AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, MARCH 20, 2018
1:30 P.M. - STATE CAPITOL, ROOM 447

ITEMS TO BE HEARD

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7760 DEPARTMENT OF GENERAL SERVICES

The Governor's budget includes $1.08 billion for the Department of General Services (DGS) in 2018-19, an increase of $10.8 million or 1 percent from the current year. DGS is funded through the General Fund and special funds.

ISSUE 1: CAPITAL OUTLAY PROJECTS: SACRAMENTO REGION

Four Projects in the Sacramento Region. Total cost of all four projects is estimated to be $1.3 billion with $30.4 million in General Fund costs estimated in the current year. These projects are all part of the 10-Year Sequencing Plan put forward by the DGS to address the infrastructure needs of the Sacramento Region.

BACKGROUND

1. **State Printing Plant Demolition.** The DGS requests $815,000 General Fund for the working drawings phase of the State Printing Plant Demolition project. Total project cost is estimated to be $16.4 million ($909,000 for preliminary plans, $815,000 for working drawings, and $14.7 million for construction). The project includes demolition and hazardous material mitigation of the 17-acre property to prepare it for new office space development.

   Since the mid-1990s, the State has targeted the 17.3-acre parcel on which the existing Printing Plant is located for future office development. The existing State Printing Plant located at 344 North Seventh Street in Sacramento was built in 1954 and has well-documented health and safety, infrastructure and programmatic deficiencies. The Office of State Publishing is in the process of programming replacement space with the intention of using leased facilities for the new Printing Plant. Leased space is more appropriate due to the changing nature of the printing industry. The DGS sponsored 2008 Sacramento Region State Office Planning Study updated in 2015 per legislative requirements, identifies the Printing Plant site as a desirable office development area. The site is well situated to transit, offering another benefit for office development; and offers an attractive solution to meeting the state's identified need for new and/or renovated office space. Before office development can occur, demolition of the existing structures and hazardous materials clean up, including removing/replacing contaminated soil, must take place.

2. **New Richards Boulevard Office Complex**. The DGS requests $18 million General Fund for the performance criteria phase of a new Richards Boulevard Office Complex project. Total project cost is estimated to be about $1 billion ($18 million for performance criteria and $1 billion for design-build).

This project would construct a new office campus of approximately one million net usable square feet on the state property at the corner of Richards Boulevard and North Seventh Street, the current site of the State Printing Plant. The demolition of the State Printing Plant, scheduled for completion in early 2021, will create a vacant state-owned clean parcel on which to develop office space to house agencies currently located in leased space or in buildings requiring renovation.

The proposal to develop an office complex on the site will create a future opportunity to relocate business, consumer services and housing agency departments out of leased space, as well as relocating the California Department of Tax and Fee Administration staff out of the 450 N Street Building and other leased space. The complex would consist of four buildings, and include office space, retail and childcare.

3. **Gregory Bateson Building Renovation.** The DGS requests $5.2 million General Fund for the performance criteria phase of a project to renovate the Gregory Bateson Building. Total project cost is estimated to be $161 million ($5.2 million for performance criteria, and $155.8 million for design-build).

   This project would renovate the historically significant Gregory Bateson Building located at 1600 Ninth Street in Sacramento. Infrastructure studies and building assessments conducted in 2008 and 2015 found a variety of deficiencies within the Bateson building. The building is ranked fifth statewide for state owned, DGS-controlled office buildings requiring renovation or replacement.

   The building contains approximately 215,000 net usable square feet. The current occupants, the Health and Human Services Agency, Department of Developmental Services, and Department of State Hospitals, will be relocated to the New O Street Office Building in March 2021. Proposed tenants for the renovated Bateson Building include California Natural Resources Agency departments from leased space that are not consolidating into the New Natural Resources Agency Headquarters Building.

   The project includes renovation of all major building systems, applicable reinstatement of energy systems, and corrections to ADA and fire and life safety deficiencies. The mechanical, plumbing, electrical, and telecommunications systems will be replaced. In addition, repairs to prevent water intrusion and hazardous material abatement will be performed. A security officer station and physical barriers also will be placed at one of the building entrances.

4. **Jesse Unruh Building Renovation.** The DGS requests $6.3 million General Fund for the performance criteria phase of a project to renovate the historic Jesse Unruh Building. Total project cost is estimated to be $89.8 million ($6.3 million for performance criteria, and $83.5 for design-build).

   This project would renovate and restore the Jesse Unruh Building, which was ranked ninth in the statewide rankings for buildings needing renovation or replacement. Infrastructure studies conducted in 2008 and 2013 identified several deficiencies within the building. The building contains approximately 125,000 net usable square feet. The current occupants of the building include the State Treasurer's Office (STO) and the California State Transportation Agency. The STO will be returned to the building.

The project includes renovation of all major building systems, restoration of historic elements, and corrections to ADA and fire and life safety deficiencies. The mechanical, plumbing, electrical, and telecommunication systems will be replaced. Other project elements include elevator replacement, roof and window replacement, repairs to exterior terra cotta, and lead paint and asbestos abatement.

LAO COMMENTS

1. **New Richards Boulevard Office Complex**: The LAO recommends rejection of this proposal, as the office does not believe it is a cost effective way to address the state's office building needs. The LAO states that DGS' payback period estimate of 45 years is not based on realistic assumptions. The DGS estimate, according to the LAO, has no discounting of future savings and costs, a high interest rate assumption, and low inflation rate on state costs. The LAO also recommends that the Legislature seek additional information on the Administration's construction strategy.

2. **Gregory Bateson Building Renovation.** The LAO has expressed concerns with the cost of the proposed renovations. The renovations are anticipated to cost $750 per net useable square foot. The cost is significantly higher than the Library and Courts Building renovation which, when adjusted for inflation, cost close to $550 per net useable square foot. The LAO recommends that the Legislature require the DGS to report on the renovation's high cost and alternative scopes to reduce project costs.

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STAFF COMMENTS

These proposals build upon the discussion last year about the State infrastructure in the Sacramento region. The ability for DGS to renovate and update buildings relies on the sequencing of these projects. DGS cannot renovate buildings without swing space for existing building residents. The Subcommittee may wish to ask about the status of the projects approved last year through the budget.

Staff Recommendation: Hold Open.

ISSUE 2: EVSE INFRASTRUCTURE ASSESSMENT AND FACILITY DEVELOPMENT

The DGS, Office of Sustainability, requests a one-time augmentation of $15.6 million ($7.8 million General Fund and $7.8 million Service Revolving Fund) in 2018-19, and one permanent position to continue the installation of Electric Vehicle Service Equipment in state facilities.

BACKGROUND

The Zero Emission Vehicle (ZEV) Five Year Infrastructure Plan requires DGS to oversee plans to make electric vehicle charging infrastructure available in at least five percent of workplace parking spaces at state facilities, and to increase state fleet ZEV purchases to 50 percent by 2025. The DGS assists state agencies in developing and implementing workplace charging plans that will result in EVSE, and reports the results of EVSE-related facility assessments to the Administration. The DGS also is charged with supporting state agencies in completing readiness surveys, conducting site assessments, oversight of architectural and engineering functions, construction management, system activation, and identification of alternative funding options if available.

In 2017-18, DGS received a one-time augmentation of $6.7 million and three permanent positions to fund facility assessments, design, installation and program oversight for year one of the ZEV Five-Year Infrastructure Plan. This included surveying departments on their EVSE needs. Initial surveys and assessments were completed in 2017. Candidate locations for in-field site assessments and preliminary architecture and engineering services have been selected. The office also is planning on conducting annual updates to these surveys. Beginning on December 31, 2017, agencies were asked to submit updates that describe any changes to their plans.

This request is to fund year two of the DGS ZEV Five-Year Infrastructure Plan to install EVSE in state facilities to support both the state fleet and state employee charging needs. $14.3 million will support approximately 1,200 EVSE installations and the remaining $1.3 million will support 1,600 facility assessments throughout California.

LAO COMMENTS

The LAO suggests the Legislature consider other state funding sources for this project, given the costs. While DGS has been exploring the use of non-state funding sources, the use of other state funding sources would need to be appropriated by the Legislature. In the Governor’s Cap-and-Trade expenditure plan $235 million is proposed for EVSE installation for private use in 2018-19. It is unclear why two different fund types (Special vs. General) were proposed for these installations.

STAFF COMMENTS

The Subcommittee may wish to know how and where the charging stations will be allocated throughout the state? Does DGS have a map of the proposed infrastructure?

Staff Recommendation: Hold Open.

ISSUE 3: LEGISLATION

There are three legislative proposals that include funding for DGS.

BACKGROUND

1. **Institutional Purchasers: Sale of California Produce.** The DGS is requesting $308,000 Service Revolving Fund and two permanent positions to implement the provisions of AB 822 (Chapter 785, Statutes of 2017) and for the development of necessary regulations and updates to the State Contracting Manual.

   AB 822 creates a 5 percent bid preference for California-grown agricultural products purchased by state-owned or state-run institutions, with the exception of state universities. The bill will apply every time a state-owned or state-run institution intends to accept a bid or price for agricultural products grown outside the state. As a result, state agencies and institutions will now need to require suppliers to indicate whether they are proposing any agricultural products grown outside California. To implement AB 822, DGS is requesting resources for the development of necessary regulations and updates to the State Contracting Manual.

   In order to comply with the provisions of this bill, DGS will implement a two-step verification and validation process. During the award process, DGS and departments purchasing agricultural products will be responsible for verifying each bidder's supply chain to determine whether a bid preference applied to products grown in California or products processed and packaged in California should be applied. Once awarded, DGS and purchasing departments will again need to verify the supply chain to ensure that contractors who received a preference deliver California-grown or California-processed or packaged agricultural products. Compliance checks also will be performed to ensure acquisitions continue to comply with any bid preference received. This will create a new and non-absorbable workload for DGS.

2. **New Certification for Small Business in Public Works Contracts.** The DGS, Office of Small Business and Disabled Veteran Business Enterprise Services (OSDS) is requesting $374,000 Service Revolving Fund authority in 2018-19, $274,000 in 2019-20, and ongoing and two permanent positions to implement the provisions of SB 605 (Chapter 673, Statutes of 2017).

   SB 605 created a new small business certification type specifically for the purpose of public works. The size limit eligibility criteria for this type of small business certification has more than doubled from a 100 employee count to a 200 employee count, and from the current $15 million in gross annual receipts to $36 million. The Small Business certification program affects all state departments, as they are required to meet the Executive Order mandate of 25 percent in small business participation. More than 40 local government partners also use the certification in their own local programs. To participate in state contracts and be counted toward the participation goals, businesses must become certified by the department. Certification is issued for two years, and re-certification can be requested within 90 days of the certification expiration. To implement this bill, the DGS will need to develop and apply the new certification type for small businesses for the purpose of public works.

3. **Public Contracts Bid Specifications: Buy Clean California Act**. The DGS is requesting $638,000 Service Revolving Fund in 2018-19, $138,000 in 2019-20, and ongoing, and one permanent position to establish the maximum acceptable global warming potential for four categories of eligible building materials using a specified methodology for public works contracts, and to publish those thresholds in the State Contract Manual as required by AB 262 (Chapter 816, Statutes of 2017).

   AB 262, the Buy Clean California Act, requires DGS to establish a maximum acceptable global warming potential for four categories of building materials, using a specified methodology, by January 1, 2019. The bill generally prohibits building materials that exceed the maximum acceptable global warming potential from being used for University of California, California State University, and other types of state public works contracts entered on or after July 1, 2019. DGS would be required to review the maximum global warming potential standards every three years to determine whether they should be lowered further to reflect industry improvements. DGS must establish the reporting framework and maximum acceptable global warming potential for each category of eligible materials and thresholds for global warming potential in eligible materials. The State Contracting Manual will be updated to reflect the policy for evaluating environmental product disclosures and maximum allowable global warming potentials acceptable in public work contracts. In addition, DGS is required to submit reports to the Legislature with the first report due January 1, 2019, and a subsequent report due January 1, 2022, and every three years thereafter regarding status of the implementation and its effectiveness in reducing global warming potential.

STAFF COMMENTS

The funds allocated to these bills are consistent with the appropriation analyses of the bills. The Subcommittee may wish to ask DGS why it cost so much money to update the State Contract Manual with regard to AB 262.

Staff Recommendation: Hold Open.

ISSUE 4: MERCURY CLEANERS SITE MONITORING

The DGS, Asset Management Branch, requests ongoing General Fund authority in the amount of $578,000 to continue monitoring the results of remediation efforts of the former Mercury Cleaners site.

BACKGROUND

The State of California owns the real property site known as Mercury Cleaners at 1419 16th Street, Sacramento. DGS acts as the state's real estate manager for the site. The site has been owned by the state since 1967, and has been used by commercial dry cleaning businesses from 1947- 2015. High concentrations of hazardous materials exist on the site due to the former dry cleaning operations, primarily high concentrations of dry cleaning solvents in the soil and groundwater. The Central Valley Regional Water Quality Control Board (RWQCB) is the lead agency for the investigation, remediation, and ongoing monitoring of this site. Under direction of RWQCB, remediation is underway for cleanup of the hazardous materials. DGS is undertaking the cleanup in a "voluntary" compliance mode, which includes implementation of a proactive remediation project plan. Without remediation of the site, there is a potential health risk to occupants of surrounding residential housing sites, commercial businesses, and an adjacent child daycare facility.

Project spending to date for 2017-2018 (RESD/OFS)

DGS is currently in the process of closing out remediation contracts for the Mercury site as DGS continues monitoring ground water, collecting samples and preparing reports for the Water Board. The monitoring, sample collection and reporting is meant to verify the effectiveness of the Electric Resistance Heating (ERH) process and injection process used in remediation at the contamination source on the site. For the current budget year, DGS is on track to spend the $580,000 in the 2017-18 budget.

Fiscal Year	Funding	Expended/Encumbered	Balance Reverted
FY 14/15	$3.6M	$3.6M	$0
FY 15/16	$9.3M	$8.3M	$1M
FY 16/17	$2.1M	$2.1M	$0
Total Prior Year	**$15M**	**$14M**	**$1M**

STAFF COMMENTS

In the past, the Mercury Cleaners Site Monitoring BCP was brought to the Subcommittee on an annual basis, with the request for ongoing funding, does this eliminate the need to annual requests and annual updates on site monitoring? Does DGS have plans to build on the Mercury Cleaners site in the future? If so, when?

Staff Recommendation: Hold Open.

ISSUE 5: MODIFICATIONS OF FUNDING STRUCTURE FOR CONTRACTED FISCAL SERVICES

The DGS, Contracted Fiscal Services (CFS) requests a permanent net budget augmentation of $2.503 million beginning in 2018-19 to fully recover costs in providing fiscal services. DGS also requests a modification to the funding structure; a reduction of $3.07 million in Service Revolving Fund authority, an increase of $3.177 million in General Fund authority, and an increase of $2.396 million in Central Services Cost Recovery Fund authority.

BACKGROUND

The CFS unit within DGS provides budgeting and accounting services to other state departments, boards, and commissions that do not have the staff or expertise necessary to perform budget and/or accounting functions. Currently, CFS provides services to 43 boards, commissions, conservancies, authorities, and state agencies, and recovers its costs by billing customers through an interagency agreement. Each year, as part of the rates process, CFS estimates the number of hours that will be required to perform the budget and/or accounting services for each client-agency in the upcoming fiscal year and establishes a contract with each client-agency for these services. Each year, a significant amount of DGS staff time is used for the preparation, billing, and cash receipt functions related to these contracts. In addition to the time spent by DGS staff on CFS contract-related tasks, each client-agency spends administrative time each year on the authorization and monitoring of CFS contracts.

This net budget augmentation will align the budget for CFS with the costs incurred in providing fiscal services. The change in the funding structure will allow the Department of Finance (DOF) to allocate CFS funding needs through Pro Rata assessments to various client-agency special funds and adjustments to the GF. DOF will directly charge each client-agency's fund to appropriately recover the Central Services Cost Recovery Fund allocations for the services provided by CFS. The appropriate budget reduction amount for each client-agency will be determined and each client-agency's expenditure authority will be reduced through Control Section 25.40. Instead of preparing annual contracts for CFS services and paying for these services out of each client-agencies' state operations budget, this request proposes to fund CFS services using GF and the Central Services Cost Recovery Fund.

CONTROL SECTION LANGUAGE

SEC. 25.40. Notwithstanding any other provision of law, the Department of Finance may adjust amounts in any appropriation item, or in any category thereof, to remove amounts budgeted from any state departments, that are used to reimburse the Department of General Services for Contracted Fiscal Services, budgeting and accounting services.

STAFF COMMENTS

The Subcommittee may wish to ask DGS or DOF, how the Pro-Rata assessments will affect the agencies? Will costs increase or decrease by using this method?

Staff Recommendation: Hold Open.

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

The Governor's budget includes $75.1 million for the Department of Alcoholic Beverage Control (ABC) in 2018-19, an increase of $2.7 million, or 3.8 percent from the current year. ABC is funded through reimbursement and the Alcohol Beverages Control Fund (special fund). ABC is vested with the exclusive power to license and regulate persons and businesses engaged in the manufacture, importation, distribution, and sale of alcoholic beverages in California.

ISSUE 6: INFORMATION TECHNOLOGY STAFF AUGMENTATION

ABC requests $854,000 in 2018-19, $340,000 in 2019-20, and $265,000 ongoing from the Alcoholic Beverage Control Fund for two positions in the Information Technology Branch to provide the capacity to modernize the department's internal and external services including:

BACKGROUND

ABC plans to modernize its internal and external services to better serve its stakeholders and fulfill its public safety mission with the following projects:

- Execute a collection of online services for payment, application renewal, and application origination options in order to provide licensees the ability to interact with ABC in more efficient and customer friendly ways.

- Redesign ABC's websites utilizing up-to-date software technologies such as ASP.Net, enhancing security, leveraging open data platforms, and modernizing with the current state website templates.

- Reduce inconvenience to beer distributors and increase transparency by creating a way to comply with price posting regulations through electronic submission of data and making that data available online.

The two additional staff will provide the resource capacity and the corresponding skillsets necessary to perform work beyond the basic maintenance of existing services and allow ABC to move forward on the proposals listed above. ABC also identified three areas where external consulting contracts in 2018-19, will be necessary to move the modernization efforts forward. Specifically, ABC requests the following for external consulting in 2018-19 and 2019-20:

- $250,000 to completely restructure and redesign ABC's public and internal websites,
- $250,000 to allow for price posting information to be submitted electronically and have the data available online, and
- $150,000 to complete the final three stages of the Project Approval Lifecycle (PAL) related to ABC's eService enhancements, for which a Stage 1 Business Analysis has been approved. This assistance will be necessary in order to

complete these planning steps in 2018-19 and be positioned to request resources to implement electronic payment solutions in 2020-21.

STAFF COMMENTS

Modernizing ABC's website and function will allow the ABC to do things like collect license payments online. This is consistent with the practice of many other departments. Staff has no concerns with this proposal.

The Subcommittee may wish to ask ABC to discuss its fund balance. In prior years, it has been high, but it appears to be going down. Can ABC discuss the reasons why the reserve is going down?

Staff Recommendation: Hold Open.

ISSUE 7: PHYSICAL AND INFORMATION SECURITY POLICY OPERATION

ABC requests $533,000 in 2018-19, and $146,000 in 2019-20, and ongoing from the Alcoholic Beverage Control Fund to address physical and information security issues.

BACKGROUND

In addition to the personally identifiable information that any department would have regarding its employees, ABC also collects and stores (hard copy and electronically) personally identifiable information from licensees during the licensing process and from individuals when cited by ABC agents. Given the volume of electronic personally identifiable information records easily exceeds 100,000. The 12th annual 2017 Ponemon Cost of a Data Breach Study sponsored by IBM reports the cost for each lost or stolen record containing sensitive and confidential information is $141, if the ABC's records were compromised in a data breach, the total cost could exceed $15 million to recover systems, notify individuals, provide credit monitoring, bring in forensic teams, and restore operations. This cost does not include damage to ABC's reputation.

The following risks were identified by either audit or the internal assessment performed by the newly formed ABC ISO:

- **Physical Security.** At each district office, ABC collects and stores personally identifiable information. Each office also manages law enforcement equipment, and stores evidence.

- **Threat Detection.** ABC must shorten the time it takes to detect rogue devices connected on the network to ensure adequate protection of ABC systems. ABC also must perform more frequent scans of all hosts in the ABC network to assess the level of vulnerabilities due to security issues from either misconfiguration or missing patches. Finally, ABC must meet standards for continuous monitoring to ensure system compromise is detected as soon as possible to limit or contain the spread of malware.

- **Cost of Notification.** An internal risk assessment has identified the risk of a potentially costly breach notification if the security of a system has, or is reasonably believed to have, resulted in unencrypted personal information being acquired by an unauthorized person.

- **Loss or Breach of Mobile Devices.** Mobile devices are at significant risk of being lost or stolen. With the email transition, ABC must also transition to the Enterprise Mobility Suite to stay in compliance with providing protections for mobile devices with mobile device management (MDM). An MDM ensures usage restrictions, configuration requirements, connection requirements, implementation guidance for organization controlled mobile devices, and the ability to render a lost mobile phone useless.

- **Unstructured Data.** Data stored in files and outside of a database is referred to as unstructured data. A significant amount of ABC operations stores information in electronic files in network drives. Data that is not secured within a database can pose significant risk as it can easily be moved to parts of the network where unauthorized access could occur.

STAFF COMMENTS

The resources requested in this proposal are reasonable.

Staff Recommendation: Hold Open.

ISSUE 8: RESPONSIBLE BEVERAGE SERVICE TRAINING PROGRAM ACT (AB 1221)

ABC requests $578,000 and four positions in 2018-19, $561,000 and four positions in 2019-20, and $381,000 and three positions ongoing, from the Alcoholic Beverage Control Fund to develop and administer the program mandated by the provisions of the Responsible Beverage Services (RBS) Training Program Act, AB 1221 (Chapter 847, Statutes of 2017).

BACKGROUND

AB 1221 requires licensees to ensure all alcohol servers, as defined, successfully complete an RBS training course offered or approved by ABC, as demonstrated by passage of an examination. It is estimated that there are 400,000 alcohol servers employed at any one time in California. Alcohol servers would be required to take the training every three years. ABC is provided authority to charge fees to recover the costs of the program.

ABC has been an RBS training provider since 1991. With the support of a grant from the California Office of Traffic Safety (GTS), ABC developed its Licensee Education on Alcohol and Drugs Program (LEAD) - a free, voluntary prevention and education program for retail licensees, their employees and applicants. Four-hour training classes are offered at a variety of locations throughout the state and include instruction on checking various forms of identification, detecting and preventing illegal activity, reducing liability and much more. At the conclusion of the class, each participant takes an exam to evaluate their knowledge. Each person who passes the exam successfully and fulfills all of the training requirements receives a certificate, via email, certifying that they successfully completed a LEAD training course.

In 2004, ABC codified penalty guidelines including mitigating factors for penalties. Documented training of the licensee and employees can be used as a mitigating factor for penalty determination. In 2006, ABC received a two-year grant from the GTS to develop an RBS certification program. ABC established an RBS Advisory Board made up of subject matter experts on RBS, including representatives from the alcoholic beverage and RBS industry. The Board was tasked with developing RBS standards and approving RBS provider programs. At the conclusion of the grant, 20 RBS providers had been provisionally approved. The Board and RBS approval process was discontinued at the conclusion of the grant due to lack of funding.

The table on the next page provides an overview of the cost and timing of the efforts to develop and implement the RBS Training Program.

Summary of Estimated Program Costs

	2018-19 Outreach and Regulation Development		2019-20 Program Development		Ongoing Program Administration	
Classification	**Positions**	**Dollars**	**Positions**	**Dollars**	**Positions**	**Dollars**
Attorney III	1.0	$ 194,000	1.0	$ 188,000		
Supervising Agent, ABC	1.0	$ 174,000	1.0	$ 163,000	1.0	$ 163,000
Associate Governmental Program Analyst	2.0	$ 210,000	2.0	$ 210,000	2.0	$ 210,000
	4.0	**$ 578,000**	**4.0**	**$ 561,000**	**3.0**	**$ 373,000**

STAFF COMMENTS

The costs for the first two years are about $200,000 higher than the costs included in the appropriation analysis for AB 1221. Can ABC explain the difference in costs?

Staff Recommendation: Hold Open.

ISSUE 9: SANTA ANA STATE BUILDING RELOCATION

ABC is requesting $207,000 in 2018-19, and ongoing, for increased rent costs for the Santa Ana District office. ABC is moving out of the Santa Ana state building in coordination with DGS's effort to vacate the building and consolidate state programs into a larger leased office building that will better serve ABC and other tenant departments.

BACKGROUND

The primary issue for ABC stakeholders is the maintenance of licensing and compliance activities in the Orange County area. The public will benefit largely by having ABC maintain a presence in this community. This proposal intends to fund the increased costs related to the relocation of ABC's district office to a privately-owned building within the Orange County area. If this request is denied, ABC will be forced to absorb the increased costs of the new facility or find a location in Orange County which is closer to the current DGS rental rate ($1.92 per square foot for state buildings), resulting in holding staff positions vacant or reducing operating costs. If positions are held open to accommodate the increased rental costs, ABC licensees will experience longer wait times for assistance, and the enforcement and compliance operations may be reduced.

DGS has determined that relocating tenants to a privately-owned building in order to sell or repurpose the Santa Ana Office Building is more cost effective for the State than renovating the current building while tenants remained. Further, the current age and condition of the building causes morale and operational issues.

California Department of Alcoholic Beverage Control **Attachment A**

Analysis of ongoing costs related to relocation of Santa Ana District Office

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Current Location									
Rent ($1.92 per sq ft x 5,585 sq. ft.)	$129,000	$129,000	$129,000	$129,000	$129,000	$129,000	$129,000	$129,000	$129,000
Security fees yearly	$3,655	$3,655	$3,655	$3,655	$3,655	$3,655	$3,655	$3,655	$3,655
Parking	$10,800	$10,800	$10,800	$10,800	$10,800	$10,800	$10,800	$10,800	$10,800
Surcharge DGS*	$516	$516	$516	$516	$516	$516	$516	$516	$516
Total Cost, Current Location	**$143,971**	**$143,971**	**$143,971**	**$143,971**	**$143,971**	**$143,971**	**143,971**	**143,971**	**143,971**
New Location									
Rent ($4.10 per sq ft x 6,619 sq. ft.)**	$325,655	$338,681	$352,228	$366,317	$380,970	$396,209	$412,057	$428,539	$445,681
Parking	$24,000	$25,000	$26,000	$27,000	$28,000	$29,000	$30,000	$32,000	$33,000
Surcharge DGS*	$1,303	$1,355	$1,409	$1,465	$1,524	$1,585	$1,648	$1,714	$1,783
Total Cost, New Location	**$350,958**	**$365,036**	**$379,637**	**$393,317**	**$408,970**	**$425,209**	**442,057**	**460,539**	**478,681**
Increased Cost	**$206,987**	**$221,065**	**$235,666**	**$249,346**	**$264,999**	**$281,238**	**$298,086**	**$316,568**	**$334,710**

*.40% Portfolio Management Fee

**The Santa Ana current location was in the process of an expanding their space to accommodate for growth. The new square footage in the proposed location is going to be 6,619, an increase of 1,034 square feet.

STAFF COMMENTS

The Subcommittee may wish to ask whether the Alcoholic Control Fund can provide for the increase costs over time, seeing that the reserve for ABC is shrinking. The increase is about $3 million, or about 4 percent from current year expenditures.

Staff Recommendation: Hold Open.

1701 DEPARTMENT OF BUSINESS OVERSIGHT

The Governor's budget includes $97.8 million for the Department of Business Oversight (DBO) in 2018-19, an increase of $886,000 or less than 1 percent from the current year. The DBO is funded through special funds and reimbursements. DBO oversees financial service providers, enforces laws and regulations, promotes fair and honest business practices, enhances consumer awareness, and protects consumers by preventing potential marketplace risks, fraud, and abuse.

ISSUE 10: INFORMATION TECHNOLOGY OFFICE – WORKLOAD GROWTH AND RISK MITIGATION

DBO requests four permanent positions and $613,000 (Special Funds) in 2018-19 and $577,000 (Special Funds) ongoing to begin to eliminate backlogs and fill critical resource and skill gaps in the Information Technology Office (ITO) organization. These resources will enable DBO to increase the capacity and competency of the ITO to a level where it can more effectively and efficiently maintain and support DBO's technology systems critical to serving California consumers in its regulatory oversight of California financial service providers.

BACKGROUND

In 2016-17, DBO submitted a Budget Change Proposal (BCP) to fund seven permanent positions for the ITO for two years as part of a plan to move away from an IT service contract that was in place to support the day-to-day maintenance of the DOCQNET (self-service portal) system through June 2018. The DOCQNET system allows DBO to conduct its necessary and growing regulatory functions, which include revenue collection, enforcement actions, and licensee examinations and licensing. The DOCQNET system is designed to allow users to process license applications, complaints, and forms electronically, thus reducing the State's paper footprint.

The 2016-17 BCP was approved on the basis that the cost of procuring an IT contractor beyond June 2018 could be avoided if state IT staff were able to provide full DOCQNET support instead. The DBO is now well positioned to avoid the cost of the contractor once the contract expires in July 2018. As planned, the contract cost savings will be redirected to cover the ongoing cost of the seven positions. The seven positions consist of two programmers, two customer support specialists (help desk), one database administrator, one network support specialist, and one project manager, all of which who provide support for the DOCQNET system.

However, there are new issues, gaps and backlogs that must be addressed to ensure adequate support for the DBO IT systems. IT contractors have been used at DBO since its creation in July 2013, and have provided over 80 percent of IT maintenance and support of DBO systems to date. The use of IT contractors has been driven by the lack of state skills, expertise and resource capacity needed to maintain and support all DBO systems effectively and efficiently on an ongoing basis. The DBO ITO resource ratio, compared to the overall size of DBO, is far less than similar IT organizations across the state. Typical IT organizations represent approximately 10-15 percent of the workforce while the DBO IT ratio is currently only 6.2 percent. Adding four additional positions would increase the DBO IT ratio to 6.8 percent of the DBO's overall workforce.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Hold Open.

ISSUE 11: STUDENT LOAN SERVICING ACT IMPLEMENTATION

DBO requests $737,000 and five permanent positions in 2018-19 and $690,000 ongoing, for two positions to perform examinations of Student Loan Servicing Office licensees as required by AB 2251 (Chapter 824, Statutes of 2016), and three positions to handle consumer complaints. This request will be funded by the Financial institutions Fund.

BACKGROUND

Current law requires DBO to create a new Student Loan Servicing Office to license and regulate student loan servicers and to enforce any violation of the Student Loan Servicing Act. The DBO also is required to examine the affairs of each licensee at least once every 36 months for compliance with the Student Loan Servicing Act.

In 2017-18, DBO was approved for three permanent positions to start up and administer the Student Loan Servicing Office. Additionally, DBO intends to begin receiving and approving licensee applications in January 2018 so that licensees can begin operations on July 1, 2018.

In 2018-19, the Financial Institutions Manager and the two Senior Financial Institutions Examiners will conduct initial exams on licensees to obtain an understanding of their operations, determine their compliance with California law and introduce the DBO's regulatory expectations. Because the majority of anticipated licensees are located outside California, exams will require extensive out-of-state travel. The DBO expects licensees to reimburse the DBO for examination time and travel costs incurred. In subsequent years, the examiners are expected to conduct initial exams on all new loan servicer licensees. As more companies enter the student loan refinance market, additional private loan servicer licensees are expected.

Beginning in 2018-19, to ensure all licensees are examined at least once every 36 months, the examiners will conduct 12 full scope exams annually. Because over 93 percent of the $1.34 trillion in student loan debt is held by the federal government, exams of the nine federal loan servicers require significantly more time and resources than the smaller private loan servicers.

Beginning in 2018-19, when the Student Loan Servicing Office opens, California borrowers are expected to file their complaints with DBO, and DBO must be prepared to address these complaints.

STAFF COMMENTS

The resources are consistent with the analysis in 2016. The 2016 analysis sized the program at 11 positions.

Staff Recommendation: Hold Open.

7501 DEPARTMENT OF HUMAN RESOURCES

The Governor's budget includes $107.5 million for the Department of Human Resources (CalHR) in 2018-19, an increase of $1.5 million or 1.5 percent from the current year. CalHR's funding sources include the General Fund, reimbursements, and special funds. CalHR is responsible for managing the state's personnel functions and represents the Governor as the "employer" in all matters concerning state employer-employee relations. CalHR is responsible for issues related to recruitment, selection, salaries, benefits, and position classification, as well as provides training and consultation services to state departments and local agencies.

ISSUE 12: ENTERPRISE DATA STRATEGY

The Governor's budget includes $503,000 ($63,000 General Fund, $301,000 Reimbursements, $53,000 Central Services Cost Recovery and $86,000 Special Fund) and three positions in 2018-19, and ongoing, to address workload resulting from statewide enterprise human resources (Enterprise HR) automation initiatives and support. This effort is in collaboration with the Department of Technology (CDT) and the State Controller's Office (SCO).

BACKGROUND

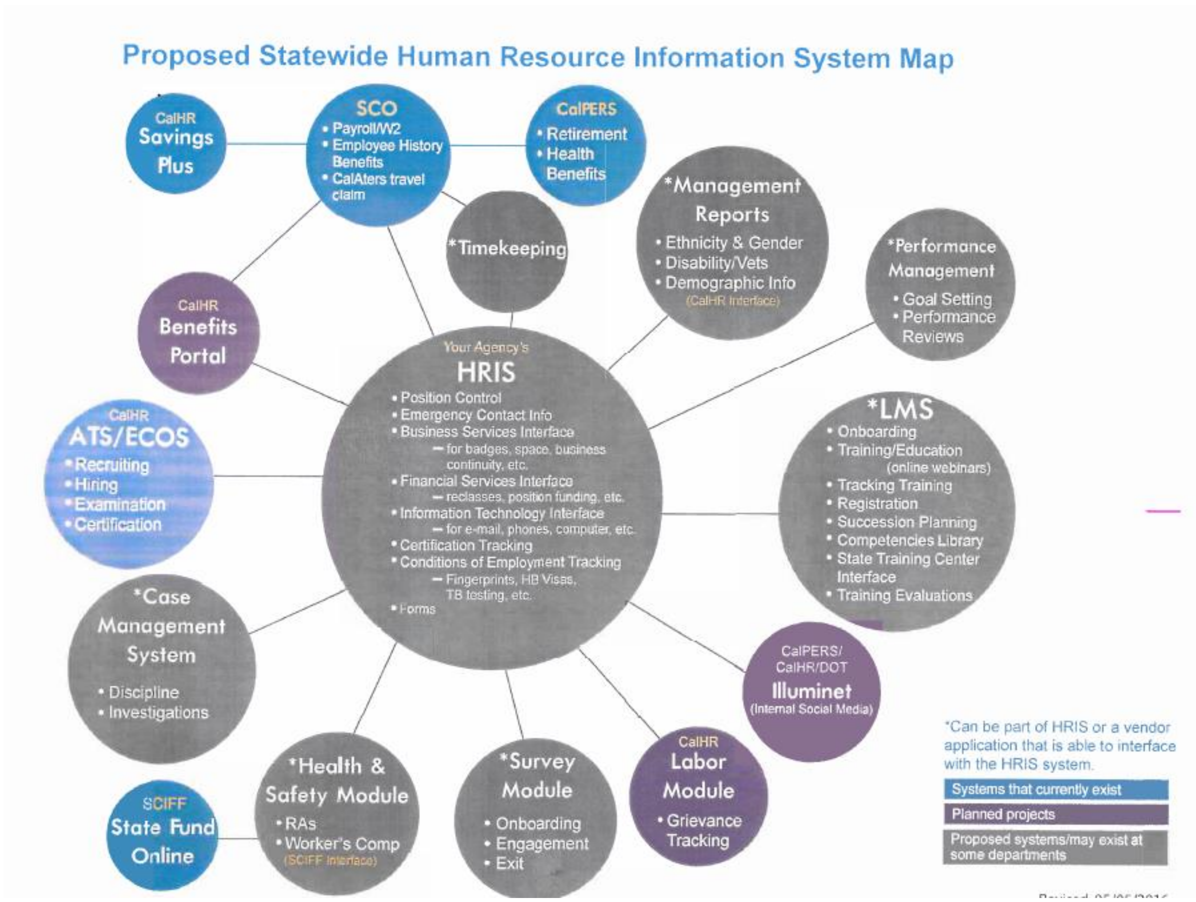
This effort between CalHR, CDT, and SCO will provide needed human resource (HR) solutions to departments within an enterprise solution. These solutions can consist of a single solution for a function, such as CalHR’s Examination and Certification Online System (ECOS) or several solutions for a given HR function to meet the differing needs in departments. All selected solutions are interoperable through an interface with a database that will interact between the single source employee record and the given HR solutions.

In 2015, CDT conducted a survey of all state Chief Information Officers (CIOs) and Agency Information Officers (AIOs), and the results showed the top requests for automation within departments were around HR functions. It also highlighted that several departments were going out on their own to get automation without any thought of an enterprise approach.

In 2016, an HR governance committee was formed to approve and monitor HR initiatives. The governance committee provides and tracks the HR initiatives roadmap for automating all HR functions throughout all state departments. In addition, they are responsible for reviewing and approving department HR initiatives through a modified Project Approval Lifecycle (PAL) for HR solutions.

In January 2017, the governance committee established an Enterprise HR engagement, to define the Enterprise HR strategies as a foundation for moving HR forward for the State. This engagement consisted of the Enterprise HR Taskforce, which included key stakeholder leadership from CalHR, SCO, and CDT. The team was responsible for collaboratively providing direction and leadership for defining Enterprise HR strategies, ensuring roadmap alignment with existing statewide initiatives, and supporting the key Enterprise HR engagement goals.

In June 2017, two of the initiatives on this roadmap began. The first initiative to be implemented will be the enterprise core record (ECR). This solution will continue to change and grow as other HR solutions come on board from initiatives on the roadmap. This project lays the foundation for tracking reporting on all state employees with an employee ID throughout their state career and will be the central location that tracks all employee information for all statewide HR solutions that come on board. The second initiative that began is the statewide learning management solution (LMS) project.



Currently, the ECR and LMS efforts are underway with CalHR, SCO, and CDT leading these efforts with minimal staff between the participating departments. CalHR owns the majority of the projects on the Enterprise HR initiatives roadmap and without additional resources, CalHR cannot continue to staff these projects going forward.

Positions:

- *Data Processing Manger III (1.0):* The project requires a project manager to oversee each of these efforts, drive timelines, develop and monitor work breakdown structures, acquire resources, manage scope, risks, and issues, and all other project manager duties necessary.

- *Systems Software Specialist III, Technical (1.0):* CalHR currently does not have an Enterprise Architect (EA) and this effort needs an EA to maintain a consistent enterprise vision, ensure business values, and give direction for all of CalHR's Enterprise HR initiatives. The EA will be responsible for ensuring that a scalable data layer will sit between all of the initiatives and the data store for the core employee record to promote interoperability between systems and keeping a single employee record for all HR systems in the state.

- *Senior Information Systems Analyst (Specialist) (1.0):* The business analyst is also essential to any project to lead process reengineering, elicitation and documentation of requirements, tracking and verifying requirements traceability matrices, testing solutions, documenting workflows, completing PAL stage gate process documentation, and assisting in managing scope.

STAFF COMMENTS

The Subcommittee may wish to ask CalHR what sort of information will be tracked through an employee ID and how will CalHR use this information.

Staff Recommendation: Hold Open

ISSUE 13: MERIT SYSTEM SERVICES PROGRAM

The Governor's budget requests an overall reduction of $944,000 in reimbursement authority and establishes 13.0 permanent positions, both to be phased-in over three years, to assume the duties performed by Cooperative Personnel Services (CPS), the vendor that currently administers the Merit System Services (MSS) Program on behalf of CalHR:

- 2018-19 an increase of $207,000 reimbursement authority and 7.0 positions.
- FY 2019-20 a decrease of $317,000 reimbursement authority and 4.0 positions.
- FY 2020-21 a decrease of $834,000 reimbursement authority and establish 2.0 positions.

BACKGROUND

MSS is a program necessitated by federal law. Since the inception of specified Social Security Act programs in the 1930s, the federal government has conditioned the receipt of federal funding for this program on the state ensuring that both the state and the local agencies (generally a single county, although in some cases, a consortium of counties) involved in administering these programs maintain a merit-based civil service system. Initially, predecessors of the current Department of Social Services and Department of Health Care Services ensured local agency compliance with the merit system requirements on a program-by-program basis. However, in 1970, the MSS Program was consolidated and transferred to the SPB.

When the MSS Program was transferred from SPB to CalHR, the CalHR Legal Division discovered that California did not revise existing law to take advantage of the streamlined oversight program permitted by the 1983 federal regulations. As a result, CalHR's Legal Division revised the state regulations also known as Local Agency Personnel Standards (LAPS). LAPS became effective in July 2016, and permits flexibility in allowing counties to use their own local rules when administering the MSS Program. Under LAPS, many of the functions that CPS had performed on behalf of the MSS Program became the counties' responsibilities. Overall, the revised regulations changed the way business is done in many aspects.

Since the revision of LAPS, a limited-term position at CalHR was approved in 2016-17 to assess and develop a strategy to transfer back state duties performed by CPS. This limited-term position has been performing management review and analysis to gain a thorough knowledge of CPS' operations by reviewing the operations in three phases.

- Phase I was an analysis of all contracts, regulations, and other historical documents pertaining to the MSS Program.
- Phase II consisted of gaining an understanding of CPS' day-to-day operations of the program through onsite visits and participating in specific work events during the period of November 2016 through February 2017.

- Phase III consisted of analyzing the activities of Phases I and II, including a cost analysis of the audit functions, formalizing interpretation of regulations, and drafting a report of activities.

In addition, the limited-term position serves as the administrator at CalHR for the MSS Program, performing duties such as assigning MSS exam and merit appeals, acting as contract administrator, and working closely with the counties and CPS on regulation interpretation.

The day-to-day operations of the program are currently conducted by CPS. SPB first contracted with CPS in 1985 and the contract has been renewed regularly thereafter including after the transition to CalHR in 2014. The present contract with CPS expires on June 30, 2018. If the BCP is approved, CalHR will renegotiate this contract with CPS to reflect CalHR assuming the county audit functions in 2018-19 and for CPS to continue to administer the MSS Program in counties that have not been approved as independent counties with an overall plan to gradually assume those duties over the next several years (2018-2021).

STAFF COMMENTS

According to the BCP, this proposal would allow CalHR to assume the audit duties and assess the HR duties provided to counties performed by CPS. CalHR has modernized the regulations that guide the MSS Program. The updated regulations are re-engineering CPS' administration of the MSS Program and have simplified the MSS audit process. This proposal is the first step toward bringing CalHR into compliance with Government Code Section 19130, which discourages state agencies from contracting out for services that could be carried out by state employees.

Staff Recommendation: Hold Open.

ISSUE 14: RETIREE HEALTH TRAILER BILL LANGUAGE

The Governor's budget proposes trailer bill language that would require the Public Employees' Retirement System (CalPERS) to assist the CalHR by providing retiree names and addresses to CalHR for the purposes of notifying those retirees of eligibility for enrollment into programs offered by CalHR.

BACKGROUND

CalHR administers benefits for active and retired state employees. CalPERS maintains the census data for retired state employees, while the State Controller’s Office maintains the census data for active state employees. In order to fulfill its duty to administer benefits for retired state employees, CalHR needs access to the retiree census data maintained by CalPERS. CalPERS has requested that CalHR obtain express legislative authorization to facilitate the provision of the census data.

Without this census data, CalHR is unable to contact retired state employees to inform them about the benefits that are available to them. Retired state employees are currently eligible for Dental, Vision, and Group Legal benefits offered by the state.

This change would ensure CalPERS can provide the necessary census data to CalHR. The information is limited to the retiree names and addresses, and no sensitive personal information, such as social security numbers, would be exchanged. The information would be used solely for the purpose of notifying retired state employees about eligibility for enrollment into a benefit program offered by the state and any information provided to CalHR would be treated as confidential by CalHR.

STAFF COMMENTS

Absent this change, how do retirees receive information from CalPERS about changes from the state?

Staff Recommendation: Hold Open.

7503 STATE PERSONNEL BOARD

The January Budget proposes $12.7 million for the State Personnel Board in (SPB) in 2018-19, an increase of $663,000 or 5.5 percent from the current year. SPB is funded from the General Fund, reimbursements and the Central Service Cost Recovery fund. SPB was established by the California Constitution in 1934 and is governed by a five-members who are appointed by the Governor for ten-year terms. SPB is responsible for California's civil service system.

ISSUE 15: ADMINISTRATIVE SERVICES WORKLOAD

SPB requests five positions and $655,000 ($223,000 General Fund, $263,000 Reimbursements, and $169,000 Central Service Cost Recovery) in 2018-19, and ongoing to provide internal administrative resources to assist with equal employment opportunity (EEO) duties, business services support, and manage Board proceedings. These resources will enable the Board to directly and efficiently carry out its constitutional authority over the merit system, and provide SPB on-site administrative support.

BACKGROUND

The Governor's Reorganization Plan 1 (GRP1) of 2011 consolidated specific functions of SPB and the former Department of Personnel Administration (DPA) into the new Department of Human Resources (CalHR). CalHR continues to provide administrative support to SPB and is partially reimbursed for these services.

Administrative. Prior to GRP1, SPB had 14.8 administrative positions and the former DPA had 17 administrative positions for a total of 31.8 positions. During the first year of GRP, SPB lost 7 administrative positions (3 abolished and 4 redirected internally to the Policy and Compliance Unit) and CalHR lost 2 administrative positions. SPB's remaining 7.8 administrative positions were transferred to CalHR, leaving SPB with no administrative support. In the second year, CalHR lost an additional 1.8 administrative positions. This left a total of 21 administrative positions to provide services to both CalHR and SPB.

Board Proceedings. Prior to the GRP1 of 2011, SPB had a small unit that prepared and reviewed all board items for submission on the board meeting agenda. Under GRP1, all of SPB's operational and administrative support functions were transferred to CalHR, including the unit that reviewed, vetted, and prepared items to take before the Board. Consequently, since July 2012, SPB has been without internal staff to perform this work. CalHR staff have attempted to perform these duties, including recommending which classifications can be consolidated or abolished, devising revision proposals to classification specifications, and preparing other types of Board items. Absent SPB's direct management, carrying out those functions has been burdensome, time consuming, and inefficient for both SPB and CalHR.

BCP request. SPB requests two positions and $263,000 in reimbursement authority for an internal EEO representative and business services support. Additionally, CalHR has one Business Service Officer onsite at SPB. This request would transfer that position to SPB and provide one new Staff Services Manager I to SPB.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Hold Open