# AGENDA

## ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

### ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR

**TUESDAY, MARCH 3, 2015**
**1:30 P.M. - STATE CAPITOL ROOM 447**

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## VOTE-ONLY CALENDAR

## 0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

### VOTE-ONLY ISSUE 1: TECHNICAL CHANGE TO PROVISIONAL LANGUAGE RELATING TO THE SMALL BUSINESS EXPANSION FUND

The Governor's budget proposes to update provisional language for GO-Biz, which would remove outdated references in the budget bill.

### BACKGROUND

The proposed changes to the provisional language shown below:

0509-011-0001—For transfer, upon order of the Director of Finance, to the Small Business Expansion Fund ........................ 861,000

Provisions:

1. If the ~~trust fund described in Section 14030 of the Corporations Code~~ Small Business Expansion Fund described in Section 63089.5 of the Government Code incurs losses due to loan defaults and this results in outstanding guarantee liability exceeding five times the portion of funds on deposit in the Small Business Expansion Fund ~~trust fund as specified in that section~~, the Director of Finance may transfer an amount necessary from the General Fund to the Small Business Expansion Fund ~~trust fund~~ to maintain the minimum reserves required ~~by that section~~for the Small Business Expansion Fund. The Director of Finance shall notify the Joint Legislative Budget Committee within 30 days of making such a transfer. In no case shall a transfer or transfers made pursuant to this provision exceed the total amount of $20,000,000. Any amount transferred pursuant to this provision, shall be repaid to the General Fund, upon the order of the Director of Finance, when no longer needed to maintain a minimum required reserve.

### STAFF COMMENT

The proposed changes remove outdated references and update the provisional language related to the Small Business Expansion Fund. Staff does not have any concerns with this proposal.

**Staff Recommendation: Approve provisional language as shown above.**

## 1701 DEPARTMENT OF BUSINESS OVERSIGHT

### VOTE-ONLY ISSUE 2: CONVERT CONSUMER SERVICES LIMITED-TERM POSITIONS TO PERMANENT

This proposal requests $401,000 (Financial Institutions and Credit Union Funds) to convert three limited-term positions to permanent positions.

### BACKGROUND

On July 1, 2013, in accordance with the Governor's Reorganization Plan, the Department of Financial Institutions merged with the Department of Corporations to become the Department of Business Oversight (DBO). Within DBO, the Consumer Services Office (CSO) combined consumer-related activities of the former departments and serves as one centralized resource for consumers. The CSO receives and processes consumer complaints against all DBO licensees submitted by mail, via online, and a live chat center.

According to the DBO, the number of consumer complaints inquires submitted to the CSO has increased by 97.4 percent since 2010. The following chart shows the workload percentage increase by year.

| Workload History | | | | | Workload Percentage Change |
|---|---|---|---|---|---|
| **Workload Measure** | **2010** | **2011** | **2012** | **2013** | **2010-2013** |
| Financial Institutions (FI) Inquires/Calls | 1640 | 1988 | 2907 | 3481 | 112.3% |
| FI Complaints | 423 | 474 | 534 | 592 | 39.9% |
| **Totals** | **2064** | **2462** | **3441** | **4073** | **97.4%** |

### STAFF COMMENTS

The request for permanent positions is reasonable and allows DBO to meet its obligations to address consumer complaints and hold financial institutions accountable in responding to complaints. There is no General Fund impact.

**Staff Recommendation: Approve as budgeted.**

## 0840 STATE CONTROLLER'S OFFICE

### VOTE-ONLY ISSUE 3: PROPERTY TAX POSTPONEMENT (PTP) PROGRAM REINSTATEMENT

This BCP discusses the reinstatement of the Property Tax Postponement program pursuant to AB 2231 (Chapter 703, Statutes of 2014).

### BACKGROUND

The SCO requests 10.2 permanent positions and 6.7 two-year limited-term positions and $1,715,000 in 2015-16 ($1,673,000 in 2016-17, and $1,107,000 ongoing) from the Senior Citizens and Disabled Citizens Property Tax Postponement Fund for the reinstatement and administration of the Property Tax Postponement program pursuant to AB 2231 (Chapter 703, Statutes of 2014).

This proposal also includes the following:

- Converting existing General Fund (GF) appropriations for PTP functions to the PTP fund to reduce SCO's GF appropriation by $254,000 in 2014-15, and $509,000 in 2015-16, and increases Special Fund authority by the same amount.

- Provisional language in the Budget Act for PTP Fund to cover support costs for the administration of the PTP program.

The PTP program allows eligible homeowners to postpone payment of part of all of the property taxes on their primary residence. To participate, the homeowner must apply annually; be at least 62 years of age, blind or disabled; own and occupy the home as their place of residence; total household income not exceeding statutory limits; and at least 20 percent equity in their home in the initial year of application.

The PTP loan became due and payable on demand when the homeowner died, moved, changed title, sold the home or allowed senior lien to become delinquent. The SCO is responsible for making every effort to collect PTP loans that are due and payable.

Prior to the suspension of the PTP program, the SCO has 14.8 positions administering the program. The suspension and reduction of the program brought the total staff down to 4.8 positions.

AB 2231 restores a modified version of the PTP program, which allows eligible California senior, blind, and disabled citizens to apply to the SCO for property tax deferral beginning July 1, 2016. AB 2231 also creates the Senior Citizens and Disabled Citizens Property Tax Postponement Fund, an interest-bearing fund appropriated to the SCO, in the State Treasury as of January 1, 2015.

### STAFF COMMENTS

Staff recommends approving resources to implement AB 2231. The program under AB 2231 is a modified version of the old program and includes additional measures to protect the state's interest.

**Staff Recommendation: Approve as Budgeted.**

## 7730 FRANCHISE TAX BOARD

### VOTE-ONLY ISSUE 4: MAINFRAME WORKLOAD GROWTH

The FTB requests an augmentation of $8.6 million (General Fund) and $354,000 (Special Funds) in 2015-16, and $1.8 million (General Fund) and $73,000 (Special Fund) in 2016-17 for replacement of the mainframe's central processing unit, additional memory, storage space, and software to meet the workload growth projections.

### BACKGROUND

FTB's Tier III equivalent Data Center provides mainframe and distributed systems access and the necessary operating capacity for FTB to administer its programs successfully. In 2012-2013, FTB's Data Center processed approximately 23.4 million online transactions per month and 228,000 batch jobs per month. During April 2014, FTB processed approximately 28.5 million online transactions and roughly 262,000 batch jobs.

The mainframe supports FTB's legacy applications, Taxpayer Information, Business Entity Tax System, and Court Ordered Debt. The mainframe also supports application systems operating in the distributed environment, with all the systems having substantial dependency on data that resides within the mainframe.

Historically, FTB replaced the mainframe every four years. The last mainframe replacement was in 2011-12 and the next replacement is planned for 2015-16, pending approval of this BCP. In the past, FTB experienced an annual growth rate of 10 percent in Millions of Instructions Per Second (MIPS). However, in 2013-14, due to unforeseen growth patterns, FTB experienced a 43 percent growth rate. The sudden increase is attributed to several unanticipated workloads and implementation of various security tools. FTB has engaged in mitigation techniques to slow the growth. However, even with the mitigations and slower growth, the current system will exceed its capacity by December 2015.

### STAFF COMMENT

Based on the analysis by FTB, the mainframe processor does not have sufficient CPU and memory to handle the growth of current application workloads projected beyond December 2015. Providing additional resources to FTB are reasonable.

**Staff Recommendation: Approve as budgeted.**

## VOTE-ONLY ISSUE 5: AB 1424 – TOP 500 TAX DELINQUENCIES IN CALIFORNIA

The FTB requests six permanent positions to replace six expiring three-year limited-term positions and $600,000 (General Fund). These positions will continue to administer the various provisions of AB 1424 (Chapter 455, Statutes of 2011), addressing the Top 500 Income Tax Delinquencies in California.

### BACKGROUND

In 2006, AB 1418 (Chapter 716, Statutes of 2006), required FTB to compile and make publicly available an annual list that identifies the Top 250 tax delinquencies that exceed $100,000, selected from both the Personal Income Tax and Corporation Tax records as of December 31 of the previous year. In 2011, AB 1424 changed the Top 250 list to the Top 500 list, which increased FTB's collection enforcement authority. At the time, FTB received seven three-year limited-term positions to administer AB 1424.

Revenue generated from AB 1424 was $63.9 million in 2012-13, and $74.1 million in 2013-14. It is anticipated that revenue will be $70 million in 2014-15.

### STAFF COMMENT

The resources requested will allow FTB to continue to administer the provisions included in AB 1424.

**Staff Recommendation: Approve as budgeted.**

# ITEMS TO BE HEARD

## 0840 STATE CONTROLLER'S OFFICE

### INFORMATION: PRESENTATION BY STATE CONTROLLER BETTY YEE

State Controller Betty Yee will provide a brief presentation to the subcommittee.

### ISSUE 1: STATE GOVERNMENT REPORTING

The State Controller's Office requests 5.3 permanent positions and $592,000 (Non-Governmental Cost Fund, Special Fund, and Bond Fund) beginning in 2015-16 and $581,000 ongoing to address the increased reporting workload associated with the preparation of the annual Budgetary/Legal Basis Report (BLBR) and the Comprehensive Annual Financial Report (CAFR).

### BACKGROUND

The BLBR and the CAFR both contain a financial statement for the state funds, however each report uses a different basis of reporting requirements. The BLBR is prepared on the same basis as the applicable Governor's budget and the Budget Act, while the CAFR is prepared strictly in accordance with generally accepted accounting principles (GAAP). The CAFR includes a more thorough and detailed presentation of the State's financial condition than the BLBR.

According to the SCO, over the last five years, there have been yearly increases in new accounting standards set by FASB and GASB. Additionally, the number of funds reviewed by the SCO has continued to increase each year. As a result, the number of reports reviewed and total transactions entered into the SCO's accounting system have increased. The SCO has provided minimal GAAP training and guidance departments related to the new reporting requirements, which has led to inaccurate information reported by the departments.

The SCO states that it has not been able to keep up with this increased workload despite the use of staff overtime and temporary help resources in the past. In 2011-12 and 2012-13 the CAFR was found to contain numerous errors.

With the implementation of the Financial Information System for California (FI$Cal), a project designed to prepare the state systems and workforce to function in an integrated financial management system environment, the SCO will continue to be responsible for reviewing the information submitted by various departments, boards, and commissions. The goal for SCO is to have experienced staff in place to handle the workload.

### STAFF COMMENTS

Staff has no comment on this proposal.

**Staff Recommendation: Approve as budgeted.**

## ISSUE 2: PAYROLL AUDITS

The SCO requests five permanent positions and $701,000 (General Fund and Central Cost Recovery Fund) in 2015-16, and ongoing, to perform audits on payroll controls and payroll records.

### BACKGROUND

In 2013-14 and 2014-15 the SCO received five two-year limited-term positions to perform audits of payroll controls and payroll records. These positions are set to expire on June 30, 2015. The request was a result of an internal audit at the California Department of Parks and Recreation (Parks), as well as an investigation by the California Attorney General's office that disclosed a vacation buyout program that was instituted by Parks without authorization from Parks management or CalHR.

In 2013-14, 14 audits were to be performed by SCO, but only eight audits were completed. The SCO explains that eight of the 14 were only performed because staffing and training for the audit program took longer than expected.

The first year of payroll audits disclosed the following:

- $1,441,134 in questioned costs that were found due to poor payroll controls and processes at the departments
- Strong internal controls are needed at the department level since the payroll system is decentralized
- Having a decentralized system allows voluminous areas where fraud can occur rather than one central area to audit.

### STAFF COMMENTS

The committee may wish to ask DOF how CalHR and the departments are using the information from the audits? Have the audits led to CalHR releasing standardization guidelines, or more of SCO working with departments individually to address concerns with payroll?

**Staff Recommendation: Approve as Budgeted.**

## ISSUE 3: SPECIAL FUND REVIEW AND REPORTING WORKLOAD

The SCO requests 1.5 permanent positions and $162,000 ($92,000 General Fund and $70,000 Central Service Cost Recovery Fund) in 2015-16, and ongoing to continue the detailed analyses and reporting of the State's 570 special funds.

### BACKGROUND

In 2011-12, the Department of Parks and Recreation was identified as having significantly underreported available fund balances to the Department of Finance for two special funds. The Governor directed DOF to undertake a fund-by-fund review of more than 500 special funds. Since then, the SCO has been working with DOF to ensure that agency information is both reported to the SCO and DOF. DOF's review focused on two areas:

- The extent which there were differences in special fund balances as of June 30, 2011, that were reported by Departments to DOF and to SCO
- The reason or reasons for any variance in the two-reported year end balances.

A Special Fund Reconciliation report dated August 3, 2012, provided details of the findings. As a result in August 2012, a joint policy was adopted by DOF and SCO that SCO would provide DOF with annual reports for special funds beginning in 2013-14.

In 2013-14, SCO received 7.9 two-year limited-term positions to submit reports that included the following information:

- Preliminary reports to be submitted in mid-October for the Governor's budget development
- Final reports to be submitted mid-March to help determine if budget decisions by the Governor need to change as part of the May Revise
- Account Balance by Fund report for the fiscal year ended to be submitted in July to assist DOF with identifying all share fund users and reconciling any differences in fund balances.

SCO is requesting a reduced level of staffing beginning in 2015-16 from 7.9 limited-term positions to 1.5 permanent positions to continue the review of special funds on a permanent basis.

### STAFF COMMENTS

The committee may wish to ask the department what sort of efficiencies the department has instituted to move the number of positions from 7.9 to 1.5. With the lower number of staffing, does the SCO feel like they will be able to ensure that detailed reporting of all the special funds?

Additionally, the committee may wish to ask DOF how they use the information in the special reports to compare with their own information.

**Staff Recommendation: Approve as Budgeted.**

## 0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

### INFORMATION: OVERVIEW OF GO-BIZ MAJOR PROGRAMS

GO-Biz will provide an overview of major programs including an update on the California Competes Tax Credit Program.

### BACKGROUND

The Governor's Office of Business and Economic Development (GO-Biz) is the single contact for economic development, business assistance and job creation efforts in California. GO-Biz serves as the Governor's lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, economic growth, export promotion, permit assistance, innovation and entrepreneurship. Programs that fall under the purview of GO-Biz include California Business Investment Services, Office of the Small Business Advocate, California Film Commission, Division of Tourism, California Infrastructure and Economic Development Bank (I-Bank), Small Business Loan Guarantee Program, and California Welcome Centers. The Governor's Budget proposes expenditures of $23.5 million ($10.3 million General Fund, a 12 percent decrease) and 97.3 positions for GO-Biz.

The California Competes Program, AB 93, (Committee on Budget, Chapter 69, Statutes of 2013), created an income tax credit available to businesses that want to locate in California or stay and grow in California. State law requires an applicant and GO-Biz to negotiate the tax credit agreements and requires the California Competes Tax Credit Committee to approve the agreements.

The Committee consists of the State Treasurer, the Director of the Department of Finance, the Director of GO-Biz and one appointee each by the Speaker of the Assembly and the Senate Committee on Rules. GO-Biz will provide an update on the California Competes Tax Credit program for the committee.

## ISSUE 4: FILM AND TAX CREDIT PROGRAM

The California Film Commission (CFC) requests $1,152,000 (General Fund) and nine positions in 2015-16, and $802,000 ongoing, to implement and administer the Film and Tax Credit Program authorized by AB 1839 (Gatto, Chapter 413, Statutes of 2014).

### BACKGROUND

AB 1839 created a new Film and TV Tax Credit Program, which allows a tax credit to a qualified taxpayer for certain costs incurred in the production of a qualified motion picture. Qualified taxpayers can receive a 20 percent tax credit (some cases 25 percent) on specified qualified expenditures and wages. Productions that are eligible for the new program include the following:

- Feature Films (with a $1 million minimum of production budget)
- New TV Series (with at least 40 minutes of running time exclusive of commercials and $1 million minimum budget per episode)
- TV Pilots
- TV Series that Relocate to California (with a $1 million minimum budget per episode)
- Mini-Series and Movies of the week (with a $500,000 minimum budget)

The new Film and Tax Credit program expands on the current tax credit. The new program increases tax credit funding from $100 million per fiscal year to $330 million and authorizes the CFC to administer the program through 2019-2020. The current program sunsets in 2016-17, and will phase out by 2017-18. The old program had a two-person staff, which included a Tax Credit Program Director and a Program Coordinator. The Program Director, in consultation with the Executive Director, will continue to oversee the old program while supervising the administration of the new program including regulations, guidelines, application procedures, program forms and audit procedures.

### NEW PROGRAM REQUIREMENTS

The new program includes several changes from the current film tax credit including:

- Requiring a more complex and labor intensive method of determining which projects will receive the tax credit based on a jobs-ration formula. The old credit was administered under a lottery system.

- Requiring separate pots of funding for the different types of projects mentioned above and also multiple application periods per funding cycle. The old credit only had one application per funding cycle.

- Increasing call volume at the CFC and likely increasing the number of applicants the CFC reviews. The CFC anticipates the number of applications it receives to increase from 502 in 2014 to at least 1,000 in 2015.
- Including a requirement to revise and create additional audit procedures with detailed instructions for CPAs on verification of qualified expenditures.

## STAFFING

Currently the CFC consists of 10 positions including two that are exclusive to administering the current tax credit program, which will sunset in 2016-17. This BCP includes a request for the following new positions:

- One Tax Credit Program Director
- One Program Administrator (Associate Governmental Program Analyst)
- Three Tax Credit Program Associate (Motion Picture Production Analyst)
- One Location Resource Assistant (Staff Services Analyst)
- One Permit Coordinator
- Three Program Assistants (Office Technician)

## STAFF COMMENT

The fiscal analysis of AB 1839 discussed three issues: costs for the Franchise Tax Board (FTB) to implement the program forms, General Fund costs for the new tax credit, and unknown implementation costs, which were estimated to be in the millions.

According to the BCP, FTB will absorb the costs to implement the program, which were estimated to be $132,000 in the appropriations analysis. However, FTB is looking into whether the costs are absorbable or whether they will have to return to the budget committee to ask for additional resources, not included in this BCP.

AB 1839 stated that to implement the tax credit, the first year cost would be $230 million (General Fund) and then $330 million until 2019-20. That is consistent with this BCP proposal.

Finally, AB 1839 stated that there would be unknown costs in the hundreds of millions to implement the bill. This BCP estimates these costs to include $1.152 million in current year and $802,000, ongoing to implement the new tax.

**Staff Recommendation: Approve as budgeted.**

## 7730 FRANCHISE TAX BOARD

### ISSUE 5: PROPOSALS RELATED TO THE ENTERPRISE DATA TO REVENUE PROJECT

The FTB budget includes two requests for the Enterprise to Data Revenue (EDR) Project related to resources for Program and IT costs as discussed below:

- FTB requests $2.5 million, 25 permanent positions and eight two-year limited-term positions in 2015-16 to support the Fraud program and the Authenticated Live Chat program associated with the EDR program.

- FTB requests $44.7 million ($41.2 million for the Solution Provider payment) and 20 three-year limited-term positions in 2015-16 to continue implementation of the EDR project.

### BACKGROUND

Fiscal Year 2015-16 is the fifth year of the five and half year EDR project. The subcommittee has heard from FTB annually and heard that the project is up-to-date, on schedule, within scope, and within budgeted project costs. One of the goals of the EDR project is to improve the effectiveness of filing processes and maximize compliance, and thus revenues, much sooner in the filing process, when the returns are filed and taxes are due. The EDR project costs are funded by the revenue benefits generated from the EDR solution.

**Program Proposal**

The first BCP requests program resources for business operations for two workloads – one with an increased inventory and on related to the implementation of a new tool. FTB requests $2.5 million, 25 permanent positions and eight two-year limited-term positions in 2015-16 to support the Fraud program and the Authenticated Live Chat program associated with the EDR program.

- **Fraud.** FTB's Fraud unit detects and prevents fraud related to refundable credits, identity theft and preparer driven issues to fraudulent deductions claims of nonrefundable credits. The implementation of the new Case Management system and Taxpayer Folder aims to improve customer service and make handling correspondence more efficient.

- **Authenticated Live Chat.** In June 2011, Live Chat representatives began offering Personal Income Tax (PIT) customers the opportunity to move live chat to the secure email service if the contact requires personal information to resolve the question. In September 2011, the program began answering general information questions for Business Entities. Within the course of 12 months, taxpayer utilization grew and leveled out near 130,000 chats annually. Under the EDR contract, Authenticated Live Chat will be implemented in July 2015.

- **Provisional Language.** FTB requests provisional language to request temporary resources as needed in 2015-16. The provisional language will allow FTB time to determine the correct number of resources based on the workloads performed this tax season.

  *The Department of Finance may augment the amount appropriated in Schedule (1) by up to $3.5 million for support of the Enterprise Data to Revenue project to provide additional resources for tax data preparation and capture of information from personal income tax and business entity returns, correspondence, and return mail. The Department of Finance shall authorize the augmentation not sooner than 30 days after notification of the necessity thereof in writing to the Chairpersons of the Joint Legislative Budget Committee. Any funds provided to support data preparation and capture that are not expressly used for that purpose shall revert to the General Fund.*

## IT Proposal

The second BCP related to the EDR project requests $44.7 million ($41.2 million for the Solution Provider payment) and 20 three-year limited-term positions in 2015-16 to continue implementation of the EDR project. Revenue generated from the EDR project is anticipated to be between $760.5 million and $1.1 billion for 2015-16.

- **IT Positions.** The 20 new three-year limited-term IT positions will support the current ongoing work to both build the EDR solution, but also start the knowledge management and transition of the EDR system and solution to FTB. Per the EDR contract, these positions will engage in a training and knowledge management transition program required for FTB to support and maintain EDR solution by the project end in January 2017. The 20 new positions will augment the current 40 positions FTB already redirected into knowledge transfer roles.

The solution adopted by the EDR project implements improvements to FTB's enforcement and self-assessment capabilities. The EDR solution also offers improvements to FTB's operational efficiency through an enterprise approach to data sharing and modernization of existing IT systems.

EDR is a "benefits-based" project, which means the Solution Provider will be paid from the revenue generated by the EDR solution. The Solution Provider contract is based on a fixed contract sum, and provides for a maximum contractor payment of $401 million if all project deliverables are achieved. According to FTB, EDR is expected to generate between $4 billion and $4.7 billion, and it is estimated that annual revenue after completion of the project will approach $1 billion more revenue than FTB collected prior to the project beginning.

**STAFF COMMENT**

FTB's EDR project has been one example of successful implementation of IT projects throughout the state. This project is subject to annual review by the Legislature. The resources requested by FTB appear reasonable and will allow FTB to continue to implement their project.

However, it is anticipated that the EDR project will have an additional request coming this budget year, and staff recommends holding the item open in order to evaluate the requests comprehensively.

**Staff Recommendation: Hold Open**

## 0950 STATE TREASURER'S OFFICE

### ISSUE 6: TECHNICAL AMENDMENT TO THE ENABLING STATUTE FOR HEALTH FACILITIES CONSTRUCTION LOAN INSURANCE PROGRAM

The State Treasurer's Office (STO) requests trailer bill language to make a technical amendment to expressly state that any payments made on any debentures issued by the STO pursuant to Health and Safety Code Section 129160 are continuously appropriated.

### BACKGROUND

The California Constitution, and Health and Safety Code Section 129160 provide that the State's General Fund fully guarantees debentures issued in exchange for defaulted loans made in accordance with the California Health Facility Construction Loan Insurance Program in the event that the Health Facility Construction Loan Insurance Fund (HFCLIF) is unable to make payments related to these loans. The statute also provides that payments from the State's General Fund on such debentures shall be paid on par with the State's General Obligation Bonds.

The STO argues that the statutory language implementing the payments from the State's General Fund on the debentures utilizes language more typically seen in federal legislation and does not explicitly state that the payments are continuously appropriated with the typical language that is used for payments from the State's General Fund related to the State's General Obligation Bonds.

SCO proposes an amendment that would expressly state that any payments made on debentures issued pursuant to Section 129160 are continuously appropriated without regard to fiscal years. Additionally, the amendment would clarify that the interest rate to be borne by the debentures and provides the Treasurer with additional authority related to maintaining the tax exemption of the debenture, where appropriate.

> (a) All debentures issued under this chapter to any lender or bondholder shall be executed in the name of the fund as obligor, shall be signed by the State Treasurer, and shall be negotiable. Pursuant to Sections 129125 and 129130, all debentures shall be dated as of the date of the institution of foreclosure proceedings or as of the date of the acquisition of the property after default by other than foreclosure, or as of another date as the office, in its discretion, may establish. The debentures shall bear interest from that date at a rate ~~approved by the State Treasurer, equal to either the rate applicable to the most recent issue of State General Fund bonds or that specified in Section 129130, which shall be payable on the dates as the office, in its discretion, may establish except in the case of bonds or other evidences of indebtedness as specified in Section 129130, and shall have the same maturity date as the loan which they insured.~~ <u>equal to the insured loans or bonds, and shall be payable on a payment schedule identical with payments on the insured loan or bonds. The State Treasurer shall</u>

take appropriate steps to the extent feasible to provide that interest on the debentures shall be exempt from federal income taxation under section 103 of the Internal Revenue Code to the extent interest on the insured loan or bonds is exempt from federal income taxation under section 103 of the Internal Revenue Code on the date such insured loan or bonds is exchanged for debentures. All debentures shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the state or local taxing agencies, shall be paid out of the fund, which shall be primarily liable therefor, and shall be, pursuant to Section 4 of Article XVI of the California Constitution, fully and unconditionally guaranteed as to principal and interest by the State of California, which guaranty shall be expressed on the face of the debentures. In the event that the fund fails to pay upon demand, when due, the principal of or interest on any debentures issued under this chapter, the State Treasurer shall pay to the holders the amount thereof which ~~is authorized to be appropriated, out of any money in~~ amount, notwithstanding Section 13340 of the Government Code, is hereby appropriated continuously from the General Fund of the State Treasury ~~not otherwise appropriated,~~without regard to fiscal years, and thereupon to the extent of the amount so paid the State Treasurer shall succeed to all the rights of the holders of the debentures. The fund shall be liable for repayment to the General Fund of the State Treasury of any money paid therefrom pursuant to this section in accordance with procedures jointly established by the State Treasurer and the office.

(b) ~~In the event of a default, any~~ Any debenture issued under this article shall be paid on a par with general obligation bonds issued by the state.

**STAFF COMMENTS**

The proposed language is technical and ensures that debentures be paid on par with the State's General Obligation bonds. The proposed change was brought about when the Treasurer's Office was reviewing where the state could be vulnerable. The impact of the proposed amendment is limited to the California Health Facility Construction Loan Insurance Law contained in Health and Safety Code Section 129000 through 129355.

**Staff Recommendation: Approve trailer bill language.**

# 0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY (CAEATFA)

## ISSUE 7: CAEATFA ADMINISTRATION OF CHEEF PILOT PROGRAM

CAEATFA requests increased reimbursement and expenditure authority of $1,535,000 for 2015-16, $1,950,000 in reimbursement and expenditure authority for 2016-17, and three limited-term positions for 2015-16, and seven limited-term positions in 2016-17 to continue the administration of the ratepayer-funded California Hub for Energy Efficiency Financing (CHEEF) Pilot Programs.

### BACKGROUND

In September 2013, the California Public Utilities Commission (CPUC) issued a decision that authorized a two-year pilot program to be supported by up to $65.9 million of IOU ratepayer funds. The decision approved a total of $7 million and directed CAEATFA to implement and administer the CHEEF pilot program.

In August 2014, the CPUC clarified its intent that each pilot shall operate for a minimum of 24 months, beginning at the point that each pilot begins operation to provide adequate time for program activity. The pilots will be launched for Single Family Loan Program in January/February 2015 and the pilots with on-bill repayment feature will be launched in June/July 2015.

The 2014 Budget Act approved $1,200,000 and four limited-term positions for FY 2015-16, with the assumption that the CHEEF program would have begun in December 2013. Due to the delayed funding authorization and implementation, CAEATFA is requesting that the $7 million now be reallocated as follows: $2.3 million in the current year, $2.8 million in 2015-16, and $1.9 million in 2016-17.

There is no General Fund impact because the investor-owned utilities will direct ratepayer funds to CAEATFA to cover the administrative costs.

The proposal discusses that in response to an early 2014 recommendation by the LAO, CAEATFA and the CPUC are committed to a comparative assessment of the pilots with other finance programs available currently in the California including Property Assessment Clean Energy (PACE) mechanisms and the legacy utility on bill financing for short term lending.

**STAFF COMMENTS**

The Committee may wish to consider the following questions:

- To what extent are the CHEEF pilot programs implemented in a manner consistent with the Governor's GHG goal (i.e., doubles the efficiency of existing buildings and expands the use of renewable energy for electricity)?

- To what extent do the CHEEF pilot programs compete with or complement other similar energy financing programs?

- What does CHEEF provide that is not available from other similar energy financing programs?

- What quality control measures does CHEEF use to ensure that the improvements made perform as expected relative to increased efficiency and reduced energy consumption?

Additionally, the BCP discusses the CPUC and CAEATFA developing criteria for an assessment without Legislative oversight. The committee may wish to consider developing the criteria for a comparative assessment and direct the CPUC and CAEATFA to report back to the committee annually on CHEEF as well as similar programs. Specifically for CHEEF, CAEATFA should provide the following:

- Average, median, maximum, and minimum loan amounts authorized
- Loss reserve contribution
- Projected savings from lower cost financing
- Program Interest rate
- Interest rate without loan loss reserve
- FICO score
- Debt to income ratio
- Database of all loans made via CHEEF pilot programs including a summary of improvements made, total loan amount, amount of loan covered by program, lender interest rate, projected savings (in both dollars and units of energy – kWh or therms as applicable) and actual savings (in both dollars and units of energy – kWh or therms as applicable)

**Staff Recommendation: Hold Open and direct staff to work with CAEATFA and other stakeholders to draft reporting language.**

## DISSOLUTION OF REDEVELOPMENT PROCESS

### ISSUE 8: GOVERNOR'S TRAILER BILL LANGUAGE ON THE DISSOLUTION OF REDEVELOPMENT PROCESS

The Department of Finance will present their trailer bill proposal on the dissolution of redevelopment process.

### BACKGROUND

As part of the 2011-12 budget agreement, the Legislature took action to eliminate redevelopment agencies (RDAs) through two bills, AB 26 X1 (Blumenfield, Chapter 5, Statutes of 2011), which eliminated traditional redevelopment, and AB 27 X1 (Blumenfield, Chapter 6, Statutes of 2011), which created a new voluntary alternative. The California Redevelopment Association, the League of California Cities, and others sued over the constitutionality of the two measures. As a result, the California Supreme Court invalidated AB 27 X1 but upheld the dissolution law. In February 2012, redevelopment agencies were dissolved.

Following the dissolution, as part of the 2012-13 Budget Act, AB 1484 (Committee on Budget, Chapter 26, Statutes of 2012), was enacted to provide tools for successor agencies, oversight boards, and the Department of Finance (DOF) to facilitate the wind down of RDA activities. AB 1484 created a process to transfer housing assets, audit RDA funds and accounts to identify funds that should be remitted to local taxing entities, and required a long-range property management plan (LRPMP) for the disposition of RDA properties.

### GOVERNOR'S PROPOSAL

The Governor's trailer bill on the dissolution of redevelopment process proposes to address the following process changes:

- Transition all successor agencies from a biannual Recognized Obligation Payment Schedule (ROPS) process to an annual ROPS process beginning July 1, 2016, when the successor agencies transition to a countywide oversight board.

- Establish a "Last and Final" ROPS process beginning September 2015. The "Last and Final" ROPS will be available only to successor agencies that have a Finding of Completion (FOC), are in agreement with Finance on what items qualify for payment, and meet other conditions.

The Governor's proposals include amendments to AB X1 26 and AB 1484 that would provide that:

- Former tax increment caps and Redevelopment Agencies (RDA) plan expirations do not apply for the purposes of paying approved enforceable obligations.
- Re-entered agreements that are not for the purpose of providing administrative support activities are not authorized or enforceable.
- Litigation expenses associated with challenging dissolution determinations are not separate enforceable obligations, but rather are part of the administrative costs of the successor agency.
- Finance is exempt, as provided in existing law, from the regulatory process.
- County auditor-controllers' offices shall serve as staff for countywide oversight boards.
- Administrative payments should not exceed 50% of the total of Redevelopment Property tax trust funds used to pay enforceable obligations.
- Local Agency Investment Fund (LAIF) rates to be used for calculating interest on loan repayment schedules is not to exceed the most recently published LAIF rate.

**STAFF COMMENTS**

The DOF proposal is a starting point for discussions on the dissolution of redevelopment process. DOF stated publically that DOF will not amend the trailer bill until May Revise, which provides an opportunity to have a dialogue with interested parties on concerns with the current proposal as well what other process changes that would need to be included.

The budget committee has had two oversight hearings on the dissolution process over the past two years. The goal has been to ensure that the wind down of redevelopment occurs efficiently and address the concerns of the interested parties. The role that the subcommittee will play will be to continue to ensure that those goals are addressed.

The committee may wish to consider the following:

- Direct DOF to outreach to budget staff and interested parties to ensure that concerns with their proposal are addressed.

- Convene an additional hearing after the May Revise to ensure that the concerns heard at the hearing are being adequately addressed with the revised proposal in May.

**Staff Recommendation: Hold Open**