

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION****ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR****TUESDAY, MARCH 15, 2016
1:30 P.M. - STATE CAPITOL ROOM 447****VOTE-ONLY CALENDAR**

ITEM	DESCRIPTION	
0984	CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD	2
VOTE-ONLY ISSUE 1	REAPPROPRIATION FROM 2015 BUDGET ACT	2
2100	DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL	3
VOTE-ONLY ISSUE 2	LEGISLATIVE – SB 796 SUNSET DELETION	3
7501	DEPARTMENT OF HUMAN RESOURCES	4
VOTE-ONLY ISSUE 3	DEVELOPMENT DISABILITY INTERNSHIP PROGRAM	4
VOTE-ONLY ISSUE 4	INFORMATION SECURITY STAFFING	5
VOTE-ONLY ISSUE 5	EXPANSION OF HEALTHIER U STATE EMPLOYEE WELLNESS PROGRAM	6
7760	DEPARTMENT OF GENERAL SERVICES	7
VOTE-ONLY ISSUE 6	TRANSFER OF GOVERNMENT CLAIMS PROGRAM TO DGS	7
VOTE-ONLY ISSUE 7	EQUIPMENT MAINTENANCE MANAGEMENT INSURANCE PROGRAM	8
VOTE-ONLY ISSUE 8	PROCUREMENT WORKLOAD INCREASE	9

ITEMS TO BE HEARD

ITEM	DESCRIPTION	
7501	DEPARTMENT OF HUMAN RESOURCES	11
ISSUE 1	CIVIL SERVICE IMPROVEMENT	11
ISSUE 2	HUMAN RESOURCES AUDIT	15
ISSUE 3	REVIEW OF MERIT SYSTEM SERVICES PROGRAM	17
2100	DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL	19
ISSUE 4	VACANCY RATES	19
ISSUE 5	AUGMENTATION OF STAFF RESOURCES FOR INFORMATION TECHNOLOGY	21
7320	PUBLIC EMPLOYMENT RELATIONS BOARD	22
ISSUE 6	AUGMENTATION TO REDUCE BACKLOGS AND LOS ANGELES REGIONAL OFFICE RELOCATION	22
7920	STATE TEACHERS RETIREMENT SYSTEM	24
ISSUE 7	INVESTMENT PORTFOLIO COMPLEXITY	24

8970	CALIFORNIA COMMISSION ON DISABILITY ACCESS	26
ISSUE 8	DISABILITY ACCESS: CONSTRUCTION-RELATED ACCESSIBILITY CLAIMS	26
7760	DEPARTMENT OF GENERAL SERVICES	27
ISSUE 9	SACRAMENTO REGION: STATE OFFICE INFRASTRUCTURE PLAN	28
ISSUE 10	CENTRAL PLANT: CAPITOL IRRIGATION PROJECT	32
ISSUE 11	CAP AND TRADE EXPENDITURE PLAN: ENERGY EFFICIENCY FOR PUBLIC BUILDINGS	33
ISSUE 12	HUMAN RESOURCES MODERNIZATION, WORKFORCE PLANNING, AND OVERALL CUSTOMER SATISFACTION	35
ISSUE 13	MERCURY CLEANERS SITE REMEDIATION	38
ISSUE 14	ENHANCING PROCUREMENT COST SAVINGS FOR STATE DEPARTMENTS (FISCAL)	39

VOTE-ONLY CALENDAR

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

VOTE-ONLY ISSUE 1: REAPPROPRIATION FROM 2015 BUDGET ACT

The California Secure Choice Retirement Savings Investment Board (Board) requests a reappropriation of the remainder of the balance of its fiscal year 2015-16 \$1,000,000 appropriation (estimated to be \$200,000) and provisional language to conduct a market analysis, financial feasibility study, and legal analysis.

BACKGROUND

The California Secure Choice Retirement Savings Program (SCRSP) exists to provide a statewide retirement savings plan for private workers who do not participate in any other type of employer sponsored retirement savings plan. Contributions by employers and employees will be voluntary. In order for SCRSP to become operational, the Board must conduct a market analysis to determine various factors of implementing the SCRSP and to report to the Legislature on its findings. The analysis may be done only if sufficient funds to do so are made available through a non-profit, private entity, or federal funding. SB 1234 requires the Board to conduct a market analysis to determine whether the necessary conditions for implementation of the SCRSP.

Proposed Provisional Language.

Notwithstanding any other provision of law, the Director of Finance may authorize expenditures for the California Secure Choice Retirement Savings Investment Board to conduct a market analysis pursuant to Chapter 734 of the Statutes of 2012 in excess of the amount hereby appropriated, but not sooner than 30 days after notification in writing to the chairpersons of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee or his or her designee, may in each instance determine. The additional expenditure authority is contingent upon the receipt of adequate donations through a nonprofit or private entity, or from federal funds.

STAFF COMMENTS

This proposal is consistent with action taken by the Subcommittee over the past three years and ultimately included in the 2013, 2014 and 2015 Budget Acts.

Staff Recommendation: Approve as budgeted.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

VOTE-ONLY ISSUE 2: LEGISLATIVE - SB 796 SUNSET DELETION

This item proposes to convert one limited-term Agent position to a permanent position to continue enforcement of activities resulting from AB 636 (Hall, Chapter 329, Statutes of 2013).

BACKGROUND

Existing law establishes ABC and grants it exclusive authority to administer the provisions of the ABC Act in accordance with laws enacted by the Legislature. This involves licensing individuals and businesses for the manufacture, importation, and sale of alcoholic beverages in California.

Existing tied-house laws comprise a broad statutory scheme that regulates the manufacture, distribution and sale of alcoholic beverages. Current tied-house law allows for licensees to sign autographs at off-sale retail locations under specified conditions, including when the consumer is not required to make a purchase at the event. However, instructional events are held at a retailer's licensed premise and typically include a meal, to teach consumers how to "pair" or "match" a particular wine with different foods. Tied-house provisions do not allow any gift or free goods to be given to consumers at instructional events, so consumers are required to pay for their meal.

Bottle autographing at these events has presented significant enforcement challenges for ABC, because provisions conflict with tied-house laws governing free goods and services. The differences in the limitations for the existing off-sale signing events and the limitations of the signing events conducted on retail premises continues to cause additional violations. These events have no limit per retailer or manufacturer per year and do not require prior approval from ABC.

AB 636 authorized 6,341 "authorized licensees" to hold an unlimited number of events per calendar year at over 38,247 active on-sale retail licensed premises. The number of authorized licensed locations where these events may be held has increased by 5,577. The number of authorized licensees has increased by 635 since these promotional events were authorized in 2012-13. ABC believes that the permanent authorization of these events will continue to significantly impact department workload.

STAFF COMMENTS

Staff has no concerns with this proposal. Previous concerns focused on whether there would be significant workload to justify the position. Based on the number of cases and increase of the authorized licensed locations, workload is justified for a permanent position.

Staff Recommendation: Approve as budgeted.

7501 DEPARTMENT OF HUMAN RESOURCES

VOTE-ONLY ISSUE 3: DEVELOPMENT DISABILITY INTERNSHIP PROGRAM

The proposal requests two positions and funding to implement SB 644 (Hancock, Chapter 356, Statutes of 2015), which would allow a person with developmental disabilities to complete an internship in lieu of the requirement to take and pass the Readiness Evaluation prior to being hired into state civil service.

The proposal includes General Fund and Central Service Cost Recovery Fund in the following way:

- \$164,000 in 2016-17
- \$146,000 in 2017-18, and ongoing.

BACKGROUND

CalHR Office of Civil Rights (OCR) has statewide responsibility in four program areas including Equal Employment Opportunity, Interpreter Program, Bilingual Services Program, and Disability Management Program, which includes the Limited Examination and Appointment Program (LEAP). LEAP program is an alternative civil service examination process by which persons with disabilities are tested and evaluated on their knowledge, skills, and abilities as applied to the LEAP classification.

Existing law requires CalHR in the administration of LEAP to conduct competitive examinations to determine eligibility for appointment under LEAP and refer names of eligible applicants who meet qualifications to the appointing powers for examination appointments.

Under SB 644, persons with a developmental disability can now complete an internship or complete a written examination or Readiness Evaluation to qualify for service under LEAP. The use of an internship as a competitive examination consists of a successful completion of an internship with a state agency of not less than 512 hours.

STAFF COMMENTS

Staff has no concerns with this proposal. The resources requested will allow CalHR to implement and administer the new internship program. The resources requested are consistent with the Assembly Appropriations analysis, which estimates costs of about \$150,000 of both General and Special funds.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 4: INFORMATION SECURITY STAFFING

This proposal one position and \$154,000 in FY 2016-17, and \$145,000 in FY 2017-18, and ongoing to address workload resulting from security assessments and the need to improve security practices in the department. The proposal includes funds from General Fund, Central Service Cost Recovery Fund, Deferred Compensation Plan Fund, and Reimbursements for each of the proposed years, and ongoing.

BACKGROUND

The Information Technology Division (ITD) within the Department of Human Resources (CalHR) has the responsibility of providing information technology services for both CalHR and the State Personnel Board (SPB). ITD maintains web sites, applications and sensitive and confidential data sets that serve state departments, state employees, and the public. ITD works towards the implementation of new technologies designed to meet the ever-growing demands of external stakeholders and its business partners within CalHR and SPB.

The State of California runs a significant risk of liability if there were to be sensitive data loss and/or continues to have an inaccessible web presence. If there were a data breach, the state would be responsible for notifying those affected by the breach.

All departments, state employees, and the public interact with CalHR and SPB applications, data sets, and websites. The jobs.ca.gov site created and maintained by CalHR, produces a large amount of traffic as it is one the top sites visited in California government.

ITD does not have a full-time Information Security Officer (ISO). CalHR handles several data sets that are considered sensitive. CalHR must be diligent in providing the proper level of security monitoring and be actively engaged in security activities

The workload for ensuring security compliance requires a dedicated ISO. CalHR has a part-time ISO that is split between three different areas: serving as the department's only quality assurance tester for all websites and software applications, serving as the department's privacy program manager, and serving as the department's ISO.

STAFF COMMENTS

The Governor's budget includes a number of budget change proposals that provide additional resources for departments to ensure adequate security for statewide systems. With the additional dedicated resources, CalHR will address the additional workload resulting from recent security assessments and will ensure ongoing compliance with security standards.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 5: EXPANSION OF HEALTHIER U STATE EMPLOYMENT WELLNESS PROGRAM

This proposal includes \$100,000 in reimbursement authority for FY 2016-17 and \$250,000 ongoing beginning in 2017-18 to phase-in implementation and support of a wellness program service for all state employees.

BACKGROUND

The wellness program will provide all state employees with opportunities to track and monitor health practices and access to wellness resources. In addition, it will provide statewide wellness coordinators tools and structures for facilitating wellness activities in their departments and CALHR with data and analytics to monitor program effectiveness.

In 2012, the State Controller's Office, State Treasurer's Office, the California Public Employees' Retirement System (CalPERS), Service Employees International Union Local 1000 and CalHR partnered to create a model workplace wellness and injury prevention program. The program was funded through outside resources due to budget constraints. The pilot series included the California Department of Public Health and the Department of Health Care Services. Because of the pilot's success, funders extended the two-year pilot to a third year.

In 2013, Healthier U piloted Thrive Across America, with a goal of 20 percent participation. Healthier U exceeded participation with a 32 percent participation rate. In 2014-15, Healthier U piloted another wellness program Health Trails, that was addressed various health practices, including fruit and vegetable consumption, stress management, fitness, nutrition, and weight control.

As a result of the success of these programs, the 2015-16 May Revise provided CalHR with a position to expand the Healthier U program. The position allows CalHR to move forward to develop and release a Request for Proposal for a core wellness program service accessible to all state employees.

This budget proposal will provide resources to develop and phase-in implementation of a core wellness program service accessible to all state employees, including communication costs to train, promote and implement the program statewide.

STAFF COMMENTS

The resources to expand this program will allow CalHR to improve employee health and reduce associated costs.

Staff Recommendation: Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

VOTE-ONLY ISSUE 6: TRANSFER OF GOVERNMENT CLAIMS PROGRAM TO DGS

The 2015-16 budget process included approval for the Victim Compensation and Government Claims Board (VCGCB) to shift the Government Claims Program to the DGS effective July 1, 2016. In conjunction with VCGCB's approved proposal, DGS requests to establish the Government Claims Program within its Office of Risk and Insurance Management. This represents a shift in source of funding from the Victim Compensation and Government Claims Board to the DGS' Service Revolving Fund in the amount of \$1,162,000 for the support of nine existing program positions. The program will be funded through an existing \$25 filing fee and the DGS' statewide surcharge.

The proposal also includes trailer bill language to implement the change.

BACKGROUND

The establishment of the Government Claims Program within DGS will become effective July 1, 2016. To transferring the Government Claims Program to DGS the following will be required:

- 30 notification to impacted bargaining units stating that represented staff will be relocated to another department and facility;
- Work with the Government Claims Program to transfer its data to the Office of Risk and Insurance Management's proprietary claims system; and
- Work with the Government Claims Program on any remaining aspects of the program.

STAFF COMMENTS

The 2015 Budget Act provided approval of a proposal to shift the Government Claims Program to VCGCB to DGS. This BCP provides the resources to align the shift from last year. Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted and adopt placeholder trailer bill language.

VOTE-ONLY ISSUE 7: EQUIPMENT MAINTENANCE MANAGEMENT INSURANCE PROGRAM

DGS, Office of Risk and Insurance Management is requesting a permanent increase in expenditure authority of \$231,000 (Service Revolving Fund) and two permanent Assistant Risk Analyst positions. This request is to convert the current two limited-term positions, expiring on June 30, 2016.

BACKGROUND

The 2014 Budget Act included Service Revolving Fund expenditure authority to fund two positions on a two-year limited-term basis to expand the Equipment Maintenance Management Insurance Program (EMMP) and achieve additional savings. The positions will expire on June 30, 2016, and in order to maintain the current service levels, DGS is proposing permanent positions.

The EMMP produces measurable costs savings and administrative efficiencies. EMMP guarantees the insurance premium paid by an organization will only be 75 percent of what it previously paid in maintenance service contracts. Participating departments are guaranteed to save at least 25 percent of what they had spent on prior equipment maintenance service contracts.

Since the creation of EMMP, DGS has directed its marketing efforts towards departments to discuss benefits of enrolling in the program. Any department that purchases service or maintenance agreements is eligible to participate. On all equipment added to the EMMP, DGS takes inventory of the departments current service agreements along with a list of potential equipment to be enrolled. The insurance provider reviews the service agreements to determine the feasibility of coverage.

As of June 30, 2013, there were 13 departments participating in EMMP with more than 16,000 pieces of equipment covered by the program. With the addition of the resources added in 2014-15 budget, the program was expanded to include 28 departments and about 30,000 pieces of equipment.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 8: PROCUREMENT WORKLOAD INCREASE

The Department of General Services, Procurement Division requests six permanent positions (without an augmentation to expenditure authority) to meet new customer demands within the division. The Procurement Division is not requesting an increase in expenditure authority associated with these positions.

BACKGROUND

The Procurement Division's workload has increased in the areas of certification and outreach services for Small Business (SB) and Disabled Veteran Business Enterprises (DVBE) and catastrophic disaster procurement. The hourly rate and the acquisition surcharge will support the costs associated with the requested positions. These positions are requested for the following:

- **OSDS Certification and Compliance Unit.** The OSDS Certification and Compliance unit requests 2 positions in the SB/DVBE section to evaluate the SB/DVBE certification applications. The additional staff will conduct analysis of certification applications, tax returns, employee forms, legal documents, business-related documents, validation of business information on other state agency websites, and contractual agreements between the applicant and other entities. In addition, the new staff will provide assistance to customers with completing applications over the phone, online and at the public counter. Once trained, the staff will work on certification compliance reviews and assist with research for program abuse, and conduct legislative bill analysis.
- **OSDS Communication and Outreach (C&O).** The OSDS Communication and Outreach unit requests authority for one Staff Services Analyst and one Office Technician in the C&O Section for SB/DVBE outreach, training, education services and maintaining a statewide advocate database and various reports and spreadsheets. The new staff will plan and facilitate the DGS Small Business Advisory Council Meetings, research, gather and analyze external customer requests, independently conduct presentations, and answer customer calls. Additional staff is necessary to address the growing demand for outreach activities.
- **Acquisitions Branch Contracts and Logistics Response Unit.** Acquisitions Branch, CRLU, requests one Staff Services Manager I (SSM I) and one Associate Materials Analyst (AMA) to be tasked with developing, maintaining and administering statewide contracts for use prior to and during a catastrophic disaster. The manager position will develop the most complex contracts required during catastrophic disasters, and oversee and lead the development of training materials by PD's Contracting Academy in coordination with CalOES. The requested analyst position will evaluate and analyze complex contract policies, monitor contract usage and establish acquisition standards, including developing alternate contracting methods, to meet the unique needs of a disaster.

This proposal will allow the Procurement Division to meet growing customer demands, including outreach and certification for SB/DVBEs and state contract analytics. Additionally, it will allow the Procurement Division to meet the emerging needs of CalOES and FEMA to have robust contracts in place for handling catastrophic disasters prior to a disaster event.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD

7501 DEPARTMENT OF HUMAN RESOURCES

OVERVIEW: HOW TO APPLY TO THE STATE'S CIVIL SERVICE SYSTEM

The California Department of Human Resources will provide an overview on how to apply to the State's Civil Service System. The overview will illustrate how planned civil service improvements will improve the system and process.

ISSUE 1: CIVIL SERVICE IMPROVEMENT

CalHR requests resources the following resources for the next three years, using a mix of General Fund, Reimbursements, and Central Cost Recovery Fund to implement Civil Service Improvement reforms and identify new areas for improvement:

- 16 positions and \$1,916,000 in FY 2016-17,
- 17 positions and \$1,848,000 in FY 2017-18, and
- \$1,839,000 in FY 2018-19.

BACKGROUND

Civil Service Improvements were included as part of the 2015 Budget Act, which aimed to reform vacant positions and the hiring process, and reconcile departments' budgets based on actual expenditures, and eliminate limited term positions.

The state's current civil service system continues to be complicated, inflexible and highly bureaucratic set of rules, regulations, and policies that have been slow to adapt to changes in the emerging workforce. California faces many challenges to recruit and retain the best and brightest, to properly train current employees, and plan for future leaders.

The proportion of state employees age 50 or older is nearly 41 percent. These potential retirees have critical experience and institutional knowledge that will leave with them. These circumstances make CSI critical to the state's overall efforts to maintain the talent needed to perform the missions and achieve the strategic goals of California's many civil service organizations.

In 2016-17, CalHR intends to implement reforms that have already begun, identify new areas for improvement, and continue to state's comprehensive analysis of civil service to identify future modernizations and efficiencies. These include simplifying the state's outdated job classification system, working with each department to create a workforce development plan, and improving the state's outreach and recruitment efforts.

The state will continue to develop standards for skills competency to meet departmental needs, ensure employees are properly trained, and provide workers with a meaningful career path in state service.

The resources included in this budget proposal will directly address several Civil Service Improvement initiatives:

Exams

- Increase multi-departmental exams (e.g., consortium exams).
- Create a repository of job analyses and exams for departmental use to alleviate exam costs.

Recruiting

- Create an Online-Career Center to assist in determining eligibility for jobs/classifications.
- Align departmental and statewide recruitment efforts.
- Innovate statewide recruitment by using social media.
- Establish statewide recruitment program that promotes broad-based recruitment.
- Develop or make use of apprenticeship/internship/fellowship programs as a recruitment tool.
- Create and implement an employer-of-choice campaign for the State of California. Collaborate with state employee organizations to emphasize the importance of government work and job satisfaction.

Workforce Planning

- Support departments' efforts to complete strategic and workforce plans (e.g., succession and future needs planning).
- Ensure all departmental workforce plans are submitted to CalHR to create a statewide workforce plan.

Classification Consolidation

- Consolidate and reduce the number of job classifications.
- Simplify job classification titles.
- Clarify job classifications descriptions.
- Abolish classes, automatically, that are vacant for more than 2 years.
- Establish clear and sensible allocation criteria that allows departments to allocate classes in a manner that addresses their programmatic needs.
- Create human resource/labor relations credentialing program to professionalize classes.

Training

- Develop multi-level training for supervisors, managers and executives aligned with the state's leadership competency models and the Administration's leadership philosophy.
- Provide employees broader training opportunities.

- Partner with unions to develop employee training that is consistent and comprehensive.
- Create a management development track. Develop high-performing CEAs for leadership roles.
- Partner with higher education to provide career advancement courses for state employees, including tuition, fee subsidies, and release time from work to attend courses.
- Train managers in performance measurement and management.
- Train supervisors and managers to deal with poor performance by using progressive discipline.

TRAILER BILL LANGUAGE

- Eliminate various periods within which an employee is required to make a request for reinstatement, and eliminate language specifying the termination be either by the employee or appointment power.
- Revise and recast provisions to grant employees in exempt positions with reinstatement rights, who have at least 5 years of state service, a right to obtain civil service appointment list eligibility by taking a deferred examination for any class that has a current eligible list and for which the employee meets the minimum qualifications of the class.
- Provides that a Limited Examination and Appointment Program (LEAP) candidate who is appointed after successfully completing a job examination is not required to serve a probationary period.
- Establishes the date that the overpayment occurs as the date that the employee receives compensation in exchange for the erroneously credited leave, for purposes of an action to recover an overpayment involving leave cases.
- Requires the department to analyze, design, develop, implement, and evaluate an integrated development strategy to continually advance employee skills and improve productivity.
- Requires the department to devise plans and cooperate with appointing powers in the conduct of supervisor, manager, and career executive training programs and prescribes training for each of these groups.
- Repeals the prohibition that prohibits a non-clerical position under the Fair Political Practices Commission from inclusion in the same civil service classification with a position in another department or agency.

STAFF COMMENTS

The need to provide additional efficiencies and overall transparency in the civil service process is important. The state will need to prepare for the retirement of an aging workforce as well as prepare for an incoming workforce that responds in a complete different way. Providing these tools for the state will be key to ensure the best future for California.

Last year, the significant changes to civil service improvements were proposed through trailer bill language. This proposal also includes trailer bill language. Staff has some concerns that the trailer bill language is more of a policy discussion and that those changes may be better suited for a policy committee discussion. Finance may want to discuss how the proposed changes have budgetary impacts.

Advocates have been silent on this proposal, and therefore staff recommends leaving this item open to ensure that there is adequate time for groups to review the trailer bill language and provide their feedback.

Staff Recommendation: Hold Open

ISSUE 2: HUMAN RESOURCES AUDIT

This request proposes positions and funding to fund an audit program for human resources practices delegated to departments by the CalHR to allow CalHR to be more proactive in identifying compliance issues within departments.

The proposal requests using General Fund and Central Service Cost Recovery Fund funding in the following way:

- 5.7 positions and \$701,000 in 2016-17
- 9.4 positions and \$991,000 in 2017-18, and ongoing.

BACKGROUND

The Governor's Reorganization Plan No. 1 (GRP1) of 2011 consolidated all of the functions of the Department of Personnel Administration and the merit-related operational functions of the State Personnel Board (SPB) into CalHR. SPB program related to appointments consultation, career executive assignment allocations, test development, recruitment, examinations, among other things transferred to CalHR.

GRP preserved SPB's constitutional authority to administer the merit system. SPB currently retained an Appeals Unit and created a Policy Unit and Compliance Review Unit (CRU) to establish merit-related policy and conduct reviews of departmental merit-related practices to ensure compliance. CRU currently performs standard reviews of four major areas including examinations, appointments, equal employment opportunity, and personal services contracts. CRU also does special investigations of certain agencies' merit-related personnel practices.

This budget proposal would allow CalHR to expand the scope of items departments are audited on beyond merit-related issues into more operational practices that have been delegated to departments, and for which CalHR provides policy direction. Some examples of these audits would include authorizing Hiring Above Minimum salaries appropriately for new hires coming into state service; authorizing out-of-class pay appropriately, and ensuring its revisited determinations appropriately and ensuring arduous pay is authorized appropriately.

The goal of the Governor's vision for civil services improvement is to delegate more human resources functions to departments. Delegation will only be successful if oversight functions are built in, early in the process to ensure that practices are consistent across the board.

The chart below is a comparison of current CalHR oversight functions, SPB audit functions, and proposed CalHR audit functions:

Human Resources Quality Review (Review and Training)	Delegation Project (Monthly monitoring of Self-Reporting)	SPB Audits today (Dept. Audit every 3 years)	Proposed Audits for CalHR
Position Allocation (Review and Training) Duty Statements (Training) Class Specifications (Training) Out-of-Class Grievances (Training)	Unlawful Appointments Exceptional Allocations CEA Leveling/Salary Exceptions	EEO Program Supervisor Training Sexual Harassment Training Ethics Training Examinations Appointments -Transfers/Permissive Reinstatements -Mandatory Reinstatements -Temporary Authorization Utilization -Emergency Appointments -Training and Developments Assignment Personal Services Contracts	Compensation: -Hiring Above Minimum -Out-of-Class Pay -Salary Determinations -Confidential Status -Arduous Pay -Administrative Time Off -Timekeeping Exams/Appointments -Withholds -Additional Appointments -Appropriate Use of Special Consultants, Retired Annuitants, and Student Assistants -Limited-term Appointments -Job Analysis Layoff Process Worker's Compensation Citizenship Bilingual Services

STAFF COMMENTS

This new audits will allow CalHR to develop a structure to support future delegation of human resources functions. Although GRP1 left some of the audit functions with SPB, will it make sense to consolidate all audit functions with CalHR in the future?

Staff Recommendation: Approve as budgeted.

ISSUE 3: REVIEW OF MERIT SYSTEM SECURITY SERVICES PROGRAM

This proposal requests one year limited-term funding of \$115,000 (reimbursement authority) in 2016-17 to develop a strategy to transfer back state duties performed by Cooperative Personnel Service (CPS), the contractor that currently administer the Merit System Services (MSS) program on behalf of CalHR.

BACKGROUND

Since 1939, the federal government has required the state to ensure that counties are administering a merit based personnel system for programs receiving federal funds such as Medi-Cal, Child Support Services and CalFresh. Prior to 1970, predecessors of the current Department of Social Services and the Department of Health Care Services ensured county compliance with the merit system. In 1970, the responsibility for administering all MSS programs was consolidated and transferred to State Personnel Board. SPB managed this program until 1985 when the actual program operation work was contracted out to CPS.

The current contract with CPS expires on June 30, 2016. There has been some question about whether SPB should administer the program since the work performed by CPS is typically performed by civil service employees including personnel selection, appointments, workforce reductions, disciplinary actions, and other personnel related issues.

With the program now under CalHR, due to GRP1, the CalHR Legal Division researched the federal legal requirements and discovered that although the federal law changed in the mid-1990's affording increased flexibility to the states, California did not revise the existing regulations to take advantage of the streamlined oversight program permitted by the new law. The updated federal regulations require that states ensure that local personnel operations are consistent with level principles of merit based personnel management.

In reviewing the existing program, CalHR found that governing regulation resulted in many counties running dual merit systems; MSS employees governed by state rules administered by CPS and non-MSS employees governed by a separate set of county rules administered by the county. The existing state rules are outdated, cumbersome, and overly proscriptive. CalHR Legal Division began the process of working with the counties to draft revised regulations that will streamline program administration by replacing the cumbersome state regulations with the new streamlined regulations, which meet federal legal requirements. These regulations are currently moving through the Office of Administrative Law Process.

Under the current program, counties can either request to independently run their own merit system pursuant to county ordinances, in which case they are subject to a state audit, or they can have the state administer their personnel system for MSS program employees, in which case they are subject to existing state regulations.

For counties electing to have CalHR administer the county personnel system for their MSS program employees, the new regulations place greater emphasis on the employing county practices, even though CalHR will be doing the oversight work. The new regulations will enable all employees within the county to be treated similarly regardless of the funding for their positions.

CalHR anticipates that the revised regulations will encourage additional counties to manage their own merit system program employees independently and will shrink the state's role in the operation of the merit based personnel systems for MSS employees in the counties.

Governor's Proposal. The resources requested in this proposal will evaluate CPS's current operations and design an implementation plan for CalHR to assume and modernize the duties of CPS. This plan will specify the number of classifications of positions that will be required to transfer the duties performed by CPS to CalHR. By moving the operation of the MSS Program back under CalHR will enable the Administration to realize efficiencies and comply with state law prohibiting contracting out functions that may be performed by state employees.

STAFF COMMENTS

Staff concurs with the department that there is a need to examine bringing the contract in house. However, staff will note the following:

- The proposal assumes that eventually counties will move toward managing their own merit system program employees independently, will the resources provided in this BCP provide scenarios about what will happen if the counties do not move that way?
- If the State brings the work in-house, how will the audit process work? Will it be similar to the way that CPS currently runs the audit?
- What will be the likely long-term staffing needs to audit the counties?

Staff Recommendation: Approve as budgeted.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

The Department of Alcoholic Beverage Control has the exclusive power to license and regulate persons and businesses engaged in the manufacture, importation, distribution, and sale of alcoholic beverages in the State of California. The Department's mission is to administer the provisions of the Alcoholic Beverage Control Act in a manner that fosters and protects the health, safety, welfare, and economic well-being of the people of California.

Fund Source (thousands)	2014-15 Actual	2015-16 Projected	2016-17 Proposed	BY to CY Change	% Change
Reimbursements	\$2,541	\$1,047	\$1,047	\$0	0.0%
Alcohol Beverages Control Fund	\$55,966	\$61,332	\$61,498	\$166	0.3%
Total Expenditures	\$58,507	\$62,379	\$62,545	\$166	0.3%
Total Positions	410.7	411.2	411.2	0	0

ISSUE 4: VACANCY RATES

ABC continues to have challenges with vacancy rates and the recruitment and retention of agents. The department will provide a brief report on challenges to filling vacancies and recruiting and retaining officers.

BACKGROUND

The Department of Alcoholic Beverage Control (ABC) Fund Reserve Balance was created to provide a dedicated stream of revenue for the Department to process and enforce license applications. In FY 2015-16, the reserve balance was \$29.8 million and the proposed reserve balance for 2016-17 is \$25.4 million a \$4.4 million decrease or 15 percent.

The 2014 Budget Act provided authority for 10 additional enforcement positions at ABC and required ABC to report back to the committee on its vacancy rates, challenges of recruitment and retention, and other practices the Department is employing to streamline the hiring process. Currently, the department has 16 vacant positions, 13 of which are conditional offers.

STAFF COMMENTS

ABC continues to face many challenges with vacancy rates, recruitment and retention of agents. In response to the vacancy rates, the legislature increased the number of enforcement officers, but that had not been the solution since a vacancy rate remains.

The challenges that continue for the department include equitable pay for ABC agents in comparison of other law enforcement departments. Exit interviews often show that ABC agents will leave to other law enforcement agencies for better working hours. How can the legislature ensure that positions at ABC are comparable to agent positions in other law enforcement agencies?

What is the cost to put an agent through the academy? Does ABC lose out on funds, if the agency pays for the enforcement officer to go to the academy, and then loses the agent to another law enforcement agency? Should there be a mechanism to recover costs?

Staff Recommendation: Hold Open.

ISSUE 5: AUGMENTATION OF STAFF RESOURCES FOR INFORMATION TECHNOLOGY

This budget proposal requests one System Software Specialist II position and an increase in Department's appropriation authority by \$117,000 to provide information technology infrastructure support and security.

There is no General Fund impact. ABC is funded through fees paid by licensees regulated by the ABC.

BACKGROUND

ABC has two positions dedicated to providing network and server support. These are insufficient resources to support a 24/7 law enforcement operation such as ABC. ABC also has public facing web applications such as the License Query System (LQS) and TRACE training system, which require 24/7 support.

Over the last few years, ABC has implemented a variety of additional technologies with no increase in staffing. One example is Websense security software. This increases the security of the infrastructure by categorizing and blocking web content as appropriate as well as monitoring web traffic. The Websense solution includes both hardware and software components for which additional resources are required.

ABC redirects a staff information systems analyst from the primary role of Help Desk lead to perform information security officer duties on a part time basis. In this model, ABC is only able to perform in a reactive mode on security issues. This also impacts the completion of primary assigned tasks. The position would provide a resource for more proactive monitoring.

STAFF COMMENTS

The need to secure information technology and infrastructure is very important for statewide agencies and therefore staff concurs with the department's assessment on need.

Staff Recommendation: Approve as budgeted.

7320 PUBLIC EMPLOYMENT RELATIONS BOARD

The Public Employment Relations Board administers and enforces California public sector collective bargaining laws in an expert, fair, and consistent manner; promotes improved public sector employer-employee relations; and provides a timely and cost effective method through which employers, employee organizations, and employees can resolve their labor relations disputes.

ISSUE 6: AUGMENTATION TO REDUCE BACKLOGS AND LOS ANGELES REGIONAL OFFICE RELOCATION

The Public Employment Relations Board includes two proposals for PERB: (1) \$885,000 (General Fund) to fund five new positions—bringing the board’s total position authority to 62 positions—and (2) \$217,000 (General Fund) to pay for costs associated with relocating the Glendale office.

BACKGROUND

Governor's Proposal. The proposal includes five new positions and \$885,000 in 2016-17 (\$873,000 ongoing) to address increased workload, reduce backlogs, and contribute towards meeting statutory requirements. The requested funding would support four of the five positions. The fifth position would be funded with existing departmental resources freed up by canceling a contract with the Department of General Services (DGS) to provide administrative services.

Additionally, the proposal provides \$100,000 one-time funding for moving to the new building and \$117,000 on an ongoing basis to pay for increased rental costs associated with the Los Angeles regional office located in Glendale. DGS determined that the existing office space does not fully comply with federal and state laws that establish standards to ensure buildings are accessible to people with disabilities.

PERB Budget Challenges. PERB reportedly has had budget problems beyond the resources included in the Governor's proposal. At its December board meeting, as noted in the LAO's write up, PERB management was facing significant budget challenges and, “opted to hold off pursuing the layoff process and instead decided to cut back its operating budget wherever possible and not fill vacancies.” PERB has had to hold a significant share of its authorized positions vacant in order to redirect funds for other purposes.

Departments hold authorized positions vacant and redirect funds associated with vacant positions to pay for rising costs for various reasons. Departments usually have vacancies from natural turnover as well. PERB has relied on 9.5 positions vacant and redirected \$767,000 to pay for higher than budgeted costs. The vacancies have been in the attorney classifications that provide a level of review of unfair labor practice charges. Additionally, the Board includes a vacant Board position, which has been used for

salary savings of \$140,000. When that vacancy is filled, PERB will have additional budget challenges.

The administration indicates there is a significant backlog in unfair labor practice charges filed with PERB. Currently it takes the Office of General Counsel five months to complete its investigation and issue a determination for unfair labor practice changes, where it should take less than 60 days to complete this work.

LAO COMMENTS

The LAO recommends that the Legislature ask PERB and affected employer and employee groups their views on how fast cases should be addressed by the board. The Legislature may then wish to adopt budget bill language communicating clearly its goal for case processing times and requiring reporting over the next year on PERB's progress in moving toward this goal. This desired timeline for case processing could help inform the Legislature's budget decisions for PERB.

The Legislature could then make an independent determination of PERB's near-term budgetary needs. The LAO recommends that the Legislature ask PERB and affected groups questions in order to understand what level of funding and staffing is necessary to process cases within the desired amount of time.

- Are there additional efficiencies that can be realized in case processing to help reduce processing times and backlogs?
- In order to process cases within the desired amount of time, how many people would PERB need to employ? Would the existing or proposed mix of employee classifications need to be altered in order to achieve this goal?
- Are budgeted funds for the Glendale office relocation sufficient to cover associated costs and prevent the need to hold positions vacant in order to fund office costs?

STAFF COMMENTS

Last year, the Assembly included \$1 million to address the staffing needs at PERB in order to strengthen and stabilize the oversight and respond to workload demands. Unfortunately, these resources were not included in the final budget package. However, there continues to be a need for additional funding at PERB.

Staff agrees with the LAO and recommends that PERB work with the Department of Finance and interested parties to provide an alternative to the two budget proposals before the Subcommittee that would identify adequate resources to address the backlog, short-term staffing needs, and resources for the Los Angeles relocation.

Staff Recommendation: Hold Open.

7920 STATE TEACHERS RETIREMENT SYSTEM

ISSUE 7: INVESTMENT PORTFOLIO COMPLEXITY

CalSTRS requests \$2,572,000 in permanent funding for 15 positions and travel costs associated with investment portfolio.

BACKGROUND

The CalSTRS request includes 15 positions divided between Investment staff, and Financial Services and Human Resources support.

Eleven positions are for Investments staff to do the following:

- Increase the number of assets managed internally to reduce the cost of externally managed portfolios,
- Mitigate risk through research on new investment strategies, sustainability, as well as environmental, social, and governance issues, and
- Manage the increased complexity and size of the investment portfolio

Four other positions will provide Financial Services and Human Resources support for the increased staff and volume of work associated with the size and complexity of the investment portfolio.

Investment Staff. As of July 1, 2015, CalSTRS has 142 full time permanent investment positions. From fiscal year 2012-13 to June 30, 2015, CalSTRS investment portfolio has grown by approximately \$25.6 billion, an increase of roughly 15.4 percent of total assets under management. However, staff levels have grown by less than 10 percent, which has resulted in fewer staff to manage more assets.

For each CalSTRS staff added to support the internal management of portfolios, CalSTRS saves about \$1.2 million in external management fees per year. It is anticipated that the portfolio's total assets will grow by \$8.6 billion from 2015-16 to 2016-17.

The chart below depicts the exponential growth in assets under management (AUM) and the increase in the complexity of the portfolio (based on the number of unique asset accounts - TC accounts). Even in fiscal year 2011-12, where the AUM decreased, the complexity of the portfolio increased significantly.

Workload History (Dollars in billions)

Workload Measure	2010-11	2011-12	2012-13	2013-14
Assets Under Management	\$154.2	\$150.6	\$165.8	\$189.1
Complexity (TC Accounts)	176	196	224	228

Travel Budget. The increase in travel budget is associated with cost escalation and the need for more global travel to review new investment strategies created by market growth. CalSTRS requests an additional \$80,000 for travel to realign the funding to business needs.

According to the Bureau of Transportation Statistics, airfares are growing exponentially. From 2013 to 2014, the percent change for a domestic round trip flight to New York City has increased by 5.4 percent and Boston has increased by 5.3 percent. Trends are similar for Washington DC and Chicago, which have increased by 2.6 and 2.7 percent, respectively. Without factoring in inflation or the cost of lodging accommodations, it is evident that the Investments Branch travel budget will need to increase to address rising transportation and other travel costs.

The historical increase in travel expenditures is presented below:

Travel Expenditures (actual dollars)

Travel Expenditures	2012-13	2013-14	2014-15
Travel In-State	\$78,173	\$140,199	\$131,858
Travel Out-of-State	\$344,041	\$497,742	\$553,680

STAFF COMMENTS

The resources will allow CalSTRS to better manage their assets by increasing management internally, mitigate risk and manage the complexity of the portfolio.

Staff Recommendation: Approve as Budgeted.

8790 COMMISSION ON DISABILITY ACCESS

ISSUE 8: DISABILITY ACCESS: CONSTRUCTION-RELATED ACCESSIBILITY CLAIMS

The budget includes a \$100,000 (General Fund) and one position to implement the provisions of AB 1521 (Committee on Judiciary, Chapter 755, Statutes of 2015).

BACKGROUND

AB 1521 extends the requirements of an attorney who serves a complaint to notify the Commission within five days of judgment, settlement, or dismissal. AB 1521 imposes additional responsibilities on the Commission that cannot be addressed at the current staffing and funding levels, or through the continued use of volunteers and student assistants.

SB 1186 (Steinberg), Chapter 383, Statutes of 2012), requires the California Commission on Disability Access to collect and report on its website the top ten most frequently alleged construction-related physical access violations. From January to December 2015, the Commission received 2,946 records of court filings and/or demand letters, an average of 246 records per month. According to the January 2016 report to the Legislature, the Commission relies on interns, volunteers, or law clerks from stakeholder agencies to review demand letters and legal complaints alleging violations.

According to the Commission, between September 2012 and October 2014, 5,392 complaints (including demand letters) were filed (in both state and federal courts). More than half (54 percent) of the complaints were filed by just two law firms. Forty-six percent of all complaints were filed by just 14 parties.

Additionally, according to the Commission, "these types of lawsuits are frequently filed against small businesses on the basis of boilerplate complaints, seeking expedited cash settlements rather than correction of the accessibility violation." Since October 2015, the Commission estimated around 500 case resolutions were directly related to AB 1521. The Commission requests the additional staffing to address the additional workload associated with implementing AB 1521 and to assist the existing workload of analyzing demand letters and complaints.

STAFF COMMENTS

The requested resources are modest for the increased workload. The committee may want to inquire about how much work is done through the use of volunteers and student assistants and whether there is a need for additional staffing in future years for the Commission.

Staff Recommendation: Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES

Effective July 1, 2013, the Governor's Reorganization Plan No. 2 of 2012 created the Government Operations Agency and, as part of the plan, moved the Department of General Services (previously budgeted within State and Consumer Services Agency under Organization Code 1760) to this new Agency (Government Operations).

As an enterprise organization, the Department of General Services provides centralized services to state agencies in the areas of: management of state-owned and leased real estate; approval of architectural designs for local schools and other state-owned building; printing services; procurement of commodities, services, and equipment for state agencies; and management of the state's vehicle fleet. Furthermore, the Department of General Services employs practices that support initiatives to reduce energy consumption and help preserve California resources. The Director of General Services serves on several state boards and commissions.

Fund Source (thousands)	2014-15 Actual	2015-16 Projected	2016-17 Proposed	BY to CY Change	% Change
General Fund	\$37,313	\$32,513	\$9,509	(\$23,004)	(70.8%)
Architecture Revolving Fund	\$35,101	\$39,778	\$39,569	(\$209)	(0.5%)
Service Revolving Fund	\$620,536	\$632,781	\$631,391	(\$1,390)	(0.2%)
Reimbursements	\$4,845	\$5,356	\$4,362	(\$994)	(18.6%)
Other Funds	\$254,178	\$366,064	\$398,554	\$32,490	8.9%
Total Expenditures	\$951,973	\$1,076,492	\$1,083,385	\$6,893	0.6%
Total Positions	3,373.20	3,344.40	3,367.40	23	0.7%

ISSUE 9: SACRAMENTO REGION: STATE OFFICE INFRASTRUCTURE PLAN

The Governor proposes \$1.5 billion transfer from the General Fund to be deposited into a new State Office Infrastructure Fund for the long-deferred improvement or replacement of state office buildings in the Sacramento area.

BACKGROUND

Sacramento has numerous state office buildings that were constructed in the mid-1950s through early 1980 that have not been substantially updated. These aged buildings are generally inefficient, do not meet current accessibility standards, and require substantial renovation or outright replacement to provide sustainable office space for the state worker in Sacramento.

The 2014 Budget Act appropriated funding to DGS to prepare a long-range planning study for office space in the Sacramento region. Assembly Bill 1656 (Dickinson, Chapter 451, Statutes of 2014) further codified this requirement and directed DGS to examine the long-term suitability of state-owned office buildings in the County of Sacramento and the City of West Sacramento. The study identified the buildings with the greatest infrastructure deficiencies and provided an independent review of repair and costs.

Governor's Proposal. The Governor's proposal requests a \$1.5 billion transfer from the General Fund to establish a new, continuously appropriated. State Office Infrastructure Fund to be used for the renovation or replacement of state office buildings in Sacramento and to address deficiencies in the State Capitol East Annex.

Trailer bill language will be proposed to:

- Establish the new State Office Infrastructure Fund as a continuous appropriation.
- Define the allowable fund uses, including leasing costs; study costs; acquisition, design and construction of capital outlay projects, and program management costs.
- Define the process for establishing capital outlay projects through the State Public Works Board, with prior Legislative notification.

New Natural Resources Headquarters Building (\$530 million). The Resources Building in Sacramento was constructed in 1964 and has not undergone a significant renovation in the intervening 51 years. A 2013 renovation study update confirmed a variety of fire and life safety, building code, hazardous materials, building systems and Americans with Disabilities Act (ADA) deficiencies, and recommended a full renovation of the building to correct all issues. The Planning Study published in July 2015 ranked the Resources Building first for overall buildings in Sacramento with the highest need for replacement or renovation.

Program Need. The Resources Building is 520,126 NSF and houses approximately 2,400 state employees, 1,100 of which are from the Department of Water Resources, the largest single tenant, which provides essential functions for the operation of California's water distribution system. Other Resources Building tenants total approximately 1,300 employees primarily from other Natural Resources Agency departments, such as the Department of Parks and Recreation, the Department of Fish and Wildlife and Cal Fire. The Department of Water Resources is also the primary tenant in the Bonderson Building (nearly 500 staff), and these staff also would be relocated into the new proposed building.

Infrastructure Deficiency. Construction of a new facility to house the tenants in the Resources and Bonderson buildings would create the opportunity for major renovations or demolition of the Resources and Bonderson Buildings.

New O Street Office Building (\$226 million). This project would demolish the vacant California Department of Food and Agriculture (CDFA) Annex building, and construct a new 205,000 NSF office building on-site. The CDFA Annex Building has been vacant since November 2011 due to fire and life safety deficiencies. A 2010 site feasibility study concluded the highest and best use is to demolish the building and construct a new office building with on-site parking. The Gregory Bateson (Bateson) Building, located at 1600 N Street, was ranked fourth for overall buildings in Sacramento with the highest need for replacement or renovation. This iconic building is recognized as the first major public building to embody the principles of sustainable architecture. In its current condition, however, the building has fire and life safety deficiencies as well as aging building systems and long-standing issues related to water intrusion.

Program Need. The Bateson Building currently houses nearly 1,100 staff comprised of the Health and Human Services Agency and the Departments of Developmental Services and State Hospitals. A new O Street Office Building would create the opportunity to relocate state employees out of the Bateson Building, which was ranked fourth for overall buildings in Sacramento with the highest need for replacement or renovation in the recent Planning Study.

Infrastructure Deficiency. A new O Street Office Building would create the opportunity to relocate state employees out of the Bateson Building.

Capitol Annex. The State Capitol East Annex (Capitol Annex) was constructed between 1949 and 1951 and has not undergone a significant renovation since then. Although the Capitol Annex was not part of the recent Planning Study, the building is aged, outdated, inefficient and deteriorated. Its deficiencies include electrical and building systems that have far exceeded their useful life expectancy, the presence of hazardous materials and limited compliance with the Americans with Disabilities Act. DGS has evaluated proposals to meet the needs of the Legislature; however, the ultimate scope and design of the project will be established in consultation with the Legislature.

Program Need. The Capitol Annex houses members and staff of the Senate and Assembly, the Governor's Office, Lt. Governor's Office, Department of Finance and California Highway Patrol. The existing building is insufficient to house the number of employees that work in these offices. The building was completed in the early 1950s and has not undergone a significant renovation.

Infrastructure Deficiency. The Capitol Annex does not meet current building codes or accessibility requirements under the Americans with Disabilities Act (ADA). The Capitol Annex contains hazardous materials including asbestos, lead-based paint and Polychlorinated Biphenyls (PCBs). Most of the building systems, i.e., electrical, mechanical, plumbing, heating, ventilation and cooling (HVAC) have exceeded their useful life expectancy and many are deficient. These deficiencies have been exacerbated by frequent office remodels, adding electrical load and changing air distribution requirements not designed into the original building systems, which further burden these old building systems. The Capitol Annex does not meet energy savings mandates due to the age of the fixtures and building systems.

LAO COMMENTS

The LAO identifies several issues for Legislative concern:

- **Lack of Key Information.** The proposal provides little detail on the proposed projects, no plan for project sequencing, and no plan for how future projects would be funded.
- **Continuous Appropriation Greatly Reduces Legislative Oversight.** The proposed continuous appropriation of funds would greatly reduce legislative control and oversight compared to the traditional budget process.
- **New Fund Presents Trade-Offs for Funding Approach and Amount.** The LAO finds that there are benefits and drawbacks to using pay-as-you-go approach to funding projects as proposed; there is no need to appropriate more than \$10 million in 2016-17 for the initial phases of the Governor's three priority projects; and setting aside additional monies for infrastructure on an ongoing basis could have merit.

The LAO makes the following recommendations:

- Require the Administration to submit details on its three priority projects, as well as sequencing and funding other Sacramento area projects by April 1, 2016.
- Reject the use of a continuous appropriation and require the Administration to use the typical budget process for seeking project approval.
- Limit funding in 2016-17 to the initial phases of the project.

- Consider the state's ongoing strategy for addressing its infrastructure, including potentially creating a dedicated infrastructure fund.

STAFF COMMENTS

At the time of this writing, DGS had not provided a sequencing plan. The Assembly will want to review the sequencing plan as part of its review of this item.

The Assembly should consider the following as this proposal moves through the budget process:

- Continuous appropriation versus the budget process?
- How much funding to set aside for this projects? Should this be done in phases or set aside for all projects?
- How much legislative control should remain with the Legislature in the building of these projects?
- What are the advantages of pay-as-you-go financing versus the traditional bond funding for the construction of the buildings?

Staff Recommendation: Hold Open.

ISSUE 10: CENTRAL PLANT: CAPITOL IRRIGATION PROJECT

This proposal requests \$1.692 million lease revenue bond funds to provide a reclaimed water system to reuse cooling tower blow down water from the State's Downtown Sacramento Central Plant for irrigation water at the State's Capitol Park.

BACKGROUND

California is experiencing an ongoing severe drought. The Central Plant Project includes a reclaimed water system which reuses cooling tower blow down water to supply the Project site with water for irrigation, toilets, urinals and a fountain. However, the supply of blow down water greatly exceeds the site's water demands, and the excess blow down water is discharged to the County's sewer system. The State's Capitol Park needs a significant amount of water for irrigation and is currently being underwatered due to the drought. The Central Plant could supply over 5.6 million gallons of reclaimed water per year to Capitol Park's irrigation system. This will save purchasing potable water from the City of Sacramento and treating sewer and treating sewer water by Sacramento County.

There is currently no infrastructure installed to allow the Central Plant's cooling tower blow down water to be reused for irrigation water at the Capitol Park.

This project would provide a reclaimed water system to reuse cooling tower blow down water from the State's Downtown Sacramento Central Plant for irrigation water at the State's Capitol Park. The Project includes piping, piping modifications, 100,000 gallon underground water storage tank(s), pumping, chemical treatment and controls at the Central Plant, piping to the Capitol Park, and signage, piping, piping modifications and appurtenances required to tie into the Park's existing irrigation systems.

Potential Budget impacts:

- At the Capitol Park, an estimated savings of \$7,250 per year
- At the Central Plant, an estimate cost of \$1,500 per year
- Net savings of \$5,750 per year based on current usage and rates

STAFF COMMENTS

The Central Plant provides a long-term solution for providing irrigation water to the State Capitol and provides ongoing drought mitigation for the future.

The Assembly may wish to ask about how the changes to the Central Plant interact with the Master Plan for Capitol Park?

Staff Recommendation: Hold Open.

ISSUE 11: CAP AND TRADE EXPENDITURE PLAN – ENERGY EFFICIENCY FOR PUBLIC BUILDINGS

This proposal includes one-time augmentation to the Energy Efficiency Retrofit State Revolving Loan Fund of \$30 million from the Greenhouse Gas Reduction Fund and ongoing funding for five permanent positions beginning in 2016-17, to support activities to reduce GHG emissions in state buildings by 20 percent. Of the \$30 million, \$8 million has been earmarked for allocation to the California Department of Corrections and Rehabilitation (CDCR) to fund statewide energy retrofit projects that will be managed by CDCR.

Funds will support the acceleration and expansion of the existing Statewide Energy Retrofit Program that reduces GHG emission and energy usage in state facilities consistent with AB 32 (Nunez, Chapter 488, Statutes of 2006).

BACKGROUND

The GHG Reduction Fund (GGRF – funded by the Cap-and-Trade Program generated auction proceeds, authorized by AB 32) has been established for the purpose of funding measures that allow California to achieve its GHG reduction goals, furthering the purposes of AB 32. In addition, SB 535 (De Leon, Chapter 830, Statutes of 2012) requires that 25 percent of GGRF funds be spent to benefit designated disadvantaged communities, and 10 percent must be spent within disadvantaged communities.

The final investment plan was released in May 2013, and emphasized investments in existing programs in sectors that have the greatest GHG emission. This proposal is consistent with the investment plan by supporting energy efficiency projects by retrofitting existing state facilities, including replacing heating and cooling units and lighting fixtures with energy efficient systems and products.

DGS provides a variety of green and sustainable services to state agencies and serves as the business manager for the departments and entities under the Executive Branch. The Statewide Energy Retrofit Program is one of the programs that have been developed to facilitate the GHG emission reduction goal.

Statewide Energy Retrofit Program. DGS has a successful energy retrofit program that utilizes a pre-qualified pool of Energy Service Companies to identify, develop, and implement energy efficiency measures in state-owned facilities. The contract delivery vehicle is through an Energy Savings Performance Contract that guarantees the energy savings. The projects are currently funded via one of three loan programs: the DGS-managed Energy Efficiency State Property Revolving Fund, the DGS-managed GS \$Mart, and the Investor-Owned Utilities (IOU) ON-Bill Financing. The program is designed to be budget-neutral to the borrowing department or agency, as the guaranteed energy savings offset the debt service on the loan.

The Statewide Energy Retrofit Program was designed to assist state departments and agencies in these budget-challenged times by offering the opportunity to implement

energy efficiency measures in a budget-neutral fashion without requiring any upfront capital investment.

On July 1, 2014, the Legislature established a new Energy Efficiency Retrofit State Revolving Loan Fund to allow the state to make loans for energy efficiency projects using state funding. However as of this date, no funding has been deposited into this fund.

STAFF COMMENTS

This proposal should be included in the larger of cap and trade discussion and should be left open until those discussions have occurred.

Staff Recommendation: Hold Open

ISSUE 12: HUMAN RESOURCES MODERNIZATION, WORKFORCE PLANNING, AND OVERALL CUSTOMER SATISFACTION

The Department of General Services, Office of Human Resources (OHR) requests a \$511,000 augmentation from various fund sources and four permanent positions in fiscal year 2016-17 to meet the goals set in the Strategic Plan for a reduction in Accounts Receivables, to properly supervise and support specialized technical staff, to meet increased workload demand in the training unit, and to develop a recruiting position.

BACKGROUND

OHR provides the full scope of state human resources services including personnel transactions, classifications and pay, examinations and certifications, department-wide training, constructive intervention, disability and return to work coordination, and labor relations. OHR faces challenges due to the DGS's complex workforce. As of June 20, 2015, DGS had 3,567 active employees located throughout the state in 25 separate facilities. Employees belong to 274 classifications across 13 bargaining units. OHR also contracts its services to boards, commissions, and conservancies who are too small to house their own human resources office. OHR currently provides services to 16 contracted clients with an approximate total of 588 employees including additional classifications and bargaining units.

OHR is facing four major problems:

- **Large amount of open employee accounts receivable.** In 2013-14 and 2014-15, OHR authorized several employees to work overtime to reduce the balance of open accounts receivables, which reduced the open balances. However, key senior staff have left and relying on ongoing overtime is not sustainable.
- **Highly specialized transactions team without a proper supervisor.** DGS has many Accounts Receivables that are due to disability claims. DGS experiences a higher rate of claims due to the physical nature of its classifications. The Disability Transactions Unit is comprised of three senior personnel specialists who are supervised by a staff services manager. However, the size of the unit is not large enough to handle the volume and complexity of the work.
- **Workload increase in OHR's training unit.** As of July 1, 2016, DGS University will begin providing mandatory training to all DGS programs including the Building Property Management Branch, an addition of nearly 1,600 positions. In prior years, BPM was responsible for its own training which resulted in inconsistencies in training. The increased workload will not be able to be managed by the existing staff of four.
- **Difficulty with turnover and filling certain classifications.** DGS does not currently have a dedicated recruiter. OHR would like to hire a recruiter to reduce its vacancy rate and turnover. The department's vacancy rate is 7.45 percent.

This request will allow OHR to meet new DGSU workload demands, to effectively manage and assist the highly technical disability transactions team, to continue to collect money owed to the state, develop a statewide recruiting position to improve vacancies and turnover within DGS, and to allow for improved overall customer satisfaction, without impacting rates for external clients.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

ISSUE 13: MERCURY CLEANERS SITE REMEDIATION

The DGS, Asset Management Branch requests \$2.14 million (General Fund) in 2016-17 to continue the remediation efforts of the former Mercury Cleaners site, a state-owned property located at 1419 16th Street, Sacramento.

It is anticipated that there will be additional General Fund authority in 2017-18 for continued testing, cleanup, and monitoring activities, and continuing requests each year thereafter for a period of up to 20 years to fund the required ongoing site remediation and monitoring work.

BACKGROUND

Previous Budget Requests. DGS received \$3.7 million one-time General Fund authority in 2014-15 and \$9.3 million one-time General Fund authority in 2015-16 for remediation of the Mercury Cleaners building site, including site investigation and assessment work. This site is one of the more toxic sites in the state, according to the Regional Water Quality Control Board (RWQCB). The estimated future remediation costs are unknown at this time.

It is not yet known if more demolition and hazardous materials abatement of structures off site will need to occur, or if relocation of neighboring tenants will need to occur. There are continued investigations for presence of dry cleaning solvents beyond the boundaries of the site, and ongoing studies related to offsite neighboring parcels.

Budget Bill Language. *Of the amount appropriated in this item, \$2.137 million shall be available only for all of the following purposes: (1) the purchase of other structures near the Mercury Cleaners site; (2) demolition and abatement of these structures and continued environmental remediation efforts on and off the Mercury Cleaners site related to the Mercury source contamination; (3) relocation of tenants; (4) administrative costs associated with these activities; and (5) abatement on the Mercury Cleaners site. Any unspent funds at the end of the 2016–17 fiscal year shall not be available for deposit into the Architectural Revolving Fund and shall revert to the General Fund.*

In July 2013, DGS submitted a "Request for Agency Oversight of a Brownfield Site" application, and in August 2013 the RWQCB was designated as the lead regulatory oversight agency related to the cleanup of contamination at the site.

Studies and tests conducted to date indicate high concentrations of dry cleaning solvents in the soil and groundwater. The RWQCB as the lead agency for the investigation and remediation is approving and directing ongoing testing which will result in a plan for implementation of remediation.

DGS is undertaking the cleanup in a "voluntary" compliance mode, which includes implementation of a proactive remediation project plan. Regardless of the availability of funds, if the state does not meet the expectations of the RWQCB as it relates to abatement of the condition of the site.

DGS submitted its first work plan on December 6, 2013, which was subsequently approved by the RWQCB. In January and February 2014 DGS' initial site investigation work for the Mercury Cleaners building site was completed and a Data Gap Completion Report was submitted in May 2014, which included findings, conclusions, and recommendations for interior mitigation measures, interim remediation, and various additional site investigation and studies.

On January 27, 2015 the RWQCB provided a letter generally concurring with the scope of work and schedule in the Remedial Investigation Work Plan, with additional recommendations for DGS to conduct expanded testing on the Mercury Cleaners and adjacent Terraces properties, to evaluate the effectiveness of soil vapor extraction as one of the cleanup methods.

DGS is proactively involved with RWQCB to conduct extensive tests and planning in order to begin remediation in 2015-16. Funding will be required for 2016-17 and future years for continued testing, cleanup, and monitoring activities as directed by the RWQCB.

STAFF COMMENTS

The request and budget bill language are consistent with actions taken by the Subcommittee in previous years.

Staff Recommendation: Approve as budgeted.

ISSUE 14: ENHANCING PROCUREMENT COST SAVINGS FOR STATE DEPARTMENTS (FI\$CAL)

The Procurement Division request an augmentation of \$670,000 in expenditure authority and four positions in 2016-17, and an additional \$1.26 million and eight positions in 2017-18, and ongoing from the Service Revolving Fund. These positions will support increased acquisitions workload expected from the implementation of the Financial Information System for California (FI\$CAL) project.

BACKGROUND

FI\$CAL is a technology business transformation project that will enable the state to combine its accounting, budgeting, cash management, and procurement operations into a single, integrated financial management system. FI\$CAL will eliminate hundreds of independent legacy systems and department-specific applications that now support internal business operations of the state.

The additional staff will analyze departmental contract spending data through the FI\$CAL system, identify where the state is making numerous purchases of like products and combine all of those purchases into a single statewide contract. It is anticipated that larger volume purchases will achieve greater savings for the state.

Additionally, DGS-PD staff will identify information technology and service contracts that are being commonly purchased by multiple departments. They will then compile and analyze the data and new contracts can be developed based on the information in FI\$CAL. According to DGS, each new statewide contract developed by DGS-PD will average \$15-20 million in value and require an average of 800 hour to develop and award.

DGS-PD is currently at full capacity and cannot redirect staff to accommodate the new workload resulting from FI\$CAL implementation and the development of new contracts resulting from FI\$CAL analytics. This proposal will allow DGS-PD to have the increased resources that it needs to make FI\$CAL implementation possible.

This proposal will permit DGS-PD to utilize permanent staff to analyze and develop leveraged statewide contracts to achieve an estimated annual statewide saving of \$213.4 million in state purchasing.

STAFF COMMENTS

With the implementation of FI\$CAL, state departments will begin to use the information to benefit their current work practices. DGS-PD will use the information to change the business processes related to procurement in order to combine larger volume purchases and which is anticipated to provide greater savings for the state.

Staff Recommendation: Approve as budgeted.
