AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

WEDNESDAY, MAY 15, 2019

1:30 P.M. - STATE CAPITOL, ROOM 444

ITEMS FOR VOTE-ONLY

7502 DEPARTMENT OF TECHNOLOGY

VOTE-ONLY ISSUE 1: SECURITY OPERATIONS CENTER

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

BACKGROUND

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

STAFF COMMENTS

This Subcommittee heard this issue on March 26, but was unable to take action due to the lack of a quorum.

Staff Recommendation: Approve as Budgeted

0690 OFFICE OF PLANNING AND RESEARCH

VOTE-ONLY ISSUE 2: HEALTH IN ALL POLICIES

The Subcommittee will adopt a Spring Fiscal Letter related to Health in All Policies.

BACKGROUND

The Governor's Office of Planning and Research (OPR) requests 3.0 positions and $430,000 General Fund in 2019-20 and ongoing to continue the existing Health in All Policies (HiAP) program at the Strategic Growth Council (SGC). Executive Order S-04-10 established the Health in All Policies Task Force to advance public health and equity through SGC's own programs and throughout State government.

STAFF COMMENTS

This issue was last heard on May 7 in Subcommittee 4 and was held open.

The Budget Change Proposal did not adequately capture the value that some Assemblymembers and staff have found in the work of the office, particularly in environmental, transportation, and land use policy work. With this additional information, staff recommends approving this proposal.

Staff Recommendation: Adopt Spring Fiscal Letter

VOTE-ONLY ISSUE 3: ADMINISTRATION OF CALIFORNIA FOR ALL EMERGENCY PREPAREDNESS CAMPAIGN

The Subcommittee will adopt a Spring Fiscal Letter related to administrative expenses related to the adoption of Emergency Preparedness funding in AB 72 (Chapter 1, Statutes of 2019) earlier this year.

BACKGROUND

The Office of Planning and Research requests $387,000 General Fund in 2019-20 and $191,000 General Fund in 2020-21 to support California Volunteers with the implementation of the California For All Emergency Preparedness Campaign and the administration of the local assistance grants over a period of one and a half years.

STAFF COMMENTS

This temporary administrative resources appear appropriate for the one-time investment that was made in the early budget action.

Staff Recommendation: Adopt May Revision Fiscal Letter

VOTE-ONLY ISSUE 4: ADMINISTRATION PROVISIONAL LANGUAGE

The Subcommittee will adopt a Spring Fiscal Letter that allows the Office of Planning and Research to fund grant administration.

BACKGROUND

The Office of Planning and Research requests provisional language to allow for the transfer of up to 5 percent of any grant funding administered by the department to cover administrative expenses.

This language is common in departments that administer grant funds, as it often is unclear how much administrative need a department will have when starting a new grant or local assistance program.

STAFF COMMENTS

This language is appropriate, assuming that action taken on May 7 relating to the administration of precision medicine continue to stand. Otherwise, the Assembly may not support allowing this department to have additional flexibility for administrative costs.

Staff Recommendation: Adopt May Revision Fiscal Letter

7760 DEPARTMENT OF GENERAL SERVICES

VOTE-ONLY ISSUE 5: CENTRAL SERVICES COSTS

The Department of General Services is requesting a May Revision adjustment to the Central Services Costs fund to reflect new departmental responsibilities.

BACKGROUND

The Department of General Services (DGS), Contracted Fiscal Services (CFS) is requesting $1,084 million ongoing expenditure authority from the Central Service Cost Recovery Fund/General Fund and 8 permanent positions to perform accounting functions for three new client agencies: the California State Library, the California Horse Racing Board, and the Commission on Peace Officer Standards and Training.

STAFF COMMENTS

Given the increased complexity of the state's administrative requirements, allowing smaller departments to leverage the economies of scale of the DGS Contracted Fiscal Services unit is an efficient approach.

Staff Recommendation: Adopt May Revision Fiscal Letter

0840 STATE CONTROLLER'S OFFICE

VOTE-ONLY ISSUE 6: PERSONAL SERVICES COSTS ADJUSTMENT

The State Controller's Office (SCO) requests $1,092,000 ($589,000 General Fund) to address the impact of recent position reclassifications.

BACKGROUND

The State Controller's Office (SCO) requests $1,092,000 ($589,000 General Fund) to fund the following:

- Financial Accountant (FA) series previously reclassified from the Accounting Administrator series in 2017-18 as approved by the California Department of Human Resources (CalHR) and
- Statewide Information Technology (IT) class consolidation reclassifications approved by CalHR.

STAFF COMMENTS

This proposal reflects the impact of recent CalHR classification changes on the corresponding positions at the State Controller.

Staff Recommendation: Adopt May Revision Fiscal Letter

VOTE-ONLY ISSUE 7: CONTINUATION OF MY|CALPERS POSITIONS

The State Controller's Office (SCO) requests 15.0 permanent (continuing) positions and $2,059,000 ($1,230,000 General Fund) to address issues with the my|CalPERS system.

BACKGROUND

The State Controller's Office (SCO) requests to permanently continue 15.0) positions and $2,059,000 ($1,230,000 General Fund) for three ongoing activities:

- Work with CalPERS to complete the third phase of the my|CalPERS File Readiness (MCFR) project;
- Provide ongoing support and enhancements of the MCFR interfaces; and
- Address permanent ongoing workloads related to error resolution in the my|CalPERS system.

My|CalPERS, provides state employers a self-service environment for completing retirement and health business transactions and was initiative by CalPERS in 2008. The Controller's Office is a partner in this effort and added additional positions to address data conversion errors that were identified in 2014.

STAFF COMMENTS

The 2014-15 budget approved these positions on a five-year basis. The Controller's Office provided substantial workload justification to demonstrate how these positions have continued to be necessary to support the my|CalPERs system.

Staff Recommendation: Adopt May Revision Fiscal Letter

8800 DEPARTMENT OF FINANCE

VOTE-ONLY ISSUE 8: GENERAL OBLIGATION BOND DEBT

The May Revision reflects lower reflected General Obligation Bond Debt.

BACKGROUND

The statewide GO Bond debt service cost for fiscal year 2018-19 is revised to $7,017 million ($4,790.7 million General Fund and $2,226.3 million other funds), a decrease of $117.4 million ($82.9 million General Fund and $34.5 million other funds). The decreases are attributed to the refunding of bonds to achieve lower debt service costs and premium received on new bond issuances.

The 2018-19 GO Bond debt service includes $181.7 million funded directly by the University of California (UC) and $174.5 million by California State University (CSU). This represents a decrease of $2.7 million and $2.5 million, respectively, from what was estimated in the Governor's Budget. The statewide GO Bond debt service cost for 2019-20 is revised to $7,134.8 million ($4,748.9 million General Fund and $2,385.9 million other funds), a decrease of $78.3 million ($60.3 million General Fund and $18 million other funds). The decrease is attributed to refunding of bonds to achieve lower debt service costs and premium received on new bond issuances. The 2019-20 GO Bond debt service includes $187.5 million funded directly by the UC and $184.4 million by CSU. This represents a decrease of $2.7 million and $2.4 million, respectively, from what was estimated in the Governor's Budget.

STAFF COMMENTS

The Constitution requires the State to pay General Obligation Bond debt.

Staff Recommendation: Adopt May Revision Fiscal Letter

9860 CAPITAL OUTLAY PLANNING AND STUDIES FUNDING

VOTE-ONLY ISSUE 9: TECHNICAL CAPITAL TRAILER BILL PROPOSAL

The May Revision makes technical corrections to reflect the current process for liquidating unspent capital funding.

BACKGROUND

The May Revision amends Government Code section 16351.5 and repeals sections 16408 and 16409 to clean up outdated references to an abolished fund and remove duplicative and conflicting language related to the authority to revert unexpended capital appropriations

STAFF COMMENTS

This change would address confusion regarding the treatment of unspent special funds used for capital projects.

Staff Recommendation: Adopt May Revision Proposed Trailer Bill

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS BOARD

VOTE-ONLY ISSUE 10: TRAILER BILL LANGUAGE

The May Revision includes trailer bill language to: 1) shift the responsibility for disseminating employee information packets for the CalSavers Retirement Savings Program (CalSavers) from the Employment Development Department (EDD) to

CalSavers, 2) provide EDD with more flexibility in the timeline to begin enforcing employer compliance, and 3) allow EDD to share data with CalSavers.

BACKGROUND

CalSavers was established pursuant to SB 1234 (De Leon, Chapter 804, Statutes of 2016). SB 1234 required all California employers with at least five employees to either sponsor a retirement plan or participate in CalSavers. CalSavers was implemented on November 19, 2018 when its first eligible employer registered. By June 30, 2020, all eligible employers with over 100 employees will be required to register; by June 30, 2021, all eligible employers with over 50 employees will be required to register; and by June 30, 2022, all eligible employers with five or more employees will be required to register.

Without the requested changes to allow CalSavers to receive employer data from EDD, EDD would have to perform more of the programs duties. This would result in a significantly greater administrative burden for participating employers, restrict options available to participating employers, create a time lag between contributions and deposits, and significantly increase costs.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt placeholder trailer bill language.

0954 SCHOLARSHARE INVESTMENT BOARD

VOTE-ONLY ISSUE 11: MEMORIAL SCHOLARSHIP REVENUE SHIFT TRAILER BILL LANGUAGE

The May Revision includes trailer bill language to require all of the California License Plate Revenue be deposited into the Antiterrorism Fund.

BACKGROUND

Currently, 85 percent of the revenue is deposited in the Antiterrorism Fund while 15 percent of the revenue is deposited in the California Memorial Scholarship Fund. The Memorial Scholarship Fund supports $5,000 scholarships for dependents of California residents killed in the September 11, 2001, terrorist attacks. Beginning in the 2016-17 fiscal year, all eligible scholarships have been fully funded. The proposed trailer bill language eliminates the revenue deposits into the Memorial Scholarship Fund, which are no longer needed.

STAFF COMMENTS

Staff has no concerns with the Trailer Bill Language.

Staff Recommendation: Adopt placeholder trailer bill language.

8820 COMMISSION ON STATUS OF WOMEN AND GIRLS

VOTE-ONLY ISSUE 12: PAY EQUITY

The California Commission on the Status of Women and Girls requests two permanent positions and $269,000 ongoing General Fund to implement the Equal Pay CA program.

BACKGROUND

The Commission convened a 17-member volunteer workgroup called the California Pay Equity Task Force to plan for the implementation of the California Fair Pay Act (Chapter 546, Statutes of 2015 [SB 358, Jackson]). The Pay Equity Task Force created the Pay Equity Tool Kit, which is an educational resource guide and implementation strategy for compensation evaluation in California, and will be implemented by the Commission. This request provides the Commission staff to do so.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as Budgeted.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

VOTE-ONLY ISSUE 13: CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK CREDIT OFFICER

The May Revision includes $263,000 General Fund and one position to establish a credit officer to manage, organize, and lead the efforts of all IBank programs within the Bond Financing Units.

BACKGROUND

IBank was created in 1994 to finance public infrastructure and private development that promote economic revitalization and public improvements necessary to maintain and create employment within the State of California.

IBank is located within GO-Biz and governed by a five-member Board of Directors, consisting of the Director of GO-Biz, the State Treasurer, the Secretary of Transportation, the Director of the Department of Finance, and an appointee of the Governor.

Since 1995-96, IBank has exercised its statutory authority to offer: 1) direct financings to local governments and public benefit tax-exempt nonprofit entities for infrastructure and economic expansion projects; 2) tax-exempt and taxable revenue bond financings for manufacturing businesses, nonprofit entities, and public entities; and 3) other financing transactions important to the state.

This one position requested was previously filled with an appointee position borrowed from the California State Lottery Commission. The Deputy Director of Credit held the position with IBank from June 16, 2014 to October 31, 2017. When that appointee retired, the position was no longer available to IBank.

STAFF COMMENTS

Staff Recommendation: Hold Open.

ITEMS TO BE HEARD

0559 LABOR AND WORKFORCE DEVELOPMENT AGENCY

ISSUE 1: FUTURE OF WORK COMMISSION AND AGENCY OPERATIONS

The Subcommittee will hear the Governor's May Revision proposal to establish the Future of Work Commission and to provide additional ongoing positions for the Labor Agency's workload.

PANELISTS:

- Labor and Workforce Development Agency
- Department of Finance
- Legislative Analyst's Office

BACKGROUND

The Labor and Workforce Development Agency was established in 2003 and oversees seven major departments, boards and panels that serve California businesses and workers. The mission of the Agency is to provide leadership to protect and improve the well-being of California's current and future workforce. The Agency implements this mission through its many services including the enforcement of California labor laws to protect workers and create and even playing field for employers, economic development activities that lead to job creation and improved economic competitiveness, and the coordination of workforce development activities with various public and private partners.

California's economy is undergoing a fundamental shift as a result of advancements in technology. Specifically, the automation of jobs and expanded artificial intelligence capability will continue to have an impact on the type, quality, and number of jobs available in the 21st century economy. We also face a growing gap among the rich and poor in California, resulting from rising costs of living and the loss of opportunity among the lowest wage earners in our state.

On May 1, 2019, the Governor signed an executive order to establish a Future of Work Commission to prepare the state's workforce and state government for changes in the economy. The order tasked the Future of Work Commission to evaluate the state's economy to understand and forecast how technological and economic developments will impact workers, workforce needs, regional economies and industries within our state's economy. The Commission is tasked with making recommendations to help state leaders think through how to create inclusive, long-term economic growth and ensure workers and their families share in that success.

MAY REVISION PROPOSAL

The Governor's May Revision includes $2.5 million General Fund and 9 positions in 2019-20, $2.0 million and 9 positions in 2020-21 to provide the Labor and Workforce Development Agency with resources to establish the Future of Work Commission. According to the Administration, the work of the Commission will culminate in a report that will include: (a) facts—fact base on the intersection of technology and the future of work; (b) aspirations—bold ideas; and (c) blueprint—strategies for how to turn the ideas into reality. The additional staff will bring a strategic approach to all aspects of enforcement and service delivery across the Labor Agency and will expand the impact of the departments within the Agency through proactive and targeted outreach and will oversee a reorganization of workforce programs within the Agency. The Commission will provide a progress report in February 2020.

The May Revision also includes $1.5 million and 6 positions ongoing in order to enhance labor enforcement and strategy operations to meet the State's future of work challenges. Specifically, in support of its statutorily required mission, the Agency requests the following additional staff:

- Chief Deputy Secretary – The Chief Deputy Secretary of Enforcement will directly oversee the Assistant Secretary Enforcement and Services and coordinate with the Associate Secretary for Farmworker and Immigrant Services. The Chief Deputy Secretary will focus on working with the departments in the Agency to translate policy ideas (including Governor's priorities and legislation) into operational plans, promote the efficient use of resources through the implementation of policy and operational changes that improve interagency and intra-agency coordination, promote accountability and program access, and improve proactive enforcement efforts.

- CEA B, Future of Work Department Reorganization – The CEA B will oversee the development and implementation of a plan for the consolidation of the workforce programs in the Agency that will ultimately form the Future of Work Department. The CEA will lead multiple workgroups comprised of programmatic experts from the various units of the Employment Development Department, Department of Industrial Relations, the Employment Training Panel, and the California Workforce Development Board to develop and align the functional divisions of the new department and defining the entire organizational structure of the Future of Work Department.

- Assistant Secretary, Enforcement and Services – The Assistant Secretary, Enforcement and Services will evaluate all Agency programs and services rendered to the public and recommend changes to programs to improve proactive enforcement, increase program access, and reduce backlogs or delays. They will also devise strategies to educate workers, worker organizations, community groups, and employers regarding current and new policies that affect the communities of low-wage workers. There is significant change management work necessary to shift the approach from reactive and transactional to impact through more strategic deployment of resources; the Assistant Secretary will work with Agency Departments and Boards to implement these changes, including through the creation of strike teams.

- Assistant General Counsel (Attorney IV) – The Assistant General Counsel will review and advise on personnel matters, including equal employment issues, harassment, retaliation, compliance with civil service requirements. The Assistant General Counsel will also provide legal advice to Agency departments' legal and executive teams, and serve as the principal contact for regulatory issues involving the departments or the Office of Administrative Law, coordinate Public Records Act responses.

- Agency's Information Security Officer (Information Technology Manager II) – The Agency Information Security Officer will be responsible for developing, implementing, and maintaining all necessary security policies, standards and procedures required for a comprehensive Agency Information Security Program, overseeing departmental risk management assessments and the remediation of information security risks across all departments under the Agency, and providing direct Information Security Officer support to the Agency's smaller departments.

- Associate Governmental Program Analyst – The Associate Governmental Program Analyst will provide direct program support to Labor Agency's Policy, Research & Legislation Unit, assigning, tracking, coordinating, reporting on the preparation and submission of legislative proposals, and drafting legislative recommendations and identifying the impact to the Agency's Departments.

STAFF COMMENTS

Suggested Questions:

- When will the Future of Work Commission report be completed?
- Would the proposed Future of Work Commission also evaluate the impact of the state's climate change goals on the workforce?
- Why are the 6 ongoing positions needed for the Labor Agency?

Staff Recommendation: Hold Open

7350 DEPARTMENT OF INDUSTRIAL RELATIONS

ISSUE 2: PRIVATE ATTORNEYS GENERAL ACT

The Subcommittee will discuss the Governor's May Revision proposals related to the Department of Industrial Relations (DIR) resources for Private Attorneys General Act (PAGA) related workload.

PANELISTS:

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

BACKGROUND:

The PAGA, enacted in 2003, allows California employees to enforce the Labor Code through private lawsuits against their employers, recovering penalties for Labor Code violations that previously could only be pursued by the Labor Commissioner and other divisions within DIR. As amended in 2016, PAGA permits employees or their representatives to initiate a case by sending a notice to the employer and the LWDA that identifies the alleged violations and the facts and theories supporting the claims. The LWDA then has 60 days to decide whether to investigate the notice. If it does investigate, it has up to 180 more days to cite or sue the employer. The LWDA's issuance of a citation or the filing of a civil complaint will preclude private litigation over the same violation. If the LWDA does not cite or sue the employer, the plaintiff may proceed with a private lawsuit. The PAGA allows plaintiffs to retain 25% of the civil penalties recovered in a PAGA case, with the remaining 75% of the penalties deposited into the LWDF.

The 2016 Budget Act approved an increase of 9.0 positions and $1.3 million ongoing for DIR to review PAGA cases to help ensure that the interests of the state are adequately served; the 2016/17 Budget Change Proposal (BCP) initially required a more detailed notice form to allow staff to more quickly review the particulars of each case. Subsequent budget negotiations resulted in a notice which contained less detail than originally proposed by the department. In part because of this lack of detail, the department has found that the review/investigation of each case requires more time.

Additionally, there are several key insights gained from the experience of the PAGA Unit since it was established: (1) The Unit reviewed more PAGA notices than had been forecast in 2016; (2) However, as noted above, additional work and time were required to review/investigate each case; (3) The Unit investigated fewer cases than forecast, but the cases identified and prosecuted were high-impact and correspondingly work-intensive for investigators, attorneys and support staff; 4) The substantial majority of proposed private court settlements in PAGA cases reviewed by the Unit fell short of protecting the interests of the state and workers.

MAY REVISION PROPOSAL

The Labor and Workforce Development Agency (LWDA) and the Department of Industrial Relations (DIR) request 12.0 positions and $2.0 million in resources from the Labor and Workforce Development Fund (LWDF) for the 2019-20 fiscal year and $1.8 million ongoing to increase the department's capacity to review Private Attorneys General Act (PAGA) cases.

This proposal will also make technical budgetary changes to transfer the oversight of the unit from the DIR Director's Office to the Labor Commissioner's Office, who will act as LWDA's "designee" pursuant to Labor Code 2699.

STAFF COMMENTS

Examples of the results of the PAGA unit include:

- The PAGA Unit settled a case in February 2019 with an employer it had cited for an intentional failure to pay employees overtime premium pay (1.5x) and systematic failure to provide sufficient or timely meal breaks. The settlement amount was $1.1 million, with $1 million to be paid to employees.

- The PAGA Unit issued citations exceeding $4 million for an employer's misclassifying as independent contractors its employees, who were paid a flat daily rate for up to 14 hours of work performing dangerous rodent, debris and insulation removal in hot, confined spaces in private homes. Based on the PAGA Unit's referral, the district attorney filed felony charges against the company owner, and is demanding full restitution for the workers.

- The PAGA Unit issued several citations totaling over $3 million to ten interconnected meat processing entities operating in the underground economy that jointly employed 100 employees, most of whom were intentionally misclassified.

The Administration argues that this proposal will allow the department to expand on these early results.

Suggested Questions:

- Why does the May Revision propose shifting oversight of the PAGA unit to the Labor Commissioner's Office?

Staff Recommendation: Hold Open

ISSUE 3: JANITORIAL TRAILER BILL LANGUAGE

The Subcommittee will consider the Governor's proposed trailer bill language related to training requirements for janitorial workers.

PANELISTS:

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

BACKGROUND

The Property Service Worker's Protection Act AB 1978 (2016) and the recently revised Fair Employment and Housing Act requirements made by SB 1343 (2018) both include new training requirements that employers must comply with by January 1, 2020.

GOVERNOR'S PROPOSAL

The Governor's proposed trailer bill language seeks to avoid duplicative training requirements for employers who are subject to the mandates of both the Property Service Worker's Protection Act AB 1978 (2016) and the Fair Employment and Housing Act requirements included in SB 1343 (2018). In addition, the Governor's proposal closes loopholes and clarifies ambiguity in certain provisions of the janitorial registration and sexual harassment training program that have hindered implementation of this law. Specifically, this proposal would:

- Amend the definition of a covered janitorial "employer" to close a loophole that excludes from the registration requirement janitorial contractors who provide janitorial services through independent contractors or franchisees, but do not have any employees.

- Require employers to ensure sexual harassment training is provided to all covered workers (meaning janitorial employees, franchisees, and independent contractors), not just employees.

- Require, effective January 1, 2020, that new applicants for registration and renewal submit a written attestation to the Labor Commissioner stating that the training has been provided.

- Specify that employers must keep records for janitorial employees and other covered workers, rather than all of a covered employer's employees.

- Amend the successor liability provision to provide that a successor employer is liable for any wages and penalties its predecessor employer owes to any of the predecessor employer's former workforce, not just to the predecessor employer's former employees.

- Allow use of a Taxpayer Identification Number where a Social Security Number is required for registration purposes, including for all individuals associated with the business, because inability to provide this number may have the unintended consequence of forcing these businesses further into the underground economy because they are unable to meet the registration requirements.

- Require that janitorial businesses with unsatisfied judgments under the FEHA or for failure to secure adequate workers' compensation coverage are not eligible to register or renew their registration.

STAFF COMMENTS

Staff has no concerns with the proposed trailer bill language.

Staff Recommendation: Hold Open

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

ISSUE 4: EMPLOYMENT DEVELOPMENT DEPARTMENT: MAY REVISION PROPOSALS

The Subcommittee will consider the Governor's May Revision proposals related to the Employment Development Department.

PANELISTS:

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

MAY REVISION PROPOSALS

The Governor's May Revision includes the following augmentations for the Employment Development Department (EDD):

- **Claimants' Privacy Measures.** Includes a one-time budget augmentation of $1.8 million and 9.3 positions in 2019-20, $2.1 million and 10.5 positions in 2020-21, and $0.1 million and 0.6 positions in 2021-22 funded equally by the General Fund and the Disability Insurance Fund. These resources will enable EDD to replace social security numbers (SSN) with a modified unique identifier on the top ten mailed documents with the highest volume that currently display an SSN.

  This proposal is consistent with the California State Auditor's audit that outlined recommendations for the EDD to eliminate the use of SSNs on mailed forms, including replacing full SSNs with a modified unique identifier. With this funding, EDD will be replacing the full SSNs on the ten highest volume forms with a modified unique identifier and will significantly reduce the number of forms mailed by EDD with full SSNs. The Department is evaluating the resources and timeline necessary to address the remaining documents containing SSNs.

- **Benefit System Modernization.** Includes a one-time budget augmentation of $12,111,000 and 34.5 positions funded equally by the EDD Contingent Fund and the Disability Insurance Fund and a redirection of $3,028,000 and 19.0 positions in 2019-20 for the Benefit Systems Modernization (BSM) Project. According to the Administration, these resources are critical to continue activities towards implementing an integrated, secure and sustainable benefits system to service California claimants seeking unemployment, disability or paid family leave benefits. Provisional language is also requested to authorize a budget augmentation of up to $2,600,000 and 14.5 positions in 2019-20 for workload related to data conversion and requirements development.

This proposal would continue to support the California Department of Technology's (CDT) Project Approval Lifecycle (PAL) Stage 3 Solution Development completion, Stage 4 Project Readiness and Approval solution solicitation initiation, and continued project and system development readiness activities for the BSM Project. The resources will primarily be for state staff, CDT services, and consultant support for Independent Verification and Validation (IV&V), continued requirements development, solicitation development and management, technical services, data conversion support, and National Association of State Workforce Agencies (NASWA) partnerships.

The BSM project will modernize the EDD's benefit systems by implementing a single, integrated benefit system that provides customers and staff a consistent, single portal into the EDD's services while being more agile and responsive for deployment of enhancements and lowering overall maintenance costs. The EDD initiated the BSM Project in 2016-17 with CDT approval of the Stage 1 Business Analysis in November 2016. The 2017-18 Budget Act authorized $4,022,000 and 15 Personnel Equivalents (PE) and a redirection of $3,162,000 and 15 PEs to support the BSM's Stage 2 Alternatives Analysis development activities. The BSM Stage 2 was approved by the CDT on September 14, 2018. The 2018-19 Budget Act authorized $4,022,000 and 15 PEs and a redirection of $4,446,000 and 19 PEs to support the initiation of the BSM Project's Stage 3 activities.

- **Paid Family Leave Expansion.** Includes $3,290,000 and 13.3 positions in 2019-20, $5,088,000 and 7.5 positions in 2020-21, $5,003,000 and 7.0 positions in 2021-22, $863,000 and 6.0 positions in 2022-23, and $721,000 and 5.0 positions ongoing funded by the Disability Insurance Fund. These resources will enable EDD to make necessary changes to program operations, information technology systems, and to coordinate a public awareness campaign related to the expansion of the PFL program.

  The May Revision includes $8 million for vendor services, ad buys, and additional resources for in-house staff to develop and implement a two-year, statewide paid media campaign that targets California's diverse population and informs them about the availability of PFL. The campaign will target caregivers, new parents, English and non-English speakers, and hard-to-reach communities.

- **Paid Family Leave for Military Exigency.** Provides $2.7 million from the Disability Insurance Fund and 12.5 positions in 2019-20 and $1.3 million and 6.0 positions in 2020-21 for program updates pursuant to Chapter 849, Statutes of 2018 (SB 1123). Beginning January 1, 2021, SB 1123 expands the Paid Family Leave program to cover paid leave for individuals whose spouse, domestic partner, child, or parent needs assistance to prepare for military deployment.

  Adding new claims to the Paid Family Leave program requires programming for four of EDD's information technology applications. In addition to programming changes, the Department would be required to complete project planning activities, update forms and publications, update manuals and procedures, and provide training to program staff. The one-time administrative cost associated with these activities is approximately $4.0 million over two years and is comprised of state staff resources and vendor resources to complete the work.

- **Workforce Innovation Opportunity Act (WIOA) Adjustments.** The May Revision includes adjustments to the WIOA funding. For 2018-19, the Administration is proposing no change to State Operations and no change to Local Assistance. The EDD's current level of authority is consistent with the states planned expenditures.

  For 2019-20, the Administration is proposing a $5,013,000 decrease in State Operations and a $16,726,000 decrease in Local Assistance. This request is necessary to align EDD's authority with the federal allocations for 2019-20. The proposed decrease in State Operations impacts both Discretionary and Rapid Response funding authority levels. Changes include:

  - A decrease of $1,518,000 for the WIOA Discretionary Administration and Program Services to align authority with the anticipated costs of administering the WIOA program.
  - A decrease of $1,827,000 for the WIOA Services to Bridge Education and Workforce Gaps for Targeted Populations to align authority with the state's plan for statewide projects.
  - A decrease of $1,668,000 for Rapid Response funding to align with the federal allocation.

The May Revision includes a $16,726,000 decrease in Local Assistance to align the Department's authority with the federal allocation for local area pass-through funds.

In addition, the Administration recently released trailer bill language related to the Nonindustrial Disability Insurance (NDI) program (available to eligible employees that are on annual leave). The NDI program is a wage continuation program, paid by the state, and only covers the employee if they are disabled and unable to work due to a non-work related injury or medical condition. The Governor's proposal would, beginning July 1, 2019, allow family care leave benefits to be available to excluded employees (enrolled in annual leave) on enhanced NDI to also take paid time off to care for a seriously ill family member or bond with a new child. This new benefit can be claimed for a maximum of six weeks (42 days) in a 12-month period with a weekly benefit of 50 percent of salary and the option to supplement with leave for full salary. This technical language will provide clarity and reduce confusion for state entities when administering the family care leave benefits for excluded employees.

STAFF COMMENTS

Suggested Questions:

- Can the EDD provide an update on the audit findings and plan related to EDD's practice of mailing documents containing social security numbers?
- Why were the EDD proposed positions not included in the Governor's January Budget?

Staff Recommendation: Hold Open

7120 CALIFORNIA WORKFORCE DEVELOPMENT BOARD

ISSUE 5: CAP AND TRADE EXPENDITURE PLAN: WORKFORCE DEVELOPMENT TRAINING AND APPRENTICESHIP

The Subcommittee will consider the Governor's May Revision proposal to provide an additional $8 million in Greenhouse Gas Reduction Fund (GGRF) for various workforce development programs.

PANELISTS:

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

BACKGROUND

The California Global Warming Solutions Act, AB 32 (Chapter 488, Statutes of 2006) and SB 32 (Chapter 249, Statutes of 2016), requires the reduction of GHG emissions across California's economy to 1990 emissions levels by 2020 and to 40% below 1990 emissions levels by 2030. The Act establishes a comprehensive program to reduce GHG emissions in the state utilizing revenues from the cap-and-trade program deposited into the Greenhouse Gas Reduction Fund (GGRF) for use in accordance with the Act.

State law also requires the investment of GGRF monies to, in part, support projects within and benefitting specified disadvantaged and low-Income communities per SB 535 (Chapter 830, Statutes of 2012), and AB 1550 (Chapter 369, Statutes of 2017). These investments must support a variety of benefits including, but not limited to, maximizing economic benefits to the state and fostering job creation per AB 1532 (Chapter 807, Statutes of 2012).

CWDB Initiatives

The CWDB is currently working on two initiatives to advance workforce development with the state's climate change goals in mind.

- High Road Construction Careers (HRCC). Through the HRCC initiative, the CWDB has established 12 pre-apprenticeship training partnerships under the California Clean Energy Jobs Act and will use Chapter 5, Statutes of 2017 (SB 1) funding ($25 million over five years) to expand this model to all 14 workforce regions statewide. Since the majority of jobs related to state infrastructure development and aimed at reducing carbon emissions are in the construction trades, a pre-apprenticeship system that provides access to those jobs also provides a pathway to the middle class.

- High Road Training Partnerships (HRTP). CWDB currently supports eight HRTP demonstration projects. These industry sector initiatives convene workers and employers from multiple firms to analyze climate- and technology-related occupational changes, develop skills training solutions for current workers, and create opportunities for disadvantaged Californians to move into entry-level jobs. These partnerships are models for new non-construction apprenticeship and pre-apprenticeship programs. Each partnership works regionally to advance equity, mobility, and job quality for workers; deliver skilled workers for employers; and address the challenges of climate change throughout a given industry.

CWDB Report on Workforce Development

Chapter 135, Statutes of 2017 (AB 398) requires the CWDB to report to the Legislature on the need for increased education, training, and workforce development resources to support business/industry, as well as workers and communities, to transition to economic and labor-market changes related to specified statewide greenhouse gas emissions reduction goals. This report was due to the Legislature on January 1, 2019. The report has not yet been provided to the Legislature.

GOVERNOR'S PROPOSAL

The Governor's January budget included a total of $130.5 million over five years from the Greenhouse Gas Reduction Fund for various workforce development programs administered by CWDB, summarized in the chart below.

Component	2019-20	2020-21	2021-22	2022-23	2023-24	Total
High Road Construction Careers	$10 Million	$10 Million	$10 Million	$10 Million	$10 Million	**$50 Million**
High Road Training Partnerships	$10 Million	$10 Million	$10 Million	$10 Million	$10 Million	**$50 Million**
California Worker Transition	$5 Million	$5 Million	$5 Million	$5 Million	$5 Million	**$25 Million**
Workgroup, Administration and Technical Support	$2 Million	$2 Million	$500,000	$500,000	$500,000	**$5.5 Million**
	$27 Million	**$27 Million**	**$25.5 Million**	**$25.5 Million**	**$25.5 Million**	**$130.5 Million**

The Governor's May Revision includes an additional $8 million for the HRCC and HRTP programs. In total, the Administration proposes providing $35 million annually for 5 years.

STAFF COMMENTS

The Governor's January proposal included funding for a workgroup on the Future of Work using GGRF funding. The May Revision also includes General Fund to establish the Commission on California's Workforce and Future of Work within the Labor and Workforce Development Agency. These efforts seem duplicative. Staff recommends using General Fund for these activities.

Staff Recommendation: Hold Open

0515 BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY
2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 6: MAY REVISION HOUSING PROPOSAL

The Governor proposes significant changes in the May Revision to the housing and homelessness plan introduced in January. The Administration will walk through those changes with the Subcommittee.

BACKGROUND

The key changes from January to May Revision are outlined below:

Repurposes General Purpose Grants Towards Housing-Related Infrastructure. The May Revision repurposes the $500 million in flexible funds proposed in January for the Infill Infrastructure Grant (IIG) Program administered by the Department of Housing and Community Development. The IIG Program provides funding for infrastructure projects that support high-density affordable and mixed-income housing in locations designated as infill.

Increases Grants to Local Governments Meant to Address Homelessness by $150 Million. The May Revision increases the homelessness proposal to $650 million General Fund. In addition, the budget no longer includes any flexible incentive funding. Instead, all of the funding will be used directly by communities for various services for the homeless. Specifically, the state's 13 most populous cities would receive $275 million, counties would receive $275 million, and Continuums of Care—local entities that administer housing assistance programs within a particular area, often a county or group of counties—would receive $100 million. The Governor offers communities significant flexibility on the use of these funds, including hotel/motel conversion, traditional and non-traditional permanent supportive housing, rapid rehousing, and job programs.

Expands Eligibility for Short-Term Housing Planning Grants to School Districts and County Offices of Education. The May Revision adds schools and county offices of education as jurisdiction eligible for a portion of the $250 million proposed in January so that they can develop plans for their excess properties to be used as teacher housing.

Maintains Proposed Linkage Between Transportation Funding and Compliance with Housing Element Process. The Governor's May Revision maintains the link proposed in January between SB 1 transportation funding and compliance with the housing element process

STAFF COMMENTS

The Subcommittee adopted an Assembly Framework for housing and homelessness on April 30, 2019. Many of the concepts in the May Revision are consistent with the Assembly Framework. Staff will note that the May Revision keeps the link between transportation and housing which is troubling. The Subcommittee should direct staff to continue to work with key stakeholders and the Administration on this issue.

Staff Recommendation: Hold Open.

0515 BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY

ISSUE 7: HOMELESS COORDINATING AND FINANCE COUNCIL

The May Revision increases funding for the Business, Consumer Services and Housing Agency by $981,000 and six positions to provide resources to the Council to continue work related to the Homeless Emergency Aid Program.

BACKGROUND

The 2018 Budget Act allocated $500 million one-time General Fund to the Council to provide grants to the 43 Continuums of Care and the 11 largest cities. This proposal would provide necessary staff to carry out the administrative and reporting requirements for the Council under HEAP.

STAFF COMMENTS

Additional staff is needed to ensure that the proper administration of the funds.

Staff Recommendation: Hold Open.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 8: PROPOSITION 1 – SERNA PROGRAM CONFORMITY TRAILER BILL LANGUAGE

The Department of Housing and Community Development (HCD) requests trailer bill language to improve the implementation of the Joe Serna Jr., Farmworker Housing Grant Program (Serna).

BACKGROUND

The Serna Program provides grants and loans to finance the new construction, rehabilitation, and acquisition of owner occupied and multifamily rental housing for agricultural workers, with a priority for lower-income households. The Veterans and Affordable Housing Act of 2018 (Proposition 1) invests $300 million of new funding into the Serna Program to develop and rehabilitate farmworker housing. Prior to Proposition 1, the last Serna Program awards were made in 2010. For all other active multifamily housing programs, including the Multifamily Housing Program and the Transit-Oriented Development Program, which are receiving new Proposition 1 bond funds, project sponsors pay an annual monitoring fee of 0.42 percent of the loan balance to fund HCD's long-term monitoring responsibilities. Currently, the Serna Program does not charge a monitoring fee, yet HCD has a long-term monitoring responsibility to ensure the continued use of the housing for low-income farmworkers. As a result, the monitoring responsibilities are funded from bond proceeds, which reduces the amount available to produce or rehabilitate farmworker housing.

With the enactment of Proposition 1 in November of 2018, the Serna Program will be making new awards of the $300 million bond allocation. To maximize funds available to develop farmworker housing, streamline the administration of long-term monitoring, and conform Serna program requirements to other HCD-administered multifamily housing programs, HCD proposes trailer bill language to:

1) Remove the requirement for local matching funds,
2) Implement an annual project monitoring fee not to exceed 0.42 percent of the loan amount, and
3) Lower the default reserve from 4 percent to 1.5 percent

These changes would conform Serna to HCD's other multifamily housing programs, ensure there is adequate funding to prevent loan defaults, and free-up additional Proposition 1 bond funds to develop housing. HCD estimates approximately $2.5 million in bond funds can be redirected from state administration to program loans and grants by implementing a monitoring fee. An additional $5 million can be redirected from the default reserve.

STAFF COMMENTS

Creating a monitoring fee for the Serna program is consistent with past actions by the Subcommittee.

Staff Recommendation: Hold Open.

ISSUE 9: DISASTER PREPAREDNESS, RESPONSE, AND RECOVERY

This proposal is part of the Administration's larger Disaster Preparedness, Response, and Recovery May Revision package. The May Revision includes resources for various departments to enhance the state's disaster response preparedness and support the continuity of state government during disasters. In this proposal, the Department of Housing and Community Development (HCD) requests $2,002,000 in General Fund budget authority and 4.0 positions for the following:

- $950,000 to establish a Grants Management System,
- $802,000 for 4.0 positions for a permanent Disaster Response and Recovery (DRR) Unit, and
- $250,000 for a consultant contract to perform local needs assessment and data compilation related to the 2018 Camp and Woolsey wildfires.

BACKGROUND

The proposed Grants Management system will be utilized for the Department's current Community Development Block Grant (CDBG) and pending CDBG-Disaster Recovery funds and must be able to track all financial transactions based upon Generally Accepted Accounting Principles (GAAP) and have an external online portal for clients to submit information.

The proposed Disaster Response and Recovery (DRR) Unit will play a role in designing collection methods and obtaining disaster recovery needs assessments and data, assisting in the development and execution of state and local recovery plans, and recommending courses of action, which in federally declared disasters, will include assisting with or directly requesting assistance from the federal government including delivery of critical disaster-related federal program dollars through the CDBG-DR Unmet Need and Mitigation Programs.

Additionally, the DRR will provide housing expertise in support of the state Disaster Recovery Framework and collaborate across State agencies and departments throughout the response and recovery phases of major and catastrophic events. The Housing Recovery Support Framework details how the state should collaborate and innovate with the federal, state, local, non-profit, private, philanthropic, and other key partners to prepare for and effectively respond to disaster related housing, community and economic concerns, as well as set the path for recovery by utilizing all appropriate resources available from state and federal agencies, local governments, the non-profit and philanthropic community, and the private sector.

Finally, consultant services will be utilized to perform local needs assessment and data compilation related to the 2018 Camp and Woolsey wildfires. These consultant services will also produce local long-term recovery plan frameworks that will assist HCD in prioritizing and distributing funds to impacted jurisdictions for any future funding that becomes available from HUD through a Congressional appropriation.

STAFF COMMENTS

HCD has played a role in disaster recovery operations since 2014. This proposal will provide ongoing resources to the department in light of the severe wildfire, drought and flooding that continues in our state.

Staff Recommendation: Hold Open.

ISSUE 10: EXCESS SITES: EXECUTIVE ORDER

The Department of Housing and Community Development (HCD) requests a General Fund appropriation of $3.4 million in 2019-20 - $842,000 for 4.0 positions and $2.5 million for consulting contracts - and $782,000 ongoing in state operations to implement the development of affordable housing on state-owned land.

BACKGROUND

As part of the Administration's strategy to address the state's housing shortage and affordability pressures, the Governor issued an Executive Order (EO) in January 2019. EO N-06-19 requires HCD to work in collaboration with Department of General Services (DGS) to 1) develop an inventory of state-owned property that is suitable for development of affordable housing, 2) issue a request for proposals offering long-term leases to developers, 3) assess proposed leases for compliance with the executive order criteria, and 4) ensure the goals of the executive order are accomplished.

STAFF COMMENTS

The Subcommittee may wish to ask HCD how they will move forward once they identify excess sites, will a BCP be brought forward for review? Or will this process move through DGS?

Staff Recommendation: Hold Open.

ISSUE 11: STATE HOUSING LAW ENFORCEMENT

The Department of Housing and Community Development (HCD) requests an increase of $1,440,000 (General Fund) to compensate the Attorney General's (AG's) office for costs incurred as a result of additional workload created by operation of AB 72 (Chapter 370, Statutes of 2017).

BACKGROUND

Prior to passage of AB 72, the process for enforcing housing element law and other housing-related laws was dependent on the resources of third-party organizations to challenge local government actions in the courts. HCD's certification of a housing element afforded the locality a statutory presumption of validity and affirmative defense in legal challenges to subsequent land-use decisions and activities – so long as they were putatively in accord with the terms of the HCD-certified element. HCD had no authority to bring legal actions for non-compliance.

Now, AB 72 allows HCD to revoke its finding that a jurisdiction is in substantial compliance with its previously approved housing element and refer the non-compliant jurisdiction to the AG for legal action. A local government may be found in violation of state law if the HCD determines that the local government has not complied with housing element law, or other existing housing laws including:

- The Housing Accountability Act, which restricts the ability of local governments to disapprove housing developments that include affordable units (Government Code section 65589.5).
- No-net-loss in zoning density law limiting down-zoning and density reductions (Government Code section 65863).
- Density Bonus Law, which requires local governments to offer density bonuses and other concessions and incentives to developers who agree to include affordable units in their projects (Government Code section 65915).
- Prohibiting discrimination against affordable housing (Government Code section 65008).

Thus, HCD's new authority to refer cases to the AG will result in additional workload for AG staff attorneys. HCD requests to be made a billable client of the AG along with budget authority to fund potential AG costs.

STAFF COMMENTS

The Assembly Appropriations analysis states that cost to be the following:

- Appropriates an unspecified amount of money from the General Fund, potentially in the millions of dollars, to the AG for housing law enforcement.

- Costs to HCD, likely in the low hundreds of thousands of dollars (GF) annually, to review local actions, make determinations, and notify the AG of violations.

Staff Recommendation: Hold Open.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

ISSUE 12: INTERNATIONAL TRADE PROGRAM SPECIALISTS

The May Revision includes $592,000 General Fund and three positions to support workload within the International Affairs and Business Unit.

BACKGROUND

The California Technology, Trade and Commerce Agency (TTC) was charged with promoting California exports and bringing foreign investment into the state. At the time the agency sunset in 2003-04, the state had 85 international positions and 12 foreign trade offices which provided business outreach to Argentina, Hong Kong, China-Shanghai, Germany, Israel, Japan, Mexico, Singapore, South Africa, South Korea, Taiwan and the United Kingdom.

After the sunset of the TTC, the state had no international affairs and trade development staffing until 2010 as part of Executive Order S-05-10, which created the Governor's Office of Economic Development (GOED). GOED was tasked with serving as the single statewide point of contact for business development concerns, a function that was originally recommended in the Governor's 2004 California Performance Review and in a February 2010 Little Hoover Commission report. The executive order emphasized the importance of international trade and investment based economic growth by "fostering relationships with international counterparts to help address barriers to trade, find business partners, and promote California's strengths abroad."

A subsequent government re-organization effort expanded the duties of the International Affairs and Business Development unit and increased dedicated staff support. Legislation in 2011 established the Governor's Office of Business and Economic Development (GO-Biz) in statute. After the codification of GO-Biz, staff support for the International Affairs & Business Development unit increased from one employee to three employees. Although the International Affairs and Business Development program had been a part of GOED, the program was formally codified in Government Code Section 13996.41.

The International Affairs and Business Development unit is the State's primary point of contact for expanding California's two-way international trade and investment relations. The unit works to drive business for California and to address barriers to the State's continued global economic strength. The unit provides critical support on issues relating to international trade and investment opportunities, foreign relations, international agreements and partnerships with the countries that have a friendly relationship with California. GO-Biz has one trade office in China that is maintained by a regional organization through an agreement with the department but has no dedicated state staffing resource.

The addition of three Staff Services Manager II positions (SSM II) (International Trade Specialists) to the International Affairs and Business Development unit will provide the support necessary to carry out engagement in international trade, including export promotion and foreign direct investment with three global regions; Americas, Europe, and Asia The three international trade specialists will work directly with U.S. Commercial Services in U.S. embassies of California's largest trading partners, provide training and export development assistance for small and medium businesses, lead trade missions to develop new export markets, collaborate with regional economic development organizations to attract foreign investment into the various regions of California, and receive missions from California's trading partners for investment in California.

STAFF COMMENTS

The May Revision has two big proposals for GO-BIZ, staff is still reviewing the details.

Staff Recommendation: Hold Open.

ISSUE 13: OFFICE OF SMALL BUSINESS ADVOCATE-CENTRAL VALLEY AND GRANT PROGRAM

The May Revision includes $806,000 General Fund and three positions to provide resources to support the core duties of the Office of the Small Business Advocate (OSBA), which serves as the lead office in providing small businesses in California with the information and resources necessary to operate and serve as the principal advocate in the state on behalf of small businesses.

BACKGROUND

OSBA serves as the lead office in providing small businesses in the state with the information and resources needed to survive in the marketplace and serves as the principal advocate in the state on behalf of small businesses. OSBA's core duties include:

- Receiving and responding to inquiries and complaints from small businesses concerning the actions of state agencies and the operative effects of state laws and regulations.

- Dissemination of information about programs and services provided by state government.

- Advisory participation in the consideration of all legislation and administrative regulations that impact small businesses.

- Administration of the Small Business Technical Assistance Expansion Program (SB TAEP), Small Business Technical Assistance Program (SB TAP), and Capital Infusion Program (CIP) grants totaling $23 million.

- Consulting with experts and authorities in small business capital markets, and individuals with regulatory, legal, economic or financial expertise, including experts representative of the state's geographic and demographic diversity.

To support its core duties, OSBA conducts or provides representation at multiple outreach events to connect with small business owners across multiple geographies, sectors and demographics to disseminate information about state programs, services and new regulations that may impact their business. These events include workshops, webinars, joint events with other public and private agencies, businesses and other organizations, and other community sponsored events.

In addition to the OSBA's responsibilities above, the office also serves as a liaison for small businesses during state-declared states of emergencies, and assists in the recovery, response and preparedness efforts of small businesses and microenterprises.

Without the additional resources and staffing for OSBA, the program will be unable to provide the level of support and services to small businesses in the Central Valley and monitor the grant programs to ensure success. The additional funding requested is necessary to fund the current positions in OSBA since salary savings in other programs will not be available in future years.

STAFF COMMENTS

The May Revision has two big proposals for GO-BIZ, staff is still reviewing the details.

Staff Recommendation: Hold Open.

ISSUE 14: GOVERNOR'S OFFICE OF ECONOMIC IMPACT TRAILER BILL LANGUAGE

The May Revision includes trailer bill language to change the name of the Governor's Office of Economic Development (GO-Biz) to the Governor's Office of Economic Impact (GOEI).

BACKGROUND

The Administration suggests that this change is necessary to reduce confusion and make clear that the organization is the economic development office for the state that helps business identify the advantages of considering California locations for business relocation and expansion, versus being a business regulatory and oversight entity.

STAFF COMMENTS

The Subcommittee may wish to ask the following:

- Why is this change necessary?
- How much will it cost the State to rebrand? Are resources better invested in improving the current website versus rebrand?
- How will you outreach and educate all California businesses about this change?

Staff Recommendation: Hold Open.

0950 STATE TREASURER'S OFFICE

ISSUE 15: FUNDING REALIGNMENT

The May Revision includes $7 million General Fund (GF) and a decrease in reimbursements by a like amount. This adjustment realigns the funding structure of the STO to better reflect the services provided to state agencies.

BACKGROUND

Over the past two decades, the STO has experienced a significant shift in its primary funding sources, transitioning from the GF to Reimbursements. As the State endured GF budget deficits, the STO's funding structure shifted to a greater reliance on Reimbursements to fund its key programs - cash and securities management, public finance, and investment services. The STO's budget increased 55 percent while funding from the GF and Central Cost Services Recovery Fund (CSCRF) declined from 46 percent to 20 percent. During the past 18 years, staffing levels have remained relatively unchanged, with 244.3 full time equivalents (FTEs) in 2001-02 and 246.4 FTEs in FY 2018-19. The STO's considerable reliance on Reimbursements poses risks to the STO's budget. Given these risks, the STO's asserts that its current funding structure is not sustainable.

With the goal of reducing these risks to the STO's budget funding structure, the STO contracted with Crowe LLP (Crowe) to conduct an analysis of its budget structure and funding sources to determine the appropriate funding allocation for the workload responsibilities assigned to, and completed by, the department. Crowe met with key STO staff between July 2018 and December 2018 to obtain a baseline for STO's current and future workload responsibilities. Crowe then performed workload and funding allocation analyses to identify and support specific changes the STO should consider in realigning its budget funding structure.

Based on Crowe's analyses and recommendations, the STO is requesting a funding shift of $7.0 million, increasing its GF allocation and decreasing its Reimbursements funding correspondingly. These proposed funding source modifications would ultimately result in an overall funding allocation of 58 percent from Reimbursements, 33 percent from the General Fund, and the remaining nine percent from the CSCRF.

Additionally, it is significant to note that in the current fiscal year, 2018-19, the STO is budgeted to receive approximately 20 percent of its funding from the GF and CSCRF, and the remaining 80 percent from Reimbursements. As a comparison to other control agencies, the State Controllers' Office receives approximately 46 percent of its funding from the General Fund and CSCRF, 28 percent from Reimbursements, and the remaining 26 percent from other sources; the Department of Finance receives approximately 80 percent of its funding from the General Fund and CSCRF and the remaining 20 percent from Reimbursements.

LAO COMMENTS

The LAO notes that this proposal is technically complex. They very recently received portions of the consultant's assessment. However, even those portions are lengthy and they expect it would take considerable time to fully review them to ensure that they support the requested realignment of resources. Accordingly, it is difficult to evaluate the proposal in the short period provided in the May Revision. The LAO further notes that it is unclear at this time what specific steps the department is taking to reevaluate its staffing levels and seek efficiencies, which makes it difficult to assess what an appropriate level of General Fund resources should be provided. However, they suggest that the Legislature could consider providing STO with some or all of the requested General Fund support on a one-time basis in 2019-20 (offset by a commensurate reduction in reimbursements). This would allow the department to return to the Legislature to request an ongoing realignment of funding sources in January. Receiving a proposal in January will provide the Legislature with additional time to analyze and consider this technically complex request. In the meantime, this approach will provide limited-term support to the department to limit the amount of potential reimbursement rate increases prior to the completion of the Legislature's evaluation in the 2020-21 budget process.

STAFF COMMENTS

The subcommittee may wish to ask whether there was an analysis into whether the workloads were appropriate for the programs before additional general funds are used.

Staff Recommendation: Hold Open.

0870 OFFICE OF TAX APPEALS

ISSUE 16: ADDITIONAL STAFFING RESOURCES

The May Revision includes $2.8 million General Fund and 13 positions to provide additional staffing to support appeal process workload.

BACKGROUND

OTA was established in 2017 and started conducting business January 2018. The Office is responsible for hearing and deciding tax appeals arising from taxpayer disputes of actions taken by the Franchise Tax Board (FTB) and the California Department of Tax and Fee Administration (CDTFA). During its initial year, as OTA established its processes and procedures, it determined that current staffing levels were not sufficient to address ongoing workload. OTA was established based on Board of Equalization's (BOE) staffing model; however, OTA's adjudication process is quite different, and calls for different modeling and level of resources.

As an independent adjudicatory body, OTA's core mission is to issue fair and objective decisions on tax appeals from taxpayers who disagree with determinations made by FTB or CDTFA. To carry out this charge, OTA has offices and hearing facilities in Sacramento, Fresno, and Los Angeles, staffed by ALJs with significant experience in tax law. The headquarters office in Sacramento is currently staffed with 12 ALJs and a Presiding ALJ. The office in Los Angeles has 6 ALJs and a Presiding ALJ. The Fresno hearing facility is staffed by Sacramento and Los Angeles employees.

OTA was initially staffed with newly established positions, as well as positions transferred from CDTFA. The staffing model was designed prior to the opening of OTA and was necessarily derived from estimated workload. These estimates were generally based on the experience of BOE as the previous appeals body. Based on a year's worth of actual data at OTA, it is now apparent that these initial workload forecasts underestimated the actual workload of the Office. Each appeal at OTA receives a written opinion and is considered by a panel of three ALJs, which creates a substantial workload that did not occur at BOE.

STAFF COMMENTS

Staff has no concerns with the positions, but suggests moving forward we have a check in on the new agency to ensure it is on track.

Staff Recommendation: Hold Open.

ISSUE 17: SMALL BUSINESS TAX CODE STREAMLINING

The May Revision includes trailer bill language to help business and individuals by expediting certain tax appeals.

BACKGROUND

Current law requires the OTA to decide appeals using panels of three Administrative Law Judges. The proposed statutory changes allow tax appeals to be decided by one judge, if the appellants opt-in. The appeals must involve franchise income tax matters of less than $5,000, or business tax matters of less than $50,000. The business tax appellant must also have less than $20 million in gross annual sales.

STAFF COMMENTS

OTA was established in 2017 to address a number of issues that were occurring at the BOE. The goal of the OTA was to treat all taxpayers alike and the proposed changes are deviating from this process. That being said, the proposal has merit and staff would recommend that this be brought forward in a January proposal versus the May Revision to better evaluate the change and its impact on taxpayers.

Staff Recommendation: Hold Open.