

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4****STATE ADMINISTRATION**

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, MARCH 28, 2017
1:30 P.M. - STATE CAPITOL ROOM 447**VOTE-ONLY CALENDAR**

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VOTE-ONLY CALENDAR

1111 DEPARTMENT OF CONSUMER AFFAIRS

VOTE-ONLY ISSUE 1: BOARD OF OPTOMETRY—OCCUPATIONAL ANALYSIS

The Governor's budget requests for the California State Board of Optometry (SBO) a one-time augmentation of \$86,000 to fund an occupational analysis and audit of the optometrist licensing exam.

BACKGROUND

An occupational analysis and audit should be performed every five years. The SBO has not had an occupational analysis or audit performed of the National Board of Examiners in Optometry (NBEO) exam since 2009. The optometry scope in California has expanded since then, and the NBEO examination should cover the expanded scope. In addition, the SBO and optometry schools throughout the U.S. have raised concerns specific to how the NBEO is currently administering the examination. Conducting the occupational analysis and audit of the NBEO exam will ensure that the examination is legally defensible and contains content that effectively assesses the knowledge and skills of potential licensees. The SBO will enter into an interagency contract with the Office of Professional Examination Services (OPES) to conduct the analysis.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 2: BOARD OF PHARMACY—PHARMACY TECHNICIAN OCCUPATIONAL ANALYSIS (SB 952)

The Governor's budget requests a one-time budget augmentation of \$154,000 for the Board of Pharmacy (BOP) to fund the costs associated with the implementation of SB 952 (Anderson, Chapter 150, Statutes of 2016).

BACKGROUND

SB 952 amends one of the pharmacy technician qualification methods from being certified by the Pharmacy Technician Certification Board to being certified by a pharmacy technician organization that offers a pharmacy technician certification program accredited by the National Commission for Certifying Agencies and approved by the BOP. To ensure that any examination conducted by a pharmacy technician program is psychometrically sound, the BOP needs to contract with OPES to conduct an occupational analysis for pharmacy technicians.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 3: BOARD OF REGISTERED NURSING—LICENSING PROGRAM STAFF

The Governor's budget requests for the Board of Registered Nursing (BRN) an increase in its limited-term expenditure authority of \$1.3 million in 2017-18 and \$1.1 million in 2018-19 to fund 16.0 positions to address severe deficiencies within its Licensing Unit.

BACKGROUND

The Licensing Program protects consumers by preventing unsafe, unqualified applicants from being licensed and practicing as Registered Nurses (RNs) and advance practice nurses in California. The program issues new licenses to approximately 24,000 RNs, certifies 6,300 advance practice nurses and receives over 42,000 RNs and advance practice applications to review and process per year. Processing times for license applicants have increased from 4 -6 weeks to the current processing time of 12 - 20 weeks for applicants. The mandated response time is 90 days.

These requested positions will allow BRN to reduce significant delays in business processing times and provide better customer service to consumers, applicants, licensees, and stakeholders. The request would provide for five additional positions in the United States evaluation unit that handles both exam and endorsement initial and repeat applications; five positions in the technical services unit which is responsible for the preparation of exam, endorsement, and advance practice files; five positions in the customer assistance call center; and one position in the human resources unit.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 4: BROKER RELATIONSHIPS AND REMOVAL OF POSTED DISCIPLINE (AB 2330 AND AB 1807)

The Governor's budget requests 1.0 position and \$79,000 in fiscal year 2017-18, and 3.0 positions and \$412,000 in 2018-19 and ongoing.

BACKGROUND

The BRE currently has 411,653 licensees, including 134,947 licensed real estate brokers. Of the total, 19,000 license records display disciplinary action for the period from 1975 through September 1, 2016.

AB 2330 (Ridley-Thomas, Chapter 614, Statutes of 2016) requires January 1, 2018 the Real Estate Commissioner (Commissioner) to disclose on the BRE's Web site for every licensee, whether that licensee is an associate licensee, requires the Commissioner to identify, if the associate licensee is also a broker, every responsible broker with whom the associate licensee is contractually associated, and further requires the responsible broker to report the employment relationship between himself or herself and the

associate licensee to the BRE. AB 1807 (Bonta, Chapter 558, Statutes of 2016) authorizes the Commission, January 1, 2018, upon petition by a licensee accompanied by a specified fee, to remove from the posting of discipline an item that has been on the BRE's web site for at least 10 years and for which the licensee provides evidence of rehabilitation indicating that the notice is no longer required to prevent a credible risk to members of the public utilizing licensed activity of the licensee. The proposed staff would manage the increased workload and phone calls.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 5: SECURITY GUARD FIREARM ASSESSMENT PROGRAM (SB 1196)

The Governor's budget requests for the Bureau of Security and Investigative Services (BSIS) \$172,000 in 2017-18 and \$215,000 in 2018-19 and ongoing to support 3.0 positions to implement the provisions in SB 1196 (Hill, Chapter 800, Statutes of 2016).

BACKGROUND

The BSIS regulates locksmiths and the employees of locksmiths, repossessioners, private investigators, private patrol operators, armored contract carriers, firearms and baton training facilities, and employees of those licensees, alarm company operators and alarm agents, and proprietary security services. The requested positions specifically relate to SB 1196's requirement that requires, effective January 1, 2018, that an applicant for an initial Bureau Firearms Permit, who is a registered security guard, to complete an assessment to demonstrate that he/she possesses appropriate judgment, restraint and self-control to carry a firearm while performing his/her security guard duties as a condition for the issuance of an initial Firearms Permit. Additionally, the bill requires the Bureau to contract with a third-party vendor to administer the assessment with the cost of the assessment to be borne by the applicant or his/her designee.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 6: CONTRACTOR'S BOARD—INCREASE VIOLATION REPORTING (SB 465)

The Governor's budget request for the Contractors State License Board (CSLB) 2.0 permanent positions and \$190,000 in 2017-18 and \$174,000 in 2018-19 and ongoing to address the increase in referral workload and implement the mandates associated with SB 465 (Hill, Chapter 372, Statutes of 2016. Additionally, CSLB is requesting an Attorney General (AG) augmentation of \$320,000 in 2017-18 and ongoing to support the increase in referral cases to the AG office that are considered the most egregious contractor violations.

BACKGROUND

The CSLB licenses more than 300,000 contractors. SB 465 permits CSLB to enter into an interagency agreement with state or local agencies to ensure that it receives specified disciplinary information relating to a contractor in a timely manner; requires a licensee to report to the CSLB the occurrence of any conviction of any felony or crime, as specified; requires the California Building Standards Commission (Commission) to convene a working group and recommend any statutory changes or changes to the California Building Standards Code (CBSC); requires the Division of Occupational Safety and Health (Division), after consultation with the CSLB, to transmit to the CSLB copies of any citations or other actions taken by the division against a contractor, as defined; and requires the CSLB to report the results of a study to determine if the CSLB's ability to protect the public would be enhanced by specified regulations.

Without the additional staffing resources and AG funding, CSLB will be unable to investigate and discipline the contractors according to the provisions related to SB 465. CSLB will need to adjust and increase its fees to accommodate funding this proposal.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 7: DENTAL BOARD—PEDIATRIC ANESTHESIA (AB 2235)

The Governor's budget requests for the Dental Board of California (DBC) 1.0 position and \$113,000 in 2017-18 and \$105,000 in 2018-19 and ongoing, to implement the provisions of AB 2235 (Thurmond, Chapter 519 Statutes of 2016).

BACKGROUND

The DBC currently regulates approximately 101,500 licensees of which 45,400 are dentists. AB 2235 encourages dental sedation providers in this state to submit data regarding pediatric sedation events to a research database in order to improve the quality of services provided to pediatric dental anesthesia patients, in addition to other requirements. The budget request addresses the new reporting requirements. It also allows the DBC to create the required forms for reporting, mandate those permit-holders to fill out a form encompassing the reporting requirements of the bill, process reports received, and assess a penalty on licensees who are not in compliance with the reporting requirements. This request will also provide resources to create a report on pediatric deaths related to general anesthesia in dentistry for its sunset review. The sunset process begins in 2017-18. The report will likely be due in October of 2018 and the sunset hearing will take place in March of 2019. As a result of the Legislature's intent to encourage all dental sedation providers in California to submit data regarding this matter, DBC will need to conduct outreach to inform and encourage licensees to submit such data through the drafting of regulations or through outreach efforts.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 8: DENTAL BOARD—REIMBURSEMENT AUTHORITY FOR AMERICAN BOARD OF DENTAL EXAMINERS INC. (ADEX) EXAM (AB 2331)

The Governor's budget requests for the Dental Board of California (DBC) a one-time \$112,000 increase in its expenditure and reimbursement authority to implement the mandates of AB 2331 (Dababneh, Chapter 572, Statutes of 2016).

BACKGROUND

AB 2331 allows an applicant to satisfy the licensure examination requirement for a dental license by receiving a passing score on a clinical and written examination developed by the American Board of Dental Examiners Inc. (ADEX) subject to prior review and approval of the examination by the OPES. The DBC would be reimbursed by the ADEX for the costs associated with the initial exam occupational analysis, review, and validation, which would cost \$112,000. There are approximately 3,900 dental candidates who take the ADEX examination annually throughout 34 states, and there are 46 states that accept the exam as a pathway for licensure. Because the DBC does not currently issue the licensure pathway, it is unknown exactly how many of those candidates would apply for licensure in California each year.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 9: MEDICAL BOARD—HEALTH AND WELLNESS PROGRAM (SB 1177)

The Governor's budget requests for the Medical Board of California \$114,000 in 2017-18 and \$106,000 annually thereafter to fund 1.0 position to implement SB 1177 (Galgiani, Chapter 591, Statutes of 2016). The Medical Board also requests \$250,000 in 2018-19 to contract for an audit of the program and ensure compliance with SB 1177.

BACKGROUND

SB 1177 authorizes the Medical Board to establish a Physician and Surgeon Health and Wellness Program (PHWP) for the early identification and appropriate interventions to support a licensee in his or her rehabilitation from substance abuse and authorizes the Medical Board to contract with an independent entity to administer the PHWP. SB 1177 also establishes requirements for a PHWP and provides that the Medical Board shall determine the appropriate fee that a participant shall pay to cover all costs for participating in the program, including administrative costs.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 10: MEDICAL BOARD—STAFF AUGMENTATION—ENFORCEMENT

The Governor's budget requests for the Medical Board \$187,000 in 2017-18 and \$161,000 in 2018-19 and ongoing to fund 2.0 positions to address increased workload in the Enforcement Program's Central Complaint Unit (CCU).

BACKGROUND

The Enforcement Program protects consumers by enforcing the regulations and statutes pertaining to the practice of medicine and allied health professions established in the Medical Practice Act (Act). The CCU is an intake unit that is required to conduct the initial review of all complaints filed with the Medical Board. California Business and Professions Code section 2220 authorizes the Enforcement Program to take disciplinary action against licensed physicians and surgeons and certain allied health care professionals found guilty of violating the Act. The number of complaints received have increased over the last five years as a result of the implementation of the Affordable Care Act and the expansion of the Medi-Cal program. During this time, the Medical Board also began receiving consumer complaints online, which increased the total number of complaints received each year. As a result of these increases and the ability to submit complaints online, the amount of time it takes to process a complaint has also increased in the last few years. With the addition of these staff, the average number of cases per analyst will decrease and the objective is to decrease the average complaint processing time from 152 days to 100 days.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 11: PHARMACY—OUTSOURCING FACILITY AUDITS AND AUTO DELIVERY SYSTEM (SB 1193)

The Governor's budget requests for the California State Board of Pharmacy (BOP) \$481,000 in 2017-18 and \$449,000 in 2018-19 ongoing to fund a 3.0 positions to regulate the provisions set forth in SB 1193 (Hill, Chapter 484, Statutes of 2016).

BACKGROUND

SB 1193 makes various changes to the pharmacy law intended to improve BOP oversight of licensees involved in the acquisition, storage, distribution and dispensing of dangerous drugs and dangerous devices, including: oversight by the BOP for outsourcing facilities; registration with the BOP for use of an automated delivery device by a pharmacy within 30 days of installation; timeline requirements for the Board to approve clinic licenses; and technical changes.

According to the BOP, outsourcing inspections are labor intensive and an inspection can require three full working days using two inspectors. There are about 65 outsourcing facilities that need to be licensed and regulated and it is estimated that data entry for approximately 3,000 automated drug delivery systems will be processed.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 12: PSYCHOLOGY—STAFFING TRANSITION

The Governor's budget requests for the Board of Psychology position authority to transition 2.0 positions from temporary to permanent status. The proposal would redirect \$230,000 on an ongoing basis from the Board of Psychology's existing Operating Expenses and Equipment budget to its Personal Services budget to fund the requested positions. Without this proposal, these permanent positions will continue to be funded out of the temporary help blanket.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 13: WORKFORCE DEVELOPMENT—ALLIED HEALTH PROFESSIONALS (AB 2105)

The Governor's budget requests for DCA \$114,000 in 2017-18, \$106,000 in 2018-19, and \$106,000 in 2019-20 to fund 1.0 position to implement the provisions of AB 2105 (Rodriguez, Chapter 410, Statutes of 2016).

BACKGROUND

AB 2105 requires DCA to engage in a stakeholder process to update policies and remove barriers to facilitate the development of earn and learn training programs in the allied health professions. The stakeholder process is to be completed by January 1, 2020. The requested position would allow DCA to coordinate and implement the stakeholder process and to ensure consumer safety is not compromised.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 14: REGISTERED DISPENSING OPTICIAN—AUGMENTATION

The Governor's budget request for the California State Board of Optometry an increase in the Registered Dispensing Optician's (RDO's) appropriation by \$86,000 in 2017-18 and ongoing and to increase the Board of Optometry's reimbursement authority by \$86,000 to allow the RDO program to reimburse the Board of Optometry for services provided in the oversight of the program.

BACKGROUND

As of January 1, 2016, the Board of Optometry acquired the RDO Program. After it was acquired, certain services that RDO used to pay the Medical Board to provide such as enforcement and clerical work were shifted to the Board of Optometry. However, the Board of Optometry is still providing other services for RDO that include oversight, preparation of regulations, reviewing policy related materials, addressing pending legislation, and rental costs and should be reimbursed for those services. Approval of this proposal would allow for that reimbursement.

Consolidation of the RDO and the Board of Optometry is under consideration at this time. If these boards are merged, the reimbursement that this proposal requests on an ongoing basis would be unnecessary.

Staff Recommendation: Approve funding for 2017-18 only.

0855 CALIFORNIA GAMBLING CONTROL COMMISSION**VOTE-ONLY ISSUE 15: WORKLOAD INCREASE**

The California Gambling Control Commission requests three positions and \$300,000 (Gambling Control Fund) per year for three years to support an increase in workload associated with reviewing cardroom applications received from the Bureau of Gambling Control within the Department of Justice.

BACKGROUND

The Bureau is the State law enforcement authority with special jurisdiction over gambling activities within California, and is the entity that conducts background investigations for the Commission on gambling license and work permit applications. The Bureau carries out this mission by working cooperatively with the Commission to develop and implement a means of regulating the gambling industry in California. The primary functions of the Bureau include the following:

- Conducting comprehensive investigations into the qualifications of individuals and business entities who apply to the Commission for state gambling licenses or findings of suitability,
- Conducting ongoing compliance inspections of gambling operations and establishments throughout the state, and;
- Reviewing and approving the rules of games and gaming activities in all California cardrooms prior to them being offered for play.

The Bureau currently has a backlog of approximately 3,100 applications for background investigations associated with gambling enterprises and third-party providers. The backlog includes the following categories: (1) Cardroom Owner Person, (2) Cardroom Owner Entity, (3) Cardroom Key Employee, (4) Work Permit, (5) Third-Party Provider, (6) Third Party Owner Person, and (7) Third Party Supervisor.

The Bureau received 20 positions and \$3 million per year for three years beginning in fiscal year 2016-17 to address the current backlog. By increasing the number of staff to address this backlog, the Bureau will generate more reports that will be submitted to the Commission for final consideration of finding of suitability by the Commissioners.

The cardroom licensing process is quite in-depth. Applications are required to undergo a background investigation conducted by the Bureau. After the background investigation has been completed, the background report is sent to the Commission; Licensing staff review and analyze the material provided in the background report; and place the applicants on the Commission's agenda for consideration - generally within a month of receiving the completed investigation from the Bureau. The Bureau's ability to address their cardroom backlog will create an additional workload for the Commission's

Licensing Division staff. This new workload will be in addition to the normal initial and renewal applications that will be processed.

STAFF COMMENTS

The resources are on a limited-term basis and have no impact on the General Fund.

Staff Recommendation: Approve as budgeted.

2100 ALCOHOLIC BEVERAGE CONTROL**ISSUE 16: INFORMATION TECHNOLOGY – INFORMATION SECURITY OFFICE**

The Department of Alcoholic Beverage Control (ABC) requests \$278,000 in 2017-18, and \$274,000 in 2018-19, and ongoing (Alcoholic Beverage Control Fund) for two positions to establish the Information Security Office (ISO). The establishment of the ISO will provide ABC the appropriate staffing to develop and implement security policy and practices to safeguard the ABC's information assets, maintaining confidentiality and integrity in accordance with State Administrative Manual (SAM) Section 5300.

BACKGROUND

California is a prime target for information security attacks because of the value of its information and the size of its economy. According to the Director of the California Department of Technology, California data centers are subject to thousands of hacking attempts every month. ABC provides licensing and enforcement services statewide and gathers, processes, and stores confidential and private information related to its mission. ABC, like many of California's government departments, maintains an extensive range of confidential and sensitive data, including social security numbers and financial information, if unauthorized parties were to gain access to the ABC's information systems, the cost to both the state and to the individual involved would be disastrous. Given ABC's use of IT, it has a compelling need to ensure that it protects all information assets, including IT equipment, automated information, and software.

Recent Audit and Response. The ABC uses technology to access, process, and store California constituents' confidential and private information as part of the statewide alcohol licensing and law enforcement mission. In a report published in August of 2015, the California State Auditor found ABC was not fully compliant with information security and privacy requirements prescribed in SAM Section 5300.

In response to this audit, ABC created an audit response team made up of experienced temporary staff, to conduct a risk assessment with the results, along with state policies, serving as the basis of ABC's formal Information Security and Privacy Program. The results of the risk assessment resulted in the development of an Information Security Plan with the following objectives:

- Establish ABC's first permanent ISO.
- Develop Information Security and Privacy core policies.
- Achieve compliance in ABC's Security Program to appropriately correct the items identified by the California State Auditor.

Despite the fact that the audit response team included temporary staff members with limited tenure, they created significant momentum by engaging staff across the organization and developing a core set of policies. ABC believes that it is necessary to effectively transition the initial efforts into a permanent office that could fully institutionalize the information security policies. To accomplish this transition, ABC administratively established one Data Processing Manager III on November 1, 2016, to assume the roles and responsibilities of ISO in a manner consistent with State policy. The creation of this position is the initial effort in the establishment of the ISO. This proposal addresses the additional resources needed to help maintain the momentum necessary to successfully implement an Information Security and Privacy Program at the ABC.

STAFF COMMENT

Similar to other departments, ABC is requesting resources to ensure that private and confidential information is secure. The request is reasonable and does not impact to the General Fund.

Staff Recommendation: Approve as budgeted.

ISSUE 17: FACILITIES: RENT INCREASES AND HEADQUARTER EXPANSION

The Department of Alcoholic Beverage Control (ABC) requests \$1,084,000 in 2017-18, \$1,141,000 in 2018-19, \$1,195,000 in 2019-20 (Alcoholic Beverage Control Fund) to cover the increased rent costs due to various factors, including annual rent increases, renegotiating several expiring leases at the current market rate, and increased space needs over the past several years.

BACKGROUND

ABC has experienced a significant increase in rent costs over the past several years without an increase in funding. With several leases due to be negotiated in the coming month(s) and through 2017-18 at the current market rate and the increase in space needs, the overall cost increases have had a large impact in rental costs. Rent costs increase and are driven by negotiated leases/contracts by RESD. As the rent continues to increase, and a budget increase is not granted for rent/space costs, ABC would have to continue to absorb the costs by reducing other program expenditures such as training, overtime and salaries, affecting the volume and quality of these programs and the necessary operations of ABC.

As ABC continues to increase in size, particularly in the headquarters location, an expansion within existing space is necessary to accommodate current and future growth, requiring additional facilities funds. ABC has researched the possibilities of consolidating district offices, however with most all offices currently at space capacity; it would be difficult to merge staff without having to expand in space, which would require a complete relocation of both offices, in most cases, and only add to the facilities cost.

To maintain current office locations, as well as future growth currently in process, ABC is requesting additional budget authority (\$1,084,000) to ensure increased rent costs do not result in the need to reduce the capacity of ABC to accomplish its mission.

STAFF COMMENT

The resources requested are reasonable. There is no General Fund impact. Staff has no concerns.

Staff Recommendation: Approve as budgeted.

0540 NATURAL RESOURCES AGENCY

ISSUE 18: GOVERNOR'S JANUARY BUDGET CUTS RELATED TO ARTS

The Governor's January budget proposes to defund three projects included in the 2016 Budget Act related to arts.

BACKGROUND

As part of the 2016 Budget act and negotiations, three projects were funded for a total of \$4.5 million that made investments in various arts projects. The projects included the Armenian Museum, the Pasadena Playhouse and the Lark Music Society.

STAFF COMMENT

Since the January budget was released, the projects authorized by the budget have been in limbo. The subcommittee should reinstate the funding and provide an additional year for the projects to move forward.

Staff Recommendation: Reject Governor's proposal to defund these three projects and provide authority in the budget to extend these grants for one more year.

ITEMS TO BE HEARD

8950 DEPARTMENT OF VETERANS AFFAIRS

The Governor's budget includes \$454.1 million (\$377.6 million General Fund) for the Department of Veterans Affairs (CalVet) in 2017-18, a decrease of \$41.9 million or 8.4 percent from the current year. All of the reduction is General Fund. CalVet is funded from General Fund, reimbursements, and special funds. The proposed staffing level at CalVet totals 3,196 personnel.

California is home to 1.8 million veterans, more than any other state. California anticipates receiving an additional 30,000 discharged members of the armed services each year for the next several years. Historically, the largest demand for benefits and services for veterans occurs immediately after discharge and again as veterans age and require greater access to medical facilities and long-term care services.

ISSUE 1: TRAILER BILL LANGUAGE PROPOSAL

The Administration proposes budget trailer bill language that would make changes to the Military and Veteran's Code regarding admission to the state's veterans homes.

BACKGROUND

The State Operates Eight Veterans Homes Mostly Serving Older Veterans. The state operates eight veterans homes for eligible veterans to receive residential or long-term care. The homes are located in Redding, Yountville, Fresno, Lancaster, Barstow, Ventura, West Los Angeles, and Chula Vista, and serve over 2,500 veterans. The veterans homes serve older or disabled veterans, whose needs range from independent living with minimum supervision to advanced medical care for residents with significant disabilities. In July 2016, about 80 percent of veterans home residents were over the age of 65 and 34 percent were over age 85.

Significant General Fund Cost to Operate the Homes. The total cost of operating the state veterans homes is estimated to be \$306.7 million in 2017-18. Approximately \$121.8 million of this amount is offset by revenues and the remainder—\$184.9 million—is a General Fund cost, as shown below. Revenues include reimbursements from the U.S. Department of Veterans Affairs (USDVA), Medi-Cal, and Medicare, and about \$25 million is estimated to be offset by "member fees" charged to the veterans home residents. The state receives a greater level of reimbursement from the USDVA that more fully covers the cost of care for veterans receiving skilled nursing care.

The cost of operating the veterans homes, as shown below, does not include the cost of headquarters which ranges between \$30 to \$40 million annually. The amount also does not include any fiscal effects from the enactment of the proposed trailer bill language.

**Cost of Operating the State Veterans Homes
(In Millions)**

	2016-17	2017-18
Total Cost of the Veterans Homes	\$312.4	\$306.7
Estimated Revenue		
Federal Per Diem	\$68.0	\$70.0
Member Fees	\$23.9	\$24.3
Aid and Attendance	\$3.3	\$3.4
Medicare	\$8.2	\$9.1
Medi-Cal	\$12.8	\$14.2
Other	\$0.7	\$0.8
Total Revenues	\$116.9	\$121.8
Total General Fund Cost	\$195.5	\$184.9

Average daily census	2,464	2,528
Average annual cost per resident	\$126,771	\$121,332

Based on an average daily census of 2,528, the average annual cost per resident in a state veterans home is \$121,332. This amount includes the cost of all levels of care, some of which are minimal levels of care, such as domiciliary care described below. For purposes of comparison in 2016, in California, the average annual cost of an assisted living facility was \$48,000; the average annual cost of nursing home care in a semi-private room is \$91,248; and the average annual cost in a private room was \$112,056.

State Veterans Homes Provide a Range of Levels of Care. The levels of care available at the homes range from independent living–style “domiciliary” care to skilled nursing services for residents with mental impairment (“memory care”) as shown below.

Levels of Care at California’s Veterans Homes

Level of Care	Description	Physical Capacity (Beds)
Domiciliary	Room and board with limited direct supervision for self-sufficient residents.	1,049
Residential Care Facility for the Elderly	Room and board for independent residents who require some assistance with ADLs and supervision.	634
Intermediate Care Facility	Minimally staffed 24-hour nursing care.	324
Skilled Nursing Facility	Intensely staffed 24-hour nursing care. Residents need assistance with ADLs.	724
Memory Care	Skilled nursing beds for residents with memory loss.	219

ADL= Activities of daily living.

Wait lists exist for each level of care. In part, these lists exist because where there is capacity for a certain level of care at a specific home may not be where a veteran wants to live. There is capacity for domiciliary, residential care, and intermediate care at most homes and a small waiting list. However, for skilled nursing care the wait list is nearly half of the total capacity across all veterans homes and the wait list for memory care exceeds the capacity.

Current State Law and Regulations. Current state law provides broad guidelines for who is eligible to live in a veterans home—generally, residents of California who are aged or disabled, and discharged from active duty under honorable conditions (that is, without a dishonorable discharge). CalVet has adopted further rules and regulations to guide who is eligible to live in a veterans home. These administrative rules generally restrict admission to veterans who are 55 or older—or, at any age, veterans who are homeless or have a disability. (Non-veteran spouses may also be admitted to the veterans home if they meet certain criteria.)

Once deemed eligible, veterans are admitted to the homes on a first-come, first-served basis. If there is not a bed available, veterans may be placed on a wait list in the order in which they applied for a certain home. Beyond this, the state lacks policies that guide how the wait lists work. Current state law and regulations prioritize certain veterans for admissions, as follows:

- Medal of Honor recipients and former prisoners of war are prioritized over all other veterans for admission to the homes. Wartime veterans are prioritized over veterans who served solely during peacetime.
- Regulations state that the homes may take into account veterans' social and economic hardship, age, and disability needs, and prioritize them for admission accordingly. These factors generally allow homeless veterans to be placed for high-priority or urgent admission.

Proposed Changes Would Affect How Admission to the Homes is Prioritized. The proposed trailer bill language makes both technical and substantive changes to the Military and Veterans Code. According to CalVet, these are intended to be foundational changes that over the long term would better align the types of care offered in the homes with veterans' needs and serve the most disabled veterans who gave our country the most, as well as reduce the homes' reliance on the General Fund.

The Administration estimates that making the changes proposed in the trailer bill language related to prioritization of who is admitted into the state veterans home, in addition to other proposed changes, could result in General Fund savings of tens of millions of dollars annually. These savings would result from the enhanced per diem payments that the homes would receive from the USDVA for providing a higher level of care (specifically skilled nursing care).

The keys changes are summarized below.

- Establishes the authority for CalVet to adopt, amend, or repeal regulations related to the operation and administration of the veterans homes and allows for emergency regulatory action under limited circumstances.
- Makes technical changes to conform statute with the current structure of the veterans homes.
- Allows CalVet to prioritize veterans with a service-connected disability rating of 70 percent or greater from the USDVA over other veterans for admission to the veterans homes. Would not apply to veterans, who are on a wait list awaiting admission as of January 1, 2018.
- Allows the Secretary to establish need-based criteria for admission to the homes, and any veteran meeting these criteria who are not 70 percent disabled or greater, and can afford to provide their own care elsewhere. Would not apply to veterans, who are on a wait list awaiting admission as of January 1, 2018.
- Gives CalVet clear authority to investigate applicants suitability for admission and current and potential home residents assets and income
- Requires a veteran who is receiving Aid and Attendance payments from the USDVA to pay the home an equal amount for all levels of care, except domiciliary.
- Allows the department to establish and charge fees for outpatient services provided by a state veteran home. Current law allows for outpatient services to be provided to home residents but does not allow for a mechanism for CalVet to charge for these services.
- Requires home residents to maintain health insurance coverage which would allow the state to offset some of the costs by billing insurance.
- Updates the monetary minimum values to more current standards. For example, generally if the minimum amount that the department has authority over for a deceased resident is \$3,000 it would be increased to \$15,000.

LITTLE HOOVER COMMISSION

The Little Hoover Commission (LHC) recently released a report called “A New Approach to California’s Veterans Home”. The report considered if the state should revise its veterans homes program to make it more self-sufficient while identifying additional strategies to use the savings to support more veterans in need. The LHC made the following recommendations.

- The Legislature should amend the Military and Veterans Code to clarify the homes admissions policies and ensure access for the neediest veterans.
- The Legislature should amend the Military and Veterans Code to eliminate domiciliary care from the state's veterans home program.
- To determine whether CalVet should repurpose or close any veterans homes, CalVet should establish a process to systematically evaluate and review each veterans home as it approaches its 20-year mark, and periodically thereafter, and make recommendations to policymakers regarding the future of the home.
- CalVet should conduct an assessment to consider the needs of California's overall veteran population.
- As CalVet repurposes its veterans homes program savings should be redirected to home- and community-based veterans services.
- To streamline and modernize the state's veterans home program, the Governor and Legislature should amend the Military and Veterans Code to:
 1. Define the scope of benefits for veterans home residents;
 2. Empower CalVet to establish daily costs of care;
 3. Clarify that veterans home residents are charged fees based on the cost of care and may pay for those fees from various sources, including the USDVA per diem and other reimbursements, health insurance or private income; and
 4. Require veterans home residents to maintain adequate health insurance throughout their residence in a veterans home.
- CalVet should amend regulations to specify consequences for residents who do not maintain adequate insurance coverage or pay their share of their costs.
- To enhance fiscal transparency, CalVet should make available online its financial reports to the Legislature, which should be augmented to include the following:
 1. Amount of state funds budgeted to each home and the amount of revenue collected, and if necessary, the remaining amount of expected revenue, over a period of several years;
 2. Costs of care per resident, by level of care for each veterans home; and
 3. Costs of facility maintenance, as well as projections for future maintenance costs, for each veterans home.

LAO COMMENTS

The LAO released a report on the state's veterans homes in 2017. While, the comments made were not specific to the Administration's proposed trailer bill language (which had not been released yet) the LAO made several comments about the homes that are consistent with some of the LHC's recommendations. Specifically, the LAO found that the Legislature could prioritize admitting veterans whose care the federal government reimburses at a higher rate—those receiving skilled nursing services and those with a service-connected disability rated 70 percent or higher. This would prioritize veterans with significant care needs, and also lead to increased federal reimbursements for the cost of care for such veterans.

The LAO also found that if the Legislature decides to prioritize admission for certain groups of veterans, it suggests that it should consult with CalVet regarding additional staffing needs and other budget requirements the new admissions rules could create.

STAFF QUESTIONS

1. How will the proposal impact veterans who do not meet the prioritization or need-based criteria?
2. Is the intent of these changes to serve only veterans who need intermediate or skilled nursing care in the future? If so, how does CalVet see this transition taking place?
3. How does the proposed trailer bill language potentially affect future capital needs of the veterans homes? As part of this proposal what is the vision for the Yountville and Barstow homes? When will the Legislature receive an infrastructure master plan for the veterans homes?
4. If this proposal is adopted, the Administration believes that there would be some level of General Fund savings in the future. What level of savings is anticipated and when?
5. If some of the estimated savings from this proposal stayed within CalVet's budget, how might those dollars be used?

STAFF COMMENTS

The proposed trailer bill language attempts to clarify statute and better establish revenue generation and cost limiting ideas in an effort to best serve the state veterans and make operation of the state's veterans homes more cost-effective. The Administration should be commended for the proposed language. There is significant overlap between this proposal, the LHC recommendations, and prior legislation that has considered making changes to who is prioritized for admission to the homes and how the homes operate.

There are several things the Committee may wish to consider regarding the proposed policy changes.

- Does the Legislature want to fundamentally change who is served in the veteran's home?
- Does it want to give CalVet the authority to prioritize admission to the homes or would it rather establish some of these criteria itself (such as the needs-based criteria)?
- Would the Committee want to add language to require that a portion of the savings resulting from the proposed changes stay within the CalVet budget and be used to expand services to other veterans?
- Should the policies that guide how wait lists for the homes work be addressed in this trailer bill language?

In addition, the Committee may wish to consider some other changes to improve the implementation of this language if it is adopted.

- **Clarify Sec. 8 Section 1012.1.** The intent of the language is to recoup revenue from lost payments; however the way it is written does not make that clear. The Committee may want to change language to clarify statute.
- **Amend Sec. 9 Section 1012.2.** The Committee may want to consider adding language requiring veterans to apply for Aid and Attendance. This could result in an average of an additional \$700 per month in revenue for each resident.
- **Add Staff to Develop Related Regulations.** Based on conversations with CalVet it appears that the level of staff needed to develop the regulation package that would implement these changes may be inadequate. Currently there are 12-15 regulatory packages moving through the department and only two positions are working full time on regulations. The department is hoping to fill the Chief Counsel position soon. Time is critical because if this language is adopted the changes that would be implemented through regulations could result in a significant reduction in state costs. The Committee may want to consider adding an additional position (on a limited-term basis) to work on developing regulations.

Staff Recommendation: Hold Open.

ISSUE 2: REDUCE FUNDING FOR VETERAN SERVICES DIVISION SUPPORT

The Governor's budget requests a reduction of \$1.7 million General Fund ongoing to reverse the 2016-17 Spring Finance Letter that funded 16 existing, but unfunded positions, and reclassified 4 positions that assist in processing claims for federal veterans benefits and increase oversight of county veterans service officers. The positions are located in the three district offices in Los Angeles, Oakland, and San Diego which are co-located with USDVA Regional Offices.

BACKGROUND

Federal Veteran's Benefits. To receive federal veterans benefits a veteran must apply and file a claim with the USDVA. Many federal veterans benefits depend on a veteran's "service-connected disability" rating. A service-connected disability is defined by the USDVA as a physical or mental disability that was incurred or aggravated while in training or active duty.

Federal veterans benefits include a range of benefits such as VA health care, monetary benefits such as disability compensation and pension, education benefits, and vocational rehabilitation and employment. In 2015, about 355,000 veterans in California received federal disability compensation and over 28,000 California veterans received a pension, with an average disability compensation and/or pension benefit of about \$17,000 (including annual and one-time retroactive payments).

The State Helps Connect Veterans to Their Federal Benefits

To apply for health care, disability compensation, pension, or other federal benefits, a veteran must complete a detailed application ("claim") with evidence of his or her service-connected disability and proof of income. This is a lengthy process, and some veterans need assistance to gather evidence of their service-connected disability and complete the application. Sometimes, the federal government will reject the claim and the veteran will appeal the decision and, for example, add more medical evidence to his or her claim. Appeals can take three to five years to process. The State helps veterans claim benefits in three key ways as described below.

Veterans Services Division. For about 40 percent of the USDVA claims filed in California, one of the three CalVet district offices represents the veteran or family member through the submission and appeal process. The 2013 Budget Act provided \$3 million for 36 three-year limited-term positions to create a 12 person "strike team" in each district office designed to reduce the backlog of pending initial entitlement claims. This team expedited the processing of \$175.2 million in payments going to California veterans every year for the rest of their lives. In addition, these staff have resulted in significant one-time pension and survivor payments for veterans families.

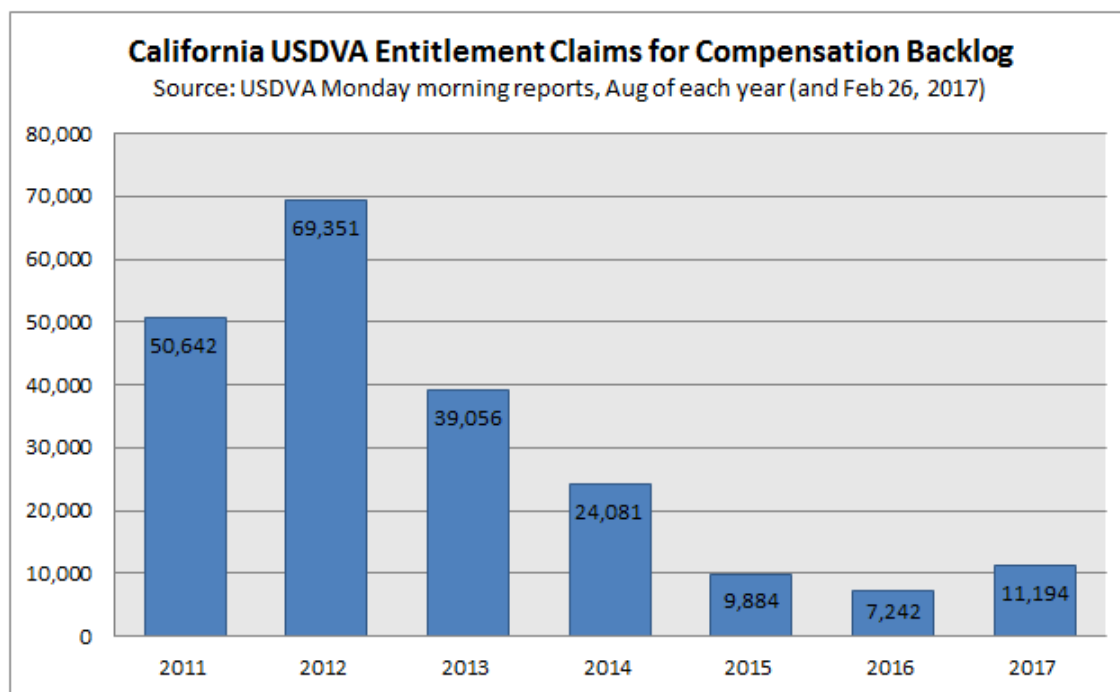
Due to the lengthy claims process, which had and continues to have significant backlogs, the 2015 Budget Act made the 36 positions permanent, but the funding for the positions expired June 30, 2016. The 2016 Budget Act funded 16 of the 36 positions and provided funding to reclassify four existing positions. The Governor's budget proposal reverses last year's budget action.

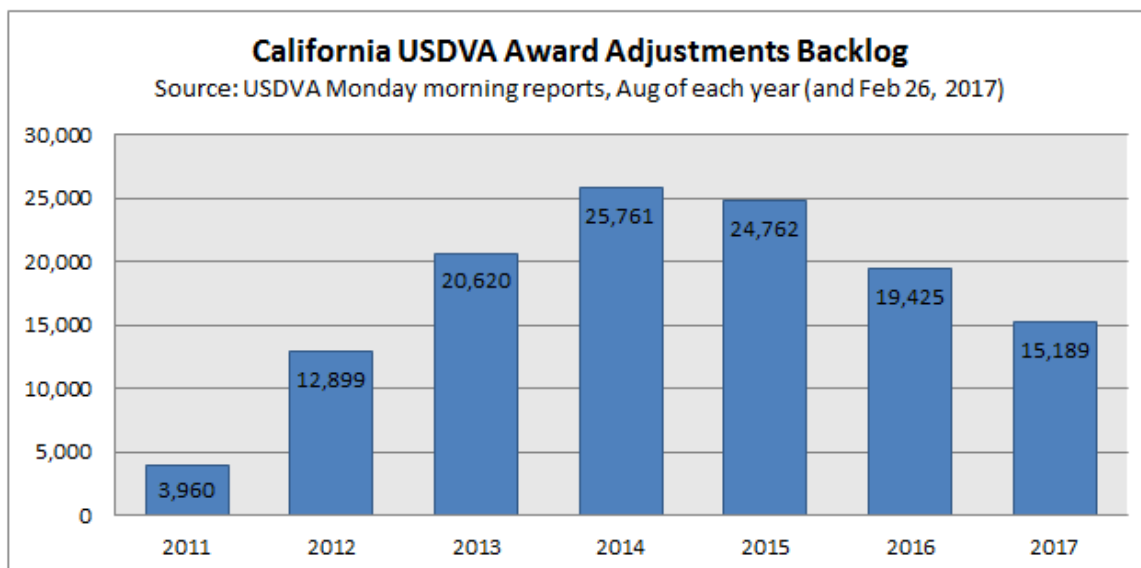
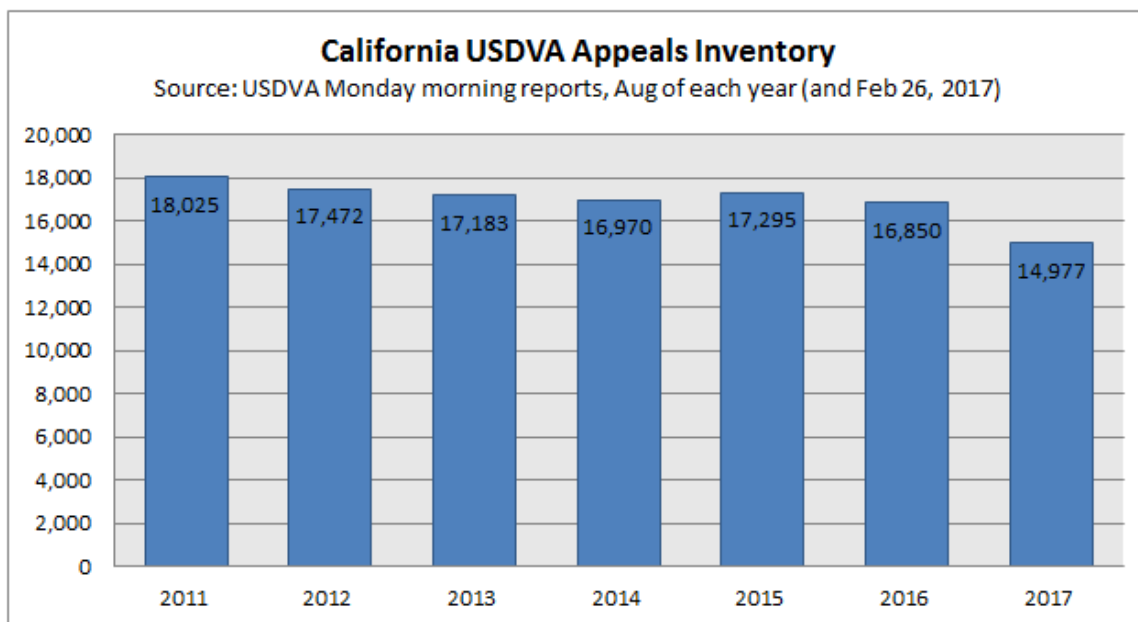
Partially Funds County Veterans Service Officers. The state provides \$7.5 million (\$5.6 million General Fund) each year to CVSOs, a joint state– and county–funded program to counsel veterans on available benefits, help them develop benefit claims, provide case management services throughout the claim process, and refer veterans to other nonfederal resources. Each county has at least one CVSO and larger counties may have several. In 2015–16, over 400,000 veterans and their family members reached out to CVSOs for assistance, resulting in about 109,000 monetary and health care claims and \$487 million in new or increased federal benefits to veterans.

California Transition Assistance Program (Cal-TAP) Aims to Educate Veterans About Available Benefits. Cal-TAP—administered by CalVet—adopted as part of the 2016–17 budget package educates veterans and their families about benefits available to them. Unlike CVSOs, which do some outreach but primarily help veterans apply for benefits, the main mission of Cal-TAP is outreach and education. Cal-TAP offers online and in-person presentations from state, federal, and community-based partner organizations to inform and connect veterans to available benefits. Outreach through Cal-TAP focuses on younger veterans as they leave military service, but presentations will also be available for veterans at all stages of life. This program would not be affected by the Governor’s budget proposal.

Significant Claim Backlogs

There are various USDVA claim backlog inventories. A backlog is defined as being 125 days and older. The figures below show that while some of the backlogs have been reduced by the efforts discussed above, there continue to be very significant backlogs.





STAFF QUESTIONS

1. Why are these positions being proposed to be cut, when the General Fund savings are minor and the staff result in significant federal funds coming into the state?
2. Did the Administration in its overall budget propose cutting staff in other areas of the budget that result in increased federal dollars for California?

STAFF COMMENTS

The positions that are being proposed to be defunded are part of strategy that began in 2013 to ensure that California's veterans and their families receive the federal benefit awards to which they are entitled in a timely manner. The positions assisted the USDVA in reducing its claims processing backlog, improved the quality of claims submitted (which helped reduce the cause of the claims backlog), and provided oversight and accountability of the CVSOs.

The loss of funding for these positions will result in delays in veterans receiving their federal benefits. These positions have resulted in more federal dollars coming into the state and are critical for connecting our veterans with other federal and state programs and benefits.

Last year's request to fund these positions on an ongoing basis emphasized the importance of these staff and noted that, "without these positions only 11 staff would be servicing the 1.8 million veterans in California". Staff recommends rejection of this proposal because the benefits to veterans in California and the state overall far outweigh the minor General Fund cost for these staff.

Staff Recommendation: Reject the Budget Proposal.

ISSUE 3: PUBLIC ASSISTANCE AND REPORTING INFORMATION SYSTEM (PARIS) (INFORMATIONAL ISSUE)
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The State uses a system called the Public Assistance and Reporting Information System (PARIS) to identify veterans who may not be connected with federal monetary and health care benefits. The potential benefits of the use of PARIS has been underutilized likely resulting in the state leaving federal money on the table and missing opportunities to reduce state costs.

BACKGROUND

PARIS is an information sharing system, operated by the U.S. Department of Health and Human Services' Administration for Children and Families, which allows states and federal agencies to verify public assistance client circumstances. The PARIS Veterans match allows the California Department of Health Care Services (DHCS) to improve the identification of veterans enrolled in the Medi-Cal program. Improved veteran identification can enable the state to shift health care costs from the Medi-Cal program to the United States Department of Veterans Affairs (USDVA). The PARIS referrals result from Medicaid records that are matched against VETSNET, the federal pension and compensation database.

The state can use this information to connect veterans to benefits fully funded by the federal government. While such activities generally do not create federal savings and may increase federal costs, they can (1) offset state costs for providing public assistance benefits to these individuals and (2) improve veterans' access to other federal monetary benefits.

The DHCS began using PARIS in 2012-13. Annually, DHCS receives up to 120,000 matches for veterans, however only the 2,000 matches that have the highest potential for state savings are referred to County Veterans Service Officers (CVSO). The annual cost for the current program is \$1.9 million (\$956,000 General Fund and \$956,000 Federal Funds). The amount of total savings to the State (after the aforementioned costs are subtracted) for the past four years is shown below.

Fiscal Year	Estimated Number of PARIS Veterans Dropping Medi-Cal	Total State Savings*
2015-16	148	\$4,632,500
2014-15	101	\$3,117,000
2013-14	86	\$1,360,000
2012-13	54	\$ 677,600

Source: Department of Health Care Services

Because DHCS receives approximately 120,000 PARIS referrals each year, and only 2,000 referrals are sent to CVSOs to work due to their own capacity, there remains a significant opportunity to move more veterans off Medi-Cal. For example, using the savings shown in the table above, DHCS estimates that if the number of referrals worked were doubled, the savings would also double.

LAO COMMENTS

In 2013, the Legislative Analyst's Office (LAO) found that while the state pursues voluntary health care transfers through PARIS Veterans activities, it has not provided additional resources to DHCS, CalVet, or CVSOs to conduct the outreach necessary for such transfers to occur. When outreach to PARIS Veterans clients does occur, the state presently intends for it to focus on encouraging veterans to voluntarily discontinue Medi-Cal coverage and rely solely on USDVA health care. This can be problematic for certain veterans who may need services that are difficult to access through USDVA health care, making it difficult for CVSOs—which are advocates for veterans—to make the case for discontinuing Medi-Cal coverage. The LAO recommended that the Legislature establish a pilot program with additional staff resources at DHCS, DVA, and three CVSOs to pursue a modified outreach approach. To achieve General Fund savings, the outreach conducted by DVA and CVSOs should focus on facilitating transfers of certain veterans to skilled nursing facility care funded by USDVA. The outreach should also assist PARIS Veterans clients in receiving USDVA monetary benefits. These recommendations were never implemented.

STAFF QUESTIONS

1. CalVet and LAO: Do you think there would a benefit to the state and to veterans by adding staff at CalVet to process PARIS referrals? Why or why not?
2. CalVet: If staff were added at CalVet to work these referrals, how many referrals do you estimate each position could work?

STAFF COMMENTS

Currently there are no staff at CalVet focused on PARIS referrals and helping to connect these veterans with the federal health care and monetary benefits they have earned. DHCS has estimated that doubling the number referrals could result in an additional \$4.6 million in General Fund savings.

Having staff at CalVet to work the referrals may be the most cost-effective way to increase state savings. These staff could provide direct outreach to veterans and their families to educate them about state and federal benefits, make referrals to local service providers, and assist with filing VA claims for healthcare.

The Committee may wish to consider establishing for three years a unit of 3.0 positions (2.0 AGPAs and 1.0 Staff Services Manager II) within the CVSO Auditing, Training, and Support unit dedicated to do this work. Most likely CalVet could receive matching funds from DHCS for these three positions resulting in a cost of \$359,000 (\$215,000 General Fund and \$144,000 reimbursements) in 2017-18 and \$342,000 (\$204,000 General Funds and \$138,000 reimbursements) on an ongoing basis.

If these positions are added, having CalVet report back on the outcomes of its efforts would help the Legislature to assess if funding for these positions should be permanent. For example, CalVet could report back to the Legislature in March 2020 on 1) the number of veterans that have been moved off of Medi-Cal and/or connected with federal benefits; 2) the amount of state savings achieved each year as a result of these efforts; 3) any other relevant outcomes; and 4) what further steps could be taken to increase state savings and the benefit of these matches.

Staff Recommendation: Informational Issue. No Action Necessary At This Time.

1111 DEPARTMENT OF CONSUMER AFFAIRS

The Department of Consumer Affairs (DCA) includes 40 boards, bureaus, commissions, and programs. Through these entities, DCA licenses approximately 3 million individuals in roughly 250 professional categories, such as doctors, acupuncturists, and cosmetologists. In addition, DCA licenses certain businesses, such as auto repair facilities. As part of its regulatory responsibilities, DCA also investigates complaints and disciplines violators of licensing requirements. Additionally, DCA provides certain services to its boards and bureaus, including staff training, consumer education and outreach, and legal and audit services.

The Governor's budget proposes \$655 million from various funds for support of DCA in 2017-18, which is an increase of \$18 million (3 percent) from the current-year estimated expenditures. DCA is supported by fees and other regulatory assessments.

ISSUE 4: BREEZE SYSTEM AND CREDIT CARD FUNDING

The Governor's budget requests for DCA \$19.8 million in 2017-18 (growing to \$22.5 million in 2018-19, then decreasing to \$7.7 million annually thereafter) from various DCA special funds for the BreEZe IT system. This funding would support a total of 43 permanent positions as well as various contract and other costs.

BACKGROUND

Project History. When first initiated, the BreEZe project was proposed to be an integrated, web-enabled enforcement and licensing system that would replace various systems that have been in place at all of the boards and bureaus within DCA. It was proposed to be completed in three phases (or "releases"), with roughly half of the boards and bureaus in the third release. In November 2009, the BreEZe project was approved with a budget of \$28 million and an expected completion date of June 2014. DCA selected Accenture as the vendor for the project in September 2011. The first release was launched in October 2013, but experienced various implementation challenges. Notably, according to a report by the State Auditor, most Release 1 Executive Officers reported that BreEZe decreased their regulatory entity's operational efficiency. In January 2015, the Administration informed the Legislature of its intent to cancel the contract with Accenture after Release 2 due in large part to rising project costs, which had grown to \$96 million for Releases 1 and 2 alone. The Legislature concurred with the Administration's proposed approach in March 2015, but expressed a desire for closer oversight over the project and for a plan for Release 3 boards and bureaus. In January 2016, DCA launched Release 2 and has since reported that the second release is proceeding successfully.

Funding Provided in 2015-16 Budget. The Legislature has approved various funding proposals for BreEZe. Most recently, the 2015-16 budget provided roughly \$23 million on a limited-term basis. The proposals included 34 permanent positions, though funding for them was only provided through 2017-18. During the 2015-16 budget process, DCA indicated it planned to conduct cost-benefit analyses for Release 3 boards and bureaus

in 2016 (after Release 2 completion) and then make a decision about whether entities previously slated for Release 3 would come onto BreEZe or another system.

The Governor's Proposal. The Governor's proposal funds 43 positions, an increase of 9 positions from the current staffing levels. Of these nine additional positions, five are related to maintenance of the system and four are related to cashiering and the call center for licensees that use the system. The Governor's proposal for 2017-18 and 2018-19 includes funding for various contract amounts, including a continuation of about \$4.5 million per year for a maintenance contract with Accenture. According to DCA, this contract funds about 21 Accenture positions.

LAO COMMENTS

The Legislative Analyst's Office (LAO) makes the following assessment and recommendations for the BreEZe project.

Minimizing Accenture Contract Worthwhile Goal, but Not Reflected in Proposal.

The proposal requests an increase of five additional positions for maintenance of the BreEZe system. DCA indicates that BreEZe maintenance requests have stabilized, and that the additional staff would allow the department to begin transitioning maintenance responsibility from Accenture to state staff.

The LAO agrees that reducing the state's reliance on the Accenture maintenance contract is a worthwhile goal since it is more costly than state staff. However, the proposal does not reflect a commensurate reduction in maintenance contract amounts. DCA indicates that this is because it expects to initiate specific system modification projects in the current and future years, and thus does not want to reduce the Accenture contract at this time. However, the LAO anticipates based on information provided by DCA that the specific system modification projects that the department has identified—for the Board of Optometry and the Board of Vocational Nursing and Psychiatric Technicians—will likely be largely completed by the end of 2017-18. Accordingly, the LAO expects that the department should be able to begin to reduce its reliance on Accenture starting in 2018-19 even if it undertakes these additional system modification projects.

Plan for Release 3 Entities Remains Uncertain. While it has been about two years since the decision was made to terminate Release 3 from the BreEZe contract, DCA still lacks a plan for Release 3 boards and bureaus. Furthermore, it indicates that there is currently no defined timeline for the completion of the cost-benefit analyses that DCA expects to undertake before making decisions about whether entities previously slated for Release 3 would come onto BreEZe or another system. The lack of a plan for Release 3 is problematic because Release 3 boards and bureaus are using outdated IT systems that do not fully meet their business needs. We also note that these Release 3 entities have already waited eight years and contributed financially to a new system, and thus should reasonably expect to see a plan for addressing their needs.

LAO Recommendation. The LAO recommends that the Legislature approve the Governor's proposal for 2017-18, but reduce the 2018-19 amount by \$1 million because the proposed increase in state staff should allow DCA to gradually reduce its reliance on its external maintenance contract with Accenture. Additionally, since DCA has not yet provided a plan for addressing the IT needs of Release 3 boards and bureaus. The LAO recommends that the Legislature direct DCA to report at budget hearings on its plan.

STAFF QUESTIONS

1. LAO: Please present this issue and your findings and recommendations.
2. DCA: What is the plan and timeline for the boards and bureaus that are in Release 3 of the system?
3. DCA: Why are the Release 3 boards and bureaus still paying for BreEZe? Would they no longer pay in the future if they decide not to use BreEZe?

STAFF COMMENTS

Staff agrees with the LAO assessment; however recommends that funding for only 2017-18, and not the out-years, be approved.

Staff Recommendation: Approve funding of \$19.8 million for 2017-18.

ISSUE 5: DCA—ORGANIZATIONAL CHANGE MANAGEMENT

The Governor's Budget requests \$1.3 million and 10.0 permanent positions to conduct organizational changes management (OCM) activities at DCA's 40 boards and bureaus.

BACKGROUND

The Strategic Organization, Leadership, and Individual Development (SOLID) unit within DCA handles training and strategic planning for boards and bureaus. Since 2015, SOLID has also provided OCM services to DCA entities. OCM involves mapping and reviewing business processes and developing recommendations for ways to improve efficiency and effectiveness. SOLID currently has three assigned staff and two redirected staff working on OCM. The total number of staff in the SOLID unit is 19.

According to DCA, this proposal would fund OCM for roughly five to seven boards and bureaus annually. The OCM process for each entity is expected to take the equivalent of about two DCA staff for a full year. The Governor proposes to fund this request with the special funds that support these 40 entities and distribute the costs across all of these special funds in proportion to each entity's share of authorized positions.

LAO COMMENTS

The LAO's assessment of the OCM proposal is below.

Insufficient Justification of Need. DCA indicates that OCM is needed to improve the quality of work conducted by the department and its boards and bureaus. However, it has not provided evidence of specific deficiencies at the department's 40 entities in order to justify conducting a staff-intensive effort to improve their performance.

DCA further indicates that there is unmet demand for OCM from boards and bureaus. However, the specific examples provided by DCA generally focus on business process mapping in advance of IT solutions or providing trainings on BreZE and project management rather than on broader OCM efforts. Thus, it is not clear whether the boards and bureaus have unmet demand for comprehensive OCM services or for more limited support for specific activities.

Insufficient Justification of Value of Organizational Change Management. DCA has not shown that OCM has been an effective tool for improving the performance of state entities. Specifically, while DCA has provided OCM services since 2015, it has not been able to provide evidence that these activities have led to efficiencies or other measurable outcomes at its boards and bureaus. Furthermore, DCA could not provide examples of other departments that have ongoing staffing for OCM and the results they have achieved.

Inadequate Identification of Expected Outcomes. DCA has not identified any specific measurable outcomes that would be achieved with these new resources. Accordingly, it is not clear how the Legislature would evaluate whether these resources have been effective at meeting their intended goals.

LAO Recommendation. The LAO recommends that the Legislature reject the Governor's proposal to provide \$1.3 million to conduct organizational change management (OCM) activities at DCA's 40 boards and bureaus. The LAO finds that DCA has not adequately justified that OCM (1) is needed at all boards and bureaus, (2) has a proven track record at DCA or other state departments, or (3) will produce specific measurable outcomes.

STAFF QUESTIONS

1. LAO: Please present this issue and your findings and recommendations.
2. DCA: What specific outcomes are you expecting from the addition of these staff?
3. DCA: Please provide examples of where OCM provided by SOLID has helped a board or bureau.
4. DCA: How does OCM relate to the implementation of BreEZe? Is this proposal tied to Release 3 or a replacement system?

STAFF COMMENTS

Staff agrees with the LAO's findings and recommendation.

Staff Recommendation: Reject the Proposal.

ISSUE 6: REGISTERED NURSING—MILITARY EDUCATION AND EXPERIENCE

The Governor's budget proposes \$389,000 (decreasing to \$365,000 annually) and three positions from the Board of Registered Nursing (BRN) Fund (funded primarily through license fees) to implement SB 466 (Hill, Chapter 489, Statutes of 2016).

BACKGROUND

The BRN licenses nurses and oversees the roughly 140 nursing school programs in the state to ensure that nurses are competent and safe to practice. SB 466 required BRN to adopt regulations that require nursing schools seeking to operate in the state have a process to grant credit for applicants' military education and experience. SB 466 requires the board to review the school's policies and practices at least once every five years. SB 466 further requires the board to deny or revoke approval of a nursing school that does not give student applicants credit for military education and experience.

LAO COMMENTS

Insufficient Workload Justification. The LAO finds that BRN's estimate of workload associated with reviewing schools is inflated. BRN indicates that it will take 152 hours—close to four weeks—to conduct each school review that includes:

- 120 hours reading policies and procedures and writing a report,
- 16 hours for presenting at committee and board meetings, and
- 16 hours for a site visit.

The LAO finds that these reviews could take much less time and be conducted largely as desk reviews, rather than site visits. Furthermore, the LAO expects that BRN should be able to conduct these reviews in a relatively standardized manner that takes less time—for example, using a checklist to verify compliance with BRN's regulations.

LAO Recommendation. The LAO recommends that the Legislature reduce the Governor's proposal from \$389,000 to \$130,000 and 1.0 permanent position in 2017-18 (\$122,000 ongoing) to better reflect the expected workload.

STAFF COMMENTS

Staff agrees with the LAO's findings and recommendation.

Staff Recommendation: Reduce the Governor's proposal from \$389,000 to \$130,000 and 1.0 permanent position in 2017-18 (\$122,000 ongoing).

ISSUE 7: PRIVATE POSTSECONDARY EDUCATION ACT (SB 1192)

The Governor's budget proposes for the Bureau for Private Postsecondary Education (Bureau) \$1.0 million in 2017-18 and \$928,000 annually thereafter to fund 10.0 positions to implement the provisions of SB 1192 (Hill, Chapter 593, Statutes of 2016). The Bureau also requests a one-time increase of \$1 million in 2017-18 to fund relocation costs and \$250,000 in 2017-18 and annually thereafter for increased rent costs.

BACKGROUND

The BPPE is required to review, investigate and approve private postsecondary institutions, programs and courses of instruction pursuant to the California Private Postsecondary Education Act (Act) of 2009 and to take formal actions against an institution/school to ensure compliance with the Act, including closure of an institution/school, if determined necessary. The Act also provides for specified disclosures and enrollment agreements for students, requirements for cancellations, withdrawals and refunds, and the BPPE is required to administer the Student Tuition Recovery Fund (STRF) to provide refunds to students affected by the possible closure of an institution/school.

SB 1192 makes changes to the Act in order to ensure continued oversight of private postsecondary institutions that support quality, innovative programs which are approved in a timely manner, while also making sure a robust government structure prevents predatory practices and promotes student success.

BPPE anticipates workload related to the following requirements:

Out of State Registration and Enforcement. Requires an out of state online institution to register with the BPPE, with registrations valid for two years; authorizes BPPE to adopt emergency regulations to establish an application process; requires an out-of-state institution to pay an application fee of \$1,500; specifies that an institution that fails to comply is not authorized to operate in this state. (2.0 positions.)

Establishing and Maintaining an Office of Student Assistance Relief (OSAR) The OSAR will provide outreach and individualized assistance to students impacted by the unlawful activities or closure of a BPPE-approved institution, and to serve as a primary point of contact to address the needs of private postsecondary education students. The director of the DCA is also required to receive complaints from consumers concerning student concerns related to BPPE'S performance of its responsibilities, and include a summary of these in his or her bi-annual report to the Legislature. (6.0 positions.)

Expanding STRF Eligibility to Corinthian Students (Heald and Everst Online). The bill provides that a student is eligible for STRF if they were enrolled at a California campus of Corinthian Colleges, Inc. (CCI), or were a California student enrolled in an online program offered by an out-of-state campus of a CCI institution, who also meets all of the other eligibility requirements, if the student was enrolled as of June 20, 2014. (2.0 positions.)

STAFF QUESTIONS

1. What are the Bureau's plans for how OSAR will help Corinthian and ITT students (and others, but namely these two)? Will this be the office's first priority, as the Legislature understood per discussions on SB 1192 last year?
2. SB 1192 estimated a STRF payout of \$1.1 million? How much has been paid out to date and how much is anticipated for 2017-18? What is the fund balance of the STRF?
3. Why are the proposed relocation costs \$1 million?

STAFF COMMENTS

It is unclear if the workload associated with school closures will be ongoing. Staff recommends approval of the 10.0 positions for three years.

Staff Recommendation: Approve as Budgeted, Except Only Approve the 10.0 Positions for Three Years.

ISSUE 8: UPDATE ON PRESCRIPTION OPIOID DRUG ABUSE (INFORMATIONAL ITEM)

BACKGROUND

Prescription Drug Abuse. Use of prescription drugs for nonmedical purposes (such as for recreational use) is often referred to as prescription drug abuse. Largely in response to a growing concern about prescription drug abuse, almost all states—including California—have a prescription drug monitoring program. Such programs typically involve an electronic database that gathers information about the prescribing and dispensing of certain drugs. This information is used to reduce prescription drug abuse. For example, it is used to identify potential “doctor shoppers”—persons obtaining prescriptions from many different physicians over a short period of time with the intent to abuse or resell the drugs for profit.

California’s Prescription Drug Monitoring Program. The state Department of Justice (DOJ) administers California’s prescription drug monitoring program, which is known as the Controlled Substance Utilization Review and Evaluation System (CURES). For certain types of prescription drugs, a pharmacy is required to provide specified information to DOJ on the patient—including name, address, and date of birth. The types of prescription drugs that are subject to reporting are generally those that have potential for abuse.

Board of Pharmacy Specialized Team. The Board of Pharmacy (BOP) was first authorized eight positions on a temporary basis in 2014-15 to create a specialized team focused on monitoring, initiating, and investigating violations of existing statutes relating to BOP licensees’ failure to exercise corresponding responsibility, a legal requirement aimed at preventing prescription drug abuse. In the 2016 Budget Act, beginning in 2017-18, these staff were approved on a permanent basis. The team continues to rely heavily on CURES data and analysis as a key element in the investigative process.

The chart below provides historical and projected workload of the team.

Workload Measure	2014-15	2015-16	2016-17	2017-18
Evaluate Coroner’s Reports	1	2	0	1
CURES Reports Based on Coroner’s Information	196	117	145	150
Trends Reports from Data Mining	0	0	0	1
Inspection of Pharmacy Resulting from CURES and Evaluation	90	122	85	145
Open Investigations	59	153	157	160
Investigations Closed with Violations	NA	50	86	90
Attorney General Referrals	15	21	14	20

STAFF QUESTIONS

1. What monitoring and enforcement efforts do these staff engage in?
2. How does the team determine who to investigate? How is CURES data used to identify opportunities for additional investigations?
3. What have been some successes/learning opportunities of the specialized team?

STAFF COMMENTS

Informational issue only.

Staff Recommendation: Informational issue only. No action necessary.

0850 STATE LOTTERY COMMISSION**ISSUE 9: LOTTERY REPORTING TRAILER BILL LANGUAGE**

The Governor's budget proposes trailer bill language to remove the Lottery Commission from the Budget Act and to codify the reporting requirements in statute.

BACKGROUND

In 1984, Proposition 37 amended the California Constitution to authorize the establishment of a statewide lottery. As an initiative statute, the California State Lottery Act (Act) of 1984 created the California State Lottery Commission and gave it broad powers to oversee the operations of a statewide lottery. The purpose of the Act was to provide supplemental monies to benefit public education.

The Lottery is supported solely by the sale of Lottery products and does not receive any financial support from the state and the state is not liable for any obligations of the State Lottery Fund. Prior to AB 142, the Lottery was required to return a fixed 50 percent of total annual revenues to the public in the form of prizes and to return 34 percent of total revenues to the benefit of public education, with no more than 16 percent of total revenues to be used for administrative costs. In 2010, AB 142 provided flexibility for the Lottery to pay out more money in prizes. It required the Lottery to return at least 87 percent of total revenues to the public in the form of prizes and net revenues to benefit public education and limited administrative costs to 13 percent of total revenues.

In the 31 years since sales began in October 1985 through June 30, 2016, the California State Lottery has raised nearly \$31 billion for public education, including \$1.59 billion in FY 2015-16. Because of the inherently variable nature of lottery ticket sales, revenue estimates for 2016-17 and 2017-18 cannot be made with certainty.

The Lottery is a non-appropriated item in the Budget Act. A special display showing the Lottery's statement of operations has appeared in each Governor's budget since 1986-87. The Lottery submits its annual operating budget to the Commission for approval each June, this budget process is outside of the legislative budget process.

TRAILER BILL LANGUAGE

The trailer bill language adds the following provisions to the Government Code:

- Requires the director of the Lottery Commission to provide the following informational reports to the Director of Finance, the Joint Legislative Budget Committee, and the budget committees of the Legislature:
 - A copy of the proposed administrative budget for the July 1 fiscal year no later than January 10 of each year.
 - A copy of the proposed administrative budget and expected sales revenues for the fiscal year that begins on July 1, no later than January 10

of each year. The report should include any detail on any administrative funding that is proposed to be used to supplement the prize pool of any lottery game.

- The final budget and revenue projections approved by the Lottery Commission by June 30 of each year.

STAFF COMMENTS

Staff has no concerns with this proposal at this time. The current process for the Lottery Commission budget is already outside of the normal budget process, therefore this trailer bill language would not make any substantive changes.

Staff Recommendation: Hold Open.

2100 ALCOHOLIC BEVERAGE CONTROL

ISSUE 10: VACANCY UPDATE

Over the past few years, Subcommittee 4 has spent a significant amount of time discussing the vacancy rates at ABC. ABC will provide an update on recent changes made and how those changes have affected the vacancy rate.

BACKGROUND

As a direct result of changes made to the recruiting and hiring processes and recent agreements reached in collective bargaining, ABC believes it has solved its long-standing problem of high vacancy rates in their sworn ranks. ABC has increased its recruiting outreach efforts, is doing three waves of recruitment/hiring each year, and has streamlined the recruitment process as much as possible. ABC is striving to get candidates into an exam quickly, immediately present them with job opportunities to apply for, get them into interviews and ultimately into the background process – the key is putting enough candidates into the pipeline to account for attrition throughout the process and the opening of additional vacancies as candidates are in process.

As of March 1:

- ABC only has 14 vacant Agent positions, a vacancy rate of 9.7 percent, which is about half of what it was last year at this time and very close to the lowest in 10 years, which was 8.3 percent last month.

In the pipeline to fill those 14 vacancies ABC has:

- Fourteen candidates with Conditional Offers of Employment, meaning they will be hired pending medical and psychological screening approval.
- Thirteen candidates are currently in background.

With these changes in the recruitment process, ABC is confident that they can control their vacancy rate, even if turnover remains high (however, separations are 25 percent lower at this point in the fiscal year than they were last year). Additionally, the vacancy rate for non-sworn position is 4.9 percent.

STAFF COMMENT

The update provided by ABC is very positive news for ABC.

This item is information only.

ISSUE 11: FLEXIBLE STAFFING FOR LICENSING

The Department of Alcoholic Beverage Control (ABC) requests \$92,000 in 2017-18, and \$88,000 in 2018-19, and ongoing, (Alcoholic Beverage Control Fund) for two part-time positions (one full-time position) to increase the capacity and flexibility of the licensing program to meet the increasing workload associated with the licensure of businesses seeking to manufacture, distribute, and sell alcoholic beverages in the state.

BACKGROUND

Delays in the timely completion of investigations for permanent license applications have an impact on stakeholders, local and statewide economies, and the job market; therefore, timely processing is crucial. While ABC utilizes temporary help, overtime, and workload sharing among offices to avoid backlog, the district offices continually find themselves falling behind in their efforts to keep up with the demand of their applicant-stakeholders.

To assist in completing the licensing processes ABC established performance matrix goals of completing 75 percent of original (new) permanent applications within 90 days from the date the application was received, and to complete 75 percent of ownership transfer application for existing ABC licensed businesses within 75 days from the date the application was received. A review of the data from the past five years shows that the ABC has been unable to meet these goals; investigations for new licenses are being completed in the desired timeframe approximately 50 percent of the time, and ownership transfers approximately 49 percent of the time. Delays prevent transfers of ownership and the opening of new businesses.

Caseloads of pending investigations per Licensing Representative (LR) have continued to climb, due not only to the increase in incoming applications, but also by the complexities of the investigations. For new locations, LR's must investigate the background of the applicant, verify the source of investments, contact all nearby residents and consideration points, verify zoning requirements, confer with allied agencies including law enforcement, establish public convenience or necessity in high crime or over-concentrated areas, and verify the accuracy diagrams in comparison to the actual location. Site visits are required, and in many districts the vast geographical areas create time-consuming long-distance travel. Further, with the age of increased information, community input and protest has also increased.

ABC continually reviews operational processes to ensure they are streamlined and focused on mandated and critical issues, as well as, at staffing and position classifications to ensure human resources are optimized. ABC recognizes that growth in government should only occur if it is critical and all other viable solutions have been implemented and exhausted. As such, ABC has redirected internal resources whenever possible. Although ABC was able to address LR workload this way in 2015-16, this option has been exhausted. Assuming continued growth in licensing workload of about 2.6 percent annually, approximately two additional LR positions would be needed each year in order to keep pace. However, given the recent leveling off of volume in 2015-16,

ABC is proposing to add one position at this time. Further, as a result of analyzing workload statewide, and recognizing this incremental growth is occurring across all ABC District Offices (often at different rates), it has been determined that the addition of the position would be most efficiently deployed as two part-time positions, so that ABC would have more flexibility to match resources to workload and address the needs of more offices.

STAFF COMMENT

Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

ISSUE 12: DATABASE ADMINISTRATION

The Department of Alcoholic Beverage Control (ABC) requests \$129,000 in 2017-18, and \$127,000 in 2018-19, and ongoing (Alcoholic Beverage Control Fund) for one position to improve the performance of ABC's systems, most notably the Alcoholic Beverage Information System (ABIS), the Department's primary business application, through appropriate database administration.

BACKGROUND

In May 2010, ABC launched ABIS. ABIS was developed by an external vendor using the company's proprietary commercial off-the-shelf (COTS) software. However, the COTS application was heavily modified to meet ABC's requirements. The primary function of ABIS is to register, manage, and maintain licenses for ABC. ABIS is currently experiencing performance issues, which have been difficult to diagnose. ABC is actively working with the vendor to identify the source of the performance issues. The results of this effort are critical to the question of whether or not ABC should continue with the current vendor and system or consider alternatives to replace it with a new solution.

Staffing overview ABC's Service Desk consists of four staff, one Assistant Information Systems Analyst, one Associate Information Systems Analyst, and two Staff Information Systems Analysts. Three of the four staff performs other duties in addition to supporting the Service Desk activities. This equates to approximately 1.5 positions to address the needs of ABC's over 450 employees. There are four application developers that support the ABIS system. There is one Senior Programmer Analyst that acts as the lead developer and three Staff Programmer Analysts. The primary responsibility of the development team is to maintain the ABIS system. The Infrastructure team is comprised of one System Software Specialist III (Supervisor), one System Software Specialist III (Technician), and one System Software Specialist I (Technician). In addition, a System Software Specialist II (Technician) position was established through the 2016-17 budget process.

There are functional gaps in ABC's Application Development team because the team lacks the knowledge and experience in database administration. This proposal would provide a dedicated resource to database administration and provide an immediate response to any outages caused by the database. This will provide for better service to the users and the public.

STAFF COMMENT

The Subcommittee may wish to ask the department when it will evaluate the effectiveness of the ABIS system to determine whether a new system is needed and how that will affect this position.

Staff Recommendation: Approve as budgeted.

2120 ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

ISSUE 13: CONTRACT ADMINISTRATIVE SERVICES FOR HUMAN RESOURCES, BUDGETS, AND ACCOUNTING

The Alcoholic Beverage Control Appeals Board requests \$106,000 (Alcoholic Beverage Control Appeals Fund) to contract with the Department of General Services for administrative services.

BACKGROUND

The Board is an independent entity that provides quasi-judicial administrative review of decisions, primarily those related to enforcement actions, of the Department of Alcoholic Beverage Control (Department).

All staff are independent of the Department and are appointed, directed, and controlled by the Board. The Board issues written decisions with orders affirming, reversing, and/or remanding the Department's decisions. Judicial review of the Board's order may be obtained by filing a petition for writ of review with the California Supreme Court or the Court of Appeal.

Currently, the Department provides the administrative services of Human Resources, Accounting, and Budgeting, at no cost to the Board. This presents a conflict of interest and, on occasion, the Department had to recuse itself from a transaction. For example, there were transactions/issues involving the Board's legal, executive, or Board member staff, or legal services contracts involving appeals/litigation with the Department.

STAFF COMMENT

This proposal will eliminate any conflict of interest that currently exists due to the Board's dependence on the Department to deliver operationally required administrative services. Approving this item is in the best interest of the Board and Department.

Staff Recommendation: Approve as budgeted.
