AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, MAY 14, 2019

2:00 P.M. - STATE CAPITOL, ROOM 447

(Please note time change)

ITEMS TO BE HEARD

ITEM	DESCRIPTION	
0750	**OFFICE OF THE LIEUTENANT GOVERNOR**	**2**
ISSUE 1	LIEUTENANT GOVERNOR SUPPORT STAFF	2
7730	**FRANCHISE TAX BOARD**	**3**
ISSUE 2	EARNED INCOME TAX CREDIT	3
ISSUE 3	EITC ADVANCE PAYMENTS	5
ISSUE 4	OPPORTUNITY ZONES TRAILER BILL LANGUAGE	8
7600	**CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION**	**9**
ISSUE 5	SALES AND USE TAX EXEMPTIONS: DIAPERS AND MENSTRUAL PRODUCTS TRAILER BILL LANGUAGE	9
ISSUE 6	LIMIT CDTFA TO 3-YEAR LOOK BACK FOR BACK TAXES TRAILER BILL LANGUAGE	11
0000	**VARIOUS DEPARTMENTS**	**12**
ISSUE 7	CANNABIS	12
8260	**CALIFORNIA ARTS COUNCIL**	**16**
ISSUE 8	ADDITIONAL POSITIONS	16
ISSUE 9	MUSEUM FUNDING	17
0840 **8880** **C.S. 8.88**	**STATE CONTROLLER'S OFFICE** **FI$CAL** **CONTROL SECTION 8.88**	**18**
ISSUE 10	SPRING FISCAL LETTER: FI$CAL	18

0840	**STATE CONTROLLER'S OFFICE**	**20**
ISSUE 11	CALIFORNIA PAYROLL SYSTEM	20
7760	**DEPARTMENT OF GENERAL SERVICES**	**23**
ISSUE 12	FAIRVIEW DEVELOPMENT CENTER	23
0511	**GOVERNMENT OPERATIONS AGENCY**	**25**
ISSUE 13	2020 CENSUS OUTREACH	25
9210	**LOCAL GOVERNMENT FINANCING**	**27**
ISSUE 14	DISASTER RECOVERY FUND	27
0890	**SECRETARY OF STATE**	**28**
ISSUE 15	VOTING SYSTEMS REPLACEMENT FOR COUNTIES	28
ISSUE 16	CAL-ACCESS (CALIFORNIA AUTOMATED LOBBYING AND CAMPAIGN CONTRIBUTIONS AND EXPENDITURE SEARCH SYSTEM) REPLACEMENT PROJECT (APRIL FINANCE LETTER) AND TRAILER BILL LANGUAGE	31
ISSUE 17	VOTER OUTREACH AND EDUCATION FOR SB 450 (LEGISLATIVE PROPOSAL)	32
7900	**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**	**33**
ISSUE 18	STATE SOCIAL SECURITY ADMINISTRATION PROGRAM	33
9650	**HEALTH AND DENTAL BENEFITS FOR ANNUITANTS**	**35**
ISSUE 19	EXCLUDED AND EXEMPT EMPLOYEE 80/80 EMPLOYER CONTRIBUTION FORMULA FOR ANNUITANTS	35

ITEMS TO BE HEARD

0750 OFFICE OF THE LIEUTENANT GOVERNOR

ISSUE 1: LIEUTENANT GOVERNOR SUPPORT STAFF

The Office of the Lieutenant Governor requests $500,000 General Fund and four positions in 2019-20 and ongoing to support the Lieutenant Governor in fulfilling the duties and obligations of the office and best representing the constituents of California.

BACKGROUND

According to the May Revision letter, this proposal seeks four positions and associated funding that will allow the Lieutenant Governor to complete its primary roles of serving on various boards, chairing the State Lands Commission, serving as a voting member on the University of California Board of Regents and California State University Board of Trustees, serving as acting Governor when the Governor is out of the state, and responding to constituents. The four positions are: Communications Director, Environmental Analyst, Higher Education Analyst, and Constituent Support Services Specialist. The new template would be a stand-alone public enterprise fund

STAFF COMMENTS

With this request, the Lieutenant Governor's office would only have a total of 11 positions, which is still less than half the number of positions that were in place prior to the Great Recession. In 2007-08, this office was budgeted for 29.7 positions.

Staff Recommendation: Adopt Spring Fiscal Letter

7730 FRANCHISE TAX BOARD

ISSUE 2: EARNED INCOME TAX CREDIT

The May Revision proposes to further expand and rename the California Earned Income Tax Credit (EITC).

BACKGROUND

The May Revision proposes to rename the credit the California EITC, a cost-of-living refund (COLR), and significantly expands the credit beyond the January proposal. The newly expanded credit will be available to roughly 3 million households in total, and will approximately triple the amount of credits provided from $400 million to about $1.2 billion. The May Revision proposes to:

- Provide a $1,000 credit for every family that otherwise qualifies for the credit and has at least one child under the age of six.

- Increase the maximum eligible earned income to $30,000 so that those working up to full-time at the 2022 minimum wage of $15 per hour will be eligible for the credit.

- Change the structure of the credit so that it phases out more gradually, providing a more substantial credit for many eligible families.

To pay for the entire California EITC program, the May Revision proposes conforming to a number of federal tax provisions. The May Revision also proposes to partially conform to the federal provisions on deferred and reduced capital gains for investments in the California Opportunity Zones designated in 2018. These conformity provisions are expected to generate $200 million in 2018-19, $1.7 billion in 2019-20, and then about $1.4 billion annually on an ongoing basis.

STAFF COMMENTS

The May Revision is silent on covering low-income immigrant families with federally assigned Individual Taxpayer Identification Numbers (ITINs) or Social Security numbers. The subcommittee may wish to consider adding ITINs to the credit before increasing the cost of the credit. It is more expensive to expand the credit and then add ITINs later.

The May Revision proposes to rename the credit. The CA EITC is well known by the taxpayer and it would be confusing and costly to rebrand the program.

Staff Recommendation: Hold Open

ISSUE 3: EITC ADVANCE PAYMENTS

The May Revision requests $18.7 million and 22 positions in 2019-20; $20.5 million and 77.5 positions in 2020-21; $13.2 million and 98 positions in 2021-22; and $8.5 million and 92 positions in 2022-23; and $8.3 million and 90 positions ongoing to implement the EITC Advance Payments expansion.

BACKGROUND

The 2015 Budget enacted the state's first-ever CalEITC to help the poorest working families in California. Since then the credit has been expanded to include taxpayers with self-employment income and working individuals who are 18 years of age or older as well as increases to income thresholds.

This proposal allows for a taxpayer eligible for the CalEITC credit to apply for advance payment of the credit of up to 50 percent of their projected credit with a minimum $50 a month credit advance.

Applications for advance payments can be filed no earlier than the later of January 2021 or six to 18 months after the receipt of any applicable waivers from public assistance programs ensuring that these payments are not considered as income or resources that would make taxpayers ineligible for these other public assistance programs.

Taxpayer can request advance payment of their future EITC credit if they meet the following criteria:

- Taxpayer must have filed a return within the last 5 years.
- Taxpayer cannot have an outstanding balance due or pending offset at the time of application.
- Taxpayer registers and is approved for a MyFTB account.
- Taxpayer timely files a return to reconcile the advance payments received.

If taxpayer receives advance payments, they are required to file a timely return to reconcile advance payments received. Per the return filed, if the actual amount of EITC is greater than the advance payments, a refund will be paid. If the EITC is less than the advance payment amount they claimed, a liability will be created and they will he billed for liability amount. The liability will be treated like any other debt in terms of accruing interest, fees, subject to offsets, etc.

LAO COMMENTS

Proposed Application Process Likely Impractical. As an additional control to minimize identity theft and fraud, the Administration has proposed that participants must register with "MyFTB" before they are allowed to apply for monthly payments. The MyFTB internet application allows individuals, businesses, and tax professionals to review current and historical state tax information and other transactions with FTB. Creating a MyFTB account is a useful control because it has robust features to verify the tax filers' identities and physical addresses. However, these features also make it logistically challenging to create an account. The registration process is technical and cannot be completed at one time because it requires each filer to complete registration using a personal identification number mailed to his or her home address. Moreover, under the current proposal, the actual application for monthly payments would be a separate tax form that is not integrated into MyFTB. Many filers could need assistance to not only complete the application, but also to register with MyFTB. The LAO are therefore concerned that this is not a practical requirement for most filers who would otherwise be interested in participating in the monthly payments program. FTB acknowledges this requirement would reduce the use of monthly payments. In developing their budget change request, the department assumed that only 20 percent of qualified filers—64,000—would participate.

Implementation of Monthly Payments Contingent on Receiving Federal Approval. As the LAO noted in an earlier LAO analysis, providing advance monthly payments may require a waiver from the federal government in order to ensure these payments would not count as income for other federally funded programs. The May Revision includes $18.7 million for FTB in 2019-20 to implement the administration's Cal-EITC advance monthly payments proposal. This amount is almost entirely for information technology improvements needed to set up the program. Under proposed budget bill language, FTB would not receive any of these funds until the Department of Finance has notified the department that it has received the necessary federal approvals. FTB estimates that it could begin accepting applications for monthly payments 18 months after receiving the federal waiver.

Take Time to Revise Approach. Given the need for federal approvals and start-up work at FTB, there is no urgency to finalize the approach to EITC monthly payments in the 2019-20 budget. The LAO suggests that the Legislature direct the Administration to further study how to design the monthly payments program to be more practical and effective while awaiting any required federal waivers. If the Legislature pursues this approach, consider providing FTB a portion of the May Revision proposal to enable the department to begin some information technology improvements while identifying similar means of providing monthly payments. The Legislature then could consider a revised proposal for the 2020 budget.

STAFF COMMENTS

The Assembly Blueprint supports a monthly advance payment for EITC recipients. The Subcommittee may wish to ask the following:

1. Can DOF comment on how long they anticipate the federal waiver will take?

2. Could this additional time be used to further develop this proposal?

3. Has DOF had time to talk to the various stakeholders who will be impacted by the waiver?

4. With the changes to the EITC program, how will the Administration do outreach to communicate these changes to the public?

Staff Recommendation: Hold Open.

ISSUE 4: OPPORTUNITY ZONES TRAILER BILL LANGUAGE

The Governor's January budget proposal included various trailer bills to address tax conformity. The Subcommittee heard those provisions Tuesday, March 12, 2019. The May Revision includes additional trailer bill language relating to conformity that would allow state tax benefits for investments in alternative energy or affordable housing in communities designated as Opportunity Zones under a new federal program.

BACKGROUND

A December 2017 federal law (known as the Tax Cuts and Jobs Act) established new tax benefits to encourage investment in certain economically distressed areas—called Opportunity Zones. States had discretion to identify Opportunity Zones based on federal guidance. Generally, these are areas with relatively low median income and high levels of unemployment. In California, the state Department of Finance—with public input—identified 879 census tracts as Opportunity Zones.

When an individual or business sells an asset for more than they paid for it, their profit—known as a capital gain—is considered taxable income by the federal and state governments. Under the new Opportunity Zone program, taxpayers can defer federal income taxes on capital gains if those gains are invested in a business or real estate located in an Opportunity Zone. If investors hold on to the investment for multiple years, their tax liability on their deferred capital gains can be reduced. In addition, investors that maintain their investment for at least ten years will not be taxed on any capital gains earned on their Opportunity Zone investment.

LAO COMMENTS

The LAO recommends rejecting the Governor's proposal to create a state Opportunity Zone tax benefit given the mixed evidence regarding the benefits of such policies and the existence of better mechanisms to fund affordable housing.

The LAO also notes that if the Legislature moves forward with Opportunity zones that the Legislature should consider limiting revenue losses and designate an administrative agency to track and monitor investments.

STAFF COMMENTS

The Administration estimates annual revenue losses of $100 million with the adoption of Opportunity Zones.

Staff Recommendation: Hold Open.

7600 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

ISSUE 5: SALES AND USE TAX EXEMPTIONS: DIAPERS AND MENSTRUAL PRODUCTS TRAILER BILL LANGUAGE

The May Revision includes trailer bill language for two sales tax exemptions on diapers and menstrual products.

BACKGROUND

The May Revision proposes to exempt menstrual products and children's diapers from sales taxation beginning January 1, 2020. This exemption reduces General Fund revenues by $17.5 million in 2019-20, and $35 million each year thereafter. Total state and local revenue losses are $38 million 2019-20, and $76 million for the following full years. This tax exemption sunsets on December 31, 2021.

LAO COMMENTS

Diaper Exemption Less Targeted Than Alternatives. The diaper exemption would provide a broad but limited benefit to parents. Alternatives could provide more substantial benefits to families with the greatest needs. For example, instead of providing the exemption for one year (estimated $24 million General Fund, $52 million total), the state could fund roughly 1,600 additional child care slots, provide $28 million to local programs, provide $9.2 million to schools through Proposition 98, and (counterintuitively) reduce required reserve deposits and debt payments by $1.5 million.

Consider Broad Range of Options for Addressing Equity Concern. Some have raised an equity concern regarding the application of sales tax to menstrual products. One could raise similar equity concerns regarding the personal income tax and several other major programs.

Two Years Is Too Short. Under the Governor's proposal, these exemptions would last just two years. In the LAO's view, if the Legislature wants to enact these exemptions, somewhere in the range of four to ten years is more reasonable. Given the different policy rationales for the two exemptions, the Legislature could consider an expiration date towards the earlier end of this range for the diaper exemption and towards the later end for the menstrual products exemption.

STAFF COMMENTS

AB 66 (Gonzalez-Fletcher) relating to diapers and AB 31 (C.Garcia) relating to menstrual products are currently moving through the Legislature. These bills both propose to sunset in 2025, providing more time for these sales tax exemptions to be in place versus the May Revision.

Staff Recommendation: Hold Open.

ISSUE 6: LIMIT CDTFA TO 3-YEAR LOOK BACK FOR BACK TAXES TRAILER BILL LANGUAGE

The May Revision proposes trailer bill language to limit the California Department of Tax and Fee Administration (CDTFA) to 3-year look back for back taxes.

BACKGROUND

The U.S. Supreme Court's ruling in *Wayfair v. South Dakota* in June 2018 gives states more authority to require out-of-state sellers to collect use tax. AB 147 (Chapter 5, Statutes of 2019), clarified the economic nexus thresholds that California will use to determine if out-of-state retailers are required to remit use tax to California, effective April 1, 2019. Additionally, AB 147 requires marketplace facilitators to collect and remit sales and use tax on behalf of their marketplace sellers, effective October 1, 2019. The *Wayfair* decision and AB 147 are expected to increase sales and use tax (SUT) revenues by $174 million in 2018-19 and $616 million in 2019-20, a decrease of $45 million in 2018-19 and an increase of $62 million in 2019-20 from the Governor's Budget. The decrease in 2018-19 is due to a lower estimate of compliance among marketplace sellers due to the *Wayfair* decision prior to the October 1, 2019 effective date in AB 147 that requires marketplace facilitators to collect and remit sales and use tax for their marketplace sellers. The May Revision proposes that CDTFA limit the look-back to 3 years of back taxes, and this is consistent with the revenue forecast.

The TBL would limit the SUT liability of certain out-of-state retailers under certain conditions. To qualify for this benefit, retailers must:

- Have been required to pay SUT solely because a marketplace facilitator (as defined in the recently passed AB 147) stored and facilitated delivery of the retailer's goods in California. (As we understand it, these taxes were owed under state law prior to *Wayfair*, so enforcement of them would not constitute retroactive enforcement of *Wayfair*.)
- Not have been registered to pay California SUT prior to December 1, 2018, and not have filed SUT returns or made SUT payments prior to being contacted by CDTFA.
- Must register to pay SUT within 90 days of the effective date of the new law and must pay all tax liabilities incurred since April 1, 2016.

Qualifying retailers would, in effect, have to pay roughly three years of taxes instead of the eight years for which they could be liable under current law. They also would be relieved of any associated penalties.

Staff Recommendation: Hold Open.

ISSUE 7: CANNABIS

The May Revision includes a funding plan for resources in the Cannabis Tax Fund as well as proposed clean-up trailer bill language.

BACKGROUND

Cannabis Tax Fund

Proposition 64 specified the allocation of resources in the Cannabis Tax Fund, which are continuously appropriated. Pursuant to Proposition 64, expenditures are prioritized for regulatory and administrative workload necessary to implement, administer and enforce the Cannabis Act, followed by research and activities related to the legalization of cannabis, and the past effects of its criminalization. Once those priorities have been met, the remaining funds are allocated to youth education, prevention, early intervention, and treatment; environmental restoration; and public-safety related activities. The May Revision estimates $198.8 million will be available for youth education, prevention, early intervention, and treatment; environmental restoration; and public-safety related activities in 2019-20.

Proposition 64 Imposes Various Taxes on Cannabis which include two state excise taxes on cannabis: a retail excise tax and a cultivation tax. The revenues from these taxes are deposited in a special fund, the Cannabis Tax Fund. Additionally, Prop. 64 provides tax revenues to three Categories of Activities which include:

Allocation 1—Regulatory and administrative costs necessary to implement, administer, and enforce the Cannabis Act.

- The May Revision includes $15 million to provide grants to local governments to assist in the creation and administration of equity programs, and to support equitable access to the regulated market for individuals through financial and technical assistance. The Governor's Office of Business and Economic Development will administer the grant program on behalf of the Bureau of Cannabis Control.

Allocation 2—Research and activities related to the legalization of cannabis, and the past effects of its criminalization.

- The May Revision does not include any changes to the Allocation 2 programs.

Allocation 3—The May Revision includes an estimated $198.8 million in planned expenditures for Allocation 3 activities, which are available for the first time in 2019-20 to be spent as follows:

Sixty percent ($119.3 million) to education, prevention, and treatment of youth substance use disorders and school retention:

- $12 million to the Department of Public Health for cannabis surveillance and education activities.

- Remaining 75 percent ($80.5 million) to the Department of Education to subsidize child care for school-aged children of income-eligible families to keep these children occupied and engaged in a safe environment, thus discouraging potential use of cannabis.

- Remaining 20 percent ($21.5 million) to Department of Health Care Services for competitive grants to develop and implement new youth programs in the areas of education, prevention and treatment of substance use disorders along with preventing harm from substance use.

- Remaining 5 percent ($5.3 million) to support youth community access grants from the California Natural Resources Agency. These grants will fund programs to support youth access to natural or cultural resources, with a focus on low-income and disadvantaged communities for positive programming to discourage substance use. This includes but is not limited to community education and recreational amenities to support substance use prevention and early intervention efforts.

Twenty percent ($39.8 million) to clean-up, remediation, and enforcement of environmental impacts created by illegal cannabis cultivation:

- Sixty percent ($23.9 million) to the Department of Fish and Wildlife, of which $13.8 million will support clean-up, remediation, and restoration of damage in watersheds affected by illegal cannabis cultivation and $10.1 million to support enforcement activities aimed at preventing further environmental degradation of public lands.

- Forty percent ($15.9 million) to the Department of Parks and Recreation, of which $7.1 million will be used to survey the impacts and identify unknown areas of cannabis cultivation to assist with prioritizing resources for effective enforcement, $5.6 million for remediation and restoration of illegal cultivation activities on state park land, and $3.2 million to make roads and trails accessible for peace officer patrol and program assessment and development.

Twenty percent ($39.8 million) to public safety-related activities:

- $2.6 million to the California Highway Patrol for training, research, and policy development related to impaired driving and for administrative support.

- Remaining 30 percent ($11.2 million) to the California Highway Patrol's impaired driving and traffic safety grant program for non-profits and local governments authorized in Proposition 64.

- Remaining 70 percent ($26.0 million) to the Board of State and Community Corrections for a competitive grant program for local governments that have not banned cannabis cultivation or retail activities that will prioritize various public health and safety programs, including, but not limited to, local partnerships focused on prevention and intervention programs for youth and to support collaborative enforcement efforts aimed at combating illegal cannabis cultivation and sales.

The dollar amounts above are subject to change and will be affected by actual cannabis tax receipts for the final two quarters of 2018-19.

Trailer Bill Language

The May Revision includes statutory language to address technical, clean-up issues related to the California Cannabis Appeals Panel statute, streamline provisional licenses, enhance the equity grant program established in SB 1294 (Chapter 794, Statutes of 2018), strengthen administrative penalties for unlicensed cannabis activity, and extend the existing CEQA exemption.

STAFF COMMENTS

Staff notes that various pieces of the funding plan are being reviewed by other Subcommittees.

The funding plan for Allocation 3 is vague in statute; the Subcommittee may wish to ask the Administration how they came up with the specific programs in each subcategory.

The Subcommittee may wish to ask the Administration how they will notify departments of the exact funding levels for Allocation 3. Why did the Administration chose not to submit BCPs for staff provided through this funding. Does DOF have any way to track staff hired under Prop. 64 funds versus other funds?

How does the Administration envision oversight to take place for the funding plan?

Staff Recommendation: Hold Open.

8260 CALIFORNIA ARTS COUNCIL

ISSUE 8: ADDITIONAL POSITIONS

The May Revision proposes additional 6.3 positions to support the Programs and Administration Divisions for the California Arts Council.

BACKGROUND

The January budget proposed an increase of $10 million ongoing for the CAC and the May Revision provides additional staff to address the increase technical, analytical and administrative needs. According to the CAC, current staff already over capacity and additional staff are needed to complete the key functions.

STAFF COMMENTS

For 2019-20, the CAC has 14 authorized positions. The new positions in this proposal would constitute a 45 percent increase in staffing for CAC from the current year. There was no BCP submitted with this request. It is difficult to evaluate the workload associated with the new positions without additional workload analysis. It is understandable that with the increase in ongoing funding that additional staff is needed, but without additional detail it is difficult to know to what extent.

The CAC currently has two vacant positions.

Staff Recommendation: Hold Open.

ISSUE 9: MUSEUM FUNDING

The May Revision includes $5 million one-time General Fund to the Arts Council for the Los Angeles Museum of the Holocaust and $5 million one-time General Fund to the Arts Council for the Armenian American Museum.

BACKGROUND

The Los Angeles Museum of the Holocaust is the oldest survivor-founded museum in the United States and houses a large collection of artifacts donated by Holocaust survivors. The museum is expanding in Pan Pacific Park and the $5 million will assist with this effort.

The Armenian American Museum and Cultural Center of California is a developing project that will be located in Glendale, California. The Museum's mission is to promote understanding and appreciation of America's ethnic and cultural diversity by sharing the Armenian American experience.

The Governor's Budget included $1 million one-time General Fund to the Natural Resources Agency for the Armenian American Museum, which is being transferred to the Arts Council in the May Revision. Including the additional investment in the May Revision, the state has provided $8 million since 2016 for the Armenian American Museum.

STAFF COMMENTS

Staff agrees with the approach to transfer the funding for both museums to the CAC rather than the Natural Resources Agency.

Staff Recommendation: Hold Open.

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

ISSUE 10: 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, which is anticipated to be outline in the forthcoming Special Project Report (SPR) 8.

Additionally, the proposal contains $6 million one-time set aside to assist with immediate needs to support month-end and year-end close out issues, which have caused delays in reporting for the CAFR.

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 Financial Information System for California's funding for design, development, and implementation costs with its funding formula, as approved in Special Project Report 4.

LETTER FROM THE CONTROLLER

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

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

PANELISTS

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

STAFF COMMENTS

The Assembly Budget Subcommittee #6 is intending to hold a joint hearing with Assembly Accountability on the Fi$Cal system in late June or early July of 2019.

The proposed project delay reflects the recommendations of the State Controller to slow the implementation timeline and increase training to make sure the disruption caused by implementation do not undermine the timeliness and accuracy of the State CAFR and other financial reporting. Departments have not achieved proficiency in the new system as fast as expected and the implementation of the project has uncovered previously unknown deficiencies in some department's accounting infrastructure.

Staff Recommendation: Hold Open

0840 STATE CONTROLLER'S OFFICE

ISSUE 11: 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 State spent 14 years and over $250 million on the previous 21st Century/MyCalPays project only to be left with the same 1970's era payroll process and system in place. Large payrolling system replacements are difficult projects and other jurisdictions have also had difficulty implementing these efforts. For example, Canada estimates that its troubled Phoenix system project will cost nearly $1 billion to fully implement, far more than the initial $310 million total project costs.

The Department of Technology and the State Controller's slower and methodical pace in developing the project has merit, as it reduces risk. These small expenditures can help the State avoid mistakes that could translate into $100s million and years of further delay. This proposal provide the Controller's Office with stable positions for this long process and recognized the need to have a stable comprehensive vision about the underlying business processes before starting and automation changes. Providing ongoing funding for these additional positions also means that the Controller's office can likely find staff to take these jobs. Given the current state of the job market, limited-term positions are very unattractive and are hard to fill with quality candidates.

However, this proposal may not include enough resources to truly mitigate the possible risks to the project. According to the proposal, one alternative that was not adopted would have added 13 staff for this function, although most of these staff would have been temporary. According to the Budget Change Proposal, only adding the 6 staff, as proposed in the May Revision, has the following downsides to the project:

- Does not provide resources to manage critical contracts that require consistent monitoring;
- Provides less than optimal resources to complete and maintain required project management plans;
- Provides less than optimal resources to perform critical organizational change management activities;

- Does not provide state staff resources to perform data conversion activities or existing system alternative analysis;

- Does not allow SCO to adhere to the current project schedule

Staff recommends that the Subcommittee ask the Controller's Office and the Department of Finance to comment on these challenges with the proposed budget augmentation.

Staff Recommendation: Hold Open

7760 DEPARTMENT OF GENERAL SERVICES

ISSUE 12: 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

There has been considerable local interest in the future use of the Fairview site. The Assembly believes a deliberative process that involves stakeholders, especially in the Costa Mesa community, is necessary before any final use is agreed upon by the Legislature.

Staff is unclear if this small action would prejudice a future discussion about the use of the property.

Staff Recommendation: Hold Open

0511 GOVERNMENT OPERATIONS AGENCY

ISSUE 13: 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 and May 7.

On May 7, Staff recommended the following action:

1. Approve as Budgeted the $50 million of funding proposed in January Budget.
2. Appropriate an additional $5 million for the State to translate materials into other languages, to supplement regional efforts.
3. Approve resources for the California Housing and Population Sample Enumeration but delay the survey until after the Census period, to reduce competition for resources and attention between these two different efforts.
4. Increase funding for K-12-focused Census educational programs by $2 million so that schools have a robust curriculum and material during the 2019-20 school year.
5. Adopt Placeholder Trailer Bill Language to require the Complete Count Committee to report on various milestones to the Legislature prior to quarterly meetings.

However, staff is currently recommending holding open this item to allow for additional consideration of investment in community based organization and local government outreach in the Assembly's version of the 2019 budget that would be additive to the proposed language and resources cited above.

The challenge for the Subcommittee is that there is no clear methodology for determining the total need for outreach because the State has never had to face this situation before. The two methodologies for determining the need that staff have seen have similar target hard-to-count populations, but different concepts about the intensity of outreach that will be needed to reach these populations. But it isn't clear that the State's regions and partners are positions to reach all of the identified populations because the funding has just started to trickle to the regional lead agencies. The State will have a much better sense of where there could be gaps beginning in the Fall and then over the critical six months until the Census enumeration begins.

The Census effort has two elements that are intended to respond to this uncertainty. First is the provisional language, which allows the Governmental Operations Agency to seek more funding if a need is justified, up to $22.5 million. This mirror language was added by the Assembly last year. Additionally, the existing Complete Count plan has a $10 million "hold back" amount that is intended to be used to fill gaps and unmet needs that are identified by regionals and the State as the fiscal year progresses.

The Subcommittee may wish to weigh how to direct any additional resources. Advocates suggest that the appropriation target these resources to either CBOs or a specific county government. Conversely, the Subcommittee could increase the provisional language authority and the holdback, to give the Complete Count effort the maximum flexibility to respond to a shifting landscape during the fiscal year.

Staff Recommendation: Hold Open

9210 LOCAL GOVERNMENT FINANCING

ISSUE 14: 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.

The Governor's Budget included $31,331,000 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 AB 72 (Chapter 1, Statutes of 2019). This request removes from fiscal year 2019-20 the $31,331,000 that is now included in AB 72. The request then augments 2019-20 by $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. See Attachment 1 for corresponding provisional language changes. It is included in this request that Item 9210-102-0001 be increased by $10 million and provisional language be amended to support communities in their recovery from the 2018 Camp Fire.

STAFF COMMENTS

The Subcommittee has received requests from various local governments that are seeking financial relief due to recent disasters. The local governments impacted by the Camp Fire have put forward several proposals that far exceed the amount proposed in the May Revision.

Staff Recommendation: Hold Open

0890 SECRETARY OF STATE

ISSUE 15: 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.

LAO COMMENTS

The LAO provided the following comments on the Administration's May Revision proposal.

Effective County Elections Administration Yields Significant Benefits to the State. Counties' ability to conduct secure and timely elections is a clear state interest. Counties' administration of elections relieves the state from organizing thousands of local government elections, as well as the elections for California's members of Congress, the State Legislature, other statewide positions (like the Governor and Secretary of State), and statewide initiatives. In fact, in many elections, state issues make up the majority of the ballot. While the state reaps regular benefits from county elections administration, it only sporadically provides funding to counties for elections activities or equipment.

Many Counties Need to Replace Voting Systems. While 20 counties have updated voting systems, the Secretary of State indicates that more than one-half of counties either need to or are in the process of replacing their voting systems. Specifically, 25 counties are in various stages of procuring a new system certified by the Secretary of State and plan to have the new system in place before the March 2020 primaries, nine counties are in the process of updating their voting systems but are not certain that they will be able to have a system certified by the Secretary of State in place before March 2020, two counties have plans to phase-in an upgraded system after March 2020, and two counties' plans are unclear.

Secretary of State Identifies Challenges to Getting Money to Counties. Although the $134 million provided in last year's budget act was made available July 1, 2018, no money has been transferred to counties to date. The Secretary of State identifies two reasons for this. The first identified reason is related to another 2019-20 budget request: Secretary of State has had significant difficulties switching to FI$Cal. The difficulties with FI$Cal resulted in a six month delay in the Secretary of State issuing contracts to counties—contracts were not sent to counties until January 2019. Second, the Secretary of State indicates that the process of approving the contracts and executing fund transfers is time consuming. Specifically, after the Secretary of State sends a contract to a county, the contract must be approved by a county's board of supervisors and the voting systems must go through each county's procurement process. Once approved by the county, the Secretary of State may approve the contract and reimbursement only after it has been reviewed and approved by Department of General Services. Finally, after the Secretary of State has approved a contract, the department indicates that it can take weeks for the State Controller's Office (SCO) to issue a check for the county. To date, only one county—Tulare County—has secured a contract with Secretary of State and submitted an invoice for reimbursement—in the amount of $252,005.50. In the case of Tulare County, the

Secretary of State indicated that the contract was approved by the Secretary of State and was on its way to the SCO.

Questions for Legislative Consideration. The LAO raises the following questions about the request for the Legislature to consider.

Is the Delay in State Funding Slowing Down Counties in Upgrading Systems? Considering most counties either have or are in the process of upgrading their voting systems, the amount of time it takes for the funding to go to counties likely is not a major obstacle for most counties to upgrade their systems. However, it is possible that the delay affects some counties. The Legislature may want to consider options to expedite the process.

What Vulnerabilities Remain for the 2020 Election in California? The Legislature should understand what risks and vulnerabilities are created when counties have not upgraded their voting systems.

Are Upgraded Election Management Systems as High a Priority as Upgraded Voting Systems for a Secure Election? The Secretary of State should explain why election management systems were added to the types of upgrades eligible for reimbursement. Because election management systems feed information to the statewide voter registration database, it is possible that aging election management systems at individual counties create risks for the integrity of voter information (either in that county or statewide).

What Assurances Can the Secretary of State Provide that Counties Will Upgrade their Systems and Receive Funding Within the Next Year?

Are More State Funds and A 3:1 Match Necessary? All but two counties have clear plans to have updated voting systems in the near future. These plans were made with the funding structure that exists under current law ($134 million reimbursed on a 1:1 match).

Does the Proposed Language Contain Conflicting Provisions? Specifically, whereas paragraph (a) establishes a 1:3 (county:state) reimbursement ratio, subparagraph (5) of paragraph (c) specifies that "the Secretary of State shall reimburse the county by matching county funds […] on a dollar-for-dollar basis…"

STAFF COMMENTS

Staff agrees with the comments and requests raised by the LAO.

Staff Recommendation: Hold Open.

ISSUE 16: 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

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: Hold Open.

ISSUE 17: 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

In order to maximize voter turnout, it is important to ensure that election officials have the resources necessary to educate the public about the transition to the vote center model. Currently, there is no dedicated state funding that provides funding or outreach and education for counties that will be using Vote Centers.

Staff Recommendation: Hold Open.

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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 recommends holding this item open to allow time for additional consideration.

Staff Recommendation: Hold Open.

9650 HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

ISSUE 19: 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 COMMENTS

Staff recommends holding this item open to allow time for additional consideration.

Staff Recommendation: Hold Open.