AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, APRIL 10, 2018
1:30 P.M. - STATE CAPITOL, ROOM 447

VOTE-ONLY CALENDAR

ITEMS TO BE HEARD

VOTE-ONLY CALENDAR

8885 COMMISSION ON STATE MANDATES

The Governor's budget includes $39.3 million for the Commission on State Mandates (COSM) in 2018-19, a slight increase of $60,000 or less than 1 percent from the current year. The COSM is funded through the General Fund and special funds.

The budget continues to fund mandates that are related primarily to law enforcement and property taxes consistent with past years.

VOTE-ONLY ISSUE 1: GOVERNOR'S PROPOSAL TO FUND AND SUSPEND MANDATES

Mandates to be Funded. The budget continues to fund mandates that are related primarily to law enforcement and property taxes consistent with the past years. The chart below includes the mandates to be funded in the 2018-19 Budget for a total of $34.7 million.

Proposed to be Funded	**2017 Budget Act**	**2018-19 Proposed Budget Bill**
Accounting for Local Revenue Realignments	0	0
Allocation of Property Tax Revenues	629,520	630,000
California Public Records Act	0	0
Crime Victims' Domestic Violence Incident Reports	163,823	164,000
Custody of Minors-Child Abduction and Recovery	12,964,340	12,964,000
Domestic Violence Arrest Policies	7,957,653	7,958,000
Domestic Violence Arrests and Victims Assistance	2,032,638	2,033,000
Domestic Violence Treatment Services	2,440,854	2,441,000
Health Benefits for Survivors of Peace Officers and Firefighters	2,416,037	2,416,000
Local Agency Ethics	1,064	1,000
Medi-Cal Beneficiary Death Notices	20,307	20,000

Medi-Cal Eligibility of Juvenile Offenders	3,006	3,000
Peace Officer Personnel Records: Unfounded Complaints & Discovery	742,892	743,000
Rape Victim Counseling	497,120	497,000
Sexually Violent Predators	3,561,184	3,561,000
State Authorized Risk Assessment Tool for Sex Offenders	836,773	837,000
Threats Against Peace Officers	0	0
Tuberculosis Control	83,527	84,000
Unitary Countywide Tax Rates	347,467	347,000
Post-Election Manual Tally	0	0
Sheriffs Court-Security	0	0
Total Funded Costs	**$39,698,305**	**$34,699,000**

Suspended Mandates. The budget continues to propose to suspend 56 mandates for approximately $584.4 million.

2018-19 Suspended Local Government Mandates for Governor's Budget	November 1, 2017 Balance (AB 3000 Report)
Absentee Ballots	49,538,762
Absentee Ballots - Tabulation by Precinct	67,700
AIDS/Search Warrant	1,582,315
Airport Land Commission/Plans	0
Animal Adoption	37,827,484
Brendon Maguire Act	0
Conservatorship: Developmentally Disabled Adults	348,847
Coroner's Costs	221,667
Crime Statistics Reports for the Department of Justice	146,872,987
Crime Victim's Domestic Violence Incident Reports II	2,009,608
Developmentally disabled Attorney's Services	1,200,934
DNA Database and Amendments to Postmortem Examinations: Unidentified Bodies	309,814
Domestic Violence Background Checks	17,229,328

Domestic Violence Information	0
Elder Abuse, Law Enforcement Training	0
Extended Commitment Youth Authority	0
False Reports of Police Misconduct	10,085
Firearm Hearings for Discharged Inpatients	157,256
Grand Jury Proceedings	0
Interagency Child Abuse and Neglect (ICAN) Investigation Reports	71,388,960
Identity theft	93,567,727
In-Home Supportive Services II	442,854
Inmate AIDS Testing	0
Judiciary Proceedings	273,882
Law Enforcement Sexual Harassment Training	0
Local Coastal Plans	0
Mandate Reimbursement Process	6,841,359
Mandate Reimbursement Process II	0
Mentally Disordered Offenders: Treatment as a Condition of Parole	4,909,840
Mentally Disordered Offenders' Extended Commitments	7,221,996
Mentally Disordered Sex Offenders' Recommitments	339,541
Mentally Retarded Defendants Representation	35,905
Missing Persons Report	0
Modified Primary Election	1,816,619
Not Guilty by Reason of Insanity	5,214,032
Open Meetings Act/Brown Act Reform	105,576,666
Pacific Beach Safety: Water Quality and Closures	343,927
Perinatal Services	2,251,785
Permanent Absent Voters II	11,906,707
Personal Safety Alarm Devices	-2,253
Photographic Record of Evidence	290,594
Pocket Masks	0
Post Conviction: DNA Court Proceedings	410,230
Postmortem Examinations: Unidentified Bodies Human Remains	5,460
Prisoner Parental Rights	0
Senior Citizens Property Tax Postponement	480,794
Sex Crime Confidentiality	0
Sex Offenders Disclosure by Law Enforcement Officers	0
SIDS Autopsies	0
SIDS Contacts by Local Health Officers	0
SIDS Training for Firefighters	-981
Stolen Vehicle Notification	1,116,840
Structural and Wildland Firefighter Safety Clothing and Equipment	-8,722
Very High Fire Hazard Severity Zones	0
Voter Identification Procedures	10,075,391
Voter Registration Procedures	2,481,096
TOTAL	**$584,357,036**

STAFF COMMENTS

The list of mandates proposed to be funded and suspended is consistent with prior budget years.

Staff Recommendation: Approve as budgeted.

7501 DEPARTMENT OF HUMAN RESOURCES

VOTE-ONLY ISSUE 2: 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 item was heard at the March 20, 2018, hearing.

STAFF COMMENTS

There were no concerns with this proposal at the March 20, 2018, hearing.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 3: RETIREE HEALTH CENSUS DATA 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

This item was heard at the March 20, 2018, hearing.

STAFF COMMENTS

Staff has no concerns about this proposal. This language will allow CalHR to contact retired state employees to inform them about benefits available to them.

Staff Recommendation: Adopt Placeholder Trailer Bill Language.

VOTE-ONLY ISSUE 4: 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.

There is no General Fund impact with this proposal.

BACKGROUND

This item was heard at the March 20, 2018, hearing.

STAFF COMMENTS

There were no concerns with this proposal at the March 20, 2018, hearing. 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: Approve as budgeted.

0511 GOVERNMENT OPERATIONS AGENCY

VOTE-ONLY ISSUE 5: INCREASED LEGAL AND ADMINISTRATIVE WORKLOAD

The Government Operations Agency requests $323,000 in Reimbursement Authority in 2018-19 and $304,000 in Reimbursement Authority in 2019-20 and ongoing for 1.0 Attorney IV position and 1.0 Administrative Assistant. There is no General Fund impact.

BACKGROUND

GovOps was originally established with 17 positions which included one exempt General Counsel/Deputy Secretary position and two clerical positions. At the time of establishment GovOps had nine departments within its Agency. AB 102 (Chapter 16, Statutes of 2017) established the California Department of Tax and Fee Administration (CDTFA) within Govops. Additionally, Government Code Section 11890 provides that the Department of Fl$Cal will be within GovOps upon acceptance of the system by the State. Adding those two departments within Govops will significantly increase the legal and administrative workload at the Agency level.

CDTFA, created on July 1, 2017, assumed all previous statutory tasks of the Board of Equalization (Board) and handles most of the taxes and fees previously collected by the Board including the related administrative functions, This new department is multi-faceted with offices statewide and has, and will continue to add, myriad legal and policy issues that will need to be overseen/resolved by Govops. The additional workload to support this large department (over 4,000 employees) is expected to be significant.

The current General Counsel has additionally been tasked as the Tribal Liaison for GovOps, where any issues or concerns regarding federally or non-federally recognized tribes are elevated to agency for input and direction.

Other state agencies similar to GovOps have at least one, or sometimes two, attorneys in addition to the exempt General Counsel. Below is a partial list of Cabinet-level agency attorney support levels:

- Natural Resources Agency: two attorneys in addition to the General Counsel
- CalEPA: two attorneys in addition to the General Counsel
- Labor and Workforce Development Agency: one attorney in addition to the General Counsel
- CalSTA: one attorney in addition to the General Counsel

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD

0511 GOVERNMENT OPERATIONS AGENCY

The Governor's budget includes $4.09 million for the Government Operations Agency (GovOps), in 2018-19, an increase of $325,000 or 8.6 percent from the current year. GovOps funding sources include the General Fund and reimbursements.

GovOps is responsible for coordinating state operations, including procurement, information technology, and human resources. GovOps oversees the Department of General Services, Department of Human Resources, Department of Technology, California Department of Tax and Fee Administration, Franchise Tax Board, State Personnel Board, Victim Compensation Board, Office of Administrative Law, California Public Employees' Retirement System, and California State Teachers' Retirement System.

ISSUE 1: CIVIL SERVICE TRAILER BILL LANGUAGE

The Governor's Budget proposes trailer bill language (TBL) to make the civil service system more efficient and transparent. Marybel Batjer, Secretary of Government Operations, will provide an overview of the TBL.

BACKGROUND

According to GovOps, the goal of the Civil Service Improvement Initiative is to produce a modern human resource system that will allow state departments to find and quickly hire the best candidates through a fair and merit-based process. Departments will be able to systematically determine their workforce needs and will be equipped to train and develop their employees to maximize their individual potential to better serve their departments' mission. An improved civil service system will produce a capable and engaged state workforce that is able to adapt to new challenges in serving the people of California, and will reflect the diversity of the population it serves.

STAFF COMMENTS

Staff plans to bring this item back to committee once language is released by DOF.

Staff Recommendation: Hold Open.

ISSUE 2: STATE HUMAN RESOURCES WORKLOAD

The budget includes $1.8 million ($213,000 General Fund, $1.4 million Reimbursement, $161,000 Central Service Cost Recovery, and $32,000 Special Fund) and eight positions in 2018-19, and $1.9 million ($111,000 General Fund, $1.7 million Reimbursement, $83,000 Central Service Cost Recovery, and $32,000 Special Fund) in 2019-20, and ongoing to address Statewide Human Resources Workload in areas of training, retention, and recruitment.

BACKGROUND

Since 2015, the collective efforts of a wide variety of state agencies and departments have brought about significant improvements to the overall effectiveness of state government, as envisioned by the developers and leaders of Civil Service Improvement. CalHR has worked to successfully implement, improve, and modernize state government HR services. In some areas, CalHR lacks the resources necessary to fully achieve the desired outcomes of improvements that have been partially implemented thus far. This proposal enables CalHR to follow through on its commitment to fully modernize and improve HR services.

The resources will be allocated to the following Divisions:

Workforce Development Division

- *Statewide Training Center.* $759,000 Reimbursement (5.0 Training Officer IIs and 1.0 Office Technician-Typing).

Departments are looking to CalHR to provide more affordable statewide leadership development solutions to meet additional mandated training requirements for all levels of state leaders. Department directors are seeking CalHR's help in addressing their leadership succession planning challenges, which most departments list as one of their top risks as identified in the State Leadership Accountability Act (SLAA) process. CalHR's new policy requiring departments to have workforce and succession plans has created additional pressure on the STC as more departments are pursuing training options to address the leadership and staff development challenges identified in their new workforce and succession plans.

- *Learning Management System.* $330,000 ($188,000 General Fund and $142,000 Central Service Cost Recovery) in 2018-19 and $150,000 in 2019-20 and ongoing.

The STC is requesting one-time funding of $330,000, and ongoing funding of $150,000 to procure and customize a new LMS solution. The STC anticipates needing approximately $150,000 in future years for ongoing LMS maintenance and operations depending upon final configuration of the solution. CalHR needs to model the way by quickly adopting one of the new Enterprise HR approved LMS solutions and expand STC operational effectiveness well beyond the limitations of the current e-Reg system. The new LMS system will provide the STC with the training modalities and tracking ability needed to support the new leadership and Lean statewide training programs.

- *Statewide Employee Engagement Program. $441,000 Reimbursement (1.0 Staff Personnel Program Analyst)*

In 2017-18, CalHR received $135,000 reimbursement authority to create a Statewide Employee Engagement Program that would procure vendor-hosted survey support for approximately 21 departments, representing 17 percent of the 123 departments that will ultimately benefit from this new service. In order to build the capacity to meet projected demand and ensure that all departments have the ability to use this new service to increase engagement and therefore organizational performance, this proposal expands program capacity in a phased approach.

Selection Division

- *Selection Hiring and Consulting.* $136,000 Reimbursement (1.0 Staff Personnel Program Analyst).

Current state selection and hiring practices, policies, and procedures are antiquated, cumbersome, and unable to meet high user demands for flexibility in hiring while remaining compliant with merit principals. CalHR's goal is to update selection and hiring practices, making them user friendly while providing for the high user demand necessary to fulfill department hiring needs. The requested staff will be able to dedicate the time necessary to accomplish the goal without redirecting staff from current mission critical duties.

Executive Office

- *Statewide Multimedia Vendor Services.* $165,000 ($25,000 General Fund, $89,000 Reimbursement, $19,000 Central Service Cost Recovery, and $32,000 Special Fund)

CalHR will establish a contract(s) for marketing and branding support, video production and other digital media services, to be managed through the Office of the Deputy Director of Communications. With this proposal, CalHR will have the ability to produce statewide recruitment materials to generate interest and drive prospective applicants to want to work for the State of California. Failure to establish uniform and consistent marketing materials and branding guidelines will limit the state in its ability to recruit and retain the best employees.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Hold Open.

ISSUE 3: EARNED INCOME TAX CREDIT

The following panel will provide an overview of the Earned Income Tax Credit.

- Alissa Anderson, California Budget and Policy Center
- Michele Stillwell-Parvensky, Children's Defense Fund
- Brian Weatherford, Legislative Analyst's Office
- Judy Darnell, United Ways of California
- Ivonne Sonato-Vega, CalEITC Recipient

BACKGROUND

In 2017, the Legislature passed SB 106 (Committee on Budget and Fiscal Review), a budget-related bill that, among other things, expands California's Earned Income Tax Credit (EITC).

This legislation expands the state EITC to allow previously ineligible self-employed workers to qualify for the CalEITC, and raises the credit's income eligibility limits so that workers higher up the income scale can qualify for it.

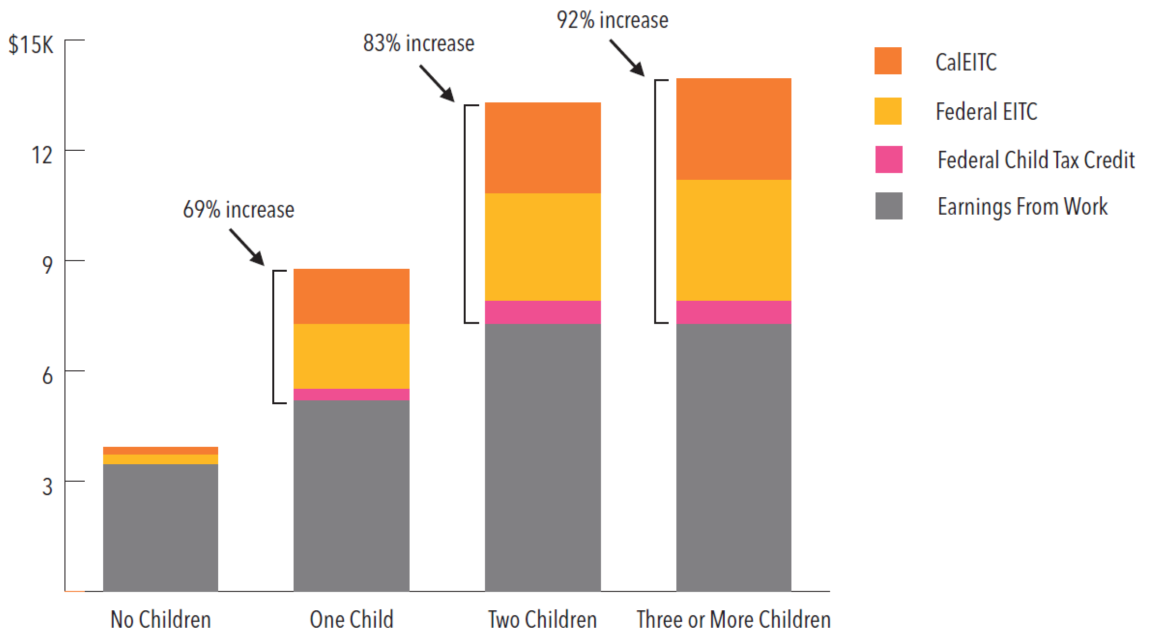
Prior to the expansion, the CalEITC was the only EITC in the nation that excluded many self-employed workers, such as small-business owners and independent contractors. This exclusion undermined a fundamental purpose of the EITC: to encourage and reward work. The 2017-18 budget agreement ends this exclusion beginning in tax year 2017. As a result, all self-employed workers who meet all other requirements for the CalEITC will be able to benefit from the credit. This change better aligns California's EITC with the *federal* EITC and ensures that the state credit incentivizes all types of paid work.

Prior to the expansion, many workers who struggled to get by were not eligible for the CalEITC because the income limits to qualify for the credit were extremely low. The budget agreement raises these limits in order to allow additional low-earning workers to qualify for the credit. For workers with qualifying children, the new income limit will be $22,300 beginning in tax year 2017. This is *more than double* the previous income limit for parents with one child and more than one-and-a-half times the previous limit for parents with two or more children. The budget agreement also more than doubles the income limit for workers *without* qualifying children, from about $6,700 in tax year 2016 to roughly $15,000 in tax year 2017.

According to research by the California Budget and Policy Center, the State Earned Income Tax Credits, like California's CalEITC, are important tools for boosting economic security among working families. By piggybacking on the federal EITC, these state credits further boost families' incomes, helping them to better make ends meet. In addition, state EITCs may enhance the federal EITC's well-documented benefits to children, families, and communities. Decades of research shows that the federal EITC reduces poverty, encourages work, may improve families' health, may boost children's school achievement, may increase children's future earnings, and boosts California-based businesses and the state's economy.

The CalEITC, Together With Federal Credits, Significantly Boosts the Incomes of Working Families With Children

Increase in Income From Tax Credits for Workers Qualifying for the Maximum CalEITC, 2017



Note: These families qualify for the refundable portion of the Child Tax Credit, referred to as the Additional Child Tax Credit.
Source: Budget Center analysis of the California and federal Earned Income Tax Credits (EITCs) and the federal Child Tax Credit

California Budget & Policy Center
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CalEITC Claims and Credit Amounts

Tax Year 2015 (As of August 20, 2016)					
Filers With:	Total Claims	Percentage of Total Claims	Total Credit Paid	Percentage of Total Credit Paid	Average Credit
3+ Dependents	35,212	9%	$39,284,908	20%	$1,116
2 Dependents	77,885	21%	$76,533,374	39%	$983
1 Dependent	101,287	27%	$61,954,210	32%	$612
0 Dependents	158,915	43%	$17,717,082	9%	$111
All Filers	373,299	100%	$195,489,574	100%	$524

Tax Year 2016 (As of August 19, 2017)					
Filers With:	Total Claims	Percentage of Total Claims	Total Credit Paid	Percentage of Total Credit Paid	Average Credit
3+ Dependents	35,124	10%	$39,970,185	20%	$1,138
2 Dependents	77,339	21%	$78,154,657	40%	$1,011
1 Dependent	96,039	26%	$59,073,215	30%	$615
0 Dependents	159,841	43%	$18,897,260	10%	$118
All Filers	368,343	100%	$196,095,317	100%	$532

Tax Year 2017 (As of March 17, 2018)					
Filers With:	Total Claims	Percentage of Total Claims	Total Credit Paid	Percentage of Total Credit Paid	Average Credit
3+ Dependents	83,069	10%	$39,728,823	19%	$478
2 Dependents	169,977	21%	$76,204,623	37%	$448
1 Dependent	270,771	34%	$68,851,517	34%	$254
0 Dependents	268,118	34%	$19,756,820	10%	$74
All Filers	791,935	100%	$204,541,783	100%	$258

Note: Tax year 2017 data are not comparable to prior years because California extended the CalEITC to self-employed workers who otherwise qualify for the credit and raised the income limit to qualify for the credit for all workers.
Source: California Budget & Policy Center analysis of Francise Tax Board data

Outreach. The Legislature and the Governor provided $2 million in 2016-17 and 2017-18, for a CalEITC outreach grant program to reach the 10 target counties with the estimated highest potentially eligible number of households, as well as one small rural and one statewide grant pool. In total, there are 15 grantees with grants ranging from $55,000 to $300,000.

During 2017, for the 2016 tax year, 11.9 million outreach “touches” were completed to individuals and households, 800,000 more than projected, through various methods including: outreach events, web presence, community canvassing, distribution of outreach materials, social media, and 2-1-1 information and referral. In addition to the community-based outreach, media efforts reached 29.5 million, 12 million more than anticipated. The State invested $2 million in outreach grants to 15 grantees.

According to advocates, increased outreach is essential because of the following reasons:

- Current state funding only covers portions of California (10 Counties), despite EITC eligible people living everywhere.
- Eligibility for the CalEITC has expanded greatly with addition of self-employed workers and higher income eligibility, while public funding for outreach has not.
- Increased state EITC Outreach draws down untapped federal dollars for low income areas by increasing Federal EITC uptake (according to UC Irvine research) and boosting state economy.
- EITC outreach needs to be a year-round activity, focused on those who are NOT currently filing their taxes, therefore not impacted by “tax-season”.
- Increased and continued funding, with evaluation of best practices, will allow for more effective outreach through list-building, data management, and effective targeting.

STAFF COMMENTS

There are various proposals working their way through the legislative process that seek to expand the CalEITC including AB 2066 authored by Assemblymember Stone, with co-authors of Assemblymembers Santiago, Caballero, and Limón. Similar to previous years, the Subcommitte may consider the expansion of EITC if revenues are available.

The Subcommittee may wish to consider how to focus and expand outreach dollars for the CalEITC program if funding is available.

Staff Recommendation: This item is for information only.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The Governor's budget includes $27.5 million for the Governor's Office of Business and Economic Development (GO-Biz) in 2018-19, a decrease of about $2.7 million or 9.2 percent from the current year. Go-Biz is funded from the General Fund, special funds and reimbursements.

GO-Biz provides a single point of contact for economic development, business assistance and job creation efforts. GO-Biz works with companies and organizations across the nation to market the benefits of doing business in California, recruit new businesses, retain businesses, and support private sector job growth.

ISSUE 4: CALIFORNIA COMPETES TAX CREDIT PROGRAM EXTENSION AND TRAILER BILL LANGUAGE

GO-Biz requests a five-year extension of the California Competes Tax Credit program, tax credit allocation authority of $180 million per year through 2022-23, and $1.4 million in budget authority from the General Fund per fiscal year through 2022-23 to maintain the 10 positions associated with administering the program. This proposal also requests to remove provisions of law that reserve a portion of the credit allocation for businesses with gross receipts of less than $2 million.

BACKGROUND

The California Competes program works within GO-Biz and is aimed at furthering the Governor's goal of economic growth for California. On July 11 , 2013, Governor Brown signed into law Assembly Bill 93, (Chapter 69, Statute of 2013) and Senate Bill 90, (Chapter 70, Statute of 2013), now commonly referred to as the Governor's Economic Development Initiative. AB 93 and SB 90 phased out the Enterprise Zone Program and replaced it with three new tax incentives.

The purpose of the California Competes program is to attract, expand, and retain businesses in California and stimulate the creation of new high quality full-time jobs.

The credit is negotiated on a case-by-case basis between the California Competes staff and companies that are expanding in, relocating to, or are considering leaving the State. Some of the award criteria are, number of employees to be hired or retained, type of jobs being created or retained, wages and benefits paid to the newly hired employees, whether the company operates in an area of high unemployment or high poverty, and the amount the company will invest in the state. The negotiated credit agreement is then voted on and approved by the five-member California Competes Tax Credit Committee, which is comprised of the Director of GO-Biz, the Director of the Department of Finance, the Treasurer, and one appointee each by the Speaker of the Assembly and Senate Committee on Rules.

In October 2017, the Legislative Analyst's Office (LAO) issued a report on the California Competes Tax Credit Program. The report found that GO-Biz has implemented the program in "good faith" in a manner designed to "fairly balance" the stated intent of the Legislature to maximize the effective use of taxpayer dollars with statutory requirement to consider various specific factors." However, the LAO did identify a few concerns with the program, most notably that "15 percent of the total dollar value—went to businesses that sell goods and services very near to them in California. These tax credits provide 'windfall benefits' as they result in no change in the overall level of economic activity in the state. Moreover, these awards inadvertently harm other, equally deserving California businesses—including most of the tens of thousands of California small businesses—because the tax credits awarded to their competitors puts them at a significant competitive disadvantage."

Under existing California Competes Tax Credit law, 25 percent of the total tax credits available is statutorily reserved for businesses with gross receipts of less than $2,000,000. In many instances, businesses that meet this gross receipts threshold are those that "sell goods and services very near to them in California" and as a result, has led to the above referenced LAO concern. To address this concern, this proposal requests to remove the aforementioned statutory reservation of the credit from current law. This proposal requests a reduced tax credit allocation authority from the historical $200 million annual allocation level to provide funding for direct technical assistance to small businesses.

Trailer Bill Language. This trailer bill language proposes to remove provisions of law that reserve a portion of the credit allocation for businesses with gross receipts of less than $2 million.

LAO COMMENTS

The LAO has several recommendations related to the Cal Competes program. Staff is including the suggestions if the program is extended.

Suggestions if Program is Extended. If the Legislature chooses to extend California Competes, the LAO has several suggestions to increase the effectiveness of the program while potentially reducing its problems.

- **Clarify Intent.** If the program is extended, the LAO suggests the Legislature add language to law that clearly expresses the intent of the program as a tool to attract and retain employers in California. The LAO observes that some of the factors in law that GO-Biz considers in awarding tax credits create confusion about the intent of the program and allow GO-Biz to score non-tradable businesses highly in their evaluation process. For example, one of these factors is “the duration the taxpayer commits to remain in this state.” Businesses that would locate or remain in the state absent the tax credit could be scored highly on this factor despite the strong likelihood such an award would be a windfall benefit. The LAO suggests narrowing these factors to only those most relevant to the program’s core mission: to help California compete against other states and countries to attract and retain businesses.

- **Narrowly Focus Program on Tradable Businesses.** To maximize the statewide economic benefits of the extended program, we suggest restricting the program to businesses that primarily serve markets outside the state. For example, the Legislature could require applicants to provide GO-Biz information about how much of their income is from California sales. The LAO also suggests strengthening the new language proposed by the administration. For example, the Legislature could require GO-Biz to consider the extent to which the credit would result in windfall benefits or would put other California businesses at an unfair disadvantage.

STAFF COMMENTS

According to the Administration, the effectiveness of the California Competes program is measured by its ability to help businesses create and retain jobs throughout the state. There is no other negotiated tax credit program similar to the California Competes Tax Credit. The program is California's primary economic development program for attracting and retaining high quality employers in the state.

Staff Recommendation: Hold Open.

ISSUE 5: SPRING FINANCE LETTER: CALIFORNIA SMALL BUSINESS DEVELOPMENT TECHNICAL ASSISTANCE EXPANSION PROGRAM AND TRAILER BILL LANGUAGE

The Governor's Office of Business and Economic Development (GO-Biz) is requesting an appropriation of $20 million in General Fund for each year for the next five years. Of this amount, $17 million will go to establish and support the Small Business Development Technical Assistance Expansion Program and $3 million will go to the California Small Business Development Center Program to assist in drawing down federal funds.

BACKGROUND

California small businesses constitute close to 13 percent of all small businesses in the United States, according to the "2017 California Small Business Profile," published by the U.S. Small Business Administration (SBA) - https://www.sba.gov/content/summary-size-standards-industry-sector.

California has 3.8 million small businesses, which in turn employ 6.8 million workers in the state - 49.2 percent of the state's total workforce. Small businesses are also a key driver of California's exports. Over 75,000 small businesses engage in exporting, generating 43.4 percent of California's $158.3 billion in total exports. California has the greatest amount of small businesses of any state or territory in the country, outpacing Texas (2.6 million), Florida (2.4 million) and New York (2.1 million). The Small Business Administration (SBA) generally defines a small business as meeting the following criteria: 500 employees or less for most manufacturing and mining industries and $7.5 million or less in average receipts for many non-manufacturing industries.

The federal government operates a number of programs that are designed to provide technical assistance to entrepreneurs and small businesses to enable and encourage their launch and growth. The technical assistance consists of one-on-one confidential consulting and low-cost training. The range of small businesses served varies according to the framework of each individual technical assistance program.

SBDC Funding. Federal small business technical assistance programs such as the California SBDC network provide valuable services to small businesses. These programs interface and assist thousands of businesses and entrepreneurs daily and provide a critical link between state programs and the California small business community. The following are metrics generated from operation of the CIP in 2014, 2015 and 2016 with the SBDCs.

Fiscal Year	State Dollars Committed	Capital Infusion Generated	Clients Served
2014-15	$2,000,000	$202,645,465	10,053
2015-16	$2,000,000	$173,856,832	10,251
2016-17	$1,500,000	$263,314,473	11,728
*2017-18	$3,000,000	TBD	TBD

GO-Biz requests $3 million for the federal small business technical assistance programs to assist in drawing down federal funds, which will enable the SBDCs to focus on access to capital for small businesses. In past years, resources for SBDCs were not included until the May Revise. This proposal would provide a stable source of resources for SBDCs for the next five years.

Trailer Bill Language. GO-Biz's request also includes $17 million and proposed trailer bill language to establish the California Small Business Development Technical Assistance Expansion Program, which will be a competitive grant program to support an expansion in services provided by federal small business technical assistance programs to small businesses and pre-venture entrepreneurs. These funds will be in addition to existing local and federal funds already used to assist small businesses. The purpose of this program is to expand federal small business technical assistance programs into new and/or underserved small business segments. Specifically, this funding will focus on an expansion of no-cost, one-on-one consulting and low-cost training to small businesses in the areas of capital access, commercialization, business plans and strategy, export assistance, sales, operations, financial management, marketing, cybersecurity, manufacturing assistance, emergency preparedness, business continuity and disaster recovery and increased productivity and innovation, among other areas. The $17 million in funding will not supplant existing local cash match dollars.

The funding will be provided through a competitive grant process to Federal Small Business Technical Assistance Centers with a focus on services to women, minority, and veteran-owned businesses and businesses in low-wealth, underserved, rural, and disaster-impacted communities. The grant program will require all awardees to submit quarterly invoices and metric reports in addition to an annual report on program outcomes as required by the grant award. Quarterly report outcomes will be compared to the milestones from the original grant application. Significant deviations from the original milestones will need to be addressed by the awardee through an action plan. If the awardee does not sufficiently address any significant deviations from the milestones in its grant award agreement, GO-Biz may withhold the remaining grant funds. Should this occur, GO-Biz may either redirect those grant funds to a new awardee or to an existing awardee that has demonstrated success.

STAFF COMMENTS

This item is part of Spring Finance Letter received on March 29, 2018. Staff will continue to analyze this proposal moving forward.

Additionally, AB 2463 by Assemblymembers Quirk-Silva and Cervantes is moving through the legislative process. AB 2463 also provides a framework for small business technical assistance.

Staff Recommendation: Hold Open.

ISSUE 6: CLOUD SUPPORT AND BUSINESS ANALYSIS

GO-Biz is requesting budget authority of $277,000 in General Fund and two positions beginning in 2018-19, and ongoing. The Information Technology unit within GO-Biz requests this funding to add one Systems Software Specialist III (Technical) and one Staff Information Systems Analyst.

BACKGROUND

GO-Biz offers a range of services to business owners including: attraction, retention and expansion services, site selection, permit assistance, clearing of regulatory hurdles, small business assistance, international trade development, and assistance with state government. GO-Biz Information Technology develops, maintains, and updates information technology solutions for GO-Biz programs aimed at furthering the Governor's goal of economic growth for California.

Since September 2013, the GO-Biz Information Technology Application Portfolio has grown from one IT staff member and four supported applications to six IT staff members and sixteen supported applications. High-profile GO-Biz applications such as the California Competes Tax Credit Application and California Film and Tax Credit Applications have facilitated the award of hundreds of millions in tax credits to businesses and film and television production companies. The application process for both programs is completed online. Each new GO-Biz application is regularly updated and fourteen of the applications have been updated significantly with new functionality and content.

The GO-Biz Information Technology team currently consists of six staff. Development, maintenance, support, and management of the sixteen applications is shared by the team. Three of the IT staff are specifically dedicated to the California Competes Tax Credit Program, the California Film Commission, and the California Infrastructure and Economic Development Bank (IBank). The remaining ten applications are maintained, supported and updated by the remaining three staff. Tasks in the Workload History listed with zero hours are existing tasks that are needed and not currently performed, in the current year, 1,672 hours in additional tasks are being completed by existing staff which causes delays, backlogs or incomplete work. The issues listed below exist because each staff member is responsible for multiple applications and they are regularly redirected to additional tasks.

1. **GO-Biz cloud environment does not currently have dedicated support staff.** Each staff member is responsible for their application's cloud environment instance. Because each staff has to spend time managing their own cloud instance, application specific tasks are given priority and tasks specific to cloud administration and cyber security are backlogged. Since there isn't a dedicated staff member to support the cloud environment, staff members often do not have time to perform regular maintenance tasks during the course of an eight hour workday. This often leads to tasks being significantly delayed. GO-Biz IT staff do not currently have the time to sufficiently upgrade and improve the GO-Biz

infrastructure. This is an issue with overall appearance, performance, stability and cyber security.

2. **IT Staff do not have time to complete documentation, perform analysis and generate reports for each application.** Each new application and application update requires staff to gather data on business needs, technical requirements, analyze and document technical program requirements, and perform all the statewide reporting requirements. The priority for the current IT staff is to meet the deadlines required by each program the application supports. Most of these deadlines are measured in weeks and months, not years. Although most deadlines are met, many of the applications lack technical documentation, which is a long-term risk if staff and knowledge leave the office.

3. **GO-Biz IT Staff are working at capacity.** The overall growth of GO-Biz programs and corresponding IT needs has resulted in many tasks being added to the IT workload with no commensurate increase in staffing. At this time, GO-Biz is addressing this problem by prioritizing each task and only completing tasks critical to the mission of the program. No new projects are currently being accepted.

STAFF COMMENTS

The Subcommittee may wish to ask GO-Biz what the outcomes will be with the additional staff and what GO-Biz intends to prioritize with respect to their websites for the future?

Staff Recommendation: Hold Open.

7730 FRANCHISE TAX BOARD

The Governor's budget includes $793.2 million for the Franchise Tax Board (FTB) in 2018-19, a decrease of $6.5 million or 1 percent from the current year. The main funding source of FTB's budget is General Fund, $759.5 million with the remaining budget coming from special funds.

FTB is responsible for collecting personal income tax and corporation tax revenue, operating various collection programs, and conducting field audits for the Fair Political Practices Commission.

ISSUE 7: HIRING TAX CREDIT TRAILER BILL LANGUAGE

The Governor's budget proposes trailer bill language to create a California Hiring Credit. This credit would be an expansion of the existing New Employment Credit. The new credit, calculated at the same 35 percent rate of qualified wages as the existing credit, would be expanded in several ways: by geography, industry, and the range of qualified wages. The new credit would be available for hires on or after January 1, 2019, and before January 1, 2024.

BACKGROUND

In 2013, the Legislature adopted several bills (Chapters 69, 70, 100, and 106 of the Statutes of 2013; AB 93, SB 93, SB100, and AB 106, respectively) that eliminated Enterprise Zone tax credits and created new tax incentives to encourage economic development in California. One of the newly created tax incentives was the new employment credit. That credit has been significantly underutilized in the years since its adoption and thus its incentive impact has been minimal.

In order to provide a stronger incentive, the trailer bill creates a credit that expands on the current credit in several ways. The wage range for qualified wages would be 100 percent to 350 percent of minimum wage. The current range is 150 percent to 350 percent. Another change is that the new credit uses the maximum of the local minimum wage or the statewide minimum wage to determine qualified wages. The existing credit uses the statewide minimum wage. The new credit would apply to qualified hires in all of California, whereas the existing credit applies only to qualified hires within qualified zones (designated census tracts plus former Enterprise Zones). Finally, the types of qualified employers would be expanded under the new credit to include retail and food services.

This trailer bill language retains several features of the existing credit. The categories of qualified employee stays the same: long-term unemployed, veterans, ex-offenders, recipients of CalWORKs or General Assistance, and recipients of the federal Earned Income Tax Credit. Additionally, employers will still be required to make a credit reservation when they hire a qualified employee, show a net increase in jobs for the year, and claim the credit on their original filed return.

Other changes to the existing New Employment Credit include:

1. The credit would be available for the first 24 months that a qualified employee works for the employer versus 60 months for the existing New Employment Credit.
2. The credit rate would be set in the Budget each year for the following taxable year. The existing credit would continue to exist for any employers who wish to continue using that credit until it sunsets. (The final day a new hire would qualify for that credit is December 31, 2020, but the credit can continue to be generated for 60 months after the date of hire). The new credit is expected to cost about $50 million per year once it is fully phased-in.

Utilization of the current credit. According to the LAO, when the existing credit was first proposed, the administration estimated that taxpayers would claim $22 million in the 2014 tax year and $69 million in the 2015 tax year. These estimates were much too high. Final, valid claims were $340,822 in 2014 (2 percent of the initial estimate) and $693,323 in 2015 (1 percent of the initial estimate). Over these first two tax years the credit was available, at least 1,829 taxpayers claimed the credit but 83 percent of the claims were invalid. The 310 valid returns were generated from hiring by a total of 62 individual businesses. (The number of taxpayers claiming the credit exceeds the number of affiliated businesses because pass-through businesses, such as partnerships and LLCs, generally have multiple investors and each investor may claim a proportional share of the credit.) These results suggest that the existing tax credit has been challenging or unappealing for businesses to use.

LAO COMMENTS

A Stronger Incentive. The Administration has proposed changes to the credit that should make it more attractive to employers. In particular, the proposed reduction in the wage floor from 150 percent to 100 percent of the minimum wage would reduce the starting wage requirement and increase the amount of the credit across the board.

More Businesses Would Qualify. Under the proposal, all businesses in the retail and food services industries—about 170,000 establishments, according to EDD—would become eligible for the proposed credit. This change alone opens up eligibility for the credit to more than 10 percent of the state's roughly 1.4 million private business establishments.

Statewide Credit Preferable to Geographically Limited Credit. Unlike the existing credit, which is only available to businesses in certain areas of the state, the proposed credit would be available to businesses statewide. This change treats similar taxpayers—employers hiring new workers from among the targeted categories—similarly. This change also reduces the possibility of jobs shifting within the state without growing the overall economy.

Fiscal Estimate Uncertain. The Administration estimates that the proposed credit would reduce General Fund revenues by $50 million per year, but this estimate is uncertain. Estimating the fiscal effect of a new tax provision is difficult. For example, the

Administration initially estimated the cost of the existing credit to be $91 million over the 2014 and 2015 tax years combined, but taxpayers ultimately claimed only about $1 million over that period. The changes proposed by the Administration, however, likely will increase the proposed credit's use. The cost of the proposed credit would also depend on the credit percentage set by the Legislature in the annual budget act.

Reducing Duration of Credit Is Reasonable. While the proposal limits the credit to two years of qualified wages, the proposed credit amount would be larger than the existing credit at any wage. The LAO believes that this change is reasonable because it creates a larger upfront incentive—by providing a greater tax reduction—for a business to hire an individual from one of the targeted categories. Few employers would let go of a trained employee once their tax credit is no longer available.

STAFF COMMENTS

The Subcommittee may wish to ask the Administration the following:

- The current hiring credit was undersubscribed, why create a new credit, why not let the hiring credit expire or redirect the funding to another program such as California Competes?

- What goal should a state hiring credit achieve?

- Please explain why the Administration chose to add the retail and food industry for the expansion of the credit.

Staff Recommendation: Hold Open.

ISSUE 8: AUDIT STAFFING INCREASE

The FTB is requesting $7.8 million General Fund in funding in 2018-19, and ongoing, to address unfunded needs for staff resources performing audits.

BACKGROUND

The Audit Division administers the Revenue and Taxation Code for individuals and business entities that do business in California. The program works with taxpayers and their representatives to administer and enforce the law effectively to ensure that all taxpayers meet their obligations to file and pay the correct amount due. The program utilizes innovative methods to promote these objectives through customer service, education, self-compliance letters, initiatives, and partnerships with other federal and state agencies. In performing these activities, the program considers the effects on taxpayers, increases the timeliness and effectiveness of enforcement actions, and focuses on adherence to FTB Regulation Section 19032, Audit Procedures, to complete audits in a timely manner.

FTB's Audit Division administers the audit program, which is organized into the following key operating units:

- National Business Audit Bureau (NBA) -audits business entities including corporations, banks, and financials that conduct business both within and outside of California.
- Individual & Pass Through Entity Audit Bureau (PTE) -audits individual taxpayers and pass through entities including partnerships, S-corporations, limited liability companies, estates, and trusts. Conducts specialized programs including federal/state and automated audit programs.
- Audit Services, Administration, & Protest Bureau -provides protest, and audit services and administrative activities for audit programs.
- Technical Resource & Services Bureau -provides technical service and support to FTB programs and stakeholders.

The Audit Division has experienced an expansion of audits related to complex and sophisticated issues and filings. The relevant tax codes continue to be or have increased complexity and business entity organizational structures continue to introduce more complexity in tax filings and audits. The sophistication of tax professionals and the tax reducing strategies deployed continue to increase the complexity of the audit requiring increased skill sets by FTB staff.

California's tax system is based on the willingness of taxpayers to self-comply with the tax laws. Over 80 percent of taxpayers comply with the law. The remainder may need some sort of assistance to file correctly or pay on time. Audit staff play a key role in supporting the foundational basis of California's voluntary self-compliance system.

Resources requested are attributed to two root causes:

1. **Complexity:** Over the last five years, FTB has identified more workloads at the Program Specialist I, II, and III levels which is inconsistent with FTB's funded position authority. Although thought to be limited in duration, FTB does not see this trend reversing.

In recent years, FTB has performed various studies on the complexity of work. FTB found that available inventory for assignment was at the more complex end of the skill set spectrum, yet FTB did not have sufficient staff working at that classification level.

In 2013, FTB concluded a study on inventory and staffing levels associated with the NBA workloads, and FTB found the following observations:

NBA	Tax Auditor & Associate Tax Auditor	Program Specialist I	Program Specialist II	Program Specialist III
Percentage of Workload Based on Analysis	23%	21%	46%	10%
Current Staffing Levels	40%	29%	26%	6%
Staffing Workforce GAP	17%	8%	-20%	-4%

In recent months, a comparable analysis of the PTE workloads showed a gap in the appropriate level of classifications as well.

PTE	Tax Auditor & Associate Tax Auditor	Program Specialist I	Program Specialist II	Program Specialist III
Percentage of Workload Based on Analysis	18%	25%	48%	8%
Current Staffing Levels	30%	37%	27%	4%
Staffing Workforce GAP	12%	12%	-21%	-4%

2. **Salary Levels for Senior classifications:** FTB has a substantial amount of Program Specialist II and Program Specialist Ill staff in the maximum salary range. Generally, the majority of these positions are funded at the first salary step causing a significant gap in budgeted salaries versus salaries actually paid. FTB does not see this trend changing.

During the studies mentioned above, FTB also looked at the basic funding structure for the audit staff. While FTB is not immune to staff seeking new opportunities at their own choice or when they are heavily recruited by California tax firms, for those that choose to pursue careers with FTB and give back to FTB and the State, they tend to reach the last step of their salary range. All audit positions received prior to 2001-02 (73 percent of existing positions) are funded at the first step of the salary range. The remainder 27 percent of existing audit positions are funded at the mid-level step of the salary range and consist primarily of Tax Auditor, Associate Tax Auditor, and Program Specialist I positions.

FTB conducted a study from 2013-14 forward and found a substantial amount of senior staff are funded at the maximum salary step.

Audit Division

Percentage at Max Range	Tax Auditor	Associate Tax Auditor	Program Specialist I	Program Specialist II	Program Specialist III
2016-17	10%	29%	43%	67%	92%
2015-16	11%	37%	64%	90%	97%
2014-15	12%	26%	48%	75%	97%
2013-14	8%	31%	54%	93%	85%

STAFF COMMENTS

This proposal aims to allow the Audit Division to continue to offer opportunities at the higher technical level consistent with available inventories. Staff will note that there may be many other agencies that are facing the same challenge.

Staff Recommendation: Hold Open.

ISSUE 9: ENTERPRISE DATA TO REVENUE PROJECT

The FTB requests $2.5 million General Fund and conversion of 20 limited-term positions to permanent status in 2018-19 and ongoing.

BACKGROUND

The EDR project was a 66-month IT project that began a multi-phased effort to modernize FTB's processes and systems. The project started in 2011-12 and was completed in 2016-17. As of April 30, 2017, the EDR project has generated $3.7 billion in revenue for the State since the inception of the project. FTB is well on the way to achieving the $4.7 billion revenue target.

In 2015-16, FTB was granted 20 three-year limited term positions to support ongoing work, continue to build the EDR solution and start the knowledge management and transition of the EDR solution to FTB. The solution adopted by the EDR project implemented improvements to FTB's enforcements activities and self-service tools. The EDR project enabled FTB to implement self-help tools for taxpayers and tax practitioners that eased burdens that existed related to filing a return or paying taxes due and supports California's voluntary compliance based taxation system.

Using both FTB's Knowledge Management (Kin) Program and the EDR's MDR O60, FTB has successfully completed Stage 0 and 1 of the transition to FTB and Stage 2 and 3 are well underway to be fully completed by June 2018. These 20 IT resources are critical to FTB's ability to successfully support EDR processes and applications ongoing.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Hold Open.

ISSUE 10: INFORMATION TECHNOLOGY SECURITY ENHANCEMENTS

FTB is requesting 23 permanent positions and $5.0 million ($4.9 million General Fund and $135,000 Special Funds) in 2018-19, and $4.1 million ($4.0 million General Fund and $111,000 Special Funds) in 2019-20, to accommodate workload growth within the critical functions of Information Security, Worksite Security, Privacy and Disclosure, and FTB's Infrastructure.

BACKGROUND

Privacy, Security, and Disclosure Bureau (PSDB) develops and enforces security policies and procedures for the safety of FTB's employees and California citizens, to ensure the confidentiality, integrity, and availability of FTB's information systems and the security of the information they contain. These departmental policies and procedures guide staff in the analysis and assessment of security measures for the protection of FTB's facilities, and to prevent, detect, and identify unauthorized access to information technology systems, networks, and data.

The Chief Security officer (CSO) also promotes awareness of Privacy and Security issues among management and staff, ensuring sound security principles are reflected throughout the organization's vision and goals. Subject matter experts within the Privacy, Security, and Disclosure Bureau provide technical security expertise to the department. FTB's CSO is responsible for the oversight and management of all aspects of information security, physical security, privacy and disclosure.

FTB is one of four pilot partners actively engaged in the California Cyber Security Integration Center (Cal-CSIC) project. CaI-CSIC shares threat intelligence to help maintain the security and integrity of the state's Information Technology (lT) infrastructure by preventing or minimizing incident-based losses, theft of information or disruption of services that could result in serious loss of information assets, revenue, public confidence, reputation, or market share. This partnership works with FTB technical staff and increases the amount of intelligence available to mitigate threats and risk.

These resources will accomplish the following:

- Establish a continuously operational Security operations Center (S0C) wherein staff will be responsible for early detection of cyber-attacks resulting in quicker deployment of mitigation activities.
- Establish a Security Intelligence Program that is able to provide expert capability to analyze and address new and evolving threats to FTB critical systems and information.
- Analyze and detect inappropriate use of FTB's external applications.
- Provide oversight of security audit logging architecture, security logging requirements for all electronic systems, testing and validation of all security logging components.

- Help FTB evaluate central office compliance with security policy, and evaluate potential external threats.
- Ensure privacy controls are in place throughout FTB's systems and business processes.
- Perform the required safeguard reviews in order to ensure FTB is in compliance with state and federal laws, policies and regulations.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Hold Open.

7600 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

The Governor's budget includes $663.5 million for the California Department of Tax and Fee Administration (CDTFA) in 2018-19, an increase of $39.2 million or 6.3 percent over the current year. CDTFA was created in 2017 to assume most of the statutory duties formerly performed by the BOE. The CDTFA administers numerous tax and fee programs, including the Sale and Use Tax, the Cigarette and Tobacco Products Tax Program, and the excise and cultivation taxes for medicinal and recreational cannabis.

The CDTFA also administers the alcohol excise tax and the insurance tax pursuant to agreements with the BOE.

ISSUE 11: CENTRALIZED REVENUE OPPORTUNITY SYSTEM

The CDTFA requests the following resources to ensure that the Centralized Revenue Opportunity System (CROS) Project has the resources required to continue the Implementation Phase:

- $70.1 million redirection of two permanent positions, and 6.15 temporary position in 2018-19.

The CROS Project is an information technology modernization effort designed to expand tax and fee payer services, improve the efficiency and effectiveness of the operation and enhance its ability to generate increase revenues reducing the tax gap.

This request includes the continuation of funding authorized in 2017-18 only. This request also includes the reclassification of select, prior approved permanent positions.

BACKGROUND

CROS Project Progress to Date: The Feasibility Study Report (FSR), approved September 2011 redirected Department resources to the CROS Project to proceed with the Procurement Phase. The CROS Project submitted a Special Project Report (SPR) (March 2012) and Spring Finance Letter #1 (SFL) for FY 2012-13 to fund the project.

Based on the approved SPR (Project 0860-094), the FY 2012-13 SFL #1 authorized staffing and funding specifically for the CROS Project's Procurement Phase and Parallel Initiatives as well as for resources needed to address audit, collection, and registration backlogs.

The CROS Project submitted SPR #2 in December 2013 which addressed a nine month change in the Procurement schedule and extended the implementation approach by one year as a result of feedback received from bidders In response to the CROS Request for Information.

The CROS Project submitted SPR #3 to address a 19-month delay in the Procurement Phase to ensure the project had resources to start the implementation Phase. SPR #3 was approved in May 2016.

Based on SPR #3, a FY 2016-17 May Revise Finance Letter requested $17.5 million and authority for 44.6 positions (24.0 positions and 20.6 temporary help resources) to provide resources to begin the implementation Phase. Although this May Revise letter requested funding and position authority for subsequent years, the Legislature only authorized funding and position authority for FY 2016-17. The Department was directed to submit a budget augmentation request for subsequent years funding and position authority after selection of the CROS contractor.

On August 30, 2016 the Department approved selection of the CROS Contractor (Fast Enterprises, Inc.) as the contractor responsible for implementing the CROS Solution.

The CROS Project submitted SPR #4 and the CROS FY 2017-18 Budget Change Proposal, for resources necessary to develop and implement the CROS Solution. Resource analysis included review of the Contractor's proposed schedule, Project deliverables, the Department's Integrated Master Schedule, existing project management plans (including Governance Plans), as well as existing technical capabilities. SPR 4 was approved in February 2017.

Resource History

CROS Core	FY 2013-14	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Budget Authorization	$5,902,000	$9,628,000	$9,926,000	$8,090,000	$25,792,208
Actual Expenditures	$4,908,000	$7,831,000	$9,749,000	$8,191,000	$14,921,586

FY 2015-16 CROS Project expenditures exceeded the authorized budget; the table above reflects an internal redirection of funds for that year. The FY 2013-14 CROS BCP was initially intended to provide resources through FY 2014-15, with a FY 2015-16 BCP initially planned. However, due to the extended procurement timeline, the Department decided to postpone a new BCP until FY 2016-17. The Project was significantly under budget in FY 2016-17 due in part to the later start of the CROS Contractor.

Positions by BCP Year. The following table represents all previously authorized permanent positions, temporary help (In Lieu) and overtime, across all the Project roles, as well as overhead positions. The table also represents the FY 2018-19 requested resources, and the FY 2019-20 through FY 2022-23 projections.

CROS Positions by BCP and Fiscal Year, 2018-19 Request

Funding Type		FY 2012-13 Through FY 2022-23										
		12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23
BCP 18-19	Permanent	-	-	-	-	-	-	2.0	2.0	2.0	2.0	2.0
	Temporary Help g/	-	-	-	-	-	-	6.2	4.2	3.2	2.2	-
	Overtime a/	-	-	-	-	-	-	43.7	33.1	8.2	0.3	-
BCP 17-18	Permanent f/	-	-	-	-	-	29.0	29.0	29.0	29.0	29.0	29.0
	Temporary Help f/	-	-	-	-	-	36.4	-	-	-	-	-
	Overtime adf/	-	-	-	-	-	71.5	-	-	-	-	-
BCP 16-17	Permanent c/	-	-	-	-	24.0	-	-	-	-	-	-
	Temporary Help c/	-	-	-	-	20.6	-	-	-	-	-	-
	Overtime ac/	-	-	-	-	22.8	-	-	-	-	-	-
BCP 12-13	Permanent be/	62.0	62.0	62.0	62.0	62.0	62.0	58.0	58.0	58.0	58.0	58.0
	Temp Help bd/	0.5	3.1	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	-
	Overtime bd/	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	-
PY/PYE Total i/		**64.0**	**66.6**	**66.1**	**66.1**	**133.5**	**203.0**	**143.0**	**130.3**	**104.4**	**95.5**	**89.0**

a/ Position equivalency shown here for comparison purposes only; b/ Ongoing per BCP 2012-13; c/ One year (FY 2016-17) authority only.
d/ Overhead only.
e/ Four ongoing FY 2012-13 positions were swept June 2016.
f/ One year (FY 2017-18) authority only.
g/ Overhead and In Lieu resources only.
h/ 2.0 positions will be redirected from positions no longer needed due to the suspension of the Fire Prevention Fee through the Global Warming Prevention Act of 2017.
i/ Numbers may not equal subtotals due to rounding; the total listed on last row reflects actual numbers.

This BCP proposes the following changes:

Permanent Positions. The Department requests continued funding for 29.0 positions authorized in FY 2017-18. These resources are needed to address full-time Project roles. The Department requests the following resources to fund permanent positions:

- $2 million and 2.0 redirected positions in FY 2018-19 and ongoing. The 2.0 positions will beredirected from the Fire Prevention Fee program, which is winding down due to the suspension of the Fire Prevention Fee via the Global Warming Act of 2017.
-

Temporary Help (In Lieu). The Department will use temporary help and overtime resources to provide specific skillsets. The Department requests the following temporary help:

- FY 2018-19: $292,000 and 4.0 temporary help positions

Overtime. Overtime resources will offset the use of existing Department staff that will be redirected from their ongoing duties and responsibilities, to serve as SMEs, Design Session team participants, trainers, and liaisons.

The Department requests the following overtime:

- FY2018-19: $4.4 million and 43.7 positions

Overhead. The Department also requests the following overhead temporary help and overtime. The overhead temporary help and overtime request is driven by standard CDTFA complements based on the total permanent position request.

Overhead Temporary Help:
- FY2018-19: $129,000and 2.15positions

Overhead overtime:
- FY2018-19: $2,000and 0.02 positions

PROVISIONAL LANGUAGE

1. The Department of Finance may augment the amount appropriated in Schedule (1) by an amount not to exceed $526,000 for overtime should the CDTFA require additional subject matter expert resources to support the implementation of required changes to the CROS Project associated with recently chaptered legislation. The Department of Finance may authorize an augmentation not sooner than 30 days after notification in writing to the Joint Legislative Budget Committee. This provision shall apply to any item currently appropriated for support of the CROS project. Any funds provided that are not expressly used for the specified purposes shall revert to the fund from which they were appropriated.
2. The Department of Finance may augment the following items in the FY 2018-19 fiscal year by the amount of any unencumbered funds for vendor compensation payments as of June 30, 2018, in those items: 7600-001-0004, 7600-001-0022, 7600-001-0070, 76000-001-0080, 7600- 001-0230, 7600-001-0320, 7600-001-0387, 7600-001-0439, 7600-001.0465, 7600-001-0623, 7600-001-0965, 7600-001-3015, 7600-001-3058, 7600-001-3065, 7600-001-3067, 7600-001-3212, 7600-OO1-3251, 7600-001-3260, and 7600-001.3270. Any augmentation pursuant to this provision shall be reported in writing to the Joint Legislative Budget Committee within 30 days.

STAFF COMMENTS

According to CDTFA, the project is on schedule and within budget. The Subcommittee may wish to ask CDTFA to outline the projects goals for 2018-19.

Staff Recommendation: Hold Open.

0870 OFFICE OF TAX APPEALS

The Governor's budget includes $19.9 million for the Office of Tax Appeals (OTA) in 2018-19. The OTA was established effective January 1, 2018 by AB 102 (Chapter 16, Statutes of 2017). The OTA performs those tax appeal duties formerly assigned by statute to the State Board of Equalization, including personal income tax appeals, franchise tax appeals, and sales and use tax appeals. The OTA's mission is to ensure tax appeals are performed in a fair, transparent, consistent, equitable, and impartial manner. The OTA has hearing offices in Sacramento, Fresno, and Los Angeles

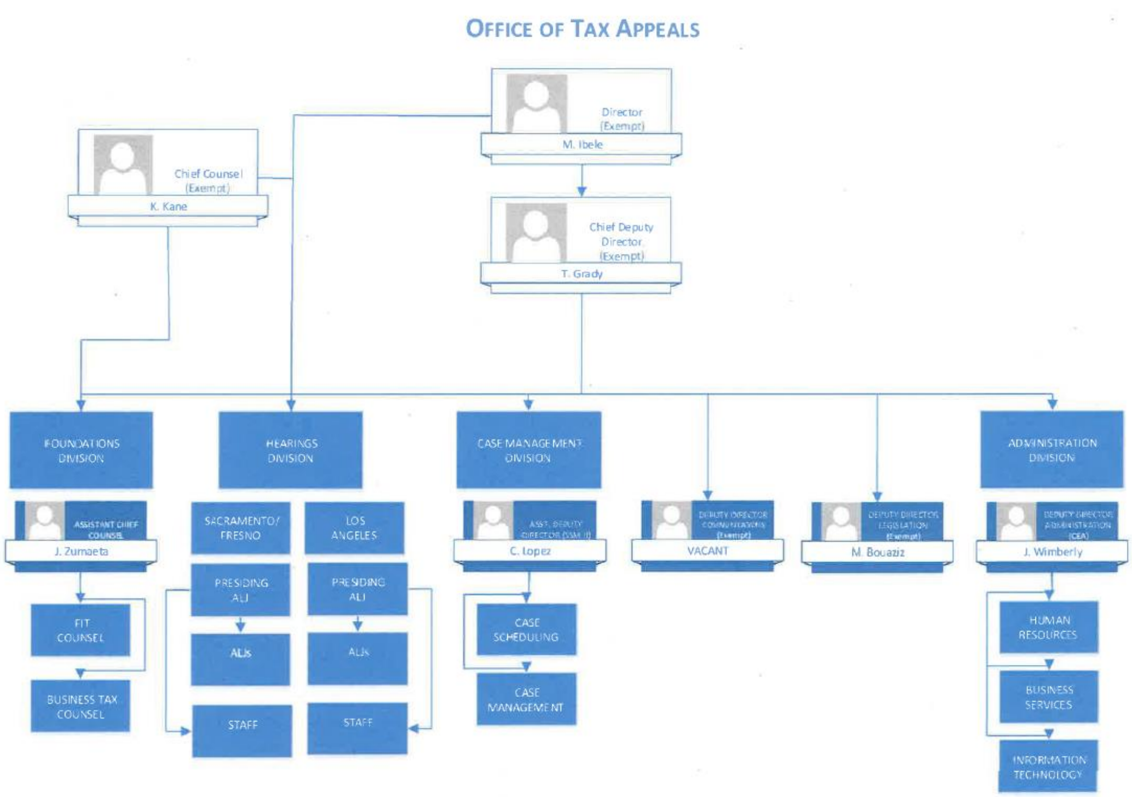
The OTA is funded solely from the General Fund. The OTA's mission is to ensure tax appeals are performed in a fair, transparent, consistent, equitable, and impartial manner.

ISSUE 12: BUDGET OVERVIEW

The Executive Director, Mark Ibele, will provide a budget overview and status update on the new Office of Tax Appeals.

BACKGROUND

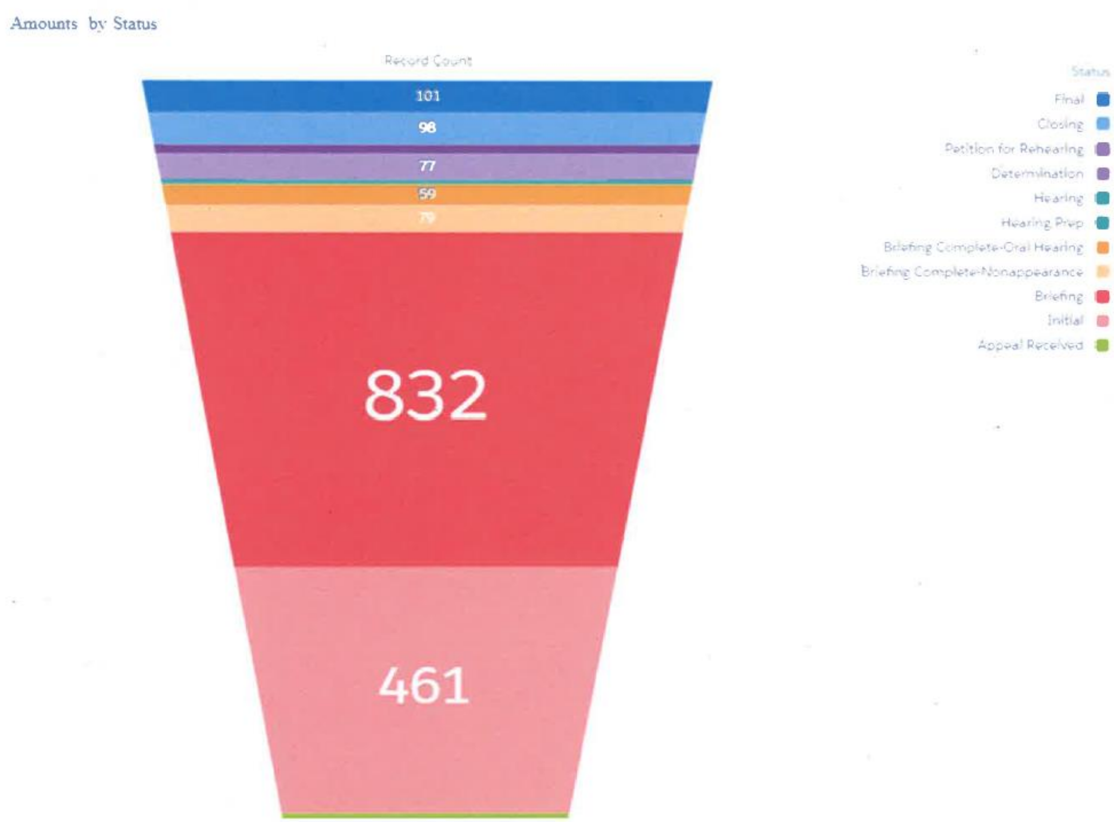
The Administration proposes $20 million in General Fund Spending for OTA in 2018-19. The budget includes nearly $12 million to support the salaries and benefits of 80 positions, $8 million for operating expenses and equipment, and $2 million for one-time purposes. Below is the organizational chart for the Office of Tax Appeals.



The new laws directed OTA to begin hearing cases on January 1, 2018, and prohibited BOE from conducting appeals or taking an action with respect to appeals after that date. OTA held its first hearings in Sacramento on January 22 and 23 and in Los Angeles on March 28.

OTA believes it will receive a total backlog of approximately 2,200 cases from BOE, although about 1,200 of the cases received so far are active (meaning OTA is able to take action on the case). The Case Status at OTA is shown below:

Office of Tax Appeals
Case Status – March 2018



STAFF COMMENTS

The item is provided for information only.

Staff Recommendation: Information Only.

0860 STATE BOARD OF EQUALIZATION

The Governor's budget includes $30.5 million for the State Board of Equalization (BOE) in 2018-19, a slight decrease from current year. The BOE is funded from General Fund, special funds and reimbursements.

Prior to July 1, 2017, the BOE administered a variety of tax and fee programs including the Sales and Use tax, as required by statute. The BOE also adjudicated appeals for these tax and fee programs including income tax.

The BOE now handles only those duties assigned to it by the California Constitution. These primarily include assessing and allocating the property value of railroads, and specified utilities and businesses; adjudicating property tax appeals of taxable government owned property; overseeing the property tax assessment practices of the 58 county assessors; adopting rules to clarify property tax law, and administering the alcoholic beverage excise tax and insurance tax, including appeals.

ISSUE 13: BUDGET OVERVIEW

This item summarizes a letter from the Department of Finance to the Legislature on March 28, 2018, pursuant to Provision 3 of Item 0860-002-0001 of the 2017 Budget Act related to ongoing staffing needs of the Member of the State Board of Equalization.

Background

AB 102 (Chapter, 16, Statutes of 2017) redefined the mission and scope of BOE shifting significant responsibilities to two new created entities. AB 102 created the California Department of Tax and Fee Administration (CDTFA) effective July 1, 2017, and assigned it immediately responsible for administering most of the taxes and fees previously administered by BOE, including the sales and use tax, cigarettes taxes, and cannabis taxes. Additionally, AB 102 transferred BOE's responsibility for hearing most state tax appeals to the newly created Office of Tax Appeals (OTA) on January 1, 2018.

The BOE's authority is now limited to those duties specified in the California Constitution, namely equalization and administration of certain property taxes, alcohol excise taxes, insurance premium taxes, certain underwriting profits, and Out-of-state insurers (insurance taxes).

With the enactment of AB 102, BOE went from 4,200 authorized positions and an annual budget of $555 million to 200 positions and an annual budget of $30 million. As required by the 2017-18 Budget Act, the Department of Finance recently submitted a report to the JLBC regarding staffing needs for BOE's board members.

Board Member Staffing Levels: Since 2006-07, Board Members each have had six exempt and six civil service positions. While the classifications of each Board Member's civil service staff varied based on the needs of each Board Member, the six exempt positions were the same. The classification of the six exempt staff include: Deputy to

Board Member, CEA Level A (two positions), Tax Consultant Expert II, Assistant to Board Member, and Administrative Assistant to Board Member.

Prior to AB 102, two exempt positions were authorized by the Constitution, two exempt positions were authorized under the Government Code, and the authority for the other two exempt positions is unknown. After AB 102, authority for two exempt positions continued under the Constitution, while the duties for the other two exempt positions under Government Code was transferred to CDTFA.

SB 108 (Chapter 43, Statutes of 2017) was enacted on July 10, 2017, and amended the 2017 Budget Act to state that, notwithstanding AB 102, each Board Member may employ the same number of exempt staff in 2017-18 as they employed on June 15, 2017. SB 108 also required DOF to report on the staffing needs of the Board Members by April 1, 2018.

DOF Recommendations: Based on the DOF report, DOF expects to see a decrease in workload of about 30 percent for exempt staff, and about 40 percent for civil service staff. DOF sees an overall workload reduction of about 30 percent, suggesting a need for eight positions to support each Board Member. Consistent with AB 102, which reduced the number of exempt staff authorized for each Board Member to two positions, DOF recommends that each Board Member retain six civil service staff, for a total of eight positions, to address the identified workload. DOF also recognizes that BOE, CDTFA and OTA are still experiencing transitions and that it is important to allow the Administration and Legislature to revisit staffing in the future.

LAO COMMENTS

Board Members and Personal Staff Make Up Large Share of BOE's Current Budget. In 2017-18, BOE's overall budget is $30.8 million and 208 positions. This budget includes 12 personal staff for each of the four district-elected board members. As a result, board members and their personal staff account for $12 million and 52 positions—39% and 25% of the respective totals.

Report Likely Overestimates Board's Staffing Needs. DOF assessed board members' staffing needs as follows. First, they surveyed board members' offices regarding their staff's work activities in 2017. Then they identified specific, readily quantifiable workload reductions associated with AB 102. DOF's approach likely overestimates the board's staffing requirements for several reasons:

- It does not consider whether board members' existing staffing was necessary for its pre-AB 102 duties—one of the questions that led the Legislature to place this requirement in the Budget Act.
- It makes a variety of assumptions that are highly deferential toward the status quo. For example, it assumes that one-third of "business tax" appeals are still under BOE's jurisdiction. Our review of 2016-17 board meeting agendas suggests that the actual share is much closer to zero.

- It assumes no fundamental changes in the structure of board member offices. In particular, it assumes that all four board members will continue to have separate, individual offices in Sacramento in addition to their district offices.

Larger Reductions Warranted. Based on the LAO review of DOF's report (including the raw data received from board members) the LAO thinks that the appropriate staffing level is significantly lower than eight positions per board member. Some of the additional savings, however, would involve major changes to the structure of board members' offices—changes that could not be implemented immediately.

Short-Term Recommendation: Reduce Board Members' Staff by One-Half. Within the current office structure—separate, individual offices in Sacramento and in each district—the Legislature could achieve further savings by reducing staffing to six positions per board member.

Long-Term Recommendation: Consolidate Sacramento Offices. Instead of having four separate offices in Sacramento, the four district-elected board members should share a single office. Under this structure, board members could share some staff (such as administrative assistants and attorneys), resulting in additional savings.

STAFF COMMENTS

The following issues have been raised to staff:

- The distribution between exempt and civil service positions, not necessarily the number of positions allocated to the Members, which is proposed to go from 12 to eight positions.

- The concept that Board Member Staff could be reduced in 2018-19. SB 108 was very clear that the Board Members could retain all 12 staff for 2017-18. SB 108 also stated that the staffing needs of the Members would be evaluated and that the Legislature may take action moving forward.

Staff Recommendation: Hold Open.