AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, APRIL 17, 2018

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

ITEMS TO BE HEARD

ITEMS FOR VOTE-ONLY

0890 SECRETARY OF STATE

VOTE-ONLY ISSUE 1: ADDRESS CONFIDENTIALITY FOR VICTIMS OF HUMAN TRAFFICKING (SB 597)

The Secretary of State (SOS) requests 1.0 position and a permanent General Fund increase of $240,000 in 2018-19 ($235,000 in 2019-20 and ongoing) to implement SB 597 (Leyva, Chapter 570, Statutes of 2017).

BACKGROUND

SB 489 (Alpert, Chapter 1005, Statutes of 1998) established the Safe At Home (SAH) program within SOS to allow victims of domestic violence to apply for a substitute address to be used in public records in order to prevent their assailants, or potential assailants, from finding their work or home address. Through subsequent legislation, the program has been expanded to include victims of sexual assault, stalking, elder abuse, and reproductive health care service providers, employees, volunteers, and patients.

SB 597 further expands the SAH program and makes it available to victims of human trafficking and to household members of victims of domestic violence, sexual assault, stalking, or human trafficking, excluding the perpetrators.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 2: BUSINESS PROGRAMS DIVISION FILINGS PROCESSING TIMES

The Secretary of State's Office (SOS) is requesting continuation of spending authority for the resources needed to maintain an average of five (5) business day or better turnaround/processing time for business filings and statements of information until California Business Connect is implemented. Due to recent and ongoing automation and online improvements, SOS is reducing the requested ongoing support of 52.0 positions to 47.0 positions. Therefore, the amount requested to maintain the five (5) business day or better turnaround time is spending authority of $5.1 million from the Business Fees Fund and 47.0 positions, temporary help, and overtime through 2020-21.

BACKGROUND

The SOS is constitutionally mandated to provide services to businesses in the state that include processing and filing commerce and trade documents such as business formations, changes, and terminations. Most business entity documents and information requests are submitted to the SOS via mail or in-person in Sacramento and Los

Angeles. The office currently relies on several antiquated electronic and "paper" database systems in order to process more than two million business filings and requests for information submitted annually.

The paper systems have resulted in unacceptable turnaround times, which led to significant budget augmentations to reduce the turnaround times and backlogs. An augmentation of roughly 50 positions has continued since 2013-14 in order to maintain the legislatively recommended average five business day turnaround time. The most recent request was approved for 2016-17 which provided $5.5 million for 52.0 limited-term positions, temporary help, and overtime.

California Business Connect (CBC) is a comprehensive technology solution intended to increase online services for business filings and requests for information and the positions funded in this request are intended to expire once CBC is implemented.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 3: HELP AMERICA VOTE ACT SPENDING PLAN

The Governor's budget requests $4.2 million from the Federal Trust Fund to continue implementation of the statewide mandates of the Help America Vote Act (HAVA) of 2002.

BACKGROUND

The requirements of HAVA include statewide modernization or replacement of voting equipment, education and training programs for election officials and poll workers, development and dissemination of voting information to increase voter participation and confidence, voting systems testing and approval, and a statewide voter registration database. To date, California has received $392.4 million in federal funds (including interest, this fund totals $437.0 million) to implement these mandates. It is estimated that the unexpended balance will be $20.6 million after the implementation of VoteCal, which can solely be used for HAVA-related needs.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 4: HELP AMERICA VOTE ACT SPENDING PLAN-VOTE CAL

The Governor’s Budget requests $7.1 million in federal funds for maintenance and operations costs of California's statewide voter registration database known as VoteCal. This amount includes $1.6 million of local assistance support.

BACKGROUND

The SOS entered into an agreement with the U.S. Department of Justice to develop and implement a statewide uniform, centralized, interactive, and computerized voter registration database (VoteCal) in accordance with Section 303 (a) of the Help America Vote Act (HAVA) passed by Congress in 2002. The VoteCal system supports the registration of voters and is administered jointly by the SOS elections division and county elections officials. The VoteCal system was declared the new system of record for the state in September 2016.

Staff Recommendation: Approved as Budgeted

8620 FAIR POLITICAL PRACTICES COMMISSION

VOTE-ONLY ISSUE 5: ADVERTISEMENT DISCLOSURE AND EARMARKING OF FUNDS-CAMPAIGN DISCLOSURE (AB 249)

The Fair Political Practices Commission (FPPC) is requesting increased General Fund expenditure authority of $420,000 in 2018-19 ($400,000 in 2019-20 through 2020-21) to Fund 3.0 existing, but unfunded positions to implement the provisions of AB 249 (Mullin) Chapter 546, Statutes of 2017.

BACKGROUND

The FPPC was created by the Political Reform Act (Act) as an independent non-partisan agency whose objective is to prevent corruption of public officials in the governmental decision-making process. AB 249 overhauls the content and format of disclosure statements required on certain campaign advertisements in a way that generally requires such statements to be more prominent. Additionally, this bill requires many advertisements to include an identification of the three top contributors to the committee funding the advertisement, instead of the two top contributors that are required to be identified under existing law. Finally, this bill establishes new requirements for determining when contributions are considered to be "earmarked," and establishes the circumstances under which the donor of an earmarked contribution must be included as a top contributor in a disclosure statement. Additional staff resources are needed for the effective and efficient implementation of these comprehensive changes.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 6: MASS MAILING PROHIBITION (SB 45)

The FPPC is requesting $147,000 from the General Fund in 2018-19 and $140,000 ongoing to fund one existing, but unfunded, position to implement the provisions of SB 45 (Mendoza, Chapter 827, Statutes of 2017).

BACKGROUND

The Political Reform Act prohibits sending mass mailings at public expense. SB 45 codifies the Fair Political Practices Commission (FPPC) regulation regarding mass mailings sent at public expense and prohibits these mass mailings from being sent within the 60 days preceding an election by or on behalf of a state or local candidate whose name will appear on the ballot, as specified. The requested position will help with providing advice preceding and during the blackout periods and the FPPC will need to draft new rules.

Staff Recommendation: Approve as Budgeted

8955 DEPARTMENT OF VETERANS AFFAIRS

VOTE-ONLY ISSUE 7: INFORMATION SERVICES DIVISION STAFFING

The Governor's budget requests 9.0 positions and $1.2 million ($1.1 million General Fund and $145,000 Farm and Home Building Fund of 1943) in 2018-19, and $1.2 million ($1.0 million General Fund and $140,000 Farm and Home Building Fund of 1943) annually thereafter for CalVet's information security and IT projects.

BACKGROUND

Over the last eight years, the number of Veterans Homes in California grew from three Veterans Homes to eight Veterans Homes—an increase of 166 percent. The number of electronic applications implemented, maintained and supported increased from 14 to 48, an increase of 242 percent. This is because CalVet is increasingly turning to technology to provide high quality care and services. Without adequate staffing for the Information Services Division sections, activities are delayed, contractors are necessary to provide an array of consulting services, IT assets face security risks, customer satisfaction is diminished, and ISD loses the ability to accurately plan for maintaining and supporting existing technology.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 8: CALIFORNIA CENTRAL COAST VETERAN'S CEMETERY-CITY OF SEASIDE

The Governor's budget proposes $571,000 (California Central Coast State Veterans Cemetery at Fort Ord Operations Fund) to complete the working drawings for the California Central Coast Veterans Cemetery.

BACKGROUND

The cemetery is located on approximately 12 acres at the former Fort Ord Army base and serves the interment needs of California veterans in the counties of Alameda, Monterey, San Mateo, Santa Cruz, San Benito, and Santa Clara. In 2017-18, $1.5 million General Fund ($1.212 million for preliminary plans, $50,000 for working drawings, and $238,000 for construction) was appropriated for the state's share of the California Central Coast Veterans Cemetery project to expand the existing cemetery by 4.29 acres. Expansion will include approximately 2,000 in ground crypts, 1,700 in-ground cremains plots, and 400 linear feet of additional roadway. This request will allow the Department to utilize private donations in the amount of $571,000, which will be deposited into the fund to complete the working drawings phase of the project. It is anticipated that the construction phase of the project ($7.4 million) will be funded by (1) private donations of $268,000, (2) $6.9 million in federal funds, and (3) $238,000 million General Fund previously appropriated.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 9: VETERANS CLAIMS REPRESENTATIVES (SB 776)

The Administration proposes 7.0 positions, $907,000 General Fund in 2018-19, and $868,000 annually to implement SB 776 (Newman, Chapter 599, Statutes of 2017).

BACKGROUND

SB 776 requires CalVet to provide one employee for every five state prisons, who is trained and accredited by CalVet, to assist incarcerated veterans in applying for and receiving any federal or other veterans' benefits for which they or their families may be eligible. The CalVet also requests a position upgrade of a Staff Services Manager II to a Staff Services Manager III in the Oakland District Office.

According to the California Department of Corrections and Rehabilitation (CDCR), California's total in-custody population is approximately 128,000 inmates, which includes approximately 6,800 incarcerated veterans (5.3 percent). Access to Veterans Administration (VA) health care, disability compensation, and low-income pensions can serve as vital resources to support incarcerated veterans upon their transition out of state custody as they undertake efforts toward reintegration into general society. The 7.0 positions and upgrade of the manager are expected to greatly increase the number of veterans who apply for and receive USDVA benefits. In addition, the claims representatives' physical presence within the state prisons will increase the accessibility to incarcerated veterans in order to give them proper claims and appeals representation and advocacy. It is anticipated that by 2019-20, on average 700 claims with be filled annually on behalf of incarcerated veterans (more than double the amount in 2017-18).

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 10: YOUNTVILLE PRIVATE DOMICILIARY ROOMS

The Governor's budget proposes a reduction of $732,000 General Fund and 2.5 positions beginning in 2018-19 to convert rooms in the Domiciliary level of care at the Veterans Home of California-Yountville from dual occupancy to single occupancy.

BACKGROUND

The Governor's budget proposes to convert the majority of double occupancy rooms to single occupancy rooms in the domiciliary unit at Yountville—reducing budgeted capacity by 115 beds, from 637 to 522. One reason the Administration provides for the proposed change is to provide the same quality of life to residents in the Yountville veterans home relative to other veterans homes, which typically provide residents with more spacious and private domiciliary rooms. Another reason is the recent decline in the number of residents in the domiciliary care unit. Specifically, in 2016-17 and 2017-18, the number of residents in domiciliary care decreased to the point that nearly every resident could have their own room. The Administration expects future occupancy and demand to remain at or below current levels, meaning the reduced number of domiciliary beds is not expected to affect the state's ability to meet future demand.

The Administration estimates that converting double occupancy rooms to single occupancy rooms would result in savings of just under $1 million General Fund. Decreasing total capacity in the domiciliary care unit allows for a reduction in support staff—specifically, 2.0 fewer kitchen staff positions and 0.5 of a medical staff position. Additionally, because the proposed reduced capacity (522 beds) largely reflects current occupancy levels (523 residents) the proposal is not expected to result in any loss of revenue. However, if there was demand for the 115 beds proposed to be eliminated, the revenue loss associated with this proposal would be about $3.4 million.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 11: POSITION FUNDING ALIGNMENT

The Governor's budget requests $1.6 million (an increase of $4.9 million General Fund and a decrease of $3.3 million Farm and Home Building Fund) to correctly align funding associated with General Fund sourced programs and to adjust rental payments to the Farm and Home (F&H) Loan program to the standard DGS price book rate for rental space occupied by other CalVet programs.

BACKGROUND

The F&H Loan program was established in 1921. The program does not receive any General Fund monies and is funded through a combination of General Obligation Bonds and Revenue Bonds with principal and interest paid through the proceeds of the veteran home loan payments. The F&H Loan program currently supports 33 administrative positions in Information Services, Legal, Accounting, Communications, Legislative, Human Resources, and Contracts and Procurement, as well as absorbing roughly 15 percent of the distributed administration costs for some administrative positions.

The CalVet headquarters building is an asset of the F&H Loan program which pays for its operational costs. The F&H Loan Program rents all excess space to the rest of CalVet. The DGS price book currently calls for a rent of $2.58 per square foot whereas CalVet's General Fund programs pay the F&H Loan Program a rate of roughly $1.20 per square foot, a difference of $1.6 million annually.

A 1974 court decision determined that the F&H Building Fund was created to provide a benefit of home loans to veterans and may only be used for that purpose and for the costs necessary to administer the F&H Loan Program. Currently that fund is being used to subsidized General Fund-sourced programs. This proposal corrects this issue by transferring administrative positions currently supported by the F&H Loan program to distributed administration, and providing an augmentation to reflect rent at $2.58 per square foot.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 12: RECTOR DAM AND RESERVOIR

The Governor’s budget proposes 5.0 positions and $1.5 million General Fund in 2018-19 and $596,000 General Fund annually thereafter.

BACKGROUND

Rector Creek is located in Napa County. In 1946, the state constructed the Rector Dam, impounding water to the Rector Reservoir. The dam and reservoir are operated by the Department to provide water to the Veterans Home of California in Yountville, the town of Yountville, the Department of Fish and Wildlife (DFW), Napa State Hospital, and several small wineries located near the Rector Dam.

In November 2016, Water Audit California filed a lawsuit alleging that the Department was in violation of Fish and Game Code Section 5937 and various federal regulations. With the guidance of counsel from California's Attorney General's Office, the parties (CalVet and Water Audit California) acknowledge that the historic operation of Rector Dam has resulted in portions of Rector Creek between the base of Rector Dam and the creek's confluence with Conn Creek being dry in some years. The parties have reached an agreement on a conceptual resolution of the case within the terms and conditions stated in a proposed stipulation of settlement agreement. As part of the settlement, CalVet is installing measurement and monitoring equipment and is requesting DFW produce a fish habitat study and a water flow evaluation.

The requested funding would provide the resources for monitoring the dam and for the DFW produced studies. The Department will develop a plan for the operation of Rector Dam and Reservoir based on the results of monitoring activities and studies. The proposal also requests 5.0 positions to operate and monitor the dam and reservoir according to DFW and State Water Resources Control Board requirements.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 13: FUNDING FOR THE CALIFORNIA COAST VETERANS CEMETERY

The Governor's budget proposes for the California Department of Veterans Affairs a permanent augmentation of $220,000 General Fund for the California Central Coast Veterans Cemetery's operations. The Department also requests reductions of $143,000 Federal Trust Fund, $77,000 California Central Coast State Veterans' Cemetery at Fort Ord Operations Fund (Operations Fund), and $77,000 transfer authority from the California Central Coast State Veterans Cemetery at Ford Ord Endowment Fund (Endowment Fund) to the Operations Fund.

BACKGROUND

The California Central Coast Veterans Cemetery opened in October 2016. Military and Veterans Code section 1451 created the Endowment Fund to receive donations from public and private entities and for spouse and dependent burial fees. These funds are transferred to the Operations Fund for expenditure by the CalVet for annual support and operations of the CCCVC. CalVet collects spouse and dependent burial fees and receives federal burial allowances based on the veteran's date of death. The Operations Fund and the federal burial fees are the only fiscal support for the operations of the CCCVC. Funding from burial fees and federal burial allowances are insufficient to fully fund cemetery operations because the pace of burials is much lower than originally anticipated. The revised expenditure and transfer authority are based on updated burial and revenue projections.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 14: CALIFORNIA STATE APPROVING AGENCY FOR VETERANS EDUCATION

The Governor's budget proposes $260,000 in federal fund authority and 4.0 positions beginning in 2018-19 for increased federal funds that are available for the California State Approving Agency for Veterans Education.

BACKGROUND

The California State Approving Agency for Veterans Education (CSAAVE) has oversight responsibility for the approval of schools and colleges desiring to enroll veterans, using their earned Government Issue (GI) Bill benefits, in education and vocational training programs. Currently, California has both the highest number of veterans and GI-Bill-approved institutions collecting funds. With a staff of 9.0, CSAAVE oversees approximately $3 billion dollars annually in GI Bill funds. These funds are dispersed by the VA to nearly 1,100 GI-Bill-approved institutions and training establishments with approximately 60,000 veterans collecting benefits in California.

The duties of the requested positions are currently shared by existing staff and pressure the staff capacity to meet the VA contracted obligations, changes in state and federal law, and increases in the number of California schools and enrolled veterans. The additional staff will enable CSAAVE to continue to monitor and maintain institutional and programmatic compliance with applicable standards, requirements, and applicable law relating to veterans education and perform its fiduciary role in protecting the earned GI Bill benefits for current and future veterans.

Staff Recommendation: Approve as Budgeted

1111 DEPARTMENT OF CONSUMER AFFAIRS

VOTE-ONLY ISSUE 15: BOARD OF BEHAVIORAL SCIENCES-ENFORCEMENT PROGRAM-PROBATION MONITORING

The Governor's budget is requesting 1.5 Associate Governmental Program Analyst positions for a two-year limited term and $175,000 in 2018-19 and $167,000 in 2019-20 from the Behavioral Sciences Fund.

BACKGROUND

The Board is responsible for licensing, examination, and enforcement of Licensed Marriage and Family Therapists, Licensed Clinical Social Workers, Licensed Educational Psychologists, and Licensed Professional Clinical Counselors. The Board also regulates Marriage and Family Therapist Interns, Professional Clinical Counselor interns, and Associate Clinical Social Workers. There are about 108,000 licensees.

The rising number of licensees on probation along with the increasing complexity of tasks to effectively monitor a probationer and ensure consumer safety, is creating an insurmountable workload for the existing 1.5 probation analysts. The probation analysts are unable to effectively monitor a probationer's compliance with probation. This request will help to address the lack of resources to effectively monitor probationers.

The Board notes the fund condition statement provided with this proposal displays a structural imbalance with projected revenues less than projected expenditures. This proposal would increase the structural imbalance. However, notwithstanding this proposal, the Board will be increasing license fees in the near future to eliminate the structural imbalance and to provide a prudent fund balance reserve. This proposal seeks two-year limited term resources to allow the Board time to implement the fee increases to keep the fund solvent.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 16: BOARD OF REGISTERED NURSING-ENFORCEMENT STAFF

The Administration is requesting an ongoing increase of $1.3 million from the Board of Registered Nursing Fund to fund 10.0 permanent positions to address severe deficiencies within the Board's Enforcement Division.

BACKGROUND

The Board is the regulatory agency for Registered Nurses (RNs) in California. One of its primary obligations is to protect the consumers of the State of California from harm caused by unsafe, incompetent, negligent, or impaired RNs by promoting quality registered nursing care and enforcing the laws and regulations in the California Nursing Practice Act. There are approximately 433,000 RNs in California.

This Board, as well as others, have a history of failing to act or taking too long to take action against unsafe practitioners who had been convicted of serious crimes and/or has disciplinary action taken by another health care agency. As a result, over the past few years, this Board and others have received a significant increase in enforcement staff. However, the workload has continued to increase.

In 2015-16, the Board underwent an audit of the enforcement program. The Board delayed requests for additional enforcement positions until the audit concluded. Over the past three years, the Board has redirected workflows, changed internal procedures, and worked with the Division of investigation and the Attorney General's Office to increase efficiencies. Given available resources, the Board reduced the timeframes to complete cases; however, this level of work output has not allowed the Board to meet its goals, such as completing cases within 12-18 months, and has only been achieved through staff working overtime and on weekends, which has resulted in increased workload, poor job satisfaction, and frequent absenteeism.

In support of the BCP, the Board was approved to raise their application and licensing fees for the first time in 19 years in January 2017. The funds collected will support the additional staff the Board is requesting. The Board is in the process of seeking additional fee increases through the regulation process.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 17: BOARD OF PHARMACY-PERMANENT POSITION AUTHORITY

The Governor's Budget requests for the Board of Pharmacy ongoing funding of $440,000 and permanent position authority for 4.0 positions currently funded out of the temporary help blanket.

BACKGROUND

In the past several years, the Board has experienced increased workload in its operations both through the expansion of new licensing programs as well as increases in enforcement, licensing and administrative functions. To address the increasing ongoing workload, the Board added positions to align its position authority with its ongoing workload and also funded some additional positions though the Board's temporary help blanket. This request would increase the number of authorized positions by 4.0 and fund these positions by redirecting $440,000 in 2018-19 and ongoing from its Operating Expenses and Equipment budget to its Personal Services budget.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 18: BOARD OF PHARMACY: ENFORCEMENT STAFF AUGMENTATION

The Governor's Budget requests for the California State Board of Pharmacy a budget augmentation of $685,000 Pharmacy Board Contingency Fund in 2018-19 and $653,000 ongoing to fund 2.0 Pharmacy Inspectors and 2.0 Associate Governmental Program Analysts (AGPA).

BACKGROUND

Business & Professions Code section 4001.1 makes protection of the public the highest priority of the Board when regulating the practice of pharmacy. To that end, as a consumer protection agency, the Board fulfills its mandate primarily through two key activities: licensing and enforcement. It is with this basic intent that the Board is seeking to augment its enforcement staff. As of December 2017, the Board has licensed 951 compounding facilities (865 in-state and 86 out-of-state). Currently, the Board is unable to complete all inspections of licensed compounding facilities in and out of state, solely relying on resources and staffing within the sterile compounding inspection team. The two inspectors are necessary to perform statutorily mandated sterile compounding inspections and investigations of resident and nonresident licensed sterile compounding facilities. The AGPAs will augment enforcement activities by completing desk investigations alleging unlicensed activity; and complete enforcement reviews of business applicants. They will also serve as a liaison with the Attorney General ensuring timely prosecution of administrative cases and subsequent reporting to the National Practitioners Databank.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 19: BOARD OF PHARMACY: MOVING COSTS

The Governor's Budget requests for the California State Board of Pharmacy a one-time budget augmentation of $1.1 million Pharmacy Board Contingent Fund to move to a larger office space.

BACKGROUND

In late 2005, the Board moved to its current location. At that time, the Board had 54 personnel, 28 of which were located at the Board's headquarters. Since then staff have grown to 100.8 in 2016-17, which represents an increase of 69 percent. The authorized position count does not include temporary help positions. The Board's current staff total, including temporary help positions, is 120.8 (and could grow to 150 positions over the next 5 years). To accommodate program growth, the Board has twice needed to expand its office space through buildouts. The Board is currently operating out of two separate suites. In 2016, the Board again consulted with the Department of General Services (DGS) to assess the Board's space needs as another buildout was identified as necessary. DGS notified the Board that there was not sufficient space available to allow the Board to expand and reconfigure operations allowing for a functional single office.

The Board estimates that the cost of tenant improvements (include building offices, a conference room, quiet room, and hearing rooms) will be approximately $30 per square foot, which equates to approximately $630,000 (21,000 square feet x $30/square foot). Additionally, the moving expenses would be approximately $821,000 and include the cost of purchasing new furniture, supplies, and telephones; and installing data. The total cost for the tenant improvements and moving expenses would be $1.45 million. In 2015-16, the Board set aside $350,000 to assist in the funding of their move to a new location. Therefore, the Board would need a one-time cost augmentation of $1.1 million to fund the costs to move to the new location.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 20: PHARMACY LEGISLATIVE PROPOSALS

The Governor's Budget requests for the Board of Pharmacy $423,000 Pharmacy Board Contingent Fund in 2018-19 and $391,000 ongoing to fund 3.0 permanent positions to regulate the provisions set forth in AB 401 (Aguiar-Curry, Chapter 548, Statutes of 2017), SB 351 (Roth, Chapter 623, Statutes of 2017, and SB 443 (Hernandez, Chapter 647, Statutes of 2017).

BACKGROUND

Several pieces of legislation were passed last year that relate to the Board of Pharmacies activities. Specifically:

AB 401 authorizes the Board to create two new license types: Remote Dispensing Site Pharmacies (RDSP) and clinics that share a clinic office space. This bill requires that the RDSPs be located in medically underserved communities and must be staffed by at least one pharmacy technician, unless staffed by a pharmacist. This bill also authorizes the Board to issue a license to two independently owned clinics that share a clinic office space. The Board is requesting 1.0 Associate Governmental Program Analyst (AGPA) position and 1.0 Pharmacy Inspector position to implement the provisions of AB 401.

SB 351 expands the conditions under which the Board can issue a hospital pharmacy license as well as create the authority for the Board to issue hospital satellite pharmacy licenses. The Board is requesting a 0.5 AGPA to implement the provisions of SB 351.

SB 443 authorizes the Board to create two new license types: Emergency Medical Systems Automated Drug Delivery Systems Automated Drug Delivery Systems (EMSADDS) and Designated Paramedics. The Board is requesting a 0.5 AGPA to implement the provisions of SB 443.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 21: CONTRACTORS STATE LICENSE BOARD-DIG SAFE ACT

The Governor's Budget requests for the Contractors State License Board (CSLB) three-year limited term funding of $549,000 Contractors License Fund in 2018-19 and $533,000 in 2019-20 and 2020-21 to fund 2.0 positions and Attorney General (AG) costs to implement SB 661 (Hill, Chapter 809, Statutes of 2016).

BACKGROUND

SB 661 enacted the "Dig Safe Act of 2016" and revised the existing dig alert and excavation requirements. Roughly 7,000 of California's natural gas pipelines are hit accidentally every year during subsurface excavation. It is estimated that roughly half of the accidents occur because the excavator failed to use the free 8-1-1 service to locate and mark pipes prior to digging. California relies on the AG and district attorneys to enforce the law, though regulatory authorities such as the Public Utilities Commission, the Office of the State Fire Marshal, and CSLB have broad jurisdiction over gas pipeline and electric operators, hazardous liquid operators, and contractors, respectively, and thus have the ability to enforce safe operations on those entities within their jurisdictions. In addition, to other things, SB 661 mandates CSLB to promulgate regulations and will increase its workload regarding violations of underground digging.

This proposal would address the mandates as prescribed in SB 661 and provides CSLB with the necessary enforcement staffing and funding to investigate the referrals by the Board and be able to take disciplinary action against the most egregious contractor violations as intended by the legislation.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 22: SPEECH–LANGUAGE PATHOLOGY AND AUDIOLOGY AND HEARING AND DISPENSERS BOARD: LICENSING/ADMINISTRATIVE STAFF AUGMENTATION

The Governor's Budget requests for the Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board (Board) two-year limited funding of $264,000 in 2018-19 and $183,000 in 2019-20 to fund 1.0 Office Technician and 1.0 Associate Governmental Program Analyst. The budget augmentation includes an additional $65,000 in 2018-19 required to transition an adjacent 160 square foot space into sufficient work space for the additional staff.

BACKGROUND

The Board's mission is to protect the public through licensing and regulation of speech-language pathologists, audiologists, and hearing aid dispensers who provide speech and hearing services to California consumers. In the 2016 sunset review of the Board, the Joint Legislative Oversight Committee raised the issue of staffing expressing concern that the Board's staffing levels are not adequate to handle the workload associated with the Board's licensing population. The Board committed to requesting additional positions to address its workload needs and prevent future delays and backlogs in licensing and enforcement. These positions are intended to address excess workload as well as assisting with Board and Committee meeting planning, legislation analysis, promulgation of regulations, and budget building.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 23: VETERINARY MEDICAL BOARD: VETERINARY ASSISTANT CONTROLLED SUBSTANCES PROGRAM

The Governor's Budget requests for the Veterinary Medical Board (Board) a permanent augmentation of $417,000 Veterinary Medical Board Contingent Fund to fund 4.0 permanent positions. This amount includes $112,000 ongoing to fund Attorney General (AG) and Office of Administrative Hearing (OAH) costs to support the Veterinary Assistant Controlled Substances Program (VACSP).

BACKGROUND

The Board's current total active veterinarian and registered veterinary technician licensee population in 2017-18 is approximately 18,500 licensees. The VACSP gives the Board regulatory oversight of the permit holder and the authority to obtain criminal records specific to felony controlled substances convictions through Department of Justice and Federal Bureau of Investigation fingerprint record checks. The Board initially received limited-term funding and position authority in 2014-15 to begin implementing VACSP. These resources were re-authorized in 2016-17 with permanent position authority, but the funding was only for two years because the actual program workload at that time was unknown. This proposal is based on actual workload needs and would permanently fund these positions, in addition to providing funding for AG and OAH support which is necessary now that the program is fully implemented.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 24: BUREAU OF SECURITY AND INVESTIGATIVE SERVICES- ENFORCEMENT POSITION FUNDING AUGMENTATION

The Governor's Budget requests for the Bureau of Security and Investigative Services (Bureau) $111,000 in ongoing funding for 1.0 position in the Enforcement Unit.

BACKGROUND

The Bureau regulates the following seven professions: Locksmiths, Repossessors, Private Investigator, Proprietary Security Services, Private Security Services and Training Facilities/Instructors, and Alarm Companies. As a result of a 2016-17 budget request, the Bureau received permanent authorization for 1.0 AGPA position, but funding only through June 30, 2018. The continued funding is needed to address the increased enforcement activities to promote public safety and consumer protection as well as to ensure compliance with required statutes and regulations.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 25: BUREAU OF SECURITY AND INVESTIGATIVE SERVICES- LICENSING

The Governor's Budget requests for the Bureau of Security and Investigative Services (Bureau) $89,000 Private Security Services Fund on an ongoing basis to fund one Staff Services Analyst (SSA) position in the Licensing Unit.

BACKGROUND

Similar to the previous request, in 2016-17 the Bureau received permanent authorization for the SSA position, but funding only through June 30, 2018. The continued funding is needed to ensure maintenance of the SSA position to carry out the higher than anticipated cashiering transactions assumed by the Bureau after transition to BreEZe. This request is needed to help the Bureau process fee transfers and refund transactions timely to minimize the financial impact on applicants. The success and accountability of this proposal will be measured by the licensing staffs ability to maintain its targeted 60-day application processing times for initial and renewal employee applications. In regards to cashiering activities, the success and accountability of this proposal will be measured by licensing staffs ability to process cashiering activities within 60 days.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 26: BUREAU OF SECURITY AND INVESTIGATIVE SERVICES- SB 559 LIMITED LIABILITY COMPANY

The Governor's Budget requests for the Bureau of Security and Investigative $43,000 in 2018-19 and $35,000 ongoing for the Private Investigator Program to fund a 0.5 Program Technician II and other regulatory activities mandated by SB 559 (Morrell, Chapter 569, Statutes of 2017).

BACKGROUND

SB 559 requires a private investigator (PI) licensee organized as a limited liability company (LLC) to report a paid or pending claim against its general liability insurance to the Bureau which will be posted on the Department of Consumer Affairs website. This reporting was recommended by the Senate Judiciary Committee, to provide consumers notice regarding a PI's status since it can take more than two years for a disciplinary action to move through the administrative process. PI licensees have only been able to operate as an LLC since 2015. 51 of the over 9,000 PI licensees are currently held by an LLC and there has been an increase of 10-12 new PI LLCs annually.

The Bureau estimates a total of 485 to 878 hours to initially process and review a pending and paid claim. The workload cannot be absorbed with current resources. The requested 0.5 position will handle the increase in workload related to pending and paid claims to an LLC insurance policy with the assumption that the workload will continue to grow each as the PI LLC population grows.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 27: MEDICAL BOARD- LICENSED MIDWIFERY PROGRAM

The Governor's Budget requests for the Licensed Midwifery Program a permanent budget augmentation of $107,000 Licensed Midwifery Fund to reimburse the Medical Board for the services it provides to the program.

BACKGROUND

The Medical Board is required to license and regulate the practice of midwifery in California. The Licensed Midwifery Program (Program) is housed within the Medical Board of California (Board) and does not have any authorized positions. As a result, it utilizes the Board's staff to perform its licensing, cashiering, and enforcement responsibilities. This proposal seeks to augment the Program's existing spending authority of $13,000 in order to sufficiently reimburse the Board for services it provides.

This funding is necessary to maintain the operation of the Program and to ensure that the Program is paying for services that it receives.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 28: BUREAU OF ELECTRONIC AND APPLIANCE REPAIR, HOME FURNISHINGS, AND THERMAL INSULATION- HOUSEHOLD MOVERS ACT (SB 19)

The Governor's Budget requests for the Bureau of Electronic and Appliance Repair, Home Furnishings and Thermal Insulation (BEARHFTI) a budget augmentation of $2.16 million in 2018-19, $1.94 million in 2019-20, $2.52 million in 2020-21, and $1.46 million ongoing to fund 11 positions and other regulatory activities that are mandated by SB 19 (Hill, Chapter 421, Statutes of 2017).

BACKGROUND

SB 19 establishes the Household Movers Act and transfers jurisdiction of the household movers program from the California Public Utilities Commission (CPUC) to the Division of Household Movers within BEARHFTI by July 1, 2018. SB 19 mandates a group of reforms of CPUC's operations after a study was released in January 2017 identifying numerous issues. As a result, SB 19 creates the Household Movers Fund and transfers the regulatory authority related to household movers from CPUC to BEARHFTI. SB 19 also authorizes the Bureau to adopt reasonable rules and regulations to implement, administer, and enforce the new duties. The intent of this transfer is to create efficiencies and improve the public's interactions and customer service.

The CPUC will enter into an agreement with DCA for the early hiring of 4.0 full-time positions in 2017-18 to begin the transition of the household movers license to BEARHFTI. On July 1, 2018, the positions will be transferred from CPUC and funded by the Household Movers Fund established within BEARHFTI. To support the transfer and oversight of the new program, CPUC will transfer 11 positions and associated funding to the Division of Household Movers that will be created within BEARHFTI to manage the administrative and licensing operations for approximately 1,100 licensees and perform approximately 350 in-house and field investigations annually. The proposed funding will also pay for IT developments and updates, a rate study, and additional enforcement activities required by SB 19.

Staff Recommendation: Approve as Budgeted

ITEMS TO BE HEARD

0890 SECRETARY OF STATE

ISSUE 1: VOTING SYSTEM REPLACEMENT FOR COUNTIES

The Secretary of State (SOS) requests $134.3 million General Fund to help fund the replacement of county voting systems. This would provide funding for hardware, software, licenses and peripherals.

BACKGROUND

Counties administer most elections in California and bear the cost of administering state and federal elections. The Secretary of State is the state's chief elections official and oversees the administration of elections across the state, including certifying voting equipment that may be used in California elections.

Voting Equipment Needs to Be Updated. The Legislative Analyst's Office found in March 2017, that antiquated voting equipment and systems are used in most California counties. Not only are there performance concerns, these outdated systems pose a serious security risk, both of which can lead to a catastrophic failure during an election.

State and Federal Funding Provided In the Past. The federal Help America Vote Act of 2002 (HAVA) and Proposition 41 - the Voting Modernization Bond Act of 2002 (VMB) passed by the California voters provided the SOS and the 58 counties with funding for voting systems. The different funding sources were:

- VMB: Certified Voting Systems - $200 million state funds provided to counties.
- HAVA Section 102: Replacement of Punch Card or Lever Voting Machines - $57.3 million Federal funds issued to counties as grants.
- HAVA Section 301: General Election Technology - $195 million Federal funds issued to counties as reimbursements. Counties have $32 million remaining for these purposes.

Both HAVA and VMB required a 3:1 match resulting in the counties paying for 25 percent of the cost of all purchases. Most counties used their funding allocations to purchase new voting equipment prior to the 2006 election cycle.

Vote Center Model of Voting. Under SB 450 (Allen, Chapter 832, Statutes of 2016), counties may replace the precinct model with a new "vote center" model. Rather than opening thousands of polling places, implementing counties will be required to open a certain number of vote centers (based on population). Vote centers will be similar to polling places, but will offer more services than polling places and be open for more days. In addition, under the vote center model, *all* registered voters will receive a vote-by-mail ballot, not just those who have opted to do so. SB 450 allows 14 specific counties to implement the vote center model in 2018. Currently, five counties are on track to implement the new model for the 2018 election. The remaining counties may implement the model for the 2020 election.

Governor's Budget Provides Counties $134 Million for Voting Equipment. The Administration estimates that providing $134 million would cover half of the cost to update all counties' voting equipment. This estimate assumes counties with more than 50 precincts implement the vote center model. (The Administration's estimate assumes that 12 northern, rural counties would maintain polling places. The cost of equipment for the vote center model in these counties is roughly equivalent to the cost of equipment for the polling places model.) Counties that recently updated their voting equipment would be eligible for some reimbursement. The Governor's proposal does not require counties to implement the vote center model to receive funding.

LAO COMMENTS

The LAO recommends that the Legislature direct the Secretary of State to distribute funds based on counties' equipment costs for implementing the vote center model—assuming the state covers half of those costs. Given the condition of counties' voting equipment and the state's interest in effective county administration of elections, state assistance for purchasing new voting equipment is warranted. By providing funding based on the vote center model, counties would have some incentive to implement the new system. Implementing the vote center model, however, would be at counties' discretion. For the vast majority of counties, adopting the vote center model lowers the cost of replacing their voting equipment.

STAFF COMMENTS

Ensuring the State can conduct accurate, secure, and timely elections is critical and providing funding to counties to carry out this function is in the best interest of the State. Regarding this proposal, concerns that have been raised include the following:

- Is the proposed level of funding adequate?
- No funding is provided for other components essential to conducting an election such as connectivity upgrades or infrastructure that includes vote by mail drop boxes.
- Can equipment be leased instead of purchased?
- What is the process for allocating funds?

The Subcommittee may wish to consider adopting trailer bill language such as that proposed in AB 668, Gonzalez Fletcher last year to address some of these concerns.

Staff Recommendation: Hold Open

ISSUE 2: CALIFORNIA BUSINESS CONNECT PROJECT (APRIL FINANCE LETTER)

The Secretary of State (SOS) requests $18.5 million in 2018-19 ($15 million from the Business Fees Fund and $3.5 million from the Business Programs Modernization Fund) to continue implementation of the California Business Connect (CBC) project.

BACKGROUND

The SOS is constitutionally mandated to provide services to businesses in the State including processing and filing commerce and trade documents such as business formations, changes, and terminations. Most business entity documents and information requests are submitted to the SOS via mail or in-person in Sacramento and Los Angeles. The office currently relies on several antiquated electronic and "paper" database systems in order to process more than two million business filings and requests for information submitted annually.

The paper systems have resulted in unacceptable turnaround times, which led to significant budget augmentations to reduce the turnaround times and backlogs. An augmentation of roughly 50 positions has continued since 2013-14 in order to maintain the legislatively recommended average five business day turnaround time. The most recent request was approved for 2016-17 which provided funding for 52.0 limited-term positions, temporary help, and overtime.

California Business Connect is a comprehensive technology solution intended to increase online services for business filings and requests for information and is intended to reduce the reliance on additional staff. The existing paper-based system will be automated for the following lines of business:

- Business Entities including Limited Liability Companies, Limited Partnerships and Corporations.
- Uniform Commercial Code including Financing Statements, Federal and State Tax Lien Notices and other lien notices such as Judgment and Attachment liens.
- Trademarks and Service Marks.

A contract for the project was awarded in January 2014, however this contract was mutually terminated in August 2015. SOS was approved to proceed with a new procurement in April 2016. Complete deployment is anticipated by 2021.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as Budgeted

8955 DEPARTMENT OF VETERANS AFFAIRS

ISSUE 1: VETERAN'S HOME OF CALIFORNIA, YOUNTVILLE-SKILLED NURSING FACILITY

The budget proposes $15.7 million General Fund for the preliminary plan phase for a new skilled nursing facility (SNF) at the Veterans Home of California, Yountville.

April Finance Letter Update. The Administration replaces the preliminary plan funding request in the Governor's budget with a request for $7.1 million General Fund for the performance criteria phase of the project which reflects a shift of the delivery method from design-bid-build to design-build. Total project costs are estimated to be $293.5 million ($7.1 million performance criteria and $286.4 million design build).

BACKGROUND

California operates eight veterans homes that provide residential or long-term care services to about 2,500 veterans. The services provided at the homes range from independent living-style domiciliary care to intensive skilled nursing services and memory care for residents with dementia and/or mental impairment. Funding for the veterans homes primarily comes from the General Fund (proposed to be $352 million in 2018-19), which is partially offset by federal funds and member fees (estimated to be $120 million total in 2018-19).

CalVet Currently Working on a System-wide Master Plan for the Homes. CalVet is required to develop a system-wide Master Plan for the veterans homes by July 1, 2019. Key components of the master plan include (1) an assessment of current demand for services, (2) projecting future long-term care needs of California's veterans, and (3) determining how to align the veterans homes system to meet current and future demand across all levels of care. CalVet was provided 2.0 temporary positions in 2017-18 to work on the master plan.

Proposal. The new SNF and memory care facility at Yountville would largely replace the existing SNF and memory care unit with approximately the same number of beds. No decision has been made as to the future uses of the current facilities following the completion of the new facility). The Administration's main reasons for replacing Yountville's SNF and memory care facility are:

- ***Current Facilities Make It Difficult to Provide High Quality Care.*** The current facilities' design makes it difficult to administer high quality care to residents. Additionally, the current SNF is an institutional setting with very limited gathering spaces that can be used for dining or social activities—making it difficult to provide residents with the more home-like setting that is common in the newer veterans homes and preferred for long-term care services today.

- ***Current SNF Building Is Costly to Maintain and Operate.*** The current SNF requires frequent and costly maintenance due to its age (constructed in 1932).

- ***A 2013 Plan for Yountville Veterans Home Included SNF Replacement.*** In 2013, CalVet released a multiyear facilities plan specific to the Yountville veterans home. This plan included (1) constructing a new SNF and memory care facility, (2) converting existing buildings to Residential Care Facilities for the Elderly (RCFE), and (3) constructing additional RCFEs.

LAO COMMENTS

The LAO finds that in concept the proposal to replace the current SNF and memory care facilities at Yountville has merit. However, it is premature given the absence of a system-wide Master Plan and previously made changes—without a Master Plan—have created some challenges. While a master plan may not have necessarily prevented such unforeseen challenges, having such a plan in place prior to making major renovations or changes at the homes could increase the Legislature's confidence that the proposed changes are the best ones to meet the needs of veterans. The LAO raises two key questions about the proposal in the context of the broader master plan:

How Did the Administration Determine the Proposed Capacity for the SNF? Currently, the longest wait lists across the veterans homes system are for SNF and memory care. However, this proposal would not expand capacity. Absent the master plan, it is unclear how the Administration has projected that the proposed capacity of the new SNF and memory care facility is the best size to meet the demand for these services. Also, in the absence of the system-wide master plan, it is unclear whether the Administration is considering the construction or renovation of additional SNFs and memory care units or other facilities at any of the other seven veterans homes.

How Is the Administration Prioritizing Changes to the Veterans Homes System Moving Forward? In the past, capacity-expending projects were largely prioritized over projects that focused on changes to current facilities. The 2018-19 budget proposals are instead prioritizing projects that address challenges in current facilities above projects that expand capacity. What are the trade-offs associated with focusing on projects that maintain capacity rather than increase capacity?

The LAO makes the following recommendations:

Delay Proposed Changes to Veterans Homes Until Completion of Master Plan. The system-wide master plan will improve the Legislature's ability to effectively assess the proposal in the context of all of the changes on the horizon for the veterans homes.

Clarify Intent of Master Plan and Assess Current Resource Levels. Since the Administration has made these proposals in the absence of a master plan, the LAO finds the Legislature may need to clarify its intent in regards to the master plan. Specifically, it should clarify the expected near- and long-term outcomes of the system-wide veterans homes master plan, such as an implementation plan for all system-wide facility changes needed to align the veterans homes to meet current and future demand.

The Legislature may also want to consider if periodic updates to the master plan are necessary. Also, the Legislature should consider if additional resources at CalVet are needed for the development and implementation of the Master Plan.

STAFF COMMENTS

The Administration's proposal to replace the SNF and memory care facilities at Yountville would address the long-standing inadequacies of these facilities largely resulting from their age and design. Last year, in anticipation of this issue and related concerns about how to best meet the needs of the state's veterans, the Legislature required CalVet to develop a Master Plan and expected that any proposals regarding facilities at Yountville would be addressed in that plan. While the budget proposal has merit, it is premature and could put the system on a path of maintaining the status quo.

The status quo is inconsistent with the overall direction that care is headed. Studies have found that older Americans overwhelmingly articulate a desire to age in place and receive care at home rather than in institutional settings. State Medicaid programs have moved in this direction and other states, including California, have sought to modernize care delivery systems where they have historically provided care in an institutional setting by shifting to providing care in a community-based setting. For example, Michigan is doing this with its two, old, large institutional veterans homes and replacing them with new, smaller facilities in population centers across the state so that veterans can remain closer to their families and community.

California may want to consider a similar approach and assess if a community-based approach might make more sense. Such an approach could potentially result in building smaller facilities at multiple locations that would enable veterans to age near their families and community. A community-based approach also could consider siting the facilities near veterans' hospitals and in locations that have affordable, transitional housing, better enabling our state's veterans to age in place.

CalVet cites the urgency of replacing the current SNF at Yountville due to the costly maintenance and the inability to meet patient needs, all of which is true. However, it may be able to address these issues by developing a smaller facility at Yountville and/or leasing space for these residents in other long-term care facilities. This approach would address immediate needs and provide the flexibility and time for CalVet to develop the Master Plan.

Finally, ensuring that the states veterans' homes meet our veterans' needs now and in the future, it may require expanding the development of the Master Plan to include interested and experienced persons such as veterans, health care service providers, planners, and developers. The Legislature may wish to consider requiring CalVet to consult with a task force made up of people with these backgrounds as it develops the Master Plan. This may help to foster big picture ideas and a fresh perspective and better ensure that veterans' needs are met.

Staff Recommendation: Hold Open

ISSUE 2: ANNUAL REPORTING TO THE LEGISLATURE ON THE VETERANS HOMES OF CALIFORNIA (AB 1365)

The Administration requests 2.0 positions, $232,000 General Fund in 2018-19, and $343,000 annually thereafter to satisfy the requirements of AB 1365 (Reyes, Chapter 509, Statutes of 2017). The request also includes ongoing funding for 1.0 Research Program Specialist currently funded through June 30, 2019.

BACKGROUND

AB 1364 requires an annual report to the Legislature, and requires certain information be posted on CalVet's website that includes the budget of the Veterans Homes of California, revenue, cost of care, and deferred maintenance costs. CalVet is also required to review the use restrictions imposed by federal law on the Veterans' Homes. The bill requires CalVet to submit the report by February 1, 2019, and every year thereafter. The Budget Act of 2017 included provisional language requiring CalVet to prepare a master plan for the operation of the veterans' homes system no later than July 1, 2019. The language included two-year limited-term funding for one Research Program Specialist which expires June 30, 2019. This request includes permanent funding for this position.

The data required by AB 1365 is different from the information the Department is required to provide in its Master Plan for the operation of the Veterans Homes system required in the 2017 Budget Act. The information gathered, as required by AB 1365, will help to inform the Master Plan.

STAFF COMMENTS

Last fall, legislative staff requested information about the leases at the Yountville Veterans Home. However, the information CalVet provided was incomplete and raised some concerns. Specifically, concerns were raised about the appropriateness of some of the leases and if the State was receiving fair market value for the leases. In order to better ensure that the State's assets are put to the highest and most appropriate use, the Subcommittee may wish to adopt placeholder trailer bill language that would add to the annual reporting requirements a requirement that CalVet provide information on all of the leases and other third party uses of state property at CalVets' eight veterans homes. The report would provide a summary of each agreement, the financial or "in lieu" terms of the agreement, and the length of the agreement. Agreements that are intended to be disclosed would include, but not be limited to, agreements with local entities, such as counties, private parties, businesses, water agencies, and other state agencies about the use of state property that might include buildings, outdoor grounds, parking lots, and dams and reservoirs.

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

1111 DEPARTMENT OF CONSUMER AFFAIRS
2320 DEPARTMENT OF REAL ESTATE

The Department of Consumer Affairs (DCA) includes 38 boards, bureaus, commissions, and programs. Through these entities, DCA licenses approximately 3 million individuals in roughly 250 professional categories, such as doctors, acupuncturists, and cosmetologists. In addition, DCA licenses certain businesses, such as auto repair facilities. As part of its regulatory responsibilities, DCA also investigates complaints and disciplines violators of licensing requirements. Additionally, DCA provides certain services to its boards and bureaus, including staff training, consumer education and outreach, and legal and audit services.

The Governor's budget proposes $634 million from various funds for support of DCA in 2018-19, which is a decrease of $44 million, or about 6 percent, from the current-year estimated expenditures. This reduction is due primarily to the Bureau of Real Estate (CalBRE)—which is currently within DCA—becoming a separate department within the Business, Consumer Services, and Housing Agency beginning July 1, 2018 (as discussed below). DCA is entirely supported by fees and other regulatory assessments.

ISSUE 1: SB 173 RELATED PROPOSALS (JAN BUDGET AND APRIL FINANCE LETTER)

The Governor's budget includes two proposals related at the Department of Consumer Affairs (DCA) and the Department of Real Estate's implementation of SB 173 (Dodd, Chapter 828, Statutes of 2017) and its assessments for services it provides, also known as "pro rata".

- ***Bureau of Real Estate (SB 173) (Governor's January Budget)***. The budget request includes:
  - A reduction of 11.0 positions and $1.25 million Real Estate Fund to implement SB 173.
  - For the new Department of Real Estate (DRE) position authority for 18.0 positions and $1.8 million Real Estate Fund in 2018-19 and ongoing for Human Resources, Fiscal/Budget, and Legislative/Publications functions. ,
  - $1 million in Real Estate Fund authority to fund administrative services DCA provides as DRE transitions in 2018-19.
  - An appropriation of $240,000 from the Real Estate Fund for the Business, Consumer Services and Housing Agency (Agency) costs, which were previously provided through an interagency agreement with DCA.

- ***SB 173 Technical Reduction (April Finance Letter).*** Reduces the cost of DCA's centralized services by $776,000 and 5.0 positions to adjust for decreased workload from SB 173. This proposal will result in a total reduction of 15.0 positions and $2.3 million that will be phased in over three years.

BACKGROUND

The California Bureau of Real Estate (CalBRE) licenses over 400,000 persons in California. A 2016 sunset review hearing discussed various issues with the CalBRE and highlighted that since the reorganization in 2013 that eliminated CalBRE as a stand alone department and moved it under DCA, CalBRE appears to be lacking in the receipt of some key services like human resources support and management direction. In addition, CalBRE noted that purchase orders, IT orders, contract payments, employee reimbursement, and miscellaneous human resources requests have been skipped or have not been processed since the DRE became the CalBRE. Moreover, information shared by DCA, in connection with the sunset review hearing, shows that the cost to operate the CalBRE increased by about $3.6 million annually, from about $6.7 million in 2011-12 to $10.3 million in 2016-17.

The sunset review hearing also found that since 2013-14 the cost of services provided by DCA, known as pro rata, to CalBRE had more than doubled, even though the CalBRE functions primarily as an independent entity. In 2013-14 the pro-rata charges that the CalBRE paid to DCA was approximately $1.83 million. In 2016-17 it was estimated that CalBRE would pay roughly $5.20 million to DCA.

SB 173, as of July 1, 2018, removes CalBRE from DCA and instead makes it the Department of Real Estate within the Business, Consumer Services, and Housing Agency. A main rationale for SB 173 was a concern about the high and quickly growing charges that CalBRE was being assessed by DCA.

Concerns About DCA's Pro Rata Have Been Longstanding. DCA reports that it allocates the costs of many of its services—such as training, legal, fiscal, human resources, and publications—proportionally among its boards and bureaus based on the number of authorized positions at each entity. However, for other DCA services—such as the use of some investigative services, correspondence, and professional examination development services—DCA allocates costs based on measures of usage by the boards and bureaus.

In the past, concerns have been raised that DCA's methods of allocating pro rata might not result in a fair allocation of costs among the boards and bureaus, including that some entities might be paying for services they are not receiving. In response to these concerns, the Legislature passed SB 1243 (Lieu, Chapter 395, Statutes of 2014), which required DCA to report annually by July 1 on the pro rata calculation of administrative expenses. SB 1243 also required DCA to conduct a study of its current system for prorating administrative expenses. The 2015 report recommended that DCA explore several alternative approaches to calculating pro rata, including activity-based costing, which more directly ties charges to the use of services such as by charging hourly rates. However, the report also noted that moving to a system such as activity-based costing is hampered due to DCA's lack of past client usage and workload data and systems to capture such data. To date, DCA does not appear to have made significant modifications to its process for distributing its administrative costs.

LAO COMMENTS

The LAO's analysis finds that in 2017-18, CalBRE is scheduled to pay $5.7 million in pro rata charges for DCA services. However, the budget proposal only reflects a reduction of DCA's budget of $1.3 million (which will grow to nearly $3.5 million with the April Finance Letter). According to DCA, the difference between what CalBRE was paying in pro rata and the reduction in the department's budgeted amount will likely be spread across the other boards and bureaus.

On the one hand, the $1.3 million reduction to DCA's budget could be an accurate reflection of the ongoing reduction in workload for DCA associated with the removal of CalBRE, but this would suggest that CalBRE was paying for substantially more services from DCA than it was receiving. In turn, it is likely that some other boards and bureaus were paying for fewer services than they were receiving. On the other hand, it is possible that $1.3 million does not fully reflect the ongoing reduction in workload for DCA and that the Department's budget should be reduced further. In addition, it is likely that some boards and bureaus are paying for more services than they receive and others paying for fewer services. However, data on actual use of many DCA services is generally not available. Thus, it is difficult to determine the level of cross-subsidization that is occurring across entities within DCA.

The LAO recommends the Legislature require that DCA report at spring budget hearings on the reasons for the difference between the charges that have been paid by CalBRE for DCA services and the smaller proposed reduction to DCA's budget. The LAO further recommends that the Legislature require DCA to begin tracking and reporting information on the use of DCA services by boards and bureaus to better assess whether there are widespread differences between the charges paid by entities and the services they are receiving.

STAFF COMMENTS

Staff agrees with the LAO's comments and recognizes there are trade-offs to consider regarding how to equitably charge for a wide array of services that are not needed by all boards and bureaus in a single year. However, transparency about how much boards and bureaus are being charged and the amount of services they receive compared to others is important. The Legislature may wish to consider requiring some level of tracking for a period of time so that it has better data to reassess this issue next year.

Staff Recommendation: Hold Open

1111 DEPARTMENT OF CONSUMER AFFAIRS

ISSUE 1: BREEZE SYSTEM

The Governor's budget requests $16.8 million in 2018-19 and $13.0 million in 2019-20 for the support of BreEZe Maintenance & Operations (M&O). The total costs are based on system support costs and projected workload pertaining to the BreEZe M&O activities for 2018-19 and 2019-20. The request includes funding for 43.0 positions and software licensing for the next two years.

This request also includes $3.3 million in funding for 2018-19 and 2019-20 for all Boards and Bureaus to fund credit card processing fees on behalf of users of credit card payments through the BreEZe system.

BACKGROUND

Project History. When first initiated, the BreEZe project was proposed to be an integrated, web-enabled enforcement and licensing system that would replace various systems that have been in place at all of the boards and bureaus within DCA. It was proposed to be completed in three releases, with roughly half of the boards and bureaus in the third release. In November 2009, the BreEZe project was approved with a budget of $28 million and an expected completion date of June 2014.

DCA selected Accenture as the vendor for the project in September 2011. The first release was launched in October 2013, but experienced various implementation challenges. Notably, according to a report by the State Auditor, most Release 1 Executive Officers reported that BreEZe decreased their regulatory entity's operational efficiency. In January 2015, the Administration informed the Legislature of its intent to cancel the contract with Accenture after Release 2 due in large part to rising project costs, which had grown to $96 million for Releases 1 and 2 alone. The Legislature concurred with the Administration's proposed approach in March 2015, but expressed a desire for closer oversight over the project and for a plan for Release 3 boards and bureaus. The 2015-16 budget provided roughly $23 million for two years of funding.

Currently, 18 of DCAs board and bureaus use BreEZe. The requested augmentation is as follows with 2017-18's funding shown as a reference (all dollars are in thousands):

	BreEZe System	Credit Card Convenience Fee	Total
2017-18	$22,456*	$3,033	$25,489
2018-19	$16,783	$3,345	$20,128
2019-20	$13,047	$3,345	$16,392

*2017-18 BreEZe System funding included $16,762 in approved funding via a 2017-18 BCP that augmented $5,694,000 in previously approved funding for 2017-18.

STAFF COMMENTS

The LAO raised no concerns with the Administration's proposal. The Subcommittee may wish to ask DCA for an update on its plans for the remaining boards and bureaus that are not using BreEZe at this time.

Staff Recommendation: Hold Open