycle was $5.4 million. The minimum amount that must be provided pursuant to existing law is approximately $6.9 million.

Staff Recommendation: Decrease the appropriation by $189,000, and adopt placeholder budget bill language implementing the Citizens Redistricting Initiative. Appropriate $1,915,000 to the University of California to maintain the Statewide Database and provide public access to redistricting software.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

VOTE-ONLY ISSUE 13: PROGRAM PERFORMANCE IMPROVEMENT INITIATIVE AND TRAILER BILL LANGUAGE FOR ALCOHOL LICENSE FEES (APRIL FINANCE LETTER)

An April Finance Letter requests funding to implement a multi-year plan to strengthen and modernize the Department of Alcoholic Beverage Control (ABC) in order to improve efficiencies and service to the public and keep pace with the growing and evolving industry it regulates. This proposal requests 34 positions and $5.2 million in funding from the Alcohol Beverage Control Fund in 2019-20 and increases to a total of 51 positions and $7.5 million in 2022-23.

This proposal includes trailer bill language to adjust fees to address the current structural deficit and the additional revenue required to support the proposed program performance improvements.

BACKGROUND

The Alcoholic Beverage Control Act, administered by the Department of Alcoholic Beverage Control (ABC), regulates the granting of licenses for the manufacture, distribution, and sale of alcoholic beverages within the state.

ABC's staffing level has been essentially flat since its inception in 1955, despite tremendous industry growth and an exponential increase in governing law. In 1955, ABC was authorized 445 employees to regulate 44,925 licenses. There are now 92,277 licenses and a far more complex statutory landscape, but ABC has only 14 more employees. ABC continues to fall short of its goals for issuing licenses in a timely manner. It is not able to maintain an effective enforcement presence. It also does not provide many online services that the public expects.

The two primary challenges addressed by this proposal are 1) improving program performance in the areas of enforcement, licensing, and services for the public; and 2) increasing fees to eliminate the operating deficit.

Performance Improvement Initiative

Below are descriptions of ABC's key performance issues and proposed solutions.

SUMMARY OF PROGRAM PERFORMANCE IMPROVEMENT INITIATIVE ISSUES AND SOLUTIONS BY COMPONENT		
Program Performance Improvement Initiative Component	**Key Issue**	**Proposed Solution**
Enforcement Staff Augmentation	Maintaining an effective enforcement presence with growing population of licensees.	Increase enforcement presence by 7 percent, address backlog of complaints, and increase proactive activities to reduce non-compliance.
Legal Support of Enforcement	It currently takes over 6 months to go from accusation to enforcement hearing, often allowing bad behavior of licensees to continue.	Add capacity in legal to prosecute cases in timely manner (60 days is the target).
Bifurcation	Diminishing licensing expertise among sworn management who oversee licensing, inefficiencies in having sworn personnel perform non-sworn work.	Complete 25 year bifurcation project by establishing a formal licensing division and shifting upper and middle management licensing duties from peace officers to non-sworn professionals.
Centralization of Non-retail Licensing Duties	- Keeping pace with demands of licensing - growing at 1-2 percent a year. - Exploding non-retail industry - most complicated and sensitive licensing investigations.	Add licensing resources and centralize non-retail licensing at headquarters, reducing high caseloads in district offices and developing deeper expertise in licensing at headquarters.
Licensing Training Unit	Inconsistency in licensing due to lack of regulations, out-of-date policies and procedures, and minimal training.	Establish licensing training program with a focus on supporting the proposed establishment of a licensing division and shifting of management responsibilities.
Legal Support of Licensing	Protested license applications are not receiving proper legal review, leading to unenforceable license conditions and weak legal bases for denying licenses where good cause exists.	Re-establish legal review in the process for all protested licenses to ensure conditions are proper and enforceable, and ABC's legal arguments at licensing hearings are appropriate and well prepared.
Law and Regulatory Policy Unit	Keeping pace with industry requests for guidance, a changing market, and legislation. Currently, there is no capacity to create regulations.	Create Regulatory Policy unit to address backlog of regulatory issues and continue proper maintenance of the ABC Act and all associated regulations.
Communications	ABC has limited ability to communicate with licensees and servers, relying primarily on traditional press releases and news media to get its message out.	Establish a second position in the Communications program to establish a digital relationship with many more of ABC's stakeholders - leveraging the opportunity to create these relationships that online services and the AB 1221 program will provide.
Information Technology	- Common online services for the public and licensees such as online license renewal and application are not available. - Minimal operational automation requires ABC's programs to continue to operate in a very paper-based manner across a statewide jurisdiction. - Unresolved and growing backlog of issues with licensing system creates performance challenges and inefficient work-arounds.	Right-size IT unit to support current systems and plan for future automation (eServices initiative to provide online services is under way and may begin implementation in 2019-20, subject to IT project and budgetary approvals).
Accounting Operations	Accounting unit has not kept pace with all aspects of proper financial accounting - leading to untimely and inaccurate financial statements.	Add one analyst position to ensure high-level transactions and workloads such as reconciliations are completed monthly.

Many of these components are interconnected and the proposed solutions will compound the benefits of the proposed program improvements.

The proposed staffing augmentations to address these problems are summarized in the figure below.

SUMMARY OF BUDGET REQUEST FOR PROGRAM PERFORMANCE IMPROVEMENT INITIATIVE BY COMPONENT								
Program Improvement Initiative	2019-20		2020-21		2021-22		2022-23	
	Positions	Cost	Positions	Cost	Positions	Cost	Positions	Cost
Enforcement Staff Augmentation*	5.0	$ 988,000	10.0	$1,784,000	10.0	$1,594,000	10.0	$1,594,000
Legal Support of Enforcement	3.0	$ 565,000	3.0	$ 538,000	3.0	$ 538,000	3.0	$ 538,000
Bifurcation*[1]	1.0	$ 238,000	4.0	$ 685,000	10.0	$1,592,000	13.0	$2,016,000
Centralization of Non-retail Licensing Duties	7.0	$ 898,000	7.0	$ 835,000	7.0	$ 835,000	7.0	$ 835,000
Licensing Training Unit	3.0	$ 376,000	3.0	$ 349,000	3.0	$ 349,000	3.0	$ 349,000
Legal Support of Licensing	2.0	$ 339,000	2.0	$ 321,000	2.0	$ 321,000	2.0	$ 321,000
Law and Regulatory Policy Unit	3.0	$ 459,000	3.0	$ 432,000	3.0	$ 432,000	3.0	$ 432,000
Communications	1.0	$ 154,000	1.0	$ 145,000	1.0	$ 145,000	1.0	$ 145,000
Information Technology	8.0	$1,105,000	8.0	$1,121,000	8.0	$1,121,000	8.0	$1,121,000
Accounting Operations	1.0	$ 127,000	1.0	$ 118,000	1.0	$ 118,000	1.0	$ 118,000
Totals	34.0	$5,249,000	42.0	$6,328,000	48.0	$7,045,000	51.0	$7,469,000

* The lower number of positions in the first year or two reflect the proposal's multi-year implementation approach

[1] Adds the executive of the Licensing Division in the first year whose focus will be to set up training unit, centralize non-retail licensing while planning for the shift of licensing responsibilities, which would begin in 2020-21.

Fee Adjustments to Address the Operating Shortfall

95 percent of ABC's operating budget is supported by fees for 1) original license; 2) annual renewal fees; 3) fees for one-day events; 4) business transfer fees; and 5) other fees such as penalties. The requested trailer bill language proposes to adjust fees in order to address the current structural deficit ($10.5 million in 2018-19) and provide the additional revenue required to support the proposed program performance improvements. The package of fee increases will increase annual revenues by approximately $19.5 million. Most of the increased fees would be effective October 1, 2019 and beginning with the 2021 calendar year an annual adjustment of specified fees would be authorized.

Application Fees. Many of the original license fees were established in 1968 or 1983 and have not been increased. For the licenses increasing to $905, this amount was determined by workload studies that analyzed the actual costs of processing license applications. There will be similar changes to other fees, including transfers and dailies.

Original License Fee Changes. The proposed changes to the original license fees include:

- No change to on-sale or off-sale general licenses (Types 21, 47, 48, 57, 62, 64, 70, 71, 72, 75, 78, 83, 87, 88).
- No change to licenses typically held by licensees for the purpose of adding related privileges to their existing licenses (e.g., still, out-of-state beer manufacturer certificate, distilled spirits shippers certificate, and direct shippers permit (Types 6, 26, 28, 82).

- The application fee for most other new permanent licenses, which are currently $100 to $300, will be $905 (e.g., beer manufacturers, winegrowers, off-sale and on-sale beer and wine retailers) (Types 1, 2, 20, 23, 41)

Annual Renewal Fees. Adjustments to annual renewal fees are also included in the Governor's Proposed 2019-20 Budget. The following shows proposed fee adjustments for the most commonly held ABC licenses in the state:

License Type	Current Fee	Proposed Fee
Winegrower (Type 02)	$71 - $466	$110 - $540
Large Beer Manufacturer (Type 01)	$1,531	$1,850
Small Beer Manufacturer (Type 23)	$184	$380
Beer and Wine Importer (Type 09)	$77	$110
Beer and Wine Wholesaler (Type 17)	$340	$380
Off-Sale Beer and Wine (Type 20)	$278	$380
Off-Sale General (Type 21)	$617	$755
On-Sale Beer and Wine Eating Place (Type 41)	$384	$430
On-Sale Beer and Wine Public Prem. (Type 42)	$284	$540
On-Sale General (Types 47 and 48)	$632 - $971	$755 - $1,190

STAFF COMMENTS

This item was previously heard in Subcommittee No. 4 on April 30, 2019. Staff has no concerns with this proposal and recommends approval and adopting placeholder trailer bill language to guide implementation and reporting on performance measures.

Staff Recommendation: Approve the requested funding, fee adjustments, and positions, and adopt placeholder trailer bill language for implementing the proposal and placeholder budget bill language to require the department to report on performance measures.

VOTE-ONLY ISSUE 14: BUSINESS MODERNIZATION AND RESPONSIBLE BEVERAGE SERVICE AND TRAILER BILL LANGUAGE (APRIL FINANCE LETTER)

An April Finance Letter requests $2.9 million in 2019-20 (one-time funding) from the Alcohol Beverage Control Fund for 5.5 positions, credit card fees, and contract services to begin to implement an information technology system that would (1) support the Responsible Beverage Server (RBS) Training program authorized by AB 1221 (Gonzales Fletcher, Chapter 487, Statutes of 2017) and (2) provide eServices, such as online payments, for ABC licensees.

Trailer bill language is proposed that would authorize the department to charge fees necessary to cover its reasonable costs for administering the RBS program.

BACKGROUND

AB 1221 establishes the Responsible Beverage Service (RBS) Training Program Act of 2017, and requires ABC, on or before January 1, 2020, to develop, implement, and administer a curriculum for an RBS training program, as specified. Additionally, the bill requires, beginning July 1, 2021, an alcohol server, as defined, to successfully complete an RBS training course offered or authorized by ABC. The bill authorized ABC to charge a fee not to exceed $15 for any RBS training course provided by ABC and deposit the fees into the Alcohol Beverage Control Fund.

STAFF COMMENTS

This item was previously heard in Subcommittee No. 4 on April 30, 2019. In order to address concerns that the fee charged to prospective servers remains reasonable staff recommends adopting trailer bill language that includes a cap on the amount of administrative costs that can be charged.

Staff Recommendation: **Approve as Proposed and Adopt placeholder trailer bill language placing a cap on the fees charged to prospective servers for the administrative costs of the program.**

VOTE-ONLY ISSUE 15: STATEWIDE HUMAN RESOURCES WORKLOAD

The Governor's Budget requests eight positions and $1.3 million ($603,000 General Fund, $312,000 Central Service Cost Recovery Fund, and $352,000 Reimbursements) for 2019-20 and $1.2 million ($569,000 General Fund and $294,000 Central Service Cost Recovery Fund, and $332,000 Reimbursements) ongoing for Limited Examination and Appointment Program (LEAP) examination development, workforce planning, statewide recruitment, human resources management, and leadership performance and career development.

BACKGROUND

The Administration proposes to add eight positions to improve various human resources functions. The requested positions by division are shown in the table below.

Division	Positions Requested	Functions
Selection and IT (LEAP Examinations)	3	Update existing LEAP examinations and create new examinations.
Workforce Development	3	Focus on state department workforce planning and improving recruitment strategies.
Human Resources Management	1	Onboard and manage staff of proposed Office of Digital Innovation (50 staff)
Personnel Management	1	Address issues with state performance evaluation and merit process.

LEAP Examinations. The LEAP process was established in 1984 as a demonstration project to employ individuals with disabilities into state civil service and in 1989, the program became permanent. The LEAP examination process is designed to minimize the adverse impact of the traditional examination process by providing an alternate means of assessing specific classification qualifications and skills of job applicants who are disabled. LEAP further facilitates the recruitment of applicants who are disabled to provide departments with qualified candidates for specific job classifications.

Currently there are about 250 open online examinations compared to only nine open online LEAP examinations. Effective November 1, 2017, any job classification may be deemed a LEAP-certified classification. Therefore, it is necessary for CalHR to develop additional LEAP minimum qualification assessments for all open service-wide classifications. The three requested positions would develop these assessments.

Workforce Development. The workforce and succession planning function is tasked with advancing workforce and succession planning activities statewide, curating an informed and accurate picture of the workforce planning challenges and opportunities at the department, agency, and state levels, and instituting workforce planning as an operational norm at all levels. There is more work to do in these area to help departments implement workforce and succession plans. Work also need to be done in the area of statewide recruitment to establish California as an employer of choice. Two of the requested positions would work on workforce planning and one position would work on statewide recruitment.

Human Resources Management. One position is requested to onboard approximately 50 positions for the proposed Office of Digital Innovation and to provide ongoing human resources services.

Personnel Management. One position is requested to establish and lead statewide performance (supervisors and managers) and career development (rank-and-file to management).

STAFF COMMENTS

Staff recommends approving the requested positions for LEAP, workforce development, and personnel management. Staff recommends rejecting the one position to provide HR functions for the newly proposed Office of Digital Innovation to conform with Subcommittee 4 No. 4’s action to approve fewer staff for that office than requested.

Staff Recommendation: Approved as proposed except reject the request for one position for Human Resources Management.

8955 DEPARTMENT OF VETERANS AFFAIRS

VOTE-ONLY ISSUE16 : AMENDMENT TO OUTDATED BUDGETARY STATUTES

The May Revision proposes trailer bill language to amend outdated statutory language.

BACKGROUND

Current statute no longer reflects how the CalVet budget is structured. The proposed amendments to existing statute would conform statute to the budgetary structure that began in 2008-09.

Prior to 2008-09 the state budget placed all of the moneys received by a home to the credit of that home and the funds would augment the current appropriation for the support of the home. The funds included reimbursements such as member fees paid by residents of the home and federal per diem payments. However, the cash flow of these funds was variable and subject to delays resulting in CalVet needed to use General Fund loads to cover the gap between cash receipts and payments owed to staff and vendors.

Beginning in 2008-09, the homes were instead fully funded from the General Fund and as reimbursements and federal dollars came in these funds were returned to the General Fund to offset the department's costs.

Staff Recommendation: Adopt Placeholder Trailer Bill Language.

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

VOTE-ONLY ISSUE 17: TECHNICAL ADJUSTMENTS

The May Revision proposes adjustments to seven items in the CalPERS operational budget proposed at the CalPERS Board Meeting on April 16, 2019, and anticipated to be approved at the May 2019 Board Meeting.

BACKGROUND

CalPERS is anticipated to approve its budget at its May 2018 Board meeting, and the budget includes the following changes:

1) Item 7900-003-0830, CalPERS board administrative costs paid by the Public Employees Retirement Fund, increase by $159,797,000;
2) Item 7900-015-0815, CalPERS board administrative costs paid by Judges' Retirement Fund, decrease by $552,000;
3) Item 7900-015-0820, CalPERS board administrative costs paid by Legislators' Retirement Fund, decrease by $74,000;

4) Item 7900-015-0830, CalPERS board administrative costs paid by the Public Employees Fund, increase by $27,379,000;
5) Item 7900-015-0833, CalPERS board administrative costs paid by the Annuitants' Health Care Coverage Fund, increase by $962,000;
6) Item 7900-015-0849, CalPERS administrative costs paid by the Replacement Benefit Custodial Fund, increase by $37,000; and
7) Item 7900-015-0884, CalPERS board administrative costs paid by Judges' Retirement System II Fund, decrease by $708,000.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt the May Revision Proposal.

ISSUE 18: STATE SOCIAL SECURITY ADMINISTRATION PROGRAM

The May Revision provides to add $988,000 and five positions and trailer bill language for administration of the State Social Security Administrator (SSSA) program and to establish administrative fees for the Old Age and Survivors Insurance Revolving Fund (OASI Fund), which supports the program.

BACKGROUND

Since 1955, CalPERS has been designated as the SSSA for California and acts as the state's liaison between the Social Security Administration and approximately 2,300 public agencies and schools. Of these, only one third are employers with whom CalPERS contracts for pension benefits (CalPERS-covered employers). Between 1955 and 1987, CalPERS collected and deposited Social Security contributions from public employers into the OASI Fund, then later transferred the Social Security contributions to the Internal Revenue Service (IRS). The OASI Fund accrued interest earnings on those Social Security contributions between the time of collection and remittance to the IRS, which was used to support CalPERS' administrative costs associated with the SSSA program. However, federal legislation in 1986 transferred the responsibility for collecting Social Security contributions from SSSAs to the IRS, and in 1987 the OASI Fund stopped receiving contributions directly from public agencies, which eliminated the OASI fund's ability to accrue interest. Since 1987, SSSA program costs have been charged against the remaining fund balance, which consists of previously accrued interest.

Currently, administrative costs associated with the SSSA program are funded by the OASI Fund, which is continuously appropriated to CalPERS. Additionally, existing law provides CalPERS, with Finance approval, the authority to charge administrative assessments to employers to cover the cost of administrative expenses incurred to serve as the SSSA. However, CalPERS has never charged employers assessments due to the ability to utilize residual interest earnings in the OASI Fund to cover costs. Beginning in 2019-20, there will be insufficient reserves ($1.8 million as of October 2018) in the OASI Fund to cover expenses (approximately $1 million per year) and allow CalPERS to continue serving as California's SSSA. Therefore, CalPERS will begin assessing two types of administrative fees to recover its annual expenses: (1) annual maintenance fees charged to all Social Security-covered public employers ranging from $200/year for employers with four or less employees to $2,500/year for employers with 1,000 or more employees; and (2) one-time assessments between $600 and $700 to establish or modify an existing contract with the Social Security Administration.

This language will bring the OASI Fund under the budget-approval process to ensure administrative oversight and provide better insight and transparency into the SSSA program and OASI Fund reserves. Additionally, because CalPERS has not previously charged administrative fees and lacks collections data, it is uncertain whether employers, particularly those that are not CalPERS-covered employers, will pay assessments in a timely manner. To encourage payment, the penalties are proposed to be increased and interest is proposed to be charged for all amounts unpaid after 120 days. Furthermore, this language will remove the continuous appropriation authority and require annual Budget appropriation of funds to allow for evaluation of the fee structure if the fund balance exceeds 100 percent of budgeted expenditures.

Below is summary of the proposed fee structure.

Employers with CalPERS Retirement Contracts Only (Excluding State of CA, CSU and UC)

Tier	% of Total Employees	Employer Count	Fee	Revenue
1-4	10.1%	233	$ 200	$ 46,600
5-9	12.0%	277	$ 250	$ 69,208
10-19	12.1%	279	$ 300	$ 83,741
20-49	18.2%	418	$ 400	$ 167,021
50-99	15.1%	348	$ 500	$ 208,776
100-249	13.0%	300	$ 1,000	$ 299,900
250-499	7.8%	180	$ 1,500	$ 269,910
500-999	4.5%	104	$ 2,000	$ 207,623
1,000+	7.0%	159	$ 2,500	$ 398,711
Total	**100.0%**	**2,298**	-	**$1,751,489**

Individual State of CA, CSU and UC Agencies

Tier	Employer Count	Fee	Revenue
1-4	12	$ 200	$ 2,400
5-9	12	$ 250	$ 3,000
10-19	10	$ 300	$ 3,000
20-49	15	$ 400	$ 6,000
50-99	17	$ 500	$ 8,500
100-249	18	$ 1,000	$ 18,000
250-499	11	$ 1,500	$ 16,500
500-999	14	$ 2,000	$ 28,000
1,000+	66	$ 2,500	$ 165,000
Total	**175**	-	**$ 250,400**
		State of CA	*$ 163,400*
		CSU	*$ 57,500*
		UC	*$ 29,500*

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt the May Revision Proposal.

7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

VOTE-ONLY ISSUE 19: CREDITABLE COMPENSATION

The May Revision includes an increase of $5.7 million for CalSTRS for creditable compensation.

BACKGROUND

As compared to the Governor's budget, the Defined Benefit payment will increase by $4.3 million and the Supplemental Benefit Maintenance Account contribution will increase by $1.4 million for a total of $5.7 million. The adjustments are consistent with existing statutory funding requirements pursuant to the Education Code sections 22954 and 22955.1.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt the May Revision Proposal.

9800 EMPLOYEE COMPENSATION

VOTE-ONLY ISSUE 20 : AUGMENTATION FOR EMPLOYEE COMPENSATION

Employee Compensation (Item 9800) is decreasing by $1,785,000 ($961,000 General Fund) as a result of the removal of 2020 dental and vision premium rates, natural changes to enrollment in health and dental plans, and updated employment information for salary increases and other post-employment benefit contributions.

An amendment to budget bill language is also requested to ensure penalty assessments are applied to all employers for their respective portion of penalties the state may face under the federal Patient Protection and Affordable Care Act.

STAFF COMMENTS

The figures included are estimated health premium rates, and the final health rates will be adopted by the CalPERS Board in June 2019.

Staff Recommendation: Adopt the May Revision proposal.

CONTROL SECTION 3.60 (C.S. 3.60)

VOTE-ONLY ISSUE 21: STATE RETIREMENT CONTRIBUTION RATES

The May Revise proposes to amend C.S. 3.60 to capture changes in state retirement contribution rates adopted by the California Employees' Retirement System (CalPERS) and Judges' Retirement System II by CalPERS Board on April 16, 2019, and February 21, 2019 meetings.

BACKGROUND

State retirement costs (C.S. 3.60) continue to increase as the impact of the lower discount rate and the already scheduled smoothing changes adopted by CalPERS are phased-in; however, the increase is relatively flat with General Fund contributions increasing by $8.8 million and other funds decreasing by $5.3 million for a net increase of $3.5 million.

The newly adopted state employer contribution rates for CalPERS state members result in additional state costs of $525,048,000, an increase of $3,520,000 from the

$521,529,000 included in the Governor's Budget. Of the $3,520,000 increase, the General Fund is $8,837,000, a decrease of $1,177,000 special funds, and a decrease of $4,140,000 other nongovernmental cost funds.

The increase in the state employer contribution rate for JRS II members is attributed to the net effect of the most recent investment gain offset by a liability loss, as well as a change in actuarial method. The newly adopted rate results in General Fund costs of $85,226,000, a total increase of $6,435,000 from the $78,791,000 General Fund included in the Governor's Budget.

The aggregate effect of these changes on the General Fund is an increase of $15,272,000 in 2019-20 compared to the Governor's Budget.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt the May Revision Proposal.

9650 HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

ISSUE 22: EXCLUDED AND EXEMPT EMPLOYEE 80/80 EMPLOYER CONTRIBUTION FORMULA FOR ANNUITANTS

The May Revision proposes trailer bill language to ensure benefits for exempt and excluded employees aligns with the state's Other Post-Employment Benefit prefunding polices for all state employees beginning July 1, 2019.

BACKGROUND

Through the collective bargaining process, new employees are now subject to a lower employer contribution for future retiree health benefits (80/80 percent contribution formula vs. 100/90 percent contribution formula). Existing language specifies the 80/80 percent employer contribution for annuitants applies to all 21 bargaining unit rank-and-file employees, related excluded employees, and state employees of the judicial branch. However, existing statute pertaining to the 80/80 percent employer contribution formula does not clearly or explicitly state that this provision of law applies to exempt or excluded employees not related to a bargaining unit. This language will remove ambiguity and ensure benefits for exempt and excluded employees aligns with the state's Other Post-Employment Benefit prefunding polices for all state employees beginning July 1, 2019.

This proposal amends California Government Code Section 22871.3.

Staff Recommendation: Adopt the May Revision Proposal.

Items to Be Heard

5225 CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION

ISSUE 1: HOUSING FIRST-PAROLEE PROGRAMS CLEANUP

The Administration has requested trailer bill language to allow recovery housing, defined as sober living facilities and programs that provide housing in an abstinence-focused and peer-supported community, to count as a "housing first" program under current law if it also meets certain other criteria.

BACKGROUND

Most CDCR housing programs currently support recovery housing, which is not compatible with Housing First principles required for state housing programs under SB 1380 (Mitchell, Chapter 847, Statutes of 2016). This bill would effectively exempt those programs from those Housing First principles, provided they also meet certain other requirements.

STAFF COMMENT

The trailer bill language is more complex than just clean up trailer bill language. It should be heard through the policy committee process.

Staff Recommendation: Hold Open.

This agenda and other publications are available on the Assembly Budget Committee's website at: https://abgt.assembly.ca.gov/sub4hearingagendas. You may contact the Committee at (916) 319-2099. This agenda was prepared by Christian Griffith, Farra Bracht, and Genevieve Morelos.