

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, MARCH 14, 2017
1:30 P.M. - STATE CAPITOL ROOM 447

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ITEMS TO BE HEARD

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The Governor's budget includes \$26.5 million for the Governor's Office of Business and Economic Development (GO-Biz) in 2017-18, a slight decrease of about \$330,000 or 1.2 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 1: CALIFORNIA COMPETES TAX CREDIT

The California Competes Tax Credit (CCTC) unit of the Governor's Office of Business and Economic Development (GO-Biz) is requesting \$1.2 million General Fund for three years to make permanent 10 existing limited-term positions. The positions were first established in 2014-15 on a limited-term basis to implement the CCTC program within AB 93 (Chapter 69, Statutes of 2013) and SB 90 (Chapter 70, Statutes of 2013). The positions expire June 30, 2017.

BACKGROUND

GO-Biz was created to serve as California's single point of contact for economic development and job creating efforts. AB 93 and SB 90 established 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 first program of the initiative is a statewide, Board of Equalization administered, sales and use tax exemption applicable to equipment procured by businesses engaged in manufacturing or biotechnology research and development. The second program is a geographically targeted hiring tax credit administered by the Franchise Tax Board (FTB). The third program is the CCTC, which is administered by GO-Biz. The purpose of the CCTC program is to attract, expand, and retain businesses in California.

GO-Biz negotiates written tax credit agreements with businesses on a case-by-case basis. (Businesses that receive tax credit agreements are identified through a competitive application process. The agreements are approved by a five-member committee.) These agreements specify an amount of tax credits available to each business once they achieve specific and pre-determined employment and investment targets over a five-year period. The amount of tax credits available varies from year to year according to a formula established in law. \$243.4 million in tax credits were available for GO-Biz to allocate during 2016-17. Under current law, GO-Biz may only allocate tax credits through the 2017-18 fiscal year.

The charts below shows the CCTC aggregated statistics from June 19, 2014, to November 17, 2016.

As of November 2016	Number of Awardees	Number of Jobs Committed	Amount of Investment Committed	Credit Awarded	Credit Recaptured
Non-Small Businesses	365	54,439	\$12,225,995,419	\$320,586,065	\$3,514,667
Small Businesses	209	8,085	\$1,439,236,765	\$80,515,861	\$210,667
Total Businesses	574	62,524	\$13,665,232,184	\$401,101,926	\$3,725,334

Fiscal Year	Total Credit Available	Total Credit Requested	Number of Non-Small Business Applications	Number of Small Business Applications	Number of Non-Small Businesses Awarded	Number of Small Businesses Awarded
2013-2014	\$30,000,000	\$561,454,983	262	134	18	11
2014-2015	\$151,100,000	\$939,315,673	592	214	135	77
2015-2016	\$200,900,000	\$808,851,620	568	328	171	211
2016-2017*	\$243,300,000	\$430,280,902	185	107	41	33

* With the exception of "Total Credit Available," the values listed reflect the information for only the first application period of three for Fiscal Year 2016-17.

BCP Resources. Go-Biz requests the following positions change from limited-term to permanent: Deputy Director, Staff Services Supervisor II, two Staff Services Supervisor Is, three Associate Government Program Analysts, Staff Service Analysts, Attorney, and a Software Specialist.

Under current law, credits are available to allocate under the CCTC program through fiscal year 2017-18, which was the original reason for classifying the positions in this unit as limited term. The CCTC program is now in its third full fiscal year of operation. Since its inception, the unit has awarded \$401,101,926 in tax credits in exchange for commitments from business to create a projected 62,755 new full time jobs in California and \$13,682,563,442 in investments in the state.

Go-Biz argues that under the current limited-term nature of the program, the work will not end in fiscal year 2017-18. The credits span a five-year term and credit milestones must be maintained for three years after the end of the contract, which means that work on the program will continue indefinitely. Go-Biz states that it is appropriate that the staff positions become permanent and funding be provided for three years, allowing for a future review of this program and any extensions that may have occurred.

LAO Comments. The LAO states that the administration's proposal for \$1.2 million General Fund per year for three years is not justified given that the bulk of the program's workload will end next year under current law. The LAO recommends that the Legislature approve funding for one year and revisit next year what amount of on-going funding to GO-Biz is necessary to continue administering this program. However, establishing the 10 positions permanently, as requested by the administration, would not preclude the ability of the Legislature to make changes to the California Competes tax credit program, or end the program, should it chose to do so in the future.

STAFF COMMENTS

The Governor's Economic Development Initiative of 2013 (Cal Competes, Sales Tax Exemption, and the New Employment Credit), will begin to expire soon, the subcommittee may wish to ask GO-Biz what the plan for these programs is?

There are a number of program under GO-Biz's purview, the subcommittee may wish to ask about funding for the Small Business Development Center (SBDC) Network. The last two years, additional revenue has been added to the budget to draw down federal funds, are there funds available to draw down federal dollars this year for SBDC?

Staff Recommendation: Hold Open.

ISSUE 2: SUSTAINABLE FREIGHT PROJECT

The Governor's Office of Business and Economic Development (GO-Biz) is requesting funding for an exempt position and ongoing budget authority of \$227,000 (Special Fund). This request provides resources to allow GO-Biz to meet the requirements of the Scoping Plan, and the Governor's Executive Order relating to the Sustainable Freight Action Plan.

BACKGROUND

This proposal will allow GO-Biz to manage and implement the portions of AB 32 (Chapter 488, Statutes of 2006), the Climate Change Scoping Plan, the first update to the Climate Change Scoping Plan, and the Sustainable Freight Action Plan. The first update discusses the Sustainable Freight Initiative, "a broad, multi-decade effort to develop, fund, and implement the changes necessary to achieve a sustainable freight system. In July 2015, the Governor signed an Executive Order mandating that GO-Biz, along with several other state agencies, develop the Sustainable Freight Action Plan by July 2016.

The Governor directed the California Transportation Agency, the California Environmental Protection Agency, the California Natural Resources Agency, the California Air Resources Board (ARB), the California Department of Transportation, the California Energy Commission, and GO-Biz to cooperate in the development and implementation of the Executive Order.

Between July 2015 and July 2016, the above agencies collaborated in drafting a Sustainable Freight Action Plan, stemming from the Sustainable Freight Initiative discussed in the first update. Since July 2015, GO-Biz re-directed an existing position to provide full-time staffing to assist in the development of the Sustainable Action Plan.

On July 29, 2016, the Governor approved the completed Sustainable Freight Action Plan. The role of GO-Biz in implementing this Executive Order and the newly approved Sustainable Freight Action Plan aligns with the tasks outlined in the-Scoping Plan and the First Update of the Scoping Plan relative to economic analyses of actions to the freight industry and individual cost analyses to businesses within the freight sector.

BCP Position. The Sustainable Freight Project Manager will work closely with the private sector in implementing the Scoping Plan and the First Update and overseeing the development and implementation of the Sustainable Freight Action Plan and related actions and activities.

STAFF COMMENTS

The proposal supports the economic competitiveness side of the equation related to ARB's freight plan. Staff has no concerns.

Staff Recommendation: Hold Open.

7730 FRANCHISE TAX BOARD

The Governor's budget includes \$745.2 million for the Franchise Tax Board (FTB) in 2017-18, a decrease of \$19.9 million or 2.6 percent from the current year. The main funding source of FTB's budget is General Fund, \$712.8 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 3: OVERVIEW OF CAL EITC

This item provides background on the California Earned Income Tax Credit (Cal EITC).

The chart below provided by FTB, provides the various statistics through February 25, 2017. FTB notes that there is sizeable growth in both number of filers and dollars allowed.

Return Information – As of February 25, 2017	
Number of Processed Returns that Claim the EITC	211,611
Amount of EITC Allowed on Processed Returns That Resulted in a Refund or Reduction in a Tax or Other Liability	\$132,880,762
Average (Mean) EITC Credit Claim	\$625
Median EITC Credit Claim	\$336
Range of EITC Credit Claims	\$ 0 – 2,706
First Time Filers – As of January 31, 2017	
	1,689
Information on Return Modifications - errors or improper payments – As of January 31, 2017	
Returns Adjusted or Denied	4,442
Amount of Credits Adjusted or Denied	\$3,567,795

BACKGROUND

The California EITC is a personal income tax (PIT) credit that is intended to reduce poverty among California's poorest working families by increasing their after-tax income. For those tax filers who qualify, the credit reduces income tax liability. In the common case where the amount of the credit exceeds the filer's liability, the difference is paid to the filer as a tax refund.


























The 2015-16 budget estimated that two million individuals (825,000 tax returns) and was estimated to reduce PIT revenues available to the General Fund in 2015-16 by \$380 million dollars. The 2017-18 budget estimates to reduce PIT revenues by \$264 million.

The California EITC is structured to match 85 percent of the federal EITC for earnings in the lower half of the federal EITC's phase-in range. For higher levels of earnings up to the end of the federal EITC's phase-in range, the California EITC phases out, such that the households that qualify for the maximum federal EITC no longer qualify for the California EITC. This structure focuses the benefits of the California EITC on working families with very low earnings—specifically, less than \$13,870 per year.

Self-Employment Income. The federal EITC has historically had a high level of improper payments to individuals who claimed a larger credit than they are eligible to receive. One common source of improper payments in the federal EITC is the misreporting of self-employment income. In order to limit improper payments resulting from misreported self-employment income, the California EITC defines earnings more narrowly than the federal EITC to only include wages subject to withholding—effectively excluding self-employment income.

Outreach. The 2016-17 budget provided \$2 million to the Franchise Tax Board (FTB) to support education and outreach activities to build awareness of the California Earned Income Tax Credit. The 2017-18 budget does not include additional funding for outreach activities.

FTB Outreach. The chart below outlines Cal EITC education and outreach for 2017.

Marketing Material Distributed and Advertised in:		
Available languages		Responsible Party
 English and Spanish		Grant Recipients, FTB, SIT
 Arabic, Chinese, Farsi, Hmong, Japanese, Korean, Mien, Russian, Somali, Thai, Tagalog, Mandarin, and Vietnamese		Grant Recipients, FTB, SIT
Marketing Strategies		
 Expanded VITA bus tours		Grant Recipients, FTB, SIT
 Increased number of press releases		Grant Recipients
 Radio, TV and newspaper interviews		Grant Recipients, FTB, SIT
 Working with schools, 211 operations, foreign consulates, county agencies, etc.		FTB, Grant Recipients
 Working with community partners (Immigrant centers, community centers, WIC offices, Head Start parent meetings, churches,)		Grant Recipients
 Outreach at community events (health fairs, resource fairs, farmers markets, etc.)		Grant Recipients
 Community canvassing - door to door, grocery stores, libraries, parks, transportation hubs, laundromats, etc.		Grant Recipients
 Community canvassing - California Endowment Building Health Communities Collaborative, Mexican Consulate Office, Promoters program (Spanish)		Grant Recipients
 Employers distribute information to their employees		AB 650
 Distribution of materials in food bank distributions/Emergency Food Assistance Program, CSBG Network		FTB, CDSS, CSD
 Social media (Twitter, Facebook), radio, TV, newspapers, newsletters, blogs, editorials, interviews, mobile ads		FTB, Grant Recipients, CSD
 Facebook live interviews promoting CalEITC in English, Spanish, Russian		FTB
 Eblasts		CalCAPA, CSD
 Dedicated phone lines, text messages, recorded EITC message		FTB, Grant Recipients, 211 SD/Imperial, CSD
 Bus shelter, bench ads, billboards, PSA, commercials, ads		Grant Recipients, CSD
 Newspaper ads in Sacramento, Fresno, San Bernardino counties		FTB, Grant Recipients
 Mail to applicants enrolled in CalFresh, Medi-Cal, and Covered CA		Grant Recipients
 Contract with Community College Foundation for e-bus		FTB
 Approx. 1 million brochures (English & Spanish) and 32,000 posters (English & Spanish) for SIT partners, grantees, elected offices, non-profits, CDCR facilities, community colleges, VITA sites and others		FTB
 Videos in English and Spanish promoting VITA/CalEITC; presentations provided and materials distributed at education and outreach events for taxpayers, tax professionals and at various events sponsored by Legislative Members.		FTB
 EITC and VITA coverage in La Voz Del Campo CA Bulletin, Radio interviews in Radio Bilingue (tax season)		CSD
 Coordination and sharing of EITC and VITA information through presentations to Blank Infant Health/Family Health Advocates, California Home Visiting Program, Health in All Policies Task Force, the California State Tribal Liaison, California State Rural Health Association Conference, Department of Health Care Services Tribal Health meeting, Student Aid Commission, and Covered California		CSD
 VITA flyer mass mailing to families who earned income of \$50 or more		San Bernardino County

Community Based Organizations (CBOs) Outreach in 2016-17. Grants were administered by the Department of Community Services and Development. A total of 11 mostly community based organizations were awarded grants to conduct community-based outreach to reach potentially eligible CalEITC recipients in targeted counties (and targeted zip codes within those counties). The 10 counties include: Los Angeles, Orange, San Diego, San Bernardino, Riverside, Sacramento, Alameda, San Francisco, Santa Clara and Fresno. Two statewide grants and one rural counties outreach grant also were awarded.

The outreach activities conducted by CBOs included outreach through schools and key community partners (county health and human service agencies, food banks, libraries, places of work and business, Head Start and Migrant Education programs, low-income housing, and more); in-reach through nonprofit programs serving the potentially eligible population and 2-1-1 call centers. Media also was a key component that included activities such as interviews and ads on local and ethnic radio and TV; ads including billboards in targeted zip codes; and ads on buses serving targeted communities. Grantees also have conducted outreach through local community door-to-door canvassing and at many community events such as resource fairs.

Grantees who applied through the competitive grant-making process had to demonstrate knowledge of the CalEITC, EITC, and Volunteer Income Tax Assistance program; three years or more of experience successfully providing outreach activities with low-income populations; ability to establish or leverage trusted relationships with community partners serving low-income communities; ability to provide education and outreach activities appropriate to the language and cultural needs of the targeted low-income populations; as well as ability to report reliable and valid data for all proposed activities. On a monthly basis, grantees report data to Community Services and Development on the specific number and type of outreach activities, number of people reached, and expenditures. Grantees also are required to meet monthly to share best practices, challenges, needs, and timing of various activities. Social media and web presence with CalEITC education and information is a required activity of all grantees.

Benefits to Cal EITC program. According to the California Budget and Policy Center, programs like California's CalEITC, are important tools for boosting economic security among working families. By piggybacking on the federal EITC, the state credit not only helps families better by making ends meet, but they also may enhance the federal EITC's well-documented benefits to children, families and communities. 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, boosts California based- businesses and the state economy, and brings more federal funds into the state.

STAFF COMMENTS

CalEITC is an important tool for our State. Since its inception, the goal has been to explore different options to expand EITC. The subcommittee may wish to direct staff to work with advocates and others to explore what other states are doing, and discuss options to expand the credit if funding is available. Additionally, the outreach component is vital to the program's success. If funding is available, the subcommittee may consider continuing outreach dollars.

ISSUE 4: COURT ORDERED DEBT COLLECTION WORKLOAD

The 2017-18 budget proposes \$1.1 million (special fund) and 11 positions to permanent and three-year limited-term funding to eliminate a backlog of accounts and address a growing number of clients for which FTB provides collection services for the Court Ordered Debt (COD) Program.

BACKGROUND

This FTB program was established as a pilot program in 1994. FTB-COD collects the following types of debt for clients who volunteer to participate in the program: court fines and fees, court-appointed counsel costs, vehicle code violations, civil assessments, probation, and victim restitution fines and orders. These clients include Superior Courts, Probation Courts, Probation Department and Revenue Recovery Agencies.

In 2004, the Governor signed SB 246 (Chapter 380, Statutes of 2004) to make the COD program permanent. The program client base has grown from 66 to 80 clients (21 percent growth) since 2010-11. The FTB-COD program bills its clients for the operating costs of the program not to exceed 15 percent of the amount collected or actual cost, whichever is less. There is no General Fund cost to administer the FTB-COD program.

In 2013-14, the FTB-COD leveraged the COD budget surplus to hire temporary help resources to address the growing demand in collection activities. These staff provide a short-term solution for a long-term problem. The temporary help staff on average stays within the FTB-COD program for about 12 months. The current attrition rate is approximately 75 percent. The FTB-COD training period is six weeks, however it takes staff about six months to become proficient, therefore staff is available a total of six months out of the 12 months they are in the program.

BCP Request.

- Collection Activities – Seven temporary help to permanent. These staff will manage the new level of ongoing work associated with the new data sources and tools implemented.
- Backlogs – Three-year limited term funding equivalent to 10 positions. These staff will be responsible to assist in the elimination of the backlog.

STAFF COMMENTS

The resources included in this item will provide FTB with the resources to sustain the current level of demand for collections services and eliminate the backlog. There is no cost to the General Fund.

Staff Recommendation: Hold Open.

ISSUE 5: CALIFORNIA COMPETES TAX CREDIT REVIEWS

The Governor's budget provides \$1.7 million (General Fund) in 2017-18 and 2019-20 for three year limited term funding authority and 14 positions to continue conducting statutorily-mandated reviews of the California Competes Tax Credit agreements.

BACKGROUND

AB 93 (Chapter 69, Statutes of 2013) eliminated state economic development programs known as Enterprise Zones and replaced them with several new economic development programs. One such program—the California Competes tax credit—provides tax credits to select businesses on a case-by-case basis. California Competes allows companies to request a credit against the corporation tax (CT) or the personal income tax (PIT) in exchange for meeting specific hiring and investment goals over a five-year period.

FTB is one of California's tax agencies, administering the PIT and the CT. FTB is generally required to review the records of businesses allocated a California Competes tax credit. (FTB is not required to audit small business recipients, defined as having annual revenues under \$2 million, though they may do so at their discretion.) At the end of each year, businesses are first required to report to GO-Biz whether they achieved their hiring and investment targets for the year, meaning they will be able to claim the tax credit. GO-Biz collates this information and provides it to FTB monthly. FTB verifies that the businesses have complied with the terms and conditions of their agreements after they have claimed the tax credit. To date, businesses have only been able to claim credits against their taxes for the 2014 and 2015 taxable years. FTB has not identified any cases in which a business was in a “material breach” of their agreement, meaning they claimed a tax credit without first meeting their hiring and investment targets. In the future, should FTB determine a business is potentially in material breach of their tax credit agreement, they will notify GO-Biz. GO-Biz then determines whether to recapture the tax credit.

LAO Comments. According to the LAO analysis, the first businesses that negotiated California Competes tax credit agreements with GO-Biz in 2014 were allowed to claim tax credits against their 2014 tax year income tax liability (provided they achieved their hiring and investment targets). These returns were not filed until 2015. According to information provided by FTB, in 2015-16 taxpayer compliance staff reviewed the records of 15 businesses to verify they complied with the terms of their tax credit agreement. In 2016-17, given their current resources, FTB estimates they will be able to review the books of 40 taxpayers (about 10 reviews per staff equivalent per year).

Meanwhile, the number of businesses that have claimed California Competes tax credits has been increasing significantly. FTB estimates that they will end the current year with an inventory of 449 cases pending a review. This amount includes businesses that have met their first year milestone, but not all of these have yet filed a return claiming the tax credit. Also note that FTB does not review the records of every business in every year (and only reviews the records of a subset of small business).

However, the number of businesses claiming California Competes tax credits will steadily rise over the coming years—to as many as 1,000—before tapering off as existing tax credit agreements end and no additional agreements, under current law, are signed.

According to the LAO, the administration’s proposal for three years of funding is reasonable in light of some amount of continuing uncertainty about FTB’s workload from year to year.

STAFF COMMENTS

The request for limited-term funding is reasonable. Staff has no concerns with the resources for the ongoing need.

Staff Recommendation: Hold Open.

1701 DEPARTMENT OF BUSINESS OVERSIGHT**ISSUE 6: BROKER-DEALER / INVESTMENT ADVISER PROGRAM**

The Department of Business Oversight requests \$1.7 million and 11 permanent positions for 2017-18, and \$3.0 million and 20 permanent positions ongoing, beginning 2018-19, to enable the Department's Broker- Dealer/ Investment Adviser Program (BDIA). This program examines Investment Advisers, Broker-Dealers, and Broker-Dealer branches on a four-year cycle. The positions will be paid through the State Corporations Special Fund.

BACKGROUND

The BDIA Program's primary functions are to license and regulate broker-dealers (BD), broker-dealer agents, investment advisers (IA), and investment adviser representatives, pursuant to the Corporate Securities Law of 1968. Regulatory oversight ensures the investing public is protected from unethical and fraudulent activities and California's financial market is secure, fair, and transparent. Regulatory oversight is achieved by performing detailed licensing reviews and regulatory examinations of the licensee population.

In enacting SB 538 (Hill) (Chapter 335, Statutes of 2013), the Legislature found that the Department lacked adequate resources for a comprehensive regulatory program. The program had a 28-year examination cycle for a routine regulatory examination. A four-year cycle is used in approximately 60 percent of all states and by the Financial Industry Regulatory Authority (FINRA). The Legislature resolved California should follow FINRA's guidance to examine BDIA licensees once every four years. As a result, SB 538 authorized new fees to be raised with the intention that the Department use the revenue to perform regular, periodic examinations of broker-dealer agency and investment adviser representatives at least once every four years. Routine, periodic examinations will protect investors, and will discover and discourage illegal and fraudulent activity.

In response to the Global financial crisis in 2007-09, the 2010 Financial Regulatory Reform Act, commonly referred to as "Dodd-Frank" was enacted. Dodd-Frank was passed to promote financial stability in the United States by improving accountability and transparency in the financial system, to protect taxpayers by ending bailouts, and to protect consumers from improper financial service practices. Prior to the passage of Dodd-Frank, the Department was responsible for regulatory oversight of investment advisory firms with less than \$25 million in assets under management. The passage of Dodd-Frank expanded the Department's responsibility to include regulatory oversight over investment advisory firms with assets under management up to \$100 million.

As a result of both SB 538 and Dodd-Frank, DBO submitted a 2014-15 BCP to increase examination staff to enable more frequent examinations required by law. The Legislature approved an increase of 36 positions over two years (2014-15 and 2015-16). The Department, the Administration, and the Legislature were aware that while the 36 positions would increase the number of examinations that could be performed, the level of resources would not be adequate to meet the four-year examination cycle and it was understood the Department would submit a BCP for additional staff in future years as workload data could be substantiated. DBO has provided information that demonstrates the need for 256 more examiners to achieve the four-year examination cycle. In the short-term, it is not feasible for the Department to implement a five-fold increase in examination staff. This request is to continue the growth at a more modest and manageable rate of 16 percent per year. The positions requested will support increased examinations, increase protection to investors, and discourage illegal and fraudulent activity.

STAFF COMMENTS

The number of examiners identified in the workload over the long term is a significant increase for the department. The subcommittee may wish to ask DBO what their long-term strategy for this program is and how do they envision it growing over time?

Staff Recommendation: Hold Open.

0950 STATE TREASURER'S OFFICE**ISSUE 7: DATA AND GOVERNMENT TRANSPARENCY UNIT**

The budget proposes \$799,000 (reimbursements) to fund five permanent positions for data and government transparency efforts. The resources for these positions will be provided by the various boards, commissions and authorities associated with the STO. The funding will provide support for five technology positions – three senior programmer analysts, one systems software specialists III, and one staff information systems analyst. These limited-term positions expire at the end of the current year.

BACKGROUND

The Unit was created to increase the public access to programs, data and information provided through various web based programs, including: Debtwatch debt data website; California Debt and Investment Advisory Commission (CDIAC) Issuance Documents project, California Business Incentives Gateway (CBIG); Treasurer's Awards Transparency project; BuyCaliforniaBonds website upgrade project; and various other programs.

The 2015-16 budget provided the STO with five positions and roughly \$700,000 on a two-year, limited term basis to establish a Data and Government Transparency Unit, funded by the boards, commissions, and authorities associated with STO. The office proposed to use the Unit to update its website and facilitate its data sharing efforts. In the two fiscal years since the unit's establishment, STO has used it, along with about \$1 million in contracts that was redirected from other sources, to update STO's website and launch other pages with information on California debt ([DebtWatch](#)) and business incentives ([CBIG](#)). (The ongoing cost of these contracts is about \$180,000 per year.)

LAO COMMENTS. The LAO indicates that there is insufficient justification of ongoing workload. STO has identified a few upcoming new projects for the unit through December 2018. STO has not identified new projects beyond 2018 but has indicated that it would continue to require staff resources to maintain the new sites. While there is likely to be some level of ongoing workload associated with maintaining these sites once they are created, LAO anticipates this to be at a lower level than what is associated with creating new sites. LAO raises no specific concerns with the proposed funding to implement new projects in the next couple of years, but recommends providing the requested funding on a two-year, limited-term basis. Additionally, the LAO suggests that to the extent that STO believes there is ongoing workload associated with maintaining the various sites, it will be in a better position to assess the level of this workload once all the proposed sites have been launched.

STAFF COMMENTS

Staff continues to have concerns about the ongoing workload associated with this program similar to concerns shared in 2015. Staff recommends resources continue to be provided on a limited-term basis. The STO has asked for budget bill language that would provide an exemption for STO to continue to use the same staff if these positions are provided on a limited-term basis.

The subcommittee may wish to ask how much does each board and commission pays for the services and what services do they receive in return?

For the CBIG website, what is the difference between that website and what GO-Biz does to provide a central clearinghouse for economic and business incentives?

Finally, the subcommittee may wish to ask DOF if there is budget bill language that would allow STO to continue to use the same staff on a limited-term basis. Is that a normal practice at DOF?

Staff Recommendation: Hold Open.

ISSUE 8: FISCAL RECOVERY FUND TRAILER BILL LANGUAGE

The budget includes proposed trailer bill language (TBL) that would require that, after transferring required amounts in the Fiscal Recovery Fund (FRF) to the counties, any remaining amounts be transferred to the General Fund.

BACKGROUND

The FRF was established in conjunction with the issuance of the state fiscal recovery bonds, which were authorized by the voters in 2004. Revenues raised by 0.25 percent of the statewide sales tax were deposited to the FRF and used to pay debt service on the bonds. The bonds have been paid off and are no longer outstanding. Under current law, certain remaining funds in the FRF are to be transferred to the counties and the remainder subject to appropriation.

STAFF COMMENTS

Staff has no concerns with this issue.

Staff Recommendation: Hold Open.

0971 CALIFORNIA ALTERNATIVE ENERGY & ADVANCED TRANSPORTATION FINANCING AUTHORITY**ISSUE 9: CAEATFA ADMINISTRATION OF CA HUB FOR ENERGY EFFICIENCY FINANCING PILOT PROGRAMS**

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) has requested an adjustment to its spending authority and a budget augmentation for additional staff, pursuant to its administration of California Hub for Energy Efficiency Financing (CHEEF) pilot programs. The program is funded by ratepayer funds (non-General Fund) and includes reimbursement and expenditure authority in the amount of \$3.7 million in 2017-18, \$3.5 million in 2018-19 and \$3.0 million in 2019-20.

The funding would extend authority for nine existing positions through 2019-20; an additional three staff positions; and, an upgrade of two existing positions. The request re-appropriates \$1.8 million from previous years and includes \$8.4 million in additional ratepayer funds pending formal approval by California Public Utilities Commission (PUC).

BACKGROUND

The CHEEF pilot programs are designed to encourage private lenders to develop financial products for energy efficiency projects. The pilots offer various forms of credit enhancements to provide additional security to participating financial institutions, attract private capital to energy efficiency finance, and expand consumer access to enhanced loan terms. CAEATFA was selected as the administrator of the CHEEF pilot programs, which were approved for a two-year period by the Legislature and the PUC. The pilots were originally to be implemented through 2016-17; however, the PUC approved a decision which clarified that the 24-month term for the pilot programs should align with the enrollment of the first loan in that particular finance pilot. This change, in combination with a longer than anticipated implementation schedule, unanticipated complexity, infrastructure development, stakeholder involvement, and staffing changes, requires extending the schedule for the pilots. Consistent with the budget request, the pilots will run through 2019-20.

STAFF COMMENTS

The approval of these funds is consistent with previous actions by the Legislature. The resources requested including the increase of staff and the upgrade of positions is essential to the project's success.

Staff Recommendation: Hold Open.

0956 CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION**ISSUE 10: PERSONAL SERVICES AUGMENTATION**

The California Debt and Investment Advisory Commission (CDIAC) has requested an increase of \$200,000 (special funds) in its expenditure authority for personal services (wages, salaries and benefits) to offset the growth of personal services expenditures that has occurred at the expense of other mandated activities.

BACKGROUND

CDIAC provides information, education and technical assistance regarding debt issuance and public funds investing to state and local public agencies and other public finance professionals. CDIAC was created in 1981 for the purpose of serving as the state's clearinghouse for public debt issuance information and assisting state and local agencies with the issuance, monitoring, and management of public financings. The scope of responsibilities of CDIAC was later expanded to include assistance activities related to public investing.

According to CDIAC, as a percentage of total budget authority, its expenditures for personal services (salary, wages, and staff benefits) will have grown from less than 50 percent in FY 12/13 to over 63 percent in FY 17/18 (projected). The growth in personal services costs translates to a very small percentage (less than 6 percent) of authority remaining for operating expenses for which CDIAC management has a degree of discretion. The request for an on-going augmentation of CDIAC's budget authority by \$200,000 will reduce the percentage of total authority expended for personal services to slightly less than 60 percent. While still a high percentage of total authority, the increase will allow CDIAC to pursue a variety of high priority projects consistent with its statutory mandate.

Personal Services History
(Dollars in Thousands)

	12-13	13-14	14-15	15-16	16-17*	17-18*
Authorized Expenditures	2,959	3,084	3,119	3,466	3,506	3,506
Personal Services Budget Authority	1,573	1,743	1,853	1,916	1,788	1,788
Personal Services Budget % of Total	53%	57%	59%	55%	51%	51%
Personal Services Expenditures	1,436	1,687	1,859	2,117	2,117	2,209
Personal Services Exp. % of Total Authority	49%	55%	60%	61%	60%	63%

* Expenditures projected. Authority for 17-18 assumed to be the same as in 16-17.

After adjusting for reimbursements in CDIAC's authority, a very small percentage of CDIAC's total budget authority can be expended with any degree of managerial discretion. Nearly 93 percent of the adjusted authority in 16-17 is allocated for personnel or non-discretionary operational expenses. These non-discretionary expenses include rent and facilities operations, basic communications, STO administrative services, C&P internal, prorata, and expenses related to the Treasurer's transparency initiative (DebtWatch). Even the elements of CDIAC's budget operational budget categorized as

discretionary are made up of necessary items of expense including supplies, postage, travel, training, and office equipment replacement.

LAO Comments. LAO states that in each of the past five fiscal years, CDIAC has underspent its budgeted authority by at least \$200,000. Accordingly, it is not clear why additional budget authority is needed for the commission to maintain its current operations. The LAO notes that, based on their discussions with CDIAC, it is planning to conduct additional activities in future years, such as providing more web-based trainings and using CDIAC staff to identify and assist local agencies in financial distress. To the extent that additional funding is needed to complete these types of additional activities, CDIAC should put forward a proposal justifying those specific expenditures.

While CDIAC argues that its proposed augmentation is necessary because personal services are increasing as a share of its budget, the LAO notes that there is no ideal share of personal services costs.

STAFF COMMENTS

CDIAC notes that other costs are contributing to the declines in CDIAC's savings including increased rent and a very low rate of attrition for staff. Additionally, CDIAC has not asked for an increase in expenditure authority in over 20 years.

The subcommittee may wish to ask CDIAC how much of its expenditure authority it pays for the Data and Government Transparency Unit, discussed above, and what direct benefit CDIAC receives.

Staff Recommendation: Hold Open.

0840 STATE CONTROLLER'S OFFICE

The Governor's budget includes \$205.1 million for the State Controller's Office (SCO) in 2017-18, an increase of 7.7 million or 3.9 percent from the current year. The SCO's funding is comprised of General Fund, special funds and reimbursements. The SCO is responsible for transparency and accountability of the state's financial resources; the Controller ensures the appropriate disbursement and tracking of taxpayer dollars.

ISSUE 11: CALIFORNIA STATE PAYROLL SYSTEM

The SCO requests \$2,970,000 one-year limited-term funding [\$1,693,000 General Fund and \$1,277,000 Central Services Cost Recovery Fund (CSCRF)] to support 11.0 positions in 2017-18, to perform business process re-engineering of human resource management and payroll processing practices, document mid-level solution requirements, and begin the completion of the Stage 2 Alternatives Analysis of the Department of Technology (CDT) Project Approval Lifecycle (PAL).

BACKGROUND

In 2010, the State Controller's Office (SCO) hired SAP Public Services, Inc., to develop, test, deliver, and implement the 21st Century Project system (also known as MyCalPAYS). Started in 2006 by BearingPoint and continued by SAP, the project was the largest payroll modernization effort in the nation, intended to replace 30 year-old legacy systems and improve staff management processes such as payroll, benefits administration, and timekeeping for all state government employees.

In August 2011, the SCO issued a formal cure letter to SAP Public Services and in November 2011 negotiated a new agreement. However, in October 2012, a second formal cure letter was issued to SAP Public Services and in February 2013, the SCO terminated its \$90 million implementation contract with SAP after an unsuccessful eight-month pilot involving 1,500 state employees. In November 2013, the SCO filed a lawsuit against SAP and SAP later filed counter-claims against SCO. After two and a half years of litigation, a June 6, 2016, settlement agreement resulted in SAP paying SCO \$59 million and abandoning its own claims against SCO in the amount of approximately \$23 million. The \$59 million settlement was distributed to the state's General Fund and special funds, using the same proportions established to support the 21st Century Project. SCO is now closing out the 21st Century Project and recently completed a Post-Implementation Evaluation Report (PIER) to the CDT on November 7, 2016.

During the 2016-17 May Revision the SCO was approved authority of \$2,377,000 in 2016-17, and \$2,831,000 in 2017-18, to fund eight positions to begin the process of re-starting the human resource management and payroll system replacement project, using the new PAL processes to identify and analyze alternative solutions to the MyCalPAYS system. As part of the approved May Revision, the Legislature adopted supplemental reporting language requiring SCO to provide more detail on future assessment activities.

One of the most significant lessons learned from prior efforts is that the state's personnel and payroll practices are extremely complex and not always in alignment with industry standards, resulting in great difficulty when attempting to identify a modern alternative system. The additional resources requested in this proposal will augment the 8.0 existing positions and continue the extensive effort of examining these business practices and working with SCO divisions. Department of Human Resources (CalHR), Financial Information System for California (FI\$Cal), Department of Finance, and departmental human resources offices to determine where the state can conform to industry standards for payroll processing.

Timeline. The alternatives analysis for this project is a significant endeavor and is likely to span the entire 2017-18 fiscal year. It is projected that the S1BA will be completed by April 2017, the S2AA by August 2018, the S3SD by May 2019, and the S4PRA is projected to be completed by December 2019. Project funding is targeted for 2020-21.

The SCO is taking a collaborative approach to examine business practices and is identifying classifications and positions within SCO divisions and CalHR to accomplish this objective. Once potential changes are identified, these resources will work with a consulting firm to engage in business process re-engineering and a procurement consultant to assist in the development of the mid-level solution requirements needed for the completion of the PAL.

STAFF COMMENTS

The SCO is proposing funding on a one-year limited term basis. Staff has no concerns with this proposal.

Staff Recommendation: Hold Open.

ISSUE 12: FI\$CAL RELATED BCPs

The SCO has three BCPs related to FI\$Cal, which are summarized below in this item.

BACKGROUND

- 1. FI\$Cal Implementation for SCO's Control Functions.** The SCO requests \$1,500,000 (General Fund) in 2017-18, to support 13.0 positions in transitioning the State's Accounting Book of Record from the SCO legacy system to the FI\$Cal system and provide support to the FI\$Cal departments. Approval of these resources will ensure that the SCO continues to fulfill its obligations and responsibilities related to the completion of the FI\$Cal 2017 Release (R17).

The FI\$Cal system is being implemented by departments in releases (formerly waves), with the first release to have occurred in July 2014 and the final release to occur in July 2018. Waves 1, 2, and Release 2016 have been deployed so far. The workload described above has been anticipated by both the project and the SCO. The SCO and the Project worked together to bring in-home subject matter experts to the Project and to provide support to home staff and other FI\$Cal departments during implementation of previous releases and assist in the analysis, design and build stages of the R17. Both of these scenarios were encountered in each of the previous releases. At this time, the SCO is requesting support of \$1.5 million to continue work that is already in progress.

- 2. Vendor Management Workload.** The SCO requests \$1,181,000 (\$674,000 GF; \$507,000 Central Services Cost Recovery Fund [CSCRF]) in 2017-18, and \$1,149,000 (\$655,000 GF; \$494,000 CSCRF) in 2018-19, to support 12.0 positions, and \$488,000 (\$278,000 GF; \$210,000 CSCRF) in 2019-20, and ongoing to support five permanent positions to manage increased workload related to the Vendor Management File (VMF).

One of the benefits of FI\$Cal is the implementation of a centralized statewide VMF for all departments using the system. Prior to FI\$Cal, state agencies, boards, commissions, bureaus and office independently maintained their own vendor file, which did not allow for consolidated vendor reporting or transparency. Coordinating with FI\$Cal, the VMF is a key component to the functionality of many of the FI\$Cal modules, with direct impact on all other modules.

The implementation of the VMF began in July 2014 with Wave 1 Departmental Release. At that time, one of the key activities in implementing the VMF was the conversion of vendor data from the nine Wave 1 departments. Vendor data conversion, which occurs at each release and has created extensive workload. Initially, the VMF was maintained by a variety of staff working on FI\$Cal. FI\$Cal management and the Partner Business Executives representing the SCO, STO, DOF, and DGS recognized the importance of a single entity taking ownership and responsibility for ongoing maintenance of the VMF. In June 2015, FI\$Cal project leadership determined the SCO was the appropriate entity to manage this

functionality due to the Electronic Fund Transfer payment information, which contain confidential information. The SCO created the Vendor Management Group (VMG) and staffed the transition with five staff.

The five existing positions in the VMG have effectively managed the workload resulting from Waves 1 and 2 and anticipate to be able to manage the workload resulting from Release 2016. However, with the 2017 and 2018 releases, which include a number of large departments, the expected workload increase will far exceed the available staffing and resources will increase.

- 3. Electronic Claims Processing.** The SCO requests three permanent positions and \$343,000 in reimbursement authority in 2017-18, and \$337,000 in reimbursement authority in 2018-19, and ongoing to support an increased workload related to processing electronic claims, implementing new electronic claims, system conversions and performing post-payment surveys in conjunction with electronic claims processing.

The SCO Division of Audits provides the State and taxpayers with assurances that claim payments are legal and valid. The two SCO bureaus responsible for providing these assurances by auditing all claims submitted to the SCO are:

- Operations Bureau, Claims Audits – responsible for auditing manual and FI\$Cal generated claims.
- FI\$Cal & Information Technology Audits Bureau, Electronic Data Processing (EDP) Audits – responsible for auditing electronic claims.

In 2014-15, EDP Audits processed 14,370 claim schedules resulting in more than \$38.1 million in payments. For electronic claims, the supporting documentation is captured in the electronic claim file, eliminating the need for hardcopy submission. The average processing time for electronic claims is three days. EDP Audits provides assurances that adequate controls exist with an agency's program and that the payments are legal, proper and accurate by readiness testing, control evaluations, prepayments audits, post-payment field surveys, and annual tests.

Agencies contract with the SCO to implement the electronic claims processes, and pay the SCO for the actual costs. Prior to 2011-12, EDP Audits had 17.0 authorized positions. Due to an anticipated increase in the workload, 4.0, two-year limited-term positions were approved beginning in 2011-12. The SCO has determined that its resources are insufficient to meet workload needs and cannot redirect staff to meet the increased workload.

Workload History

Workload Measure	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 ¹
Electronic Claim Payments Audited	35,144,675	35,867,690	36,833,712	38,176,888	40,279,172	41,679,259
Electronic Claim Schedules Processed	11,308	12,326	13,122	14,370	15,044	16,160
New Implementation	7	10	15	12	12	13
Database Maintenance	2	2	2	2	2	2
System Conversions	7	6	0	0	0	2
Annual Tests, Special Projects & Mandatory Annual Training	9	11	10	8	9	13
Post-Payment Reviews	6	3	0	1	1	0

¹ 2016-17 is based on average of volume and workload increases from 2011-12 through 2015-16, as well as anticipated number of implementations, testing and system conversions for 2016-17.

STAFF COMMENTS

The resources requested for the three BCPs related to FI\$Cal are reasonable. Staff has no concerns with these proposals

Staff Recommendation: Hold Open.

ISSUE 13: UNCLAIMED PROPERTY SECURITIES ACCOUNTING WORKLOAD

The SCO requests 23.1 permanent (continuing) positions and \$2,955,000 in 2017-18, and \$2,910,000 in 2018-19, and ongoing from the Unclaimed Property Fund to manage and maintain the security portfolio, pay security claims, and sell securities within the timeframe mandated by under the Unclaimed Property Law.

BACKGROUND

In 2014-15, the SCO received 23.1 positions on a three-year limited-term basis to manage and maintain the security portfolio and sell securities within the timeframe mandated by law. Of these proposed positions, 15.1 would continue to conduct activities related to the securities backlog—including posting corporate actions, reconciling issues, and verifying portfolio data—and keeping corporate actions current for recently escheated securities. The remaining positions would provide managerial oversight to address more complex security reconciliations and provide administrative oversight.

The Unclaimed Property Division's (UPD) Accounting Bureau is responsible for properly maintaining and managing accountability of the securities portfolio in the SCO's care and possession. Securities management includes accurately recording these securities in the UPD's database system when received from holders, and posting all corporate actions and increments of income that occur on these securities. The duties for the securities portfolio are broken down into four primary and inter-related functions:

- **Securities Remit Report Processing** - Includes receiving escheated shares and reconciling the shares against the detailed reports submitted by holders, contacting holders when shares are not transferred to the SCO's contracted broker or shares are submitted without a detail report, and ensuring all shares and certificates are posted in UPS2000 so the property is available for its rightful owner to claim.
- **Security Claims** - Includes posting corporate actions, reconciling backlog security issues to make it current, analyzing the dividends earned were received and posted in UPS2000, and accurately transferring the shares and dividends to the claimant.
- **Sale of Securities** - Includes posting corporate actions, reconciling security issues to current for sale, processing the security sales, and post-sale database management so cash proceeds from sales are available for future processing as a cash claim instead of a security claim.
- **Securities Portfolio Management** - Includes ensuring all security issues are reconciled in UPS2000 against the statements and kept current, certificates escheated without the owner's name are researched with the holders so the property can be posted on the SCO's website for owners to claim, non-transferable shares are held or written off in accordance with Securities and

Exchange Commission (SEC) regulations, and all system conversion and ongoing database maintenance issues are addressed.

LAO Comments. The LAO provides four recommendations for the Legislature to consider:

- Change statute to allow UPD to sell securities upon escheat.
- Approve limited-term funding to address backlog.
- Approve a new system that would allow some flexibility for the SCO.
- Provide the SCO more flexibility in newspaper notifications.

STAFF COMMENTS

In the 2014-15 budget when these positions were authorized on a three-year limited term basis the cost was \$1.999 million, but this requests increases to \$2.955 million in 2017-18, and \$2.910 million in 2018-19. The subcommittee may wish to have the SCO explain the difference in costs.

The 2014-15 request discussed the backlog, can SCO discuss if the backlog still exists.

The BCP estimates that an average of 86 million is transferred annually to the General Fund, the Subcommittee may wish to ask the SCO, how much funding is reunited with property owners annually.

Staff Recommendation: Hold Open.

ISSUE 14: PROPOSITION 47 AGENCY AND GRANT AUDITS

The SCO requests three permanent positions and \$389,000 in 2017-18, and \$383,000 in 2018-19, and ongoing from the Safe Neighborhoods and Schools Fund to perform audits of the grant programs operated by the California Department of Education (CDE), California Victims Compensation Board (VCB) and the Board of State and Community Corrections (BSCC) to ensure the funds for the Proposition 47 program are disbursed and expended correctly.

BACKGROUND

Proposition 47, approved by the voters of California on November 4, 2014, reduces penalties for certain offenders convicted of non-serious and nonviolent property and drug crimes. In addition, it allows certain offenders previously convicted of such crimes to apply for reduced sentences. The 2016-17 Budget Summary estimates that there will be an initial savings of \$39.4 million for use in 2016-17, with approximately \$62.6 million in ongoing annual savings. Savings resulting from this proposition will be transferred to the newly created Safe Neighborhoods and Schools Fund to be used in support of truancy reduction and drop-out prevention programs, increase victim services grants, and support substance use and mental health treatment services. An additional \$28 million in one-time discretionary funding will also be provided in 2016-17.

Proposition 47 was enacted in June 2016 and requires the SCO to perform an audit of the Safe Neighborhoods and Schools Fund every two years, beginning in 2018, to ensure the funds are disbursed and expended solely according to program requirements. The SCO's authority to perform such an audit is consistent with the Controller's constitutional and statutory authority.

STAFF COMMENTS

Staff has no concerns with this proposal. The resources will allow SCO to perform audits consistent with Proposition 47.

Staff Recommendation: Hold Open.

ISSUE 15: LOCAL GOVERNMENT OVERSIGHT INITIATIVE

The SCO requests \$1,121,000 (\$108,000 General Fund [GF]; \$1,013,000 Reimbursement) in 2017-18, and \$1,115,000 (\$108,000 GF; \$1,007,000 Reimbursement) in 2018-19, and ongoing for nine positions (eight continuing, one new) to allow for the continued oversight of local government entities (cities, counties and special districts) through authorities granted under existing state law. This will be accomplished by enforcement of the financial transactions reporting (FTR) requirements of local governments (cities, counties and special districts); analyzing and monitoring the financial data for potentially distressed entities; and audits under Government Code Section 12464.

BACKGROUND

Through an approved 2012-13 Finance Letter, the SCO was provided 2.5 years limited-term funding to support 16.4 positions in performing local government oversight, with an implementation date of January 2012. However, the dissolution of Redevelopment Agencies occurred and SCO was directed to utilize these positions for that purpose. Consequently, local government oversight was implemented beginning in 2013-14. In 2014-15, a BCP provided the SCO with three-year limited-term funding to support nine positions with an implementation date of July 2014 to provide increased oversight of local governments under existing law.

The SCO's goal has been to accomplish the following with the resources received: 1) increase compliance with annual FTR requirements by all local government agencies (non-filers) through increased customer outreach and direct collection of data by the SCO; and 2) develop a method to identify factors that could be used to support a decision to conduct investigations such as those performed in Bell, Montebello, Hercules, and Stockton, and to conduct such investigations.

With the approved resources, the SCO has ensured compliance with annual FTR requirements by all local government agencies in order to provide the public with financial transparency, accountability and comparability. The SCO has spent over 3,000 hours reaching out to approximately 1,000 local governments each year that did not submit the SCO's reports timely, as shown in the Workload History below. These local government agencies are either small special districts that have limited resources and are staffed by volunteers with limited financial reporting skills, or cities with high turnover and are not familiar with the FTRs. The SCO has been providing them with one-on-one assistance, so they can prepare the FTRs properly. Because the number of entities needing assistance has not decreased over the past three years, the workload is expected to continue.

Financial data collected through the FTRs is presented in the SCO's open data website, "By-The-Numbers." It is imperative that all local governments submit the SCO's reports properly because the "By-The-Numbers" data is used by various stakeholders including reporters and research institutes, such as Public Policy Institute of California and Pew

Research Center; academia; advocacy groups, including the League of California Cities and the California Special Districts Association; state departments, including the Legislative Analyst Office and Department of Finance; and local governments within California and in other states. This website, launched in 2014, is considered the only resource that contains readily available financial data of California's local governments in one standard format.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Hold Open.
