AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

WEDNESDAY, MAY 17, 2017

1:30 P.M. - STATE CAPITOL ROOM 447

ITEMS FOR VOTE-ONLY

ITEMS TO BE HEARD

ITEMS FOR VOTE-ONLY

8955 DEPARTMENT OF VETERANS AFFAIRS

VOTE-ONLY ISSUE 1: PUBLIC ASSISTANCE AND REPORTING INFORMATION SYSTEM (PARIS) (INFORMATIONAL ISSUE)

The State uses a system called the Public Assistance and Reporting Information System (PARIS) to identify veterans who may not be connected with federal monetary and health care benefits. The potential benefits of the use of PARIS has been underutilized likely resulting in the state leaving federal money on the table and missing opportunities to reduce state costs.

BACKGROUND

PARIS is an information sharing system, operated by the U.S. Department of Health and Human Services' Administration for Children and Families, which allows states and federal agencies to verify public assistance client circumstances. The PARIS Veterans match allows the California Department of Health Care Services (DHCS) to improve the identification of veterans enrolled in the Medi-Cal program. Improved veteran identification can enable the state to shift health care costs from the Medi-Cal program to the United States Department of Veterans Affairs (USDVA). The PARIS referrals result from Medicaid records that are matched against VETSNET, the federal pension and compensation database.

The State can use this information to connect veterans to benefits fully funded by the federal government. While such activities generally do not create federal savings and may increase federal costs, they can (1) offset state costs for providing public assistance benefits to these individuals and (2) improve veterans' access to other federal monetary benefits.

The DHCS began using PARIS in 2012-13. Annually, DHCS receives up to 120,000 matches for veterans, however, only the 2,000 matches that have the highest potential for state savings are referred to County Veterans Service Officers (CVSO). The annual cost for the current program is $1.9 million ($956,000 General Fund and $956,000 Federal Funds). The amount of total savings to the State (after the aforementioned costs are subtracted) for the past four years is shown below.

Fiscal Year	Estimated Number of PARIS Veterans Dropping Medi-Cal	Total State Savings*
2015-16	148	$4,632,500
2014-15	101	$3,117,000
2013-14	86	$1,360,000
2012-13	54	$ 677,600

Source: Department of Health Care Services

Because DHCS receives approximately 120,000 PARIS referrals each year, and only 2,000 referrals are sent to CVSOs to work due to their own capacity, there remains a significant opportunity to move more veterans off Medi-Cal. For example, using the savings shown in the table above, DHCS estimates that if the number of referrals worked were doubled, the savings would also double.

STAFF COMMENTS

Currently, there are no staff at CalVet focused on PARIS referrals and helping to connect these veterans with the federal health care and monetary benefits they have earned. DHCS has estimated that doubling the number referrals could result in an additional $4.6 million in General Fund savings. Having staff at CalVet to work the referrals may be the most cost-effective way to increase state savings. These staff could provide direct outreach to veterans and their families to educate them about state and federal benefits, make referrals to local service providers, and assist with filing VA claims for healthcare.

Staff recommends the Committee establish for three years a unit of 3.0 positions (2.0 AGPAs and 1.0 Staff Services Manager II) within the CVSO Auditing, Training, and Support unit dedicated to do this work. Most likely CalVet could receive matching funds from DHCS for these three positions resulting in a cost of $359,000 ($215,000 General Fund and $144,000 reimbursements) in 2017-18 and $342,000 ($204,000 General Funds and $138,000 reimbursements) on an ongoing basis. The costs for these staff will be offset by General Fund savings of up to $5 million annually.

Having CalVet report on the outcomes of its efforts would help the Legislature assess if funding for these positions should be permanent. Staff recommends CalVet report to the Legislature in March 2020 1) the number of veterans that have been moved off of Medi-Cal and/or connected with federal benefits; 2) the amount of state savings achieved each year; 3) any other relevant outcomes; and 4) what further steps could be taken to increase state savings and the benefits of these matches.

This item was heard on March 28, 2017.

Staff Recommendation: Approve 2.0 AGPAs and 1.0 Staff Services Manager II and $359,000 ($215,000 General Fund and $144,000 reimbursements) in 2017-18 and $342,000 ($204,000 General Funds and $138,000 reimbursements) in 2018-19 and 2019-20. In addition, adopt Supplemental Report Language requiring CalVet to report on the outcomes from the addition of these staff by March 2020.

9800 EMPLOYEE COMPENSATION
CONTROL SECTION 3.61

VOTE-ONLY ISSUE 2: AUGMENTATION FOR EMPLOYEE COMPENSATION AND CONTROL SECTION 3.61

This May Revision proposes technical changes to reflect the following:

- Increased enrollment in health and dental plans;
- Updated employment information for salary increases previously provided in the Governor's Budget;
- Revised pay increases for Judges;
- Updated costs related to the salary survey estimates for the California Highway Patrol (BU 5); and
- Increases to salaries and revised benefits recently negotiated with Physicians and Dentists (BU 16).

This proposal includes changes to Control Section 3.61. The amendments to Control Section 3.61 reflect additional employer contributions for prefunding other postemployment benefits based the recent agreement with BU 16. In 2017-18, the state will match Physicians and Dentists employee's contributions of 1 percent effective July 1, 2017.

Additionally, pursuant to Government Code Section 22944.5, subdivision 9(b), paragraph (4) and based on the actuarially determined normal costs identified in the latest state valuation, the Director of Finance has determined state employees of the Judicial Branch are required to contribute 2.3 percent effective July 1, 2017. As a result, the state will match Judicial Branch state employees' contributions of 2.3 percent effective July 1, 2017.

Additionally, Control Section 3.61 will be updated to the following:

- Item 9800-001-0001, Augmentation of employee compensation, increased by $32,128,000;
- Item 9800-001-0494, Augmentation for Employee Compensation payable from other unallocated special funds, increased by $9,988,000; and
- Item 9800-001-0988, Augmentation for Employee Compensation payable from other unallocated nongovernmental cost funds, increased by $4,920,000.

STAFF COMMENTS

The figures included are estimated health and dental premium rates, and the final health and dental rates will be adopted by the CalPERS Board in May 2017.

Staff Recommendation: Adopt May Revision proposal.

VOTE-ONLY ISSUE 3: AUGMENTATION FOR EMPLOYEE COMPENSATION

This May Revision proposes the following changes to reflect salary and benefit increases for recently negotiated memorandum of understanding with bargaining units represented by the Service Employees International Union (SEIU), Firefighters (BU 8), Craft and Maintenance Workers (BU 12), Stationary Engineers (BU 13), Psychiatric Technicians (BU 18), Health and Social Service Professionals (BU 19), and Excluded employees:

- Increase various General Fund by $152,684,000
- Increase various Special Funds by$39,882,000
- Increase various non-Governmental cost funds by 426,687,000
- Increase reimbursement for various items by $20,318,000

STAFF COMMENTS

These figures reflect the recently negotiated MOUs with various bargaining units. Staff has no concerns.

Staff Recommendation: Adopt May Revision proposal.

1111 DEPARTMENT OF CONSUMER AFFAIRS

VOTE-ONLY ISSUE 4: BREEZE SYSTEM AND CREDIT CARD FUNDING

The Governor's budget requests for DCA $19.8 million in 2017-18 (growing to $22.5 million in 2018-19, then decreasing to $7.7 million annually thereafter) from various DCA special funds for the BreEZe IT system. This funding would support a total of 43 permanent positions as well as various contract and other costs.

BACKGROUND

Project History. When first initiated, the BreEZe project was proposed to be an integrated, web-enabled enforcement and licensing system that would replace various systems that have been in place at all of the boards and bureaus within DCA. It was proposed to be completed in three phases (or "releases"), with roughly half of the boards and bureaus in the third release. In November 2009, the BreEZe project was approved with a budget of $28 million and an expected completion date of June 2014. DCA selected Accenture as the vendor for the project in September 2011. The first release was launched in October 2013, but experienced various implementation challenges. Notably, according to a report by the State Auditor, most Release 1 Executive Officers reported that BreEZe decreased their regulatory entity's operational efficiency. In January 2015, the Administration informed the Legislature of its intent to cancel the contract with Accenture after Release 2 due in large part to rising project costs, which had grown to $96 million for Releases 1 and 2 alone. The Legislature concurred with the Administration's proposed approach in March 2015, but expressed a desire for closer oversight over the project and for a plan for Release 3 boards and bureaus. In January 2016, DCA launched Release 2 and has since reported that the second release is proceeding successfully.

Funding Provided in 2015-16 Budget. The Legislature has approved various funding proposals for BreEZe. Most recently, the 2015-16 budget provided roughly $23 million on a limited-term basis. The proposals included 34 permanent positions, though funding for them was only provided through 2017-18. During the 2015-16 budget process, DCA indicated it planned to conduct cost-benefit analyses for Release 3 boards and bureaus in 2016 (after Release 2 completion) and then make a decision about whether entities previously slated for Release 3 would come onto BreEZe or another system.

The Governor's Proposal. The Governor's proposal funds 43 positions, an increase of 9 positions from the current staffing levels. Of these nine additional positions, five are related to maintenance of the system and four are related to cashiering and the call center for licensees that use the system. The Governor's proposal for 2017-18 and 2018-19 includes funding for various contract amounts, including a continuation of about $4.5 million per year for a maintenance contract with Accenture. According to DCA, this contract funds about 21 Accenture positions.

LAO COMMENTS

The Legislative Analyst's Office (LAO) makes the following assessment and recommendations for the BreEZe project.

Minimizing Accenture Contract Worthwhile Goal, but Not Reflected in Proposal. The proposal requests an increase of five additional positions for maintenance of the BreEZe system. DCA indicates that BreEZe maintenance requests have stabilized, and that the additional staff would allow the department to begin transitioning maintenance responsibility from Accenture to state staff.

The LAO agrees that reducing the state's reliance on the Accenture maintenance contract is a worthwhile goal since it is more costly than state staff. However, the proposal does not reflect a commensurate reduction in maintenance contract amounts. DCA indicates that this is because it expects to initiate specific system modification projects in the current and future years, and thus does not want to reduce the Accenture contract at this time. However, the LAO anticipates based on information provided by DCA that the specific system modification projects that the department has identified—for the Board of Optometry and the Board of Vocational Nursing and Psychiatric Technicians—will likely be largely completed by the end of 2017-18. Accordingly, the LAO expects that the department should be able to begin to reduce its reliance on Accenture starting in 2018-19 even if it undertakes these additional system modification projects.

Plan for Release 3 Entities Remains Uncertain. While it has been about two years since the decision was made to terminate Release 3 from the BreEZe contract, DCA still lacks a plan for Release 3 boards and bureaus. Furthermore, it indicates that there is currently no defined timeline for the completion of the cost-benefit analyses that DCA expects to undertake before making decisions about whether entities previously slated for Release 3 would come onto BreEZe or another system. The lack of a plan for Release 3 is problematic because Release 3 boards and bureaus are using outdated IT systems that do not fully meet their business needs. We also note that these Release 3 entities have already waited eight years and contributed financially to a new system, and thus should reasonably expect to see a plan for addressing their needs.

LAO Recommendation. The LAO recommends that the Legislature approve the Governor's proposal for 2017-18, but reduce the 2018-19 amount by $1 million because the proposed increase in state staff should allow DCA to gradually reduce its reliance on its external maintenance contract with Accenture. Additionally, since DCA has not yet provided a plan for addressing the IT needs of Release 3 boards and bureaus. The LAO recommends that the Legislature direct DCA to report at budget hearings on its plan.

STAFF COMMENTS

Despite having several subsequent meetings, DCA has not provided a clear plan for addressing the IT needs of Release 3 boards and bureaus. Staff recommends rejecting this proposal in order to send it to Conference Committee and to direct the Administration to submit a process that holds DCA accountable for ensuring it has an IT strategy for the boards and bureaus not currently using BreEZe.

Staff Recommendation: Reject the proposal.

VOTE-ONLY ISSUE 5: DCA—ORGANIZATIONAL CHANGE MANAGEMENT

The Governor's Budget requests $1.3 million and 10.0 permanent positions to conduct organizational changes management (OCM) activities at DCA's 40 boards and bureaus.

BACKGROUND

The Strategic Organization, Leadership, and Individual Development (SOLID) unit within DCA handles training and strategic planning for boards and bureaus. Since 2015, SOLID has also provided OCM services to DCA entities. OCM involves mapping and reviewing business processes and developing recommendations for ways to improve efficiency and effectiveness. SOLID currently has three assigned staff and two redirected staff working on OCM. The total number of staff in the SOLID unit is 19.

According to DCA, this proposal would fund OCM for roughly five to seven boards and bureaus annually. The OCM process for each entity is expected to take the equivalent of about two DCA staff for a full year. The Governor proposes to fund this request with the special funds that support these 40 entities and distribute the costs across all of these special funds in proportion to each entity's share of authorized positions.

LAO COMMENTS

The LAO's assessment of the OCM proposal is below.

Insufficient Justification of Need. DCA indicates that OCM is needed to improve the quality of work conducted by the department and its boards and bureaus. However, it has not provided evidence of specific deficiencies at the department's 40 entities in order to justify conducting a staff-intensive effort to improve their performance.

DCA further indicates that there is unmet demand for OCM from boards and bureaus. However, the specific examples provided by DCA generally focus on business process mapping in advance of IT solutions or providing trainings on BreEZe and project management rather than on broader OCM efforts. Thus, it is not clear whether the boards and bureaus have unmet demand for comprehensive OCM services or for more limited support for specific activities.

Insufficient Justification of Value of Organizational Change Management. DCA has not shown that OCM has been an effective tool for improving the performance of state entities. Specifically, while DCA has provided OCM services since 2015, it has not been able to provide evidence that these activities have led to efficiencies or other measurable outcomes at its boards and bureaus. Furthermore, DCA could not provide examples of other departments that have ongoing staffing for OCM and the results they have achieved.

Inadequate Identification of Expected Outcomes. DCA has not identified any specific measurable outcomes that would be achieved with these new resources. Accordingly, it is not clear how the Legislature would evaluate whether these resources have been effective at meeting their intended goals.

LAO Recommendation. The LAO recommends that the Legislature reject the Governor's proposal to provide $1.3 million to conduct organizational change management (OCM) activities at DCA's 40 boards and bureaus. The LAO finds that DCA has not adequately justified that OCM (1) is needed at all boards and bureaus, (2) has a proven track record at DCA or other state departments, or (3) will produce specific measurable outcomes.

STAFF COMMENTS

Despite several conversations and a direct request to DCA to rewrite this proposal, making clear the proposed workload and timelines and explaining how OCM will facilitate the implementation of BreEZe for the remaining boards and bureaus, DCA has not done so. Staff recommends rejection of the proposal.

Staff Recommendation: Reject the proposal.

9100 LOCAL ASSISTANCE

VOTE-ONLY ISSUE 6: MAY REVISION ADJUSTMENT TO LOCAL UPDATE OF ADDRESS PROGRAM

The May Revision proposes a small change to the Local Update of Address Program proposal.

BACKGROUND

On April 25, 2017 the Subcommittee approved the Governor's Budget proposal to appropriate $7 million General Fund to assist local government activities related to the Local Update of Census Address program (LUCA). This funding provides incentives for local governments to assist the census in updating address information in preparation for 2020.

The May Revision requests provisional language to extend the encumbrance period of these funds and allow these funds to be used for the State Census Outreach Coordinator from 2017-18 through 2019-20. There is no additional cost associated with this change.

Staff Recommendation: Adopt May Revision

CONTROL SECTION 1.80

VOTE-ONLY ISSUE 7: MAY REVISION PROPOSAL: ENCUMBRANCE LANGUAGE

The May Revision proposes technical changes to existing encumbrance language.

BACKGROUND

The May Revision proposes two technical changes to the budget bill and a trailer bill change to the Government Code to clarify the period for liquidating encumbrances to conform to existing practice.

STAFF COMMENT

The proposed language appears technical and consistent with current practice for encumbrances.

Staff Recommendation: Adopt May Revision

CONTROL SECTION 35.50

VOTE-ONLY ISSUE 8: MAY REVISION PROPOSAL: UPDATED BUDGET CALCULATIONS

The May Revision updates a budget control section that displays budget calculations.

BACKGROUND

The May Revision updates a control section that officially articulates key budget numbers including: General Fund Revenues, Budget Stabilization Account deposits, Proposition 98 guarantee levels.

STAFF COMMENT

The proposed May Revision adjustment reflect the Governor's proposal. This Control Section must be adjusted to reflect the final budget numbers associated with the Assembly's action.

Staff Recommendation: Adopt May Revision with conforming changes to reflect final Assembly package.

8880 FI$CAL

VOTE-ONLY ISSUE 9: MAY REVISION PROPOSAL: PROVISIONAL LANGUAGE

The May Revision requests provisional language for the Fi$Cal project.

BACKGROUND

The May Revision proposes to add provisional budget bill language for the Fi$Cal project that would allow the Department of Finance to adjust the Fi$Cal budget for unexpected customer service and equipment purchase costs. The provisional language includes Joint Legislative Budget Committee notification.

STAFF COMMENT

In previous years, this Subcommittee considered adding provisional language similar to that proposed in May Revision to help avoid expensive project delays. Now that the project is in the middle of implementation, this flexibility is even more critical to provide the project a contingency for unexpected costs. This language is preferable to building in a "cushion" to the project costs because it allows more transparency and oversight.

Staff Recommendation: Adopt May Revision

ITEMS TO BE HEARD

8955 DEPARTMENT OF VETERANS AFFAIRS

ISSUE 1: TRAILER BILL LANGUAGE PROPOSAL

The Administration proposes budget trailer bill language that would make changes to the Military and Veteran's Code regarding admission to the state's veterans homes.

BACKGROUND

The State Operates Eight Veterans Homes Mostly Serving Older Veterans. The state operates eight veterans homes for eligible veterans to receive residential or long–term care. The homes are located in Redding, Yountville, Fresno, Lancaster, Barstow, Ventura, West Los Angeles, and Chula Vista, and serve over 2,500 veterans. The veterans homes serve older or disabled veterans, whose needs range from independent living with minimum supervision to advanced medical care for residents with significant disabilities. In July 2016, about 80 percent of veterans home residents were over the age of 65 and 34 percent were over age 85.

STAFF COMMENTS

This item was heard on March 28, 2017.

The proposed trailer bill language attempts to clarify statute and better establish revenue generation and cost limiting ideas in an effort to best serve the state veterans and make operation of the state's veterans homes more cost-effective. The Administration should be commended for the proposed language. There is significant overlap between this proposal, the recent Little Hoover Commission recommendations, and prior legislation that has considered making changes to who is prioritized for admission to the homes and how the homes operate.

Staff recommends the Committee take the following actions based on the Little Hoover Commission's recent report and others' recommendations in order to strengthen the Administration's proposed language and to better ensure the state's veterans' needs are met.

1) ***Adopt the Administration's proposed TBL.***

2) ***Develop a Master Plan.*** Require in Budget Bill Language that CalVet prepare a Master Plan for the overall operation of the Veterans Homes system, including an individual plan for each home by July 1, 2018. The development of the plan should use a stakeholder process and include the following.

    - How the prioritization of veterans with a rated 70 percent or greater service-connected disability for admissions into Veterans Homes fits within the overall long-term plan for Veterans Homes in California. This report shall include, but not be limited to:

1. An assessment of the current and projected long-term care needs of California's veterans;
2. Data on the current waitlist, including number of veterans with a rated 70 percent or greater service-connected disability currently on the waitlist, by level of care for each of the homes;
3. An analysis of how the new prioritization criteria will affect the number of admitted veterans with a rated 70 percent or great service-connected disability;
4. Information on the potential trade-offs of the new prioritization criteria, with a focus on how veterans who do not qualify for prioritized admission will be impacted;
5. An analysis of what changes will be needed in the homes to accommodate the needs of the new prioritized veterans; and
6. A multi-year analysis of the estimated costs and savings associated with the new prioritization criteria.

- A strategy to maximize the entire footprint of the land at all the homes, as well as preserving what is already there in terms of physical homes. This would include an evaluation of leases at the homes and consideration of the addition of facilities such as outpatient clinic and multifamily housing

- Evaluate the need for each level of care at each home and make the level of care provided at each home consistent with the results of the evaluation;

- A discussion of how veterans with complex mental and behavioral health needs will be accommodated in the plan.

3) ***Repurpose Veterans Homes Program Savings for Veterans Services.*** Adopt placeholder trailer bill language stating that it is the Legislature's intent that a portion of the savings resulting from the proposed changes in the trailer bill and future changes to the operation of the state homes stay within the CalVet budget and be used to expand supportive services to other veterans and their families; such as transition services, housing assistance, health services, mental health services, small business assistance, and employment services or job training.

4) ***Provide Transparency for the Admissions Process and Wait List.*** Adopt placeholder trailer bill language that requires CalVet, on or before January 2019, to:

   - Create an admissions page on its website.

   - Create a transparent admissions and waiting list process, including explanation on the website of the process, laws, and regulations pertaining to admissions, the wait list, and continuum of care.

- Provide a reasonable level of information to applicants via the website about projected wait times at various levels of care at each home to enhance applicants' ability to make long term care planning decisions, and

- Present information about the wait list on the website including enabling applicants to ascertain their current place thereon via the internet.

5) ***Add Position Authority and Funding for Staff to Develop Master Plan and Regulations.*** It is likely that CalVet will need additional staff for a limited period of time to develop the Master Plan. Staff recommends the Committee provide funding and position authority for 2.0 positions for two years to work on the Master Plan and other tasks. In addition, currently there are 12-15 regulatory packages moving through the department and only two positions are working full time on regulations. Approving this package will significantly increase CalVet's regulatory workload. Staff recommends adding 5.0 positions to create new and maintain existing regulations, as well as support regulatory compliance. The suggested positions that would be added are 1.0 Staff Counsel I, 1.0 Staff Services Manager II, and 3.0 Assistant Governmental Program Analysts.

Staff Recommendation: Adopt the actions presented above.

ISSUE 2: SKILLED NURSING FACILITY ACTIVATION

The May Revision proposes an augmentation of 12.1 positions in 2017-18, and 20.5 positions and $868,000 General Fund annually thereafter, for the Veterans Home of California - Greater Los Angeles and Ventura County (VHC-GLAVC) to convert 84 transitional housing program (THP) beds back to the skilled nursing facility (SNF) level of care. This proposal also includes the redirection of 46.5 existing positions and $4.7 General Fund in the CalVet budget for the Adult Day Health Care (ADHC) programs in Lancaster and Ventura. These staffing and funding shifts are shown in the figure below.

Proposed Staffing Shifts

Request	Positions	Ongoing Funding
VHC-WLA SNF Conversion	84.0	$6,840,000
VHC-WLA THP Reduction	-17.0	-$1,285,000
VHC-Lancaster and Ventura ADHC Reduction	-46.5	-$4,687,000
Total	20.5	$868,000

BACKGROUND

The VHC-WLA Transitional Housing Program. The Veterans Home of California - West Los Angeles (VHC-WLA) was originally designed and constructed to provide 396 beds consisting of 84 Residential Care Facility for the Elderly (RCFE) beds and 312 SNF beds. Of the 312 SNF beds, 60 were designated for specialized memory care services. The distribution of beds between the levels of care was carefully determined after a review of anticipated needs in the surrounding region.

However, VHC, WLA was unable to operate at maximum capacity due to the lack of a kitchen, so CalVet explored other programmatic opportunities for vacant units. In May 2013, the CalVet submitted a May Revision proposal for fiscal year 2013-14 to convert the SNF to the domiciliary level of care with a savings of $5.1 million and 67 positions ongoing as the domiciliary required significantly fewer staff. As a result of the approval of this proposal, the CalVet and the VA agreed to convert 84 SNF beds and create a transitional housing program (THP) for formerly homeless veterans. Under this agreement, the VA has provided wraparound psychiatric and social services and prepared meals in their facilities, while CalVet offers living accommodations and reimburses the VA for food costs.

The need for a THP program has decreased significantly. In December 2016, the federal VA notified CalVet that it would no longer refer veterans to the VHC-WLA THP and that the last residents in the program will be transitioned out to the community by June 30, 2017. As of the first week of May 2017, the VHC-WLA THP had 59 vacancies with no waiting list and has not been at full capacity since May 2015. The last time there were fewer than 15 vacancies was in August 2016.

CalVet will continue to work with the VA to find appropriate placement for all remaining veterans in the program. Many veterans will obtain permanent housing and employment prior to the THP's closure. For those unable to find permanent housing, the VHC-WLA and the VA will pursue multiple options to assist the veterans on a case-by-case basis.

Adult Day Health Care Programs. The VHC-Lancaster and VHC-Ventura were originally designed and constructed with space for an ADHC program. The ADHC is a federal day program of health services, therapeutic activities, and social services for frail elders or adults with chronic, disabling medical, cognitive or mental health conditions who are at risk for institutional placement. In California, ADHC programs have changed over time and been replace by Community-Based Adult Services (CBAS).

CalVet is proposing to offset the cost of the transition from THP to SNF in the VHC-WLA with a redirection of the resources originally intended for ADHC in VHC-Lancaster and VHC-Ventura. This would include a reduction of 46.5 positions and $4.7 million General Fund for the unopened ADHC programs. While the surrounding communities had an apparent need for additional ADHC (now CBAS) services in 2007, it has become clear that this need no longer exists. Local organizations in both regions provide more than adequate CBAS services for the veteran population; many already contract with the VA and have vacancies in their programs. In addition, the federal VA is no longer requiring CalVet to provide CBSA services.

LAO COMMENTS

The LAO suggests asking the Administration the following questions during the budget hearing process:

- ***What is Driving the Governor's Proposal to Convert Existing THP Beds to the SNF Level of Care?*** In our recent report regarding veterans services we noted the high demand for skilled nursing care at state veterans homes. It is unclear if the proposal reflects CalVet's interest in addressing the wait list for SNF beds or if the proposal is in response to the United States Department of Veterans Affairs (USDVA) decision to no longer refer veterans to the West Los Angeles THP and provide veterans with wraparound support services.

- ***What is the Effect of the Proposal on THP Residents?*** It is unclear how many THP beds are currently occupied and how CalVet will ensure the veterans are adequately served following the closure of the West Los Angeles THP.

- ***What Alternatives are Available to Veterans Requiring Transitional Housing Assistance?*** The closure of the West Los Angeles THP eliminates 84 beds for homeless veterans seeking stable housing. The Legislature could ask CalVet about the potential alternative services available to veterans in need of assistance securing housing.

- ***Are There Additional Costs to Convert The Existing THP Beds to SNF Beds, Besides the Noted Personnel Costs?*** It is unclear if modifications to the THP rooms and facilities or if new equipment is required to relicense the THP beds as SNF beds.

- ***How Long Before The SNF Beds Are Staffed And Operational?*** It is unclear how long It will take to hire the necessary staff to fill the additional SNF beds and at what rate the SNF beds will be filled.

- ***Technical Budgeting for CBAS Program.*** While the state has funded the CBAS Program at the Lancaster and Ventura veterans homes since 2010-11, the program was never operational. Funds allocated for the program have reverted to the General Fund annually, resulting in General Fund savings. Redirecting funds allocated for the CBAS program towards bed conversion would eliminate the General Fund savings that have materialized previously.

STAFF COMMENTS

This proposal results in the elimination of two programs that have been beneficial to veterans. However, according to CalVet the need for CalVet to provide these programs has diminished. The federal VA has also given CalVet permission to no longer provide CBAS services and has notified CalVet that the THP program must end. The proposed shifts brings back the original purpose and intended use of the VHC-GLAVC facility.

Staff Recommendation: Hold open

9892 SUPPLEMENTAL PENSION PAYMENTS

ISSUE 3: SUPPLEMENTAL PENSION PAYMENT AND TRAILER BILL LANGUAGE

The May Revision proposes a $6 billion supplemental payment to CalPERS with a loan from the Surplus Money Investment Fund that will reduce unfunded liabilities, stabilize state contribution rates, and save $11 billion over the next two decades. The General Fund share of the repayment will come from Proposition 2's revenues dedicated to reducing debts and long-term liabilities.

BACKGROUND

The May Revision includes a one-time $6 billion supplemental payment to the California Public Employees Retirement System (CalPERS) in 2017-18. This action doubles the state's annual payment and will mitigate the impact of increasing pension contributions due to the state's large unfunded liabilities and the CalPERS Board's recent action to lower its assumed investment rate of return from 7.5 percent to 7 percent.

As of June 30, 2016, CalPERS reported that the state plans' unfunded liability totals $59.5 billion and is 65 percent funded, meaning that CalPERS only has 65 percent of the funding required to make pension payments to state retirees. Without this supplemental pension payment, the state's contributions to CalPERS are on track to nearly double by fiscal year 2023-24. Barring any changes to CalPERS' actuarial assumptions, this one-time payment will reduce the unfunded liability, and help lower and stabilize the state's annual contributions through 2037-38.

The additional $6 billion pension payment will be funded through a loan from the Surplus Money Investment Fund. Although the loan will incur interest costs (approximately $1 billion over the life of the loan), actuarial calculations indicate that the additional pension payment will yield net savings of $11 billion over the next 20 years.

As the loan will repay state pension plans' unfunded liabilities in excess of the base amounts scheduled, repayment of the loan is eligible for debt payments under Proposition 2. As such, repayment of the loan will be made under Proposition 2 for the General Fund's share and other funds will repay the remainder.

For 2017-18, the state's contribution to CalPERS is estimated at $5.8 billion ($3.4 billion General Fund). These amounts are slightly lower than estimated at Governor's Budget due to various factors. Without the supplemental payment, by 2023-24, the state's contribution is estimated to reach $9.2 billion ($5.3 billion General Fund), due to anticipated payroll growth and the lower assumed investment rate of return. With the supplemental payment, the state's 2023-24 pension costs are estimated to be $8.6 billion ($4.9 General Fund).

STAFF COMMENTS

This proposal has merit and staff recommends adopting placeholder TBL. The proposal would provide General Fund saving over the next couple decades by prepaying pension obligations.

Staff Recommendation: Adopt May Revision and placeholder TBL.

CONTROL SECTION 3.60

ISSUE 4: STATE RETIREMENT CONTRIBUTION RATES

The May Revise proposes to amend C.S. 3.60 to capture changes in state retirement contribution rates adopted by the California Employees' Retirement System (CalPERS) Board on April 18, 2017. Additionally, C.S. 3.60 is being amended to allow the Department of Finance to make supplemental payments to CalPERS for the state's retirement contributions using Proposition 2 funding.

BACKGROUND

The reduction in employer contribution rates is a result of new hires entering the system under lower benefit formulas pursuant to the Public Employees' Pension Reform Act of 2013, greater than expected contributions to the system and lower costs of living increases than estimated.

The newly adopted state employer contribution rates is a result new hires entering the system under lower benefit formulas pursuant to the Public Employee's Pension Reform Act of 2013, greater than expected contributions to the system, and lower cost of living increases than estimated. The newly adopted state employer contribution rates result in total state costs of $473,850,000, a decrease of $100,563,000 ($67,231,000 General Fund) from the $574,413,000 included in the Governor's budget.

Additionally, this item would reduce CalPERS' fourth quarter deferral by $14,125,000 General Fund from the Governor's Budget to reflect the changes in retirement rates. The net effect of these changes on the General Fund is a decrease of $53,106,000 in 2017-18 compared to the Governor's budget.

The following language is proposed to amend C.S. 3.60 in relation to supplemental payments to CalPERS:

(f)(1) In addition to the employers' retirement contributions listed in subdivisions (a) and (d), the Department of Finance may direct the Controller to transfer up to $427,000,000 General Fund to supplement the state's retirement contributions in fiscal year 2017-18.

(2) The Department of Finance shall direct the Controller to transfer the amount in paragraph (1) to either of the following:

(A) The Public Employees' Retirement Fund, or
(B) The Surplus Money Investment Fund, for repayment of principal and interest of a cash loan that was made to supplement the state's retirement contributions.

(3) The supplemental payment described herein is for unfunded liabilities for state-level pension plans in excess of current base amounts for fiscal year 2017-18. Therefore, any amounts transferred to funds identified in paragraph (2) constitutes an obligation pursuant to subclause (IV) of clause (ii) of subparagraph (B) of paragraph (1) of subdivision (c) of Section 20 of Article XVI of the California Constitution.

(4) The Department of Finance shall provide the Controller a schedule of the timing and amounts to be used for purposes of this section."

STAFF COMMENTS

The changes in the employer contribution rates are technical adjustments. The adoption of the amendment to Control Section 3.60 is consistent with the adoption of placeholder trailer bill language discussed in Issue 5.

Staff Recommendation: Adopt May Revision Proposal.

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
CONTROL SECTION 4.20

ISSUE 5: CALPERS ADMINISTRATIVE BUDGET ADJUSTMENTS

The May Revision proposes adjustments to nine items in the CalPERS administrative budget, seven of which are consistent with action taken last year and are for display items only. The remaining two are inconsistent with action taken in prior years and will be discussed below.

Additionally the May Revision proposes amendments to Control Section 4.20 to support the administrative expenses of the CalPERS health care program, consistent with the Contingency Reserve Fund (Item 7900-001-0950).

BACKGROUND

CalPERS Board is anticipated to approve its budget at its May 2017 Board meeting, and the budget includes the following changes:

1) Item 7900-001-0822, CalPERS administrative costs paid by the Public Employees' Health Care Fund decrease by $20,441,000;
2) Item 7900-01-0950,CalPERS administrative costs paid by the Public Employees' Contingency Reserve Fund increase by $20,441,000;
3) Item 7900-003-0830, CalPERS board administrative costs paid by the Public Employees Retirement Fund, decrease by $118,489,000;
4) Item 7900-015-0815, CalPERS board administrative costs paid by Judges' Retirement Fund, increase by $31,000;
5) Item 7900-015-0820, CalPERS board administrative costs paid by Legislators' Retirement Fund, decrease by $20,000;
6) Item 7900-015-0830, CalPERS board administrative costs paid by the Public Employees Fund, decrease by $5,416,000;
7) Item 7900-015-0833, CalPERS board administrative costs paid by the Annuitants' Health Care Coverage Fund, decrease by $291,000;
8) Item 7900-015-0849, CalPERS board administrative costs paid by the Replacement Benefit Custodial Fund, increase by $436,000; and
9) Item 7900-015-0884, CalPERS board administrative costs paid by the Judges' Retirement System II Fund, increase by $195,000.

The May Revise proposes the following changes for C.S. 4.20:

SEC. 4.20. Notwithstanding any other provision of law, the employer's contributions to the Public Employees' Contingency Reserve Fund, as required by Section 22885 of the Government Code, shall be ~~0.49~~ 0.55 percent of the gross health insurance premiums paid by the employer and employee for administrative expenses. The Director of Finance may, not sooner than 30 days after notification to the Joint Legislative Budget Committee, adjust the rate to ensure a ~~three-month~~ one-month reserve in the Public Employees' Contingency Reserve Fund.

STAFF COMMENTS

Staff has no concerns with Items 3-9 and recommends the adoption of those technical changes to the CalPERS budget.

However, staff has concerns with Items 1 and 2, which the Finance letter characterizes "as exceptions to the display items for information purposes to reflect corresponding changes in CalPERS continuous appropriation authority." This means they are not the normal technical changes the Subcommittee approves at May Revise.

2016 Budget Act. Last year, the Subcommittee approved and the final budget included trailer bill language proposed by the Department of Finance to address the concerns with the administrative expenses related to the Health Care Fund and Contingency Reserve Fund to provide additional budget oversight. Those code sections are shown below:

- Government Code Section 22910: Clarifies existing statute establishing that CalPERS health care administrative expenses in the Contingency Reserve Fund must be approved by Legislature; and

- Government Code Section 22911: Establishes that CalPERS health care administrative expenses in the Health Care Fund must be approved by Legislature.

The approval of these two code section changes ensured Legislative oversight and brought both the CRF and HCF with regard to administrative funds under budget.

January Budget. In January, the Governor's Budget included trailer bill language that would do the following:

- *Require All Administrative Costs Be Paid from Contingency Reserve Fund (CRF).* Under the proposed language, all administrative expenses currently being paid from the Health Care Fund (HCF) would be paid from the Contingency Reserve Fund (CRF). Any future administrative expenses - regardless of health plan - would be paid only from the CRF. The proposed language does not eliminate the HCF. Instead, the HCF would continue to be used to pay for specified non-administrative costs.

In January, the Administration stated that trailer bill language was needed to require CalPERS to place all their administrative costs under the CRF. If the subcommittee approves Items 1 and 2 above, it will grant without additional legislation the authority to CalPERS to make the move.

This action would be inconsistent with the action taken during the March 7, 2017, hearing where the Subcommittee rejected the proposed January trailer bill language. The subcommittee discussed the need for the trailer bill language and additional oversight on the administrative funds to be discussed in policy committee.

May Revise. The May Revise characterizes last year's discussion and this year's trailer bill language as technical changes.

The CalPERS budget zeros out the Health Care Administrative expenses and moves those expenses under the Contingency Reserve Fund. This change by CalPERS was according to DOF, independent of the January Trailer Bill Language. It is unclear if CalPERS or DOF is making this proposal that runs counter to legislative oversight.

The Subcommittee may wish to ask the following questions:

- How is the proposed "technical change" different from the trailer bill language?

- With respect to Control Section 4.20, why was the decision made to move from a three-month reserve to one-month reserve? How will this impact CalPERS?

Staff Recommendation: Adopt items 3-9 of the May Revision Proposal. Reject Items 1 and 2; and reject the changes to C.S. 4.20 including the change from the 2016 Budget Act to change the reserve, and amend the language to provide a three-month reserve consistent with previous years.

1045 CANNABIS CONTROL APPEALS PANEL
1111 DEPARTMENT OF CONSUMER AFFAIRS
3600 CALIFORNIA DEPARTMENT OF FISH AND WILDLIFE
3930 DEPARTMENT OF PESTICIDE REGULATION
3940 STATE WATER RESOURCES CONTROL BOARD
8570 DEPARTMENT OF FOOD AND AGRICULTURE
4265 DEPARTMENT OF PUBLIC HEALTH

ISSUE 6: VARIOUS MAY REVISE CANNABIS CHANGE PROPOSALS

The May Revise proposes a total of $43.2 million in 2017-18 across seven departments: Fish and Wildlife, State Water Resources Control Board, Public Health, Food and Agriculture, Pesticide Regulation, Cannabis Control Appeals Panel, and Consumer Affairs. The table below shows the budget request for 2017-18 through 2020-21 and ongoing.

Governor's 2017-18 May Revision Budget Proposals for Cannabis

(In Millions)

Department	2017-18	2018-19	2019-20	2020-21 and ongoing
Fish and Wildlife	$17.2	$13.3	$13.3	$10.3
State Water Resources Control Board	9.8	13.5	13.5	12.8
Public Health	9.3	8.3	8.7	8.0
Food and Agriculture	3.9	1.3	1.3	0.0
Pesticide Regulation	1.3	2.3	2.3	0.0
Cannabis Control Appeals Panel	1.0	1.1	1.1	1.1
Consumer Affairs	0.7	0.7	0.7	0.0
Totals	**$43.2**	**$40.5**	**$40.9**	**$32.2**

1. ***Cannabis Control Appeals Panel ($1.0 million, 8.0 positions).*** Proposition 64 created a new Appeals Panel, which will be required to hear appeals of licensing disputes on an ongoing basis. The proposed staffing levels for the Appeals Panel are in line with those of the Alcoholic Beverage Control Appeals Board, which provides a reasonable baseline level of staffing for this new organization. The Appeals Panel will be responsible for reviewing all appeals related to cannabis licensing decisions, including license issuance, renewals, probation, conditions, penalty assessments, cancelations, suspensions, or any other licensing disciplinary actions.

2. ***DCA ($664,000, 5.0 three-year positions).*** This proposal would provide five positions to implement provisions of the administration's proposed TBL intended to ensure license applicants are in compliance with CEQA before license applications are approved. The funding for the positions is only provided for three years.

3. ***Department of Fish and Wildlife ($17.2 million, 63.0 positions).*** The proposal only provides three years of funding for 18 of the 63 positions to support the development of regulatory programs related to cannabis cultivation and to ensure the protection of fish and wildlife.

4. ***Department of Pesticide Regulation ($1.3 million, 9.0 three-year positions).*** The proposal only provides three years of funding for all 9 positions to implement the cannabis regulations including education and outreach regarding pesticide use on cannabis. This proposal allows the Legislature to revisit the appropriate funding level and sources for these positions in the future as the industry and department's program develop.

5. ***State Water Resources Control Board ($9.8 million, 65.0 permanent positions).*** The SWRCB will need additional resources to perform cannabis-related workload as it expands its regulatory activities, and much of the new regulatory activities performed by SWRCB will be permanent and ongoing.

6. ***CDFA ($3.9 million, 10.0 three-year positions).*** This proposal would provide 10 positions to implement provisions of the administration's proposed TBL intended to ensure license applicants are in compliance with CEQA before license applications are approved. Whether to adopt the administration's TBL and implement its approach to CEQA compliance is a pending policy decision for the Legislature that should be decided before additional positions are provided to the department.

7. ***DPH ($9.3 million, 50.0 permanent positions, provisional authority for additional $2.3 million and 20.0 positions).*** This proposal would provide five positions to implement provisions of the administration's proposed TBL intended to ensure license applicants are in compliance with CEQA before license applications are approved. The funding for the positions is only provided for three years.

DPH likely will need some additional resources to perform nonmedical cannabis-related workload. The proposal includes provisional language for $2.3 million and 20 additional to have flexibility to increase resources to respond to increased licensure demand, should it materialize.

STAFF COMMENTS

Similar to the January proposals, staff recognizes the need to provide resources for the implementation of the cannabis regulatory for all departments who have jurisdiction over the programs. Staff supports limiting these proposals to three-year limited term funding. This approach will provide the Legislature the opportunity to have more review of the programs as time passes and implementation commences.

Staff recognizes that the likelihood that requests for resources will come on an annual basis due to the fluid nature of creating a new program. Staff wants to maintain the balance of providing enough resources to ensure the program's success while continuing to have legislative oversight.

Staff will note that the provisional language included for DPH to have flexibility to increase resources related to licensure is important. In addition, staff believes this provisional language should be extended to the Bureau with respect to lab testing to provide flexibility to hire additional staff to handle lab testing. With that said, staff will also note that the hiring process for all these agencies will be a huge undertaking and challenge.

Staff Recommendation: Hold Open.

0860 STATE BOARD OF EQUALIZATION

ISSUE 7: BOARD OF EQUALIZATION VACANCY REDIRECTION PROPOSAL

This item discusses the five proposals included in the January budget for the Board of Equalization that have been adjusted with the current vacancies at the agencies. As noted earlier this year, BOE has a vacancy rate of about 600 positions.

BACKGROUND

The 2017-18 Governor's Budget includes five Budget Change Proposals (BCPs) requesting $43.4 million and 134.6 positions in fiscal year 2017-18 for the Board of Equalization (BOE). The 134.6 positions consist of a continuation of 19 limited-term positions, 71.6 new positions, and 44 temporary help positions. These resources were a response to recently enacted legislation, voter referendums, and BOE's ongoing information technology project.

In recognition of its significant vacancy rate, BOE has worked with the Department of Finance to identify Governor's Budget BCP positions that can be absorbed by utilizing existing vacancies.

As a result of this effort, BOE proposes a revised request of $33.6 million and 64.8 positions. The 64.8 positions consist of a continuation of 19 limited-term positions, 1.8 new positions, and 44 temporary help positions. This represents a reduction of $9.5 million and 67.9 positions from the 2017-18 Governor's Budget request.

BOE will redirect 67.9 vacant positions and delete 2.0 positions from the original BCP request. The net result will only require the addition of 1.8 new positions. These redirections will result in corresponding reductions in operating expenses.

In developing this proposal, BOE considered positions for redirection utilizing the April 2017 vacancy report that were: 1) left vacant for more than 7 months; 2) were not in active recruitment; 3) were not held open due to a leave of absence. Effort was made to towards avoiding the redirection of vacant revenue-generating positions towards filling non-revenue generating BCP positions.

The revised proposal will allow the BOE to fulfill its statutory duties while also reducing its vacancy rate. The Department of Finance has reviewed the BOE's request and is in agreement with the proposed changes.

Recommended Revisions

1. ***CROS*:** BOE is in the process of consolidating and modernizing its existing taxpayer information systems through the CROS project. As designed, CROS would replace the BOE's two existing systems of tax information and return management, expand online business and taxpayer services, and provide an agency-wide data warehouse. CROS would replace two legacy systems, the

Integrated Revenue Information System (IRIS) and the Automated Compliance Management System (ACMS).

The Feasibility Study Report (FSR) approved September 2011, redirected BOE resources to the CROS project in order to proceed with the procurement phase. Special Project Report 1 (SPR 1) was submit on March 2012, and based on this, staffing was authorized, as well as funding for audit, collection and registration backlogs. SPR 2 was submitted in December 2013, addressing a nine month change in the procurement schedule and extending the implementation by one year. The CROS project subsequently submitted SPR 3, which called for an additional delay of 19 months in the procurement phase. Based on SPR 3, BOE submitted a May Revision request in 2016 to begin its implementation phase. The request asked for five years of funding; the Legislature chose to fund the first year only. BOE approved the selection of the CROS contractor (Fast Enterprises) and the CROS solution (GenTax) in August 2016. SPR 4 was submitted in October 2016, which included a resource analysis, project deliverables, project schedule, project management plans and technical capabilities.

The acquisition of CROS will be achieved through a performance-based, benefits-funded procurement approach. This approach is similar to that used by the FTB and the Employment Development Department (EDD) for their respective information and data management systems. The approach does not require up-front vendor funding, as the development and implementation costs are paid under a benefits-funded contract, with payment allowed only when increased revenues are received. Contractor payments would be dependent on the generation of additional revenues attributable to the project and would be capped overall.

Original Request:

- 2017-18 Governor's Budget Request: $30.0 million and 65.4 positions (29.0 positions and 36.4 temporary help).

Revised Request:

- $28.6 million and 55.4 positions (19.0 limited term positions and 36.4 temporary help). Redirect $1.2 million and 10.0 vacant positions.

2. ***Lead Acid Battery*:** The Lead-Acid Battery Recycling Act (LABRA) imposes a new fee of $1 on each battery until March 31, 2022 and $2 per battery beginning April 1, 2022, on consumers and manufacturers of lead-acid batteries. Revenues collected, less refunds and expenses reimbursement to the BOE, will be deposited in the Lead-Acid Battery Clean-Up Fund and used for clean-up costs associated with the batteries. Ongoing costs of the program are paid from the fee, which is collected from retail dealers. The dealer is allowed to retain 1.5 percent of the fee collected to meet their own collection costs. The new fee program will add an addition 20,000 fee-payers to BOE's existing base.

Original Request:

- $837,000 and 6.3 positions (4.8 positions and 1.5 temporary help).

Revised Request:

- $233,000 and 1.8 positions. Redirect $541,000 and 4.5 vacant positions.

3. ***Prop. 64-Cannabis:*** See Cannabis write up in April 25, 2017, agenda.

Original Request:

- $5.4 million and 22 positions (19.3 positions and 2.7 temporary help)

Revised Request:

- $2.7 million and 3.9 positions. Redirect $2.5 million and 16.1 vacant positions.

4. ***Prop 56-Cigarette Tax Increase:*** California imposes excise taxes on cigarettes and on other tobacco products, such as cigars and chewing tobacco. The state also licenses sellers, distributors, and manufacturers of these products, and BOE administers these tax and licensing programs. In 2016, the Legislature made significant changes to the tobacco licensing program, by expanding the licensing program to include electronic cigarettes (also known as e-cigarettes) raising license fees, and replacing the one-time fee for retailers with an annual fee.

   In November 2016, California voters passed Proposition 56, effective April 1, 2017, increasing the state excise tax rate on cigarettes by $2 per pack (from 87 cents to $2.87), which indirectly increased the state excise tax on other tobacco products by a similar amount. The measure established a new special fund for the resulting tax revenue, and it laid out a variety of spending requirements, including a couple of provisions setting aside resources for BOE. Proposition 56 also expanded the tax base for the excise tax on other tobacco products to include e-cigarettes.

Original Request:

- $6.9 million and 40.9 positions (34.3 positions and 3.1 temporary help)

Revised Request:

- $2.0 million and 3.7 positions. Redirect $4.2 million and 37.3 vacant positions.

5. ***ABX2 11 & SBX2 5-Cigarette Licensing:*** In 2003, the Legislature enacted statutes establishing the Cigarette and Tobacco Products Licensing Act which established a statewide licensing program administered by the BOE to address untaxed sales and illegal distribution of these products. The act requires the BOE to administer a statewide program to license cigarette and tobacco products manufacturers, importers, distributors, wholesalers and retailers. The most recent legislation increases the per-location fee from $100 to $265, changes the fee basis from one-time to annual, and expands tobacco products to encompass a wide range of products containing, made or derived from tobacco or nicotine, as well as nicotine delivery systems.

Original Request:

- $286,000 and 0.0 positions. There are no proposed revisions to this request.

STAFF COMMENTS

The redirection proposal moves toward addressing the vacancy rate at BOE. While the vacancy rate continues to be an issue, using those vacancies versus adding new positions to the BOE makes sense. The above proposal ensures that BOE has the resources it needs to implement various programs enacted by the Legislature last year.

For the CROS project, staff is very concerned about providing resources on an ongoing basis without legislative oversight annually.

Staff Recommendation: Reject January proposals related to BOE. Approve resources for CROS for 2017-18 only consistent with redirection proposal; Adopt redirection proposal for Lead Acid Battery, Prop. 56 Cigarette Tax Increase, and AB X2 11 and SB X2 5 Cigarette Licensing. Hold Open Prop. 64 Cannabis redirection proposal.

ISSUE 8: BOARD MEMBER BUDGETS

The May Revise proposes to establish a new item within the Board of Equalization to establish line item authority for each of the four board members. This represents the Administration's follow-up to the recent evaluation of the BOE by the Department of Finance, Office of State Audits and Evaluations (OSEA). This proposal includes budget bill language and placeholder trailer bill language that would be consistent with this budgetary reorganization and BOE related issues.

BACKGROUND

The OSEA evaluation found significant lapses in management and operation at the agency, including board member involvement in daily activities, violations of state law regarding the use of resources, and inadequate documentation and data evaluation.

STAFF COMMENT

The proposed split of board member budget from the BOE administrative functions and activities should add clarity to the use of resources with the agency.

Staff Recommendation: Adopt budget bill item for board members, budget bill language and associated placeholder trailer bill language for BOE related issues.

7501 CALIFORNIA DEPARTMENT OF HUMAN RESOURCES

ISSUE 9: CIVIL SERVICE IMPROVEMENT TRAILER BILL LANGUAGE

The Department will provide an update on the trailer bill language.

BACKGROUND

The Subcommittee first heard the CSI trailer bill language on March 21, 2017. There were significant concerns at the time.

STAFF COMMENT

Staff has not been provided an amended CSI trailer bill. Staff recommends that the Subcommittee ask the Department of Finance and the Department to update the Subcommittee on the status of the TBL and how they have addressed the various concerns from stakeholders. When will an updated trailer bill be available.

Staff Recommendation: Hold Open.

CONTROL SECTION 12.00

ISSUE 10: MAY REVISION: STATE APPROPRIATIONS LIMIT

The May Revision adjusts the State Appropriations Limit to conform to May Revision estimates.

BACKGROUND

The May Revision proposes to increase the State Appropriations Limit from $102,991,000 to $103,390,000, reflecting an increase in the growth factor pursuant to Article XIIIB of the California Constitution.

STAFF COMMENT

This adjustment is routine and technical.

Staff Recommendation: Adopt May Revision

0650 OFFICE OF PLANNING AND RESEARCH

ISSUE 11: MAY REVISION: PRECISION MEDICINE

The May Revision proposes to add an additional $10 million General Fund in the California Initiative to Advance Precision Medicine.

BACKGROUND

"Precision medicine" is a developing approach in the health sector that takes into account an individual's genes, environment, and lifestyle for disease diagnosis, treatment, and prevention. The 2016 budget included $10 million General Fund in the California Initiative to Advance Precision Medicine. The May Revision proposes an investment of the same amount in 2017.

Prior to that, the *2014-15 Budget Act* made a one-time appropriation of $3 million to the Governor's Office of Planning and Research (OPR) to fund precision medicine research. OPR, in collaboration with University of California (UC), San Francisco, issued a call for proposals to UC campuses. Two demonstration projects—California Kids Cancer Comparison at UC Santa Cruz and Precision Diagnosis of Acute Infectious Disease at UC San Francisco—were awarded funding. OPR also has developed an inventory of data, research, experts, and other resources related to precision medicine to facilitate cooperation in precision medicine research.

In addition, the federal government established the Precision Medicine Initiative in 2015, which combines efforts of various federal agencies to further precision medicine and allocates $215 million for precision medicine research.

STAFF COMMENT

While precision medicine research has values, there are other General Fund priorities that are higher priority.

In addition, this is a rare area of scientific research where the State of California's leadership is not necessary to lead. Unlike other priorities in the state budget, the federal government has increased investment in this area. Congress recently appropriated $190 million in federal funds for precision medicine research in 2017 (H.R. 244).

Staff Recommendation: Reject May Revision Proposal