

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION****ASSEMBLYMEMBER TOM DALY, CHAIR****TUESDAY, APRIL 1, 2014
1:30 P.M. - STATE CAPITOL ROOM 447**

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VOTE-ONLY CALENDAR

0840 STATE CONTROLLER'S OFFICE

VOTE ONLY ISSUE 1: MYCALPERS

This proposal requests 15, five-year limited-term positions and \$1.356 million (\$759,000 General Fund and \$597,000 Special Fund) from 2014-15 through 2018-19 to address the increased workload generated by the implementation of the California Public Employees Retirement System (CalPERS) Pension System Resumption (PSR) project.

BACKGROUND

In 2008, CalPERS proposed developing a new system to replace the 49 systems previously in use to provide employers with a streamlined, self-service environment for completing retirement and health business transactions.

In 2009, CalPERS informed the State Controller's Office (SCO) that employers would be responsible for researching and correcting discrepancies between the SCO and CalPERS systems. At the time, neither agency obtained the necessary information to predict the volume of discrepancies between the two agencies. In 2011, CalPERS shared its test results of the MyCalPERS system with SCO staff, and as a result of seeing higher than expected errors they redirected staff to fix it. In 2012, the Legislature authorized seven, limited-term positions to address the growing backlog created by the interface between MyCalPERS and the SCO's system.

SCO expects that the number of errors will grow to 316,636 by the end of FY 2013-14. It estimates that it will take 18, full-time positions to clear the error backlog in five years. SCO is also hopeful that efforts to modify the current Uniform Payroll System will further reduce errors. If the SCO is successful in modifying the reporting process, the number of errors will drop significantly.

Therefore, this request also includes provisional language that would reduce the amounts authorized to the SCO if the transition is successful:

The Department of Finance may reduce the amounts authorized under Item 0840-001-0001 of this act, upon successful completion of a system change that significantly reduces the number of error records, and in turn, the SCO workload related to CalPERS PSR System Resumption. This adjustment shall be in coordination with the SCO and CalPERS. NO adjustment shall be made pursuant to this provision prior to a 30-day notification in writing to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committee of each house of the Legislature that consider appropriations.

STAFF COMMENTS

Staff recognizes the need to adjust for these errors. This request will provide SCO with the resources that it needs to make the necessary changes to the Uniform Payroll System in order to align with MyCalPERS.

Staff Recommendation: Approve as budgeted and adopt provisional budget bill language.

VOTE ONLY ISSUE 2: SUSTAINED ACCOUNTING AND REPORTING WORKLOAD

This request includes the continuation of 2.1, two-year limited-term positions and \$217,000 (\$122,000 General Fund and \$95,000 Central Service Cost Recovery Fund) in 2014-15 and 2015-16 to address statewide cash management workload associated with the Wall of Debt.

BACKGROUND

The SCO is responsible for fiscal control over more than \$100 billion in annual receipts and disbursements of public funds. The Cash Management Bureau within the Division of Audits is responsible for the statewide cash management that includes:

- Accounting and controlling the disbursement of all state funds
- Determining legality and accuracy of every claim against the State
- Issuing warrants in payment of the State's bills including lottery prizes
- Informing the public of the State's financial condition

There are currently six, full-time staff that provide statewide cash management support. The 2012 Budget Act provided SCO with two limited-term staff to support cash management activities. This request is a continuation of the positions requested in the 2013 Budget Act.

STAFF COMMENTS

The cash management problems facing the State from 2009-2013 showed the need for workload changes for the Cash Management Bureau. The SCO still faces a significant challenge with the Wall of Debt, but moving forward the Subcommittee may want to evaluate the need for these positions as the economy continues to improve. Staff agrees with the budget proposal to provide the additional staff on a limited term basis.

Staff Recommendation: Approve as budgeted.

VOTE ONLY ISSUE 3: LEGISLATIVE REFORM WORKLOAD

The State Controller's Office requests 3.2, two-year limited-term positions and \$328,000 (\$184,000 General Fund and \$144,000 Special Fund) to support the workload associated with the California Public Employees' Pension Reform Act (PEPRA) and the Federal Patient Protection and Affordable Care Act (ACA).

BACKGROUND

Since 2010, two complex pieces of legislation have been enacted that affect the SCO's personnel and payroll services division. The California Public Employees' Pension Reform Act (PEPRA) went into effect on January 1, 2013. PEPRA requires the SCO to implement requirements for employee retirement contribution rate changes as of July 1, 2013. Additionally, the Federal Patient Protection and Affordable Care Act (ACA) that was enacted in March 2010, requires the State to implement significant aspects of the law beginning on January 1, 2014. Additionally, beginning January 1, 2015, the SCO will play a major role in the generating and providing reports for the State as required by the ACA.

STAFF COMMENTS

Staff has no concerns with this proposal and recommends approval.

Staff Recommendation: Approve as budgeted.

0968 CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

The California Tax Credit Allocation Committee (CTCAC) allocates federal and state tax credits used to create and maintain affordable rental housing for low-income households in the state. The CTCAC forms partnerships with developers, investors and public agencies and works with public and private entities to assist with project development and also monitors project compliance. CTCAC coordinates its functions with state and local housing fund providers and with private fund investors in the development and maintenance of affordable housing. CTCAC consists of seven members from state and local governments, with the State Treasurer serving as chair. Other members are the Governor (or Director of Finance), State Controller, Director of Department of Housing and Community Development, Executive Director of California Housing Finance Agency, and two representatives from local government.

VOTE ONLY ISSUE 4: COMPLIANCE MONITORING OPERATING EXPENSE AUGMENTATION

CTCAC requests operating expense augmentation of \$300,000 in Special Funds to address increased costs for in-state travel and contracting costs associated with requirements from the Housing and Economic Recovery Act of 2008. CTCAC also requests \$50,000 in reimbursement and expenditure authority to address increase costs with the compliance monitoring training. This has no General Fund impact.

BACKGROUND

Operating Expense Augmentation. CTCAC requests an operating expense augmentation of \$300,000 for the Compliance Section to address increased costs. Specifically, the funding would be used for the following:

1. \$200,000 would be dedicated to an increase in appropriation for in-state travel. The increase is needed to address the rising costs related to travel, the increase in CTCAC's tax credit portfolio, and the resultant increase in the number of compliance staff required to travel.
2. \$100,000 would enable the Compliance Section to contract out for the collection of HUD Tenant Demographic data for every household member that occupies a low income housing tax credit (LIHTC) unit. The current contract covers a two-year period but due to the complexity of the database requirements, more support is needed.

Reimbursement Authority and Expenditure Authority Augmentation. The additional \$50,000 in reimbursement authority and corresponding expenditure authority will cover the cost of conducting workshops.

CTCAC requires that each LIHTC property be owned and managed by professional experienced companies. An owner must enter into a management agreement with a management company for each of their tax credit properties. The managers must understand basic and standard industry management practices, and the complexities of the tax credit regulations that govern the LIHTC.

CTCAC compliance workshops provide basic and advanced compliance monitor training for property management companies. Over the past years, due to the large increase in the LIHTC project, CTCAC portfolio has increased their workshops from six to 13 per year. This increased spending authority will help them manage the program, which is often oversubscribed.

STAFF COMMENTS

This proposal appears non-controversial; staff recommends approval.

Staff Recommendation: Approve as Budgeted.

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVEST BOARD

The California Secure Choice Retirement Savings Investment Board (SCIB) studies the feasibility of implementing a state-administered retirement savings program for private sector employees in California with no access to workplace retirement savings plans. The SCIB consists of nine members including the State Treasurer (Chairperson), the Director of Department of Finance, the State Controller, a retirement savings and investment expert appointed by Senate Committee on Rules, an employee representative appointed by the Speaker of the Assembly, a small business representative, a public member, and two additional members all appointed by the Governor. The SCIB was established by SB 1234 (Chapter 734, Statutes of 2012) and requires additional legislation and legislative approval of the plan before further action can be taken.

VOTE ONLY ISSUE 5: MARKET ANALYSIS FOR THE CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS TRUST ACT

This request is a re-appropriation of the remaining balance of the 2013-14 appropriation to conduct a market analysis to determine whether the necessary market conditions for implementation can be met. The request also includes provisional language allowing for additional expenditure authority if needed. This funding appropriation was approved in the 2013 Budget Act.

BACKGROUND

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

SB 1234 requires the Board to conduct a market analysis to determine whether the necessary conditions for implementation of the California Secure Choice Retirement Savings Program (SCRSP). The conditions include likely participation rates, participant's comfort with various investment vehicles and degree of risk, contribution levels, and the rate of account closures and rollovers.

Provisional Language:

0984-490 – Re-appropriation, California Secure Choice Retirement Savings Investment Board. The unencumbered balance as of June 30, 2014, of the appropriation provided below is re-appropriated for the purpose provided for in that appropriation and is available for encumbrance or expenditure until June 30, 2015. The budgetary provision included in the item below shall apply to the 2014-15 fiscal year.

8081 – Secure Choice Retirement Savings Program Fund.

STAFF COMMENTS

This proposal is consistent with action taken by the Subcommittee last year and ultimately included in the 2013 Budget Act.

Staff Recommendation: Approve as Budgeted.

0950 STATE TREASURER'S OFFICE

The State Treasurer provides banking services for state government with goals to minimize interest and service costs and to maximize yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state including investments of temporarily idle state monies, administration of the sale of state bonds, and payment of warrants or checks drawn by the State Controller or other state agencies.

VOTE ONLY ISSUE 6: DEBT MANAGEMENT SYSTEM II

STO requests \$1,056,000 in expenditure and reimbursement authority in 2014-15 to continue the Debt Management System (DMS) II project that was originally authorized in the 2013-14 Budget. DMS II will implement a replacement system for the STO's existing debt management system. The project consists of \$169,000 for procurement assistance, \$151,000 for Independent Verification and Validation vendor, \$154,000 for California Department of Technology oversight, and \$582,000 for personal services. This proposal has no impact on the General Fund.

BACKGROUND

This request will continue the DMS II project that originally was authorized in FY 2013-14 Budget Act to replace the STO's existing debt management system. In FY 2012-13, the STO began to develop a plan of action to mitigate the identified, existing DMS specific risks. The STO drafted a Feasibility Study Report, which was approved by the California Department of Technology in May 2013.

When DMS was implemented in 2004, the State had approximately \$33.4 billion of GO bond and lease revenue bonds (LRB) outstanding. As of July 1, 2013, the State had \$86.3 billion in GO bonds and LRBs outstanding, and \$29.2 billion of GO bonds and \$6.9 billion of LRBs that are authorized but are yet to be issued. The new DMS system will help the STO to manage the GO Bond and LRBs that are outstanding.

STAFF COMMENTS

This proposal is consistent with action taken by the Subcommittee last year and ultimately included in the 2013 Budget Act.

Staff Recommendation: Approve as Budgeted.

0845 DEPARTMENT OF INSURANCE

VOTE ONLY ISSUE 7: OFFICE OF PATIENT ADVOCATE

The Governor's Budget includes \$163,000 (Insurance Fund) in FY 2014-15 and \$150,000 in FY 2015-16 and ongoing to fund 1.5 positions to implement AB 922 (Chapter 552, Statutes of 2012).

BACKGROUND

AB 922 transferred the Office of Patient Advocate (OPA) from the Department of Managed Care (DMHC) to the California Health and Human Services Agency (CHHSA), effective July 1, 2012, to assist individuals, including those served by health care service plans regulated by DMHC and CDI.

The bill expanded the functions of OPA, beginning January 1, 2013 including developing educational and informational guides for consumers about health care insurance, receiving and handling complaints and referrals, preparing reports about health complaints and grievances resolved by the Department, and collecting reports from the OPA.

Demographic information will not be identified until the end of 2014. At that time, the Consumer Services Division (CSD) anticipates that the amount of time staff spends addressing each complaint will increase. In FY 2012-13 the CSD handled about 10,313 health-related complaints and 14,146 health-related telephone calls.

STAFF COMMENTS

There will be a Spring Finance letter on this item. Staff recommends to hold this item open.

Staff Recommendation: Hold Open.

VOTE ONLY ISSUE 8: ELECTRONIC NOTICE TRANSMISSION

The Governor's Budget includes \$773,000 (Insurance Fund) in FY 2014-15, \$603,000 in FY 2015-16, and FY 2016-17 to fund 5.0 three-year limited-term positions, hardware, and software costs to implement SB 251 (Chapter 369, Statutes of 2013).

BACKGROUND

SB 251 introduces and authorizes electronic transmission of renewal or conditional renewal notices, offers and disclosures pertaining to automobile, property, earthquake, and workers compensation insurance in the California market. Historically, consumers have received insurance notices in a hard copy using standard U.S. Postal Service delivery methods. SB 251 will require insurers to do the following:

- Obtain insured's consent to receive the offer, notice or disclosure by electronic transmission.
- Retain the record of the consent so that it is retrievable upon request by CDI.
- Maintain a process that can demonstrate that the offer, notice, or disclosure provided by electronic transmission was both sent and received.

This proposal aligns with CDI's responsibilities to assist consumers on insurance-related issues and to perform market conduct examinations consisted with the bill. It will also provide funding for CSD to serve consumers on calls and complaints regarding electronic transmissions.

STAFF COMMENTS

Staff has no comments on this proposal.

Staff Recommendation: Approve as budgeted.

VOTE ONLY ISSUE 9: STOP-LOSS INSURANCE COVERAGE

The Governor's Budget includes a one-time increase of \$76,000 (Insurance Fund) for Temporary Help to comply with newly established mandates of SB 161 (Chapter 443, Statutes of 2013).

BACKGROUND

SB 161 creates new regulations related to stop-loss insurance. California Department of Insurance (CDI) must ensure compliance with the new regulations by identifying stop-loss insurers, scheduling audits and responding to violations. SB 161 also grants CDI the authority to promulgate regulations in order to carry out the purposes of the bill. They made the following changes:

- Beginning January 1, 2014, stop-loss insurers will not be allowed to discriminate on the basis of factors related to health status and are required to guarantee the renewal of policies.
- Stop-loss insurers will be required to sell policies that are above certain individual and aggregate attached points (points at which excess insurance or reinsurance limits apply).
- Commencing April 1, 2014, insurers will have to report, annually to CDI the number of small employer stop-loss policies that were newly issued, re-issued or renewed in the previous year for groups having 1 to 50 employees and groups having 51- 100 employees.

STAFF COMMENTS

This proposal aligns with the workload requirements of SB 161. Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

VOTE ONLY ISSUE 10: COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION INVESTMENTS

The Governor's Budget includes \$555,000 (Insurance Fund) in FY 2014-15 and \$522,000 in FY 2015-16 and FY 2016-17 for 5.0 three-year limited-term positions to implement AB 32 (Chapter 608, Statutes of 2013).

BACKGROUND

AB 32 would increase from \$10 million to \$50 million the annual aggregate amount of qualified investment eligible for the Community Development Financial Institution (CDFI) tax credit under the Insurance Gross Premiums (IT), Personal Income Tax (PIT), and Corporation Tax (CT) laws.

The California Organized Investment Network (COIN) was created within the Department of Insurance (CDI) as a voluntary community investment program. It includes two programs the CDFI Certification Program and the CDFI Tax Credit Program.

AB 32 will increase the annual amount of CDFI tax credits available from \$2 million to \$10 million. It would also raise the annual economic impact of this program from \$23 million to \$115.1 million for a projected total economic impact of \$460.4 million and 3,128 new jobs between 2013-16. The requirements under the new law will increase COIN staff workload associated with certifying CDFI tax credit and CDFI certification applications, marketing the program, and qualifying, monitoring, and reporting CDFI tax credit investments.

AB 32 states that COIN will certify investments for the CDFI Tax Credit Program until January 1, 2017, and it requires the LAO to prepare a report to the Legislature on or before June 30, 2016, on the effects of the tax credits with a focus on employment in low-to-moderate income and rural persons.

STAFF COMMENTS

This proposal aligns with the workload requirements of AB 32. Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD

0840 STATE CONTROLLER'S OFFICE

The State Controller is the Chief Fiscal Officer of California, the ninth largest economy in the world. The State Controller's Office (SCO) is a separately established constitutional office. The Controller chairs or serves on 81 state boards and commissions, and is charged with duties ranging from participating in the oversight of the administration of the nation's two largest public pension funds, to protecting the coastline and helping to build hospitals. The Controller provides fiscal control for, and independent oversight of, more than \$100 billion in receipts and disbursements of public funds. In addition, the Controller offers fiscal guidance to local governments, and performs audit functions to uncover fraud and abuse of taxpayer dollars.

The SCO is funded through the General Fund as well as over 300 special funds and accounts and reimbursements. The Governor's Budget calls for resource support of \$188.8 million (\$48.9 million General Fund) and 1,392.1 positions.

Fund Source (thousands)	2012-13 Actual	2013-14 Projected	2014-15 Proposed	BY to CY Change	% Change
General Fund	\$45,694	\$54,814	\$48,994	(\$5,820)	(11%)
Unclaimed Property Fund	32,781	35,801	38,406	2,605	7
Central Service Cost Recovery Fund	20,104	24,167	23,415	(752)	(3)
Other Special Funds and Accounts	27,517	13,479	13,948	469.0	3
Reimbursements	52,573	64,559	64,085	(474)	(1)
Total Expenditure	\$178,669	\$192,820	\$188,848	(\$3,972)	(2%)
Positions	1,297.4	1,398.3	1,392.1	(6.2)	0

ISSUE 1: 21ST CENTURY PROJECT

The State Controller's Office (SCO) requests five positions and \$6.529 million (\$3.59 million General Fund, \$1.265 million Reimbursements, and \$1.674 million Special Fund) for FY 2014-15 to support ongoing legal costs associated with the 21st Century project. The SCO has requested that Budget Bill language and Control Section language be added to the 2014 Budget Act. This proposal also includes Trailer Bill language that would extend the sunset date of the 21st Century Project until June 30, 2017.

BACKGROUND

In 2004, the SCO proposed the 21st Century Project (TFC), a new IT project to replace the existing statewide human resources management and payroll systems used to pay state employees. The new system was designed to replace the “legacy systems” which were developed more than 30 years ago. Known as MyCalPAYS, the project was intended to manage payroll, benefits, and timekeeping in a more central and cost efficient manner than the legacy systems.

The SCO is responsible for issuing pay to the state’s 294,000 employees statewide, and therefore responsible for the implementation and management of the new system. The SCO developed a two-phase procurement process that would allow the agency to first contract to purchase commercial software and second to contract with a vendor to modify the software to meet the state’s systems integration needs. The project had delays early on that extended the schedule by two years and increased project costs from \$130 million to \$180 million. In 2009, SCO terminated the original integration services contract.

In 2010, a new integration services contract was procured and project schedule and costs were revised. The schedule was extended to October 2012 and the total costs rose from \$180 million to \$283 million. Implementation of the project was supposed to occur in five phases, or pilots. These early pilots were designed to integrate a small number of employees into the system in order to test the system prior to the full launch of the system. A number of challenges occurred with the early pilots and as a result SCO sent a cure notice to the primary vendor in order to make changes. Once again, the project costs increased to \$373 million and the schedule of completion moved to September 2013.

In February 2013, the SCO terminated its contract with the vendor citing inaction by the vendor in response to the cure notice and a lack of confidence that the vendor could completed the project. The Department of Technology suspended further work on the project until a new plan could be created. For now, the SCO has reverted to using the legacy system to administer payroll processing.

In June 2013, the budget included additional funding for legal fees and for the SCO to work on reconciling the issues that were created from the launch of the first phase. In November 2013, the SCO filed a lawsuit against SAP, the vendor for numerous issues including failure to respond to the cure notice. The lawsuit is still pending. The 2013 Budget Act provided the SCO with \$1 million for legal support.

2014-15 Budget Proposal. The budget proposal includes multiple segments, which include lease obligations, consulting contracts for external consultants, costs associated with legal proceedings, and data center costs. The total amount requested to support these efforts is \$6.529 million, including:

- \$645,000 for five one-year limited-term positions responsible for document retrieval, developing a project history and timeline, and maintenance of the MyCalPays system in support of the legal team.
- \$996,000 for the project management advisory contract (e.g. Flagship Advisors). These project advisors provide assistance with business processes, integration, coordination, configuration, customization, testing, training, installation, data conversion, and work force transition. There are currently two Flagship consultants.
- \$2.5 million for legal counsel. Legal costs are expected to include efforts to defend the state against claims made by SAP. SCO has requested provisional language to provide additional funding for legal costs, if necessary.
- \$904,000 for costs associated with leasing a facility.
- \$1.193 million for costs associated with IT services from the Department of Technology. These services include infrastructure support and data center storage support.
- \$266,000 for data center services that will support the maintenance of the software purchases that are a component of the 21st Century Project.

Proposed Trailer Bill Language. Existing law authorized the Controller to assess special funds within the state treasury for costs attributable to the replacement effort of the payroll disbursement system. The costs assessed to the 21st Century Project will be evenly split between the General Fund and special funds within the state treasury.

The provisions in this section were set to expire on June 30, 2011. They were extended by three years through AB 119 (Chapter 31, Statutes of 2011) to June 30, 2014. This trailer bill language would propose to extend these provisions again by another three years to June 30, 2017.

Provisional Budget Bill Language. SCO has requested that language be added to the budget act that authorizes additional expenditures for legal costs. The provisional items would allow for further augmentation from all fund sources to fund litigation and related support efforts associated with the 21st Century Project.

LEGISLATIVE ANALYST'S OFFICE

On March 19, 2014, the LAO released a report on the 2014-15 Budget: 21st Century Project. In the analysis, the LAO points out the following:

- **The 2013-14 spending on legal effort far exceeds the budgeted amount.** The 2013-14 budget provided \$1 million for outside legal costs. However, according to the SCO, outside counsel is estimated to be \$5.7 million for the current year.
- **Projected costs for legal effort in 2014-15 exceed requested amount.** The Governor's budget proposes \$2.5 million for SCO's outside legal counsel for 2014-15 and includes provisional language to budget additional litigation beyond the amount. SCO estimates that the legal fees for 2014-15 is somewhere between \$4.5 million and \$5 million.
- **Lacking project assessment.** During consideration of the FY 2013-14 budget, the LAO proposed the SCO conduct an assessment of the 21st Century Project.

LAO Recommendations. The LAO made several recommendations that the Subcommittee may wish to consider:

- Budget the full estimated costs for SCO's legal effort instead of half the costs as proposed by the Governor's budget
- Include an independent assessment in addition to approving the legal fees, and
- Include a self-assessment by Department of Technology

STAFF COMMENTS

Legal Fees. It is estimated that the legal fees for 2013-14 will be \$5.7 million and in the range of \$4.5 to \$5 million for 2014-15. The Subcommittee may wish to inquire about how the SCO paid for the current year legal fees since the 2013 Budget Act only provided \$1 million.

Independent Assessment. Last year, the Subcommittee recommended that resources be directed to an independent assessment of the project. The Subcommittee may wish to direct the SCO to work with the Department of Finance to come up with a plan to include an independent assessment of the project. Without the assessment, the SCO will not move forward with the project until the lawsuit is settled, which could take up to three years.

Proposed Trailer Bill. Staff would recommend a one-year extension in the proposed trailer bill rather than a three-year extension. SCO will have to return to the budget committee every year and can report back to see whether an additional extension is needed.

Staff Recommendation: Hold Open and direct SCO and DOF to work on a proposal for the inclusion of an independent assessment of the 21st Century project by May 1, 2014.

ISSUE 2: SOFTWARE COST INCREASES

This proposal includes \$3.482 million (\$797,000 General Fund, \$1.692 million Reimbursements, and \$993,000 Special Fund) in 2014-15 through 2017-18 to continue funding a contract with Integrated Data Management System (IDMS) technology services.

BACKGROUND

The IDMS is comprised of a suite of software products that run on the mainframe housed at the Office of the Department of Technology. The systems allow for the direct interface and/or provide for files to be passed between each unique system. The SCO is highly dependent on the IDMS applications, and uses the business functions for its legacy systems including personnel, payroll, fiscal, and audits. There are a total of 15 unique IDMS supported applications that the SCO utilizes.

SCO was notified that effective March 31, 2012, IDMS technology services would be classified as a dedicated service whereby only those customers utilizing IDMS technology would incur the cost. As of March 31, 2013, three agencies (SCO, CHP, and CalSTRS) utilized IDMS in their business system. However, as of April 1, 2013, only two customers (SCO and CHP) will continue to utilize the technology.

In FY 2012-13, SCO paid \$1.25 million for IDMS services.

STAFF COMMENTS

If CHP were to leave, costs would increase to \$4.6 million annually for SCO. At this time, CHP has given no indication that it will discontinue the IDMS technology. SCO is highly dependent on the IDMS technology. Last year, the SCO examined whether it was more cost effective to move away from IDMS but did not find an alternative that made sense and due to the 21st Century project not moving forward, the SCO has no other options but to continue using it.

Staff Recommendation: Approve as budgeted.

ISSUE 3: STATEWIDE TRAINING FOR DEPARTMENTAL PERSONNEL AND PAYROLL STAFF

The Governor's budget requests four, two-year limited-term positions and \$390,000 (\$218,000 General Fund and \$172,000 Special Funds) in 2014-15 to meet statewide demand for payroll, personnel, and disability training programs for Human Resources staff.

BACKGROUND

The Statewide Training Unit (STU) of the SCO was created in the mid-1970s with the goal of providing no-cost personnel/payroll training to Human Resource staff. The training is intended to provide Personnel Specialists with the knowledge, skills, and abilities to process personnel/payroll transactions and generate accurate and timely payroll using the SCO's Uniform State Payroll System (USPS).

Historically, the demand for statewide training classes has exceeded the amount of training that can be provided using the training resources available. Currently staffing in the STU consists of 5.5 authorized positions: 4 positions are trainers and 1.5 positions provide logistical support and supervision. For half 2012, the SCO received 3,544 training requests and anticipates scheduling an additional 1,472 trainees.

When staff is not properly trained, the state and its employees experience an increase in errors notices generated by the SCO's USPS from overpayments to underpayments, leave balance discrepancies, and retroactivity and associated charges. These errors cause the state additional dollars and may be reduced with additional training.

STAFF COMMENTS

The additional limited-term staff will enable the SCO to continue to train its staff. Additionally, it will allow SCO to explore other ways to provide training rather than the traditional in class training, which could include online training and any new technology.

Staff Recommendation: Approve as budgeted.

ISSUE 4: LOCAL GOVERNMENT OVERSIGHT

The Governor's budget includes a request for \$1.159 million in reimbursement authority to support nine, three-year limited-term positions in order to provide oversight of local government entities.

BACKGROUND

California statutes provides for a more indirect oversight of local government funding using the following three elements:

Annual Audits. Each local government is required to have an annual financial audit performed by an independent auditor. In addition, if the local government has over \$500,000 in federal expenditures, it must have a single audit. Local governments are free to make decisions about auditor selection and can keep the same firm for an unlimited amount of time.

Financial Transaction Reports. Existing law authorizes the SCO to collect a report of annual financial transactions from each county, city, and special district to publish them in the reports that are available to the Governor, Legislature, and the public. Existing law also provides that if the reports are not made in the time, form, and manner required or there is reason to believe that the report is false, incomplete, or incorrect, the SCO can appoint a qualified accountant to make an investigation to obtain the correct information.

Accounting and Audit Guidelines. Uniform accounting guidelines are intended to provide local governments with the information necessary to implement and operate a common accounting and reporting system.

In 2011-12, the SCO was provided with three-year limited term funding to support 16.4 positions with an implementation date of January 2012, to provide increased oversight of local governments under existing law.

STAFF COMMENTS

The original request in 2012 included 16.4 positions. After three years of implementation, the SCO has determined that only nine positions are needed to continue the increased oversight of local governments.

Staff Recommendation: Approve as Budgeted.

ISSUE 5: UNCLAIMED PROPERTY: INSURANCE WORKLOAD

This proposal requests 11 permanent positions and \$1.117 million from the Unclaimed Property Fund in FY 2014-15, and ongoing, to address workload resulting from life insurance companies failing to meet requirements to reunite owners with their unclaimed property.

BACKGROUND

The SCO is responsible for reuniting lost and abandoned property with its rightful owner and to safeguard those properties from being used by holders as assets. Unclaimed Property Law requires corporations, businesses, associations, financial institutions, and insurance companies to annually report and deliver property to the SCO after there has been no activity on an account, or no contact with the owner for generally three years.

In 2008, the SCO initiated audits on 21 life insurance companies to determine the industry's compliance with the state's unclaimed property laws. The audits revealed an industry-wide practice of companies failing to pay death benefits to beneficiaries of life insurance policies. The SCO has authority to undertake comprehensive efforts to locate the rightful owners of the property that has been held for so many years, and to provide them with the opportunity to reunite with their property.

A 2012-13 budget change proposal provided 13 positions and \$1,303,000 in Unclaimed Property Fund authority and 11 positions and \$1,115,000 for 2013-14. In 2013-14 there were 12,041 claims received and processed for a value of \$45,615,299.

STAFF COMMENTS

There is a report pending from the Controller's Office regarding Unclaimed Property and staff would like to review it before moving forward with recommendations.

Staff Recommendation: Hold Open.

ISSUE 6: UNCLAIMED PROPERTY: HOLDER COMPLIANCE

This proposal requests 23 permanent positions and \$2.475 million from Unclaimed Property Fund in 2014-15 including ongoing support for the SCO's holder compliance program.

BACKGROUND

The SCO performs field audits of California holders of unclaimed property, including banks, hospitals, retailers, utility companies, manufacturers, insurance companies, major financial institutions, and multinational examinations of out-of-state holders of unclaimed property.

In 2009, audits performed an analysis of holder compliance by using Franchise Tax Board records. The analysis showed there might be a significant level of non-compliance with the California Unclaimed Property Law. One of the trends that SCO is currently focusing on is the underreporting by banks and credit unions of Certificates of Deposit and Individual Retirement Accounts. Since 2011-12, SCO has identified \$3.5 million in CDs and IRAs from banks and credit unions that have consistently underreported in these areas.

Outreach. These activities focus on identifying holders that were inconsistent or never reported unclaimed property. The efforts to increase compliance through outreach included educational events, agency outreach, and publications and forms.

Compliance. These efforts include compelling a holder to voluntarily file by preparing letters to send to holders identified through outreach efforts. Efforts to increase compliance include letters and phone calls, site visits, and referrals.

LEGISLATIVE ANALYST'S OFFICE

The LAO found that in prior year projections holder outreach and compliance would result in \$5.5 million of property per year returned to its owners, and \$4.1 million of property per year would be remitted to the SCO. The audits have resulted in about \$2.3 million of property returned to owners and \$4.1 million remitted to the SCO. The LAO has observed that the SCO's holder compliance initiative has remitted more property than originally projected but the results have varied from the earlier projections. LAO recommends that the positions be provided on a two-year, limited-term basis and that the Legislature continue to monitor outcomes related to this issue.

STAFF COMMENTS

There is a report pending from the SCO regarding Unclaimed Property and staff would like to review it before moving forward with recommendations.

Staff Recommendation: Hold Open.

ISSUE 7: UNCLAIMED PROPERTY: PROVISIONAL LANGUAGE

The Governor's budget includes a request to revise the existing provisional language for Item 0840-001-0970 to better define the expenditures paid from the account.

BACKGROUND

The Code of Civil Procedures (CCP) provides the Controller with the continuous appropriation to carry out and enforce the Unclaimed Property fund. In addition to the continuous appropriation authority, the SCO has direct appropriation for the Unclaimed Property Program through budget item 0840-001-070. The provisional language currently written appears to supersede the intent of the CCP, which provides continuous appropriation for expenditures associated with the escheatment, administration and enforcement of the program.

The following provisional language is recommended for inclusion to this item:

The funding provided in Item 0840-001-0970 shall cover costs for personal services and related operating expenses and equipment (including legal costs that are not related to enforcing the recovery of property, and system related costs) for the Unclaimed Property Program. Continuous appropriations from the Unclaimed Property Fund are allowed for other program costs authorized under Section 1564(b) and Section 1325 of the Code of Civil Procedure. These continuous appropriations shall not be used to cover spending authorized under Item 0840-001-0970.

STAFF COMMENTS

There is a report pending from the SCO regarding Unclaimed Property and staff would like to review it before moving forward with recommendations.

Staff Recommendation: Hold Open.

ISSUE 8: OTHER BUDGET PROPOSALS RELATED TO THE UNCLAIMED PROPERTY

The SCO included a total of six proposals that affect the Unclaimed Property Division. Three were discussed above, the remaining three proposals are summarized below.

BACKGROUND

- **Fraudulent Claims Protection and Prevention.** This request includes 16 two-year limited-term positions and \$2.095 million (Unclaimed Property Fund) for FY 2014-15 and \$2.082 million in FY 2015-16 to detect and prevent fraudulent unclaimed property claims.
- **Unclaimed Property Assessments.** This request includes three permanent positions to process assessments of fees when holders of unclaimed property do not remit escheated funds to the state in accordance with the Unclaimed Property Law. In the past, this workload was processed primarily by student assistants. In 2012-13 Personnel Management Liaisons memorandum 2012-034 was issued which required departments to discontinue the work of all non-represented student assistants by September 1, 2012. These three permanent positions will allow the 1577 assessments to be processed.
- **Unclaimed Property Securities Workload.** This proposal requests 23.1 three-year limited-term positions and \$1.999 million from the Unclaimed Property Fund to manage the securities in accordance with statute. The SCO is responsible for receiving escheated securities from holders and properly accounting for these securities while in SCO custody. The Unclaimed Property Division's Securities Management and Reconciliation Unit is responsible for properly maintaining and managing the securities portfolio in SCO's fiduciary care.

STAFF COMMENTS

There is a report pending from the Controller's Office regarding Unclaimed Property and staff would like to review it before moving forward with recommendations.

Staff Recommendation: Hold Open.

**0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION
FINANCING AUTHORITY**

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) was established to promote the prompt and efficient development of energy sources which are renewable or which more efficiently utilize and conserve scarce energy resources. CAEATFA consists of five members including the State Treasurer (Chairperson), the State Controller, the Director of Department of Finance, the Chairperson of the California Energy Commission, and the President of the Public Utilities Commission (CPUC).

ISSUE 9: IMPLEMENTATION OF CPUC ENERGY EFFICIENCY FINANCING PILOT PROGRAMS – CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF)

CAEATFA requests reimbursement and expenditure authority in the amount of \$4.4 million and seven limited-term positions to enable it to serve as the administrator of investor-owned utility (IOU) ratepayer-funded energy efficiency financing pilot programs authorized by the CPUC. There is no General Fund impact since the program will be funded through ratepayer funds.

BACKGROUND

On September 19, 2013, the CPUC approved a decision that ordered the IOUs to direct ratepayer funds for use in the energy efficiency financing pilot programs. The Decision identified CAEATFA as the administrator of the pilots. The program includes:

- Single-family residential credit enhancement
- Multi-family residential credit enhancement and On-bill Repayment (OBR)
- Small business credit enhancement
- On-bill repayment strategy for non-residential customers

CAEATFA Role. AS the CHEEF, CAEATFA would serve as a facilitator between a multitude of stakeholders, including the CPUC, the investor-owned utilities (IOUs), financial institutions, energy efficiency contractors, and end-users. CAEATFA will provide the necessary oversight and infrastructure to act as the CHEEF, establishing, managing, and providing fiscal oversight for:

- A master servicer – which will manage OBR transactions and the flow of funds between the IOUs and private capital providers/lenders
- A trustee bank – which will hold the ratepayer funds
- Establishing the necessary procedures, protocols and functions
- Coordinating with stakeholders, including CPUC, IOUs, capital providers/lenders, energy efficiency contractors and end-users.

The pilot programs are for an initial 18-month period, the financial obligations and compliance requirements will outlive that term. Based on previous experience, CAEATFA anticipates that the compliance requirements will need to remain in place for 10 years beyond the last loan that is executed under the program.

LEGISLATIVE ANALYST'S OFFICE

The LAO recommends that the Legislature approve budget trailer legislation that requires the CPUC in consultation with CAEATFA to evaluate the effectiveness of each of the three financing programs, upon the completion of the new CPUC pilot program. The LAO recommends that the evaluation include information to compare the cost and effectiveness of each approach.

STAFF COMMENTS

Staff has no comments on this proposal.

Staff Recommendation: Approve as Budgeted.

ISSUE 10: RESIDENTIAL PACE LOSS REVENUE FUND IMPLEMENTATION AND ADMINISTRATION

CAEATFA request a reappropriation of \$10 million in 2014-15 from the Energy Resources Program Account to provide credit enhancements for the financing of home energy efficiency project and energy upgrades. The 2013-14 budget included a \$10 million appropriation, but due to a delay in the passage of authorizing legislation, the project was slowed down. This re-appropriation would keep the project moving.

BACKGROUND

The Residential Property Assessed Clean Energy (PACE) is a program that may be used to finance residential energy retrofits. The benefits of the program includes the option to repay loans as a property tax assessment for up to 20 years, and can often help to obtain secure, lower-interest terms, and payment transferability to a new owner. The program was paused in 2010 by the Federal Housing Finance Agency (FHFA). In order to restart the program, a loss revenue fund is needed. FHFA is concerned if in the event of a home foreclosure or mortgage default, a PACE lien would be superior to the federally insured first mortgage.

In June 2012, FHFA outlined risk-mitigation alternatives, which included a PACE loss reserve fund program. By creating a loss revenue fund, this program could encourage the private sector to issue PACE-specific credit enhancement products on a first come first served basis.

STAFF COMMENTS

The PACE program is consistent with the State's goals of reducing greenhouse gas emissions in the residential sector. The PACE program helps to create access to financing to enable home energy improvements. The re-appropriation of the item is consistent with action taken by the Subcommittee in FY 2013-14.

Staff Recommendation: Approve as Budgeted.

0985 CALIFORNIA SCHOOL FINANCE AUTHORITY

ISSUE 11: CHARTER SCHOOL FACILITY GRANT PROGRAM

This proposal requests additional resources to administer the Charter School Facility Grant Program by the California School Finance Authority (CSFA).

BACKGROUND

AB 86 (Chapter 48, Statutes of 2013 transferred the administration of the Charter School Facility Grant Program (CSFGP) from the California Department of Education to the CSFA effective July 1, 2013. CSFA requests one staff service analyst, one office technician, an increase in funding to upgrade an existing associate Government Program Analyst to a Staff Service Manager I, and a funding augmentation of \$167,000.

The CSFGP is a noncompetitive program that provides assistance with facilities rent and lease expenditures for charter schools that meet specific criteria. CSFGP targets charter schools serving a high concentration of economically disadvantaged students. The transfer of the CSFPG to the CSFA was deemed appropriate since the program is similar to programs already administered by CSFA. Although the program was transferred the resources were not.

CSFA has received 315 applications for the FY 2013-14 and anticipates based on historical data obtained by the CDE, to average about 300 applications per year. The additional requested resources will ensure that CSFA is able to compare all tasks associated with review and processing of the applications to ensure that CSFA disburses \$92 million in funding by the deadline.

STAFF COMMENTS

This proposal appears non-controversial; staff recommends approval.

Staff Recommendation: Approve as Budgeted.

0845 DEPARTMENT OF INSURANCE**ISSUE 12: HEALTH CARE COVERAGE MARKET REFORM**

The California Department of Insurance includes \$1.01 million (Insurance Fund) in FY 2014-15 and \$702,000 in FY 2015-16 to fund seven compliance officers and two, limited-term attorney positions for one-year to address increased workload associated with AB X1 2 (Chapter 1, Statutes of 2013).

BACKGROUND

AB X1 2 established health insurance market reforms contained in the Patient Protection and Affordable Care Act (ACA) specific to individual purchasers, such as prohibiting insurers from denying coverage based on preexisting conditions, and made conforming changes to small employer health insurance laws resulting from final federal regulations.

Prior to ACA and AB X1 2, those preexisting health conditions were either denied health care coverage or were charged more depending on their specific health condition and/or severity. The ACA and AB X1 2 prohibit insurance companies from continuing this practice. AB X1 2 codifies the most important aspects of the ACA by allowing individuals with pre-existing conditions to access the health market.

As part of the implementation, staff will have to address calls and complaints, rulemaking, enforcement, and rating region impact analysis. CDI anticipates that the bulk of their work will be generated by calls. The CDI expects the number of telephone calls, inquiries, and complaints to increase significantly as the number of Californians insured by state-regulated companies increases. The CDI reports that its staff members are contacted by enrollees who are insured by companies regulated by both CDI and DMHC. Additionally, CDI staff receive general inquiries regarding health care and health insurance.

LEGISLATIVE ANALYST'S OFFICE

The LAO recommends that the Legislature approve the 7 positions to address an expected increase in the volume of health-related consumer complaints on a two-year limited-term basis. At this time, it is unclear how ACA implementation will (a) affect consumer complaints relative to past experience and (b) change the share of Californians enrolled in CDI-regulated individual market health insurance products relative to health insurance products regulated by DMHC. Approving these positions on a limited-term basis would allow the Legislature to reexamine CDI's need.

STAFF COMMENTS

Staff recommends adopting the LAO proposal to ensure that additional information can be gathered to measure the effectiveness of the program.

Staff Recommendation: Approve LAO recommendation to approve the 7 positions on a two-year limited-term basis.

ISSUE 13: ACCELERATED DEATH BENEFITS – LIFE INSURANCE

The Governor's Budget includes \$370,000 (Insurance Fund) in FY 2014-15 and \$312,000 in FY 2015-16 for three, permanent positions to regulate the new accelerated death benefit permitted by SB 281 (Chapter 345, Statutes of 2013).

BACKGROUND

Under prior law, the accelerated death benefit of life insurance policies that would accelerate death benefits upon the insured becoming chronically ill would be held to the same legal standards as applied to stand-alone long term care policies.

SB 281 changed the legal standards for accelerated death benefit provisions of life insurance policies that accelerate death benefits upon the insured becoming chronically ill, where the insurer places no restrictions on the insured's use of the accelerated death benefit.

CDI expects, these changes will lead to more life insurance companies offering this benefit. At the same time, the cost of long-term care insurance has been increasing. Consequently, CDI is concerned that complaints regarding how life insurance companies, agents, and brokers market and sell accelerated death benefits will increase.

LEGISLATIVE ANALYST'S OFFICE

The LAO recommends approving these positions on a two-year limited-term basis. This proposal implements a new law and no caseload history exists. Approving these positions on a limited-term basis would allow the Legislature to reexamine CDI's need for these positions once an actual caseload history has been established.

STAFF COMMENTS

There is not enough information at the time to determine how CDI will be affected by the change in law. Staff concurs with the LAO recommendation to make these positions limited-term.

Staff Recommendation: Approve LAO recommendation to approve these three positions on a two-year limited-term basis.

ISSUE 14: PRINCIPLE-BASED RESERVING

The Governor's Budget includes \$491,000 (Insurance Fund) for FY 2014-15 and \$463,000 for FY 2015-16 ongoing for 4.0 positions to address the increased workload associated with the adoption of the Principle-Based Reserving life insurance methodology by the National Association of Insurance Commissioners.

BACKGROUND

Principle-Based Reserving (PBR) is a new modeling methodology utilized to estimate insurer liability for future life insurance claims and adds a need to review different programming platforms in order to generate future modeled reserves (which are not formula driven). The methodology has been developed through NAIC process as a change to a model law that will become a national standard once adopted by state legislatures. It is anticipated that proposed law changes will be introduced in state legislatures in 2014 either by the industry or by state regulators.

Once operative, the NAIC Valuation Manual allows up to a three year transition to give insurers time to implement PBR for future sales. This delay will allow sufficient time to hire and train new staff. It is anticipated that the initial PBR submissions will arrive in March 2016 with a significant number arriving beginning in March 2017.

Budget Bill Language. PBR will be effective only after the revisions to the law have been adopted by a super-majority of states representing 75 percent of total U.S. premium. If this does not occur by June 30, 2014, state will have to wait another year to implement. CDI proposes Budget Bill Language that would state that the resources would not be available until the revised law has been adopted.

Of the funds appropriated in Schedule (1) of this item, \$491,000 and 4.0 positions will be available only upon passage of the National Association of Insurance Commissioners (NAIC) Principle Based Reserve (PBR) actuarial methodology. PBR will become effective only after a supermajority of states, representing 75% of written premium, adopted the revised laws. The Department of Insurance will notify in writing the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee within 15 days of the adoption of PBR.

STAFF COMMENTS

This proposal provides resources for CDI to anticipate the methodology. The proposal additionally, contains budget bill language to not appropriate funds if the methodology is not adopted by a supermajority.

Staff Recommendation: Approve as Budgeted and adopt budget bill language.
