AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

TUESDAY, MARCH 6, 2018
1:30 P.M. - STATE CAPITOL ROOM 447

ITEMS TO BE HEARD

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7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

The Governor's budget includes $15.7 billion for the State Teacher's Retirement System (CalSTRS) in 2018-19, an increase of $683,539 or 4.5 percent from the current year. CalSTRS is funded through the Teachers Retirement Fund and other special funds.

CalSTRS administers a defined benefit plan, two defined contribution plans, a post-employment benefit plan, and a fund used to account for ancillary activities associated with various deferred compensation plans and programs. CalSTRS provides pension benefits, including disability and survivor benefits, to California fulltime and part-time public school teachers from pre-kindergarten through community college and certain other employees of the public school system.

ISSUE 1: UPDATE ON 2017-18 BUDGET SUPPLEMENTAL REPORTING LANGUAGE

The 2017-18 Budget included supplemental reporting language that required CalSTRS to report to the Legislature by October 1, 2019, on cost-saving alternatives and updates on CalSTRS' current plan for a second tower.

At its February 8, 2018, meeting, CalSTRS updated the board on the progress made on short-term leasing alternatives to be implemented prior to July 2019; long-term facilities planning since November 2017; and activities related to the economic analysis of all long-term alternatives.

The timeline outlined in the CalSTRS board report is well in advance of the legislative requirement to report back to the committee. CalSTRS will provide an update to the Subcommittee on how the timeline outlined in their report works with the timeline to report back to the Legislature on the Second tower. Will their advance timeline provide time for legislative oversight prior to action by the Board?

BACKGROUND

In November 2017, CalSTRS awarded a contract to a partnership between Ridge Capital and Stok to provide construction management oversight, as well as early analysis of sustainability strategies and corresponding feasibility for a second tower as one long-term alternative.

According to their Board report, CalSTRS staff is exploring local market opportunities for buying or leasing space as additional long- term alternatives. Additionally, CalSTRS staff plans to update the board regularly with the status of activities as CalSTRS works towards preparing the final economic analysis of all alternatives scheduled to be formally presented in November 2018.

STAFF COMMENTS

Staff has concerns about the two conflicting timelines included in the Supplemental Reporting Language and the timeline outlined in the Board report. Staff would like to work with CalSTRS to ensure that the oversight included in last year's budget is preserved.

Staff Recommendation: Information only.

ISSUE 2: INTERNAL INVESTMENT MANAGEMENT

The California State Teachers' Retirement System (CalSTRS) requests $15.4 million and 58 permanent positions over a five-year time horizon. Approximately $3.4 million and 14 positions are requested for immediate use in 2018-19, while the remaining will be requested on an as needed basis through the Teachers' Retirement Board (TRB) and written notification to the Department of Finance. This request includes Budget Bill Language.

According to CalSTRS, this proposal provides additional flexibility to respond to market opportunities and risks, moderate future third-party investment management fees, increases investment transparency, and maintains oversight from the Administration and Legislature.

BACKGROUND

CalSTRS was established in 1913 to provide retirement benefits to California's public school teachers. With a portfolio valued at $215.3 billion as of September 30, 2017, CalSTRS is the largest educator-only pension fund.

In 2010-11, the TRB considered approaches to internal versus external management of assets. The findings concluded that transitioning assets to internal management increases control, transparency and results in a significant cost avoidance from external management fees. Consistent with those findings the TRB adopted the approaches to internal management in June 2011. As part of this broader internal asset management philosophy, CalSTRS has steadily increased internal asset management staff with single-year requests approved through the administrative and legislative budget process. While this process has functioned satisfactorily in the past, the increased complexity and competitive nature of the investment markets require additional nimbleness and speed to respond to market opportunities and risks. This proposal's multi-year request provides that flexibility.

The Investment Branch reports to the CalSTRS Chief Investment Officer (CIO) and to the TRB. The CIO oversees about 168 employees. The branch is organized into two major business areas: investment management and business/operational management.

BUDGET BILL LANGUAGE

7920-001-0835

Provision 2: Notwithstanding Provision 1, of the amount appropriated in this item, $3,400,000 is available for internal investment staff and related expenditures. The Director of Finance may adjust staffing levels and augment this item by an additional $12,023,000, for a total of $15,423,000, upon approval by the Teacher's Retirement Board and written notification to the Department of Finance of the necessity of the adjustment. Within 30 days of making any adjustment to this appropriation pursuant to this provision, the Director of Finance shall report the adjustment in writing to the

Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committee of each house of the Legislature that consider appropriations.

STAFF COMMENTS

The Subcommittee may wish to ask CalSTRS the following:

1. How will this proposal increase investment transparency?
2. How will this proposal maintain oversight from both the Administration and the Legislature?
3. How will CalSTRS communicate with stakeholders about their decision making process when this plan appears to provide more autonomy for the agency?
4. Where will CalSTRS put the additional staff if this proposal is approved? What is the capacity for increased staff in the current building?

Staff Recommendation: Hold Open.

0950 STATE TREASURER'S OFFICE

The Governor's budget includes $35.7 million for the State Treasurer's Office (STO) in 2018-19, a decrease of $6.6 million or 15 percent less than the current year. STO budget is comprised of General Fund, reimbursements, and special funds. STO, a constitutional office, is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds; and payment of warrants of checks drawn by the State Controller and other state agencies.

ISSUE 3: INFRASTRUCTURE SUPPORT AND SUSTAINABILITY

The budget proposes a General Fund appropriation of $450,000 in 2018-19, and $400,000 ongoing, to align the Department's information technology infrastructure budget with its recent growth in resources. These costs include ongoing costs associated with additional training and travel for STO's IT staff, software licenses to support core IT operations, and STO's data transparency efforts.

BACKGROUND

STO distributes the costs of IT services, including infrastructure licensing and technical training to all of STO's primary business divisions and the Boards, Commissions, and Authorities (BCAs). In a 2015-16 Spring Finance Letter (SFL), STO requested expenditure authority from the BCAs to fund (note; special funds only, no GF) eleven new positions in the ITD to meet the workload growth in demand for personnel supporting enterprise computing services and advanced application delivery. As noted in the SFL, a technology-personnel true-up had not been undertaken since 2007, while computing service delivery requirements grew exponentially.

Additionally, STO received approval of a 2017-18 BCP request entitled: STO's Information Security Program Augmentation. This BCP was approved in the requested GF amount of $303,000 to augment and enhance STO's IT security tools and permanently fund one personnel year to administer STO's IT security tools essential to hardening STO's security posture. The 2017-18 BCP did not fund any of the ongoing licensing, equipment upgrades, nor technical training identified within this 2018-19 BCP.

STO's current annual allotment for infrastructure is $1,054,883. From this amount, all of the STO's equipment must be refreshed according to 3, 4 or 7 year cycles; annual enterprise licenses must be renewed and staff must receive ongoing technical training commensurate to the needs of the STO's technology environment.

Refreshed equipment includes, but is not limited to, PCs, servers, VMWare blades, firewalls, network switches, workstations, and printers. While the STO's 2016-17 infrastructure budget is $1,054,883, the annual IT infrastructure expenditures for the past nine years is reflected in the following table:

Infrastructure Budget	
Fiscal year	Expenditures
2008/09	$689,691
2009/10	$833,098
2010/11	$1,177,291
2011/12	$1,242,464
2012/13	$1,138,586
2013/14	$1,018,596
2014/15	$1,006,956
2015/16	$1,299,667
2016/17	$1,452,233
Average	$1,095,398

Unfortunately, the availability of funds for ITD's baseline infrastructure budget has not kept pace with actual expenditures. This funding gap has forced the STO to un-fund other operational priorities to ensure compliance and sustainability of IT services.

LAO COMMENTS

LAO recommends that the Legislature modify the proposal to fund the augmentation through the various funds associated with the BCAs and STO rather than exclusively from the General Fund.

LAO does not have any concerns with the resources or amount included in the request.

STAFF COMMENTS

The Subcommittee may wish to ask the following questions:

- What operational priorities has the STO un-funded in order to ensure compliance and sustainability of its IT services?
- Where have costs increased for the IT services it the past?
- Are other departments/offices IT funded from the General Fund?
- Do BCA's and STO get benefits from the proposed activities, and if so, why would they not help fund this proposal?
- How does this proposal differ from the date and transparency positions requested in the 2017-18 budget?

Staff Recommendation: Hold Open.

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS

The Governor's budget includes $2.5 million in 2018-19 for the California Secure Choice Retirement Savings Investment Board, a decrease of $ 12.5 million or 83 percent from the current year. The Board is funded through the Secure Choice Retirement Savings Program.

ISSUE 4: SECURE CHOICE PROGRAM IMPLEMENTATION

The Governor's budget includes a General Fund loan of $2.5 million in 2018-19 for the program's startup and administrative costs.

BACKGROUND

SB 1234 (Chapter 804, Statutes of 2016) allows the Board to establish in state government the California Secure Choice Retirement Savings Trust (Trust) to be administered by the Board for the purpose of promoting greater retirement savings for private employees in California. The operational model for the Program is similar in part to the operational model for ScholarShare, the California 529 educational savings plan. Similar to ScholarShare, the Program shall be overseen by a public board chaired by the California State Treasurer.

The Board retained overture Financial LLC to complete a Market Analysis and Feasibility Study and submitted a final report in March 2016. SB 1234 provided authority to the Board to develop and implement the Program to provide a retirement savings plan for private-sector workers who lack access to an employer-sponsored retirement savings plan.

SB 1234 also gives the California State Treasurer the authority, on behalf of the Board, to appoint an Executive Director of the Board, which they did in April 2017.

Finally, SB 1234 gives the Board authority to adopt regulations necessary to implement the Program, disseminate educational information and disclosure materials for employers and employees, and submit progress and status reports to participating employers and eligible employees, among other things.

The BCP includes funding for the following:

1. Funding for existing and new staff ($1.1 million)
    a. Executive Director
    b. Staff Services Manager II
    c. Staff Services Manager I
    d. Associate Governmental Program Analyst
    e. Office Technician
    f. Staff Services Manager I (new position)
    g. Associate Governmental Program Analysts (4 new positions)

2. Funding for external consultants ($1.0 million)
    a. Program Consultant
    b. Investment Consultant
    c. Others including outreach and legal services

3. Funding necessary for operating and overhead costs ($400,000)

STAFF COMMENTS

The Subcommittee may wish to ask the Board to provide an update on the concerns from last year

Staff Recommendation: Hold Open.

0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

The Governor's budget includes $10.3 million for the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) in 2018-19, an increase of $4.5 million or 77.9 percent over the current year. CAEATFA is funded with special funds and reimbursements. CAEATFA was established to promote the prompt and efficient development of energy sources which are renewable or which more efficiently utilize and conserve scarce energy resources. The Authority provides financing and credit enhancements to promote the establishment of facilities that use alternative methods and sources of energy and facilities needed for the development and commercialization of advanced transportation technologies.

ISSUE 5: CAEATFA ADMINISTRATION OF THE CA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF) PILOT PROGRAM

CAEATFA requests reimbursement and expenditure authority in the amount of $8.2 million for 2018-19, and available through 2020-21, to carry out its function as the administrator of the California Hub for Energy Efficiency Financing (CHEEF) on behalf of the PUC. This program is funded with ratepayer funds that have been approved and authorized by the PUC in a total amount of $15.36 million.

BACKGROUND

In 2013, CPUC authorized the investor-owned utilities (IOUs) to collect ratepayer funds that would be used to support new energy efficiency financing pilots. CPUC also selected CAEATFA as the administrator of the program. The pilots are intended to implement and evaluate strategies to encourage individuals and businesses to install energy efficiency technologies by reducing the risk to private lenders and reducing the upfront costs of energy efficiency retrofit projects. The pilots involve some combination of (1) credit enhancements to lenders—such as loan loss reserves that cover some losses if borrowers do not fully repay loans—and/or (2) the option for customers to repay their loans on their monthly utility bill (known as on-bill repayment, or OBR). Specifically, CAEATFA is developing four pilots that, with one exception, will be offered in all four major IOU territories:

- ***Residential Energy Efficiency Loan Program.*** This pilot offers credit enhancements for loans to single-family homes, as well as OBR in one IOU jurisdiction. The pilot began in 2016.
- ***Small Business Program.*** This pilot will offer credit enhancements for loans to small businesses, as well as OBR. This pilot is expected to begin in the summer of 2018.
- ***Affordable Multifamily Financing Program.*** This pilot will offer credit enhancements for loans to affordable housing properties, as well as OBR. The pilot is expected to begin in early 2019.

- ***OBR for Commercial Buildings.*** This pilot will offer OBR—but no credit enhancements—for energy efficiency loans for large commercial buildings. This pilot is expected to launch in late 2019.

One of the main features of the CHEEF pilots is a new centralized information technology platform—or "hub"—to connect private lenders that provide the capital for the energy efficiency projects with utilities that collect monthly payments from ratepayers. A large share of CAEATFA's costs are for contracts with entities that support this hub. This includes a Master Servicer that processes lender and loan enrollments, transfers funds, and helps manage data.

The Legislature initially provided CAEATFA with limited-term spending authority to administer the pilots in 2014-15 through 2016-17. Since then, the implementation dates of the pilots have been delayed several times and, as a result, their overall costs have increased. The delay and cost increases are largely because project activities—including developing the hub to connect lenders and IOUs, as well as coordinating with CPUC and various stakeholders—were more complex than initially expected. In early 2017, CPUC adopted a decision that made changes intended to streamline the program and authorized additional funding for CAEATFA's administrative costs. It also specified that any pilots not launched by December 31, 2019, would be cancelled. Subsequently, the Legislature extended CAEATFA's limited-term spending authority through 2017-18 to continue the pilots. Total estimated CAEATFA spending on administration activities for the pilots through 2017-18 is over $7 million.

LAO COMMENTS

The LAO recommends that the Legislature modify the one-time $8.2 million appropriation in 2018-19, by instead providing specific reimbursement authority over a three-year period as follows: $3.6 million in 2018-19, $3 million in 2019-20, and $1.6 million in 2020-21. These amounts are consistent with the estimated annual spending provided by CAEATFA.

In addition, the LAO recommends that the Legislature add budget bill language that gives DOF the ability to increase annual CAEATFA spending authority (but not to exceed the full budget authority requested over the three years), with a 30-day notification to the Joint Legislative Budget Committee, if a change in the expected pilot timelines results in annual costs that exceed CAEATFA's annual budget authority.

STAFF COMMENTS

The Subcommittee may wish to ask CAEATFA the following:

1) Provided an update on the progress of the pilots?
2) Provide an update on the $10 million set aside for the loan-loss statute. How much funding has been expended from the account?

Staff Recommendation: Hold Open.

0840 STATE CONTROLLER'S OFFICE

The Governor's budget includes $220.2 million for the State Controller's Office (SCO) in 2018-19, an increase of $5 million or 2.3 percent from the current year. The SCO's funding is comprised of General Fund, special funds, and reimbursements. The SCO is responsible for transparency and accountability of the state's financial resources; the Controller ensures the appropriate disbursement and tracking of taxpayer dollars.

ISSUE 6: PERSONNEL AND PAYROLL SERVICES WORKLOAD

The SCO requests the following resources to address understaffing, workload automation and workload related to the Affordable Care Act and Public Employee's Pension Reform Act within Personnel and Payroll Services Division:

- 2018-19: $6,147,000 [$3,503,000 General Fund (GF); $2,644,000 Central Service Cost Recovery Fund (CSCRF)]
- 2019-20: $6,010,000 ($3,425,000 GF; $2,585,000 CSCRF)
- 2020-21 and 2021-22: $4,213,000 ($2,401,000 GF; $1,812,000 CSCRF)
- 2022-23 and ongoing: $3,778,000 ($2,153,000 GF; $1,625,000 CSCRF)
- 37.0 permanent positions and 19.0 limited-term (LT) positions (15.0 two-year LT; 4.0 four-year LT)

BACKGROUND

The SCO is responsible for issuing pay to state civil service (CS), California State University (CSU), and Judicial Council employees. There are currently over 150 departments, 23 CSU campuses, and the CSU Chancellor's Office in the State of California. The State workforce is comprised of approximately 286,000 employees, represented by 21 CS bargaining units and 13 CSU bargaining units.

As part of the SCC Strategic Plan and the Controller's Functions, the Personnel and Payroll Services Division (PPSD) administers the Uniform State Payroll System (USPS) and processes all personnel and payroll transactions for employees of the CS, CSUs, and Judicial Council. The PPSD is responsible for providing information required to manage the personnel resources of the State and to properly account for salary and wage expenditures.

ACA and PEPRA Legislation Workload The SCO is requesting 9.0 permanent positions and 4.0 four-year limited-term (LT) positions to support the ongoing work related to the ACA and the PEPRA legislation. Both the ACA and the PEPRA are extremely complex pieces of legislation, with significant continuing impacts on how the SCO conducts business. Due to the complexity, changes and clarification by the IRS and CalPERS is ongoing. Directives continue to be issued on a flow basis. In many cases, different aspects of the legislation are phased in over time, leading to multi- year impacts to the SCO's workload.

PEPRA The PEPRA creates a need for two categories of retirement members: New and Classic. The USPS was never designed to distinguish two different types of retirement members (Classic vs. New) with distinctly different characteristics, as required by the PEPRA legislation. It is expected that the PEPRA will remain as an exclusive workload under its own umbrella within the PPSD. Four years after enactment, PEPRA has become a large component of all retirement related workloads. With the introduction of the PEPRA, the infrastructure of the USPS specific to retirement has undergone significant changes, which has doubled the number of processes and procedures. Any changes or enhancements to the payroll and employment history systems require a PEPRA consideration. Additionally, any program already in place that supports the PEPRA also must be analyzed for impact to determine if subsequent changes are required.

OPEB Workload Automation The SCO is requesting funding to support 15.0 two-year LT resources in completing the OPEB automation effort. Bargaining Units (BUs) first adopted OPEB deductions in 2009-10 as a way to prefund post- employment benefits. Currently, 12 BUs and the Judicial Council have adopted the OPEB prefunding. At the beginning of the program, in 2010, the PPSD processed OPEB deductions as a monthly point-in-time deduction outside of the payroll system using base pay. Currently, this process applies to one BU as of July 1, 2017, and the PPSD knows that creating deduction transactions from base pay is not a viable option. The remaining BUs are all moving, or have moved, to calculating OPEB based on all pensionable payments.

PPOB Workload The SCO requests 24 permanent positions to address the current production workload and prevent the backlog of documents from increasing further. The PPOB receives documents for employee programs that departments and campuses cannot key in the system, such as benefit enrollments and changes or the processing of retroactive payments, due to system limitations. Additionally, due to the USPS design, the PPOB must process all pay adjustments that are older than 13 months. These payments, considered retroactive, represent a large portion of the PPOB workload.

PMAB Workload The proposal provides the minimum number of resources to achieve some critical project milestones supporting the SCO and CalHR and provides ongoing support of these projects once completed. It will also help to support the SCO's efforts to provide greater levels of support and guidance to state departments in personnel and payroll related data. Deliverables and milestone dates associated with these workloads will be monitored closely by the SCO. Reports will be developed to document the overall progress made, while making current the modernization needed to support previous and future policy and legislative changes affecting the CS, CSU, and Judicial Council workforce. The reports will specifically track the department's work in progressing forward.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Hold Open.

ISSUE 7: SCO FI$CAL IMPLEMENTATION

The SCO is requesting funding for the transitioning of the State's accounting Book of Record (BOR) from the SCO Legacy system to FI$Cal system and provide support to the FI$Cal departments. Approval of this request will support:

- 2017-18: 8.0 positions and $1,215,000 in GF
- 2018-19: 30.0 positions and $5,427,000 ($3,093,000 GF and $2,334,000 CSGRF)
- 2019-20: 49.0 positions and $7,483,000 ($4,266,000 GF and $3,217,000 CSGRF)
- 2020-21: 49.0 positions and $7,475,000 ($4,261,000 GF and $3,214,000 CSGRF)
- 2021-22: 47.0 positions and $7,197,000 ($4,102,000 GF and $3,095,000 CSGRF)

Additionally, the following resource requests are included within this document but will require DOF approval in subsequent years and through baseline budget adjustments:

- 2022-23: 47.0 positions and $7,197,000 ($5,636,000 GF, $4,252,000 CSGRF and -$2,691,000 Reimbursements)
- 2023-24: 41.0 positions and $6,440,000 ($5,205,000 GF, $3,926,000 CSGRF, and -$2,691,000 Reimbursements)
- 2024-25 and Ongoing: 41.0 positions and $5,006,000 ($4,388,000 GF, $3,309,000 CSGRF, and -$2,691,000 Reimbursements)

BACKGROUND

The SCO, in partnership with the Department of Finance (DOF), the STO, and the Department of General Services (DGS), and the Department of FI$Cal, is engaged in a collaborative effort to develop, implement, utilize and maintain an integrated financial management system. The FI$Cal system is a custom off-the-shelf Enterprise Resource Flanning (ERF) tool, which is re-engineering the State's business processes and management of resources and dollars in the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset management, project accounting, grant management and human resources management.

The FI$Cal system is being implemented by departments in releases (formally waves). Most recently, a two- phase deployment was introduced for the BOR, where the SCO will implement an interim Integrated Solution. Once the SCO determines that FI$Cal can be relied on for all its critical functions, the SCO will transition to an End State Solution. At that time the BOR will be transitioned to the FI$Cal system.

During each phase of deployment, the SCO control functionality is critical. This transition must occur without disruption to the State's financial and reporting obligations.

The delay of the BOR conversion and the implementation of the Integrated Solution requires the workload associated originally with the 2017 release to be continued into the 2017-18 through 2024-25 and ongoing.

LAO COMMENTS

The LAO recommends that the Legislature approve SCO's 2018-19 budget proposal as it helps to addresses SCO's concerns regarding the performance and accuracy of the FI$Cal system while supporting the eventual transition of SCO onto FI$Cal. Additionally, the LAO recommends that the Legislature reject SCO's proposal for 2019-20 and beyond. Doing so provides the Legislature with an opportunity to exercise oversight over the project's progress when the administration makes budget requests in future fiscal years. The LAO recommends that the Legislature reject the provisional budget bill language proposed in the Governor's budget that gives the Department of Finance unilateral authority to withhold appropriated funding to SCO on a quarterly basis if it does not make progress on the project.

STAFF COMMENTS

The Subcommittee may wish to ask the SCO what would happen if they took a slower approach as outlined by the LAO? Would it hurt continued implementation of the SCO portion of the FI$CAL project?

Staff Recommendation: Hold Open.

ISSUE 8: CA IDMS LICENSING

The SCO requests the following funding to support the increased costs associated with maintaining the Computer Associates (CA) Integrated Database Management System (IDMS) and to support positions to develop a migration pilot to remove five core systems off of the CA-IDMS.

- 2018-19: $5,686,000 ($2,387,000 GF; $2,189,000 SF; $1,110,000 Reimbursement) and 4.0 permanent positions and 1.0 LT positions
- 2019-20: $5,649,000 ($2,370,000 GF; $2,170,000 SF; $1,109,000 Reimbursement) and 4.0 permanent positions and 1.0 LT positions
- 2020-21 through 2022-23: $5,522,000 ($2,298,000 GF; $2,115,000 SF; $1,109,000 Reimbursement) and 4.0 permanent positions
- 2023-24 and ongoing: $522,000 ($232,000 GF; $276,000 SF; $14,000 Reimbursement) and 4.0 perm positions

BACKGROUND

The CA-IDMS technology is a suite of software products running on the SCO's mainframe hosted at the California Department of Technology (CDT). The SCO uses this technology as a primary mainframe database for its systems, and is 100 percent dependent on these systems to conduct business, including personnel, payroll, audits, and fiscal functions. The SCO has 14 core systems, along with related sub-systems, reliant on CA-IDMS software.

Currently, the CDT has a fixed, five-year contract with CA to use the IDMS technology. This contract is in effect from April 1, 2013, through March 31, 2018. The cost will remain constant until such time as a new contract is negotiated, commencing in April 2018. The CDT anticipates at the time of contract renewal the cost for CA-IDMS to increase and the California Highway Patrol (CHP) plans to be off of CA-IDMS prior to contract renewal. Taking this into account, it is estimated that the software licensing and CDT support costs will increase as the cost of the licenses are no longer split amongst other departments.

The 2014 Budget Act funded these in the amount of $3,482,000 from 2014-15 through 2017-18 for increased data center costs to support CA-IDMS and other miscellaneous CA software products. The approval was conditioned upon the SCO, in consultation with the CDT, conducting a cost-benefit comparative analysis to assess the SCO's long-term IT Plan for the continued use of the CA-IDMS technology, or the use of an alternative technology.

The SCC developed a cost-benefit comparative analysis study to assess the feasibility and determine the long- term plan for the CA-IDMS technology. The comparative analysis study determined the feasibility (i.e., cost and effort) to move from the CA-IDMS technology and secondly, the effort it would take to make system modifications to remove CA-IDMS logic and/or decommission systems to gauge how long the SCC would be reliant on this technology. As a result of the analysis the SCO recommended the continued use of the CA- IDMS technology for the foreseeable future, while immediately working to shift to other technologies. Therefore, the SCC is requesting funding in 2018-19 through 2022-23 to cover the increase in contract costs.

In December of 2016, the SCC submitted its Information Technology Plan for the CA-IDMS Systems, which identified the SCO's long-term strategy for the decommissioning of the department's core IDMS systems. The estimates show the cost and effort for system modifications to only remove the CA-IDMS logic and replace it with Common Business-Oriented Language (COBOL) equivalent logic (i.e., current technology in use by SCC for these systems) and/or to decommission the system based on its dependency for replacement by an SCC Initiative.

As a part of that strategy, the CA-IDMS Legacy Systems Study identified 14 core systems. The California State Payroll System (CSPS) and the FI$Cal project are earmarked to replace nine of the 14 systems. Of the remaining five IDMS systems, the SCO is requesting to conduct a migration pilot to remove IDMS from one of these five systems.

PROPOSED BUDGET BILL LANGUAGE

"The Department of Finance may adjust the amounts authorized under this item, as well as items 0840- 001-0970 and 0840-001-9740, upon execution of new contract terms for the Computer Associates (CA) - integrated Database Management System (IDMS), to reflect final IDMS contract costs if the costs are higher or lower than the amount budgeted. No adjustment shall be made pursuant to this provision prior to a 30-day notification in writing to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees of each house of the Legislature that consider appropriations."

STAFF COMMENTS

The resources will allow the SCO maintain their database and allow SCO to start planning for the future through a pilot program. Staff has no concerns with this proposal.

Staff Recommendation: Hold Open.

ISSUE 9: PAYROLL AUDITS

The SCO requests $682,000 ($389,000 GF; $293,000 CSCRF) in 2018-19, and $668,000 ($381,000 GF; $287,000 CSCRF) in 2019-20 to support five two-year limited term positions to perform audits of payroll controls and payroll records to ensure compliance with the SCO's decentralized legacy payroll system, processes, and practices.

BACKGROUND

In 2013-14 and 2014-15 the SCO received 5.0 two-year limited-term positions to perform audits of payroll controls and payroll records. This request was in response to an internal audit at the California Department of Parks and Recreation (Parks), as well an investigation by the California Attorney General's Office that disclosed a vacation buyout program that was instituted at Parks without authorization from Parks management or the California Department of Human Resources (CalHR), as required by state law.

The 5.0 two-year limited-term positions received in 2013-14 and 2014-15 expired June 30, 2015. Subsequently, the SCO received 5.0 permanent positions in 2015-16 and ongoing to continue to perform the audits of payroll controls and payroll records.

The performance of the first four years of payroll auditing disclosed the following:

- $29,476,064 in questioned costs (Workload History table 2013-14 through 2016-17) were identified due to poor payroll controls and processes at the departments/agencies. These questioned costs were due to systemic issues related to poor internal controls and the departments/agencies are rectifying the problems. Once departments/agencies have rectified these issues there will be an additional $58,952,128 in estimated future cost savings.

- Strong internal controls are lacking at the department/agency level and leave the state susceptible to fraud.

- Operating in a decentralized payroll system increases the likelihood of fraud, waste and abuse due to the number of state departments and agencies performing transactions independent of one another.

- The performance of payroll audits mitigates risk to the State.

In 2016-17, 14 audits were performed by the existing five auditors. The complexity of the payroll and payroll-related transactions as well as the high-volume nature of payroll transactions poses a serious challenge in the performance of these audits using the current staffing levels.

Workload History

Workload Measure	2012-13	2013-14[1]	2014-15	2015-16	2016-17	2017-18[2]
Payroll Audits Initiated [3]	-	8	14	3	3	10
Payroll Audits Completed [3]	-	8	8	6	3	10
Follow ups on Corrective Action Plans	-	-	-	-	-	-
Dollar Findings (Questioned Costs)	-	$1,502,151	$4,922,492	$15,156,060	$7,895,361	$11,790,426
Additional Future Cost Savings and Avoidance[4]	-	$3,004,302	$9,844,984	$30,312,120	$15,790,722	$23,580,851
Total Questioned Costs/Cost Savings and Avoidance[5]	-	$4,506,453	$14,767,476	$45,468,180	$23,686,083	$35,371,277

[1] Final Dollar Findings for 2013-14 were adjusted by $61,017 between 2015-16 BCP and issuance of several audit reports. This adjustment resulted in a $122,034 adjustment in estimated cost savings as well.

[2] Dollar Findings for 2017-18 is based on the average per audit from 2013-14 through 2016-17 ($29,476,064 / 25 audits * 10 audits). Additional Future Cost Savings for 2017-18 is based on the average per audit from 2013-14 through 2016-17 ($58,952,128 / 25 audits * 10 audits).

[3] Some audits initiated in one fiscal year carry forward into the next.

[4] Since the questioned costs were due to systemic issues related to poor internal controls, there is also an additional estimated future cost savings associated when agencies are notified and begin rectifying questioned audit findings. Based on experience, the Future Cost Savings and Avoidance is estimated to be an additional two years of savings based on the findings in a particular fiscal year and is reflected in that same fiscal year.

[5] Total Questioned Costs/Cost Savings is the Sum of Dollar Findings and Additional Future Cost Savings

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Hold Open.

ISSUE 10: LOCAL APPORTIONMENTS WORKLOAD INCREASE

The SCO requests $246,000 ($138,000 GF, $104,000 Central Service Cost Recovery Fund, and $4,000 Reimbursement) in 2018-19, for two positions to address increased workload related to apportionment payments to local governments and schools.

BACKGROUND

The Local Apportionments Section (Section) within the SCO's Local Government Programs and Services Division (LGPSD) is statutorily required to process payments to local governments. The Section is responsible for processing over 500 payments for 67 programs totaling over $70 billion annually to local governments and schools. Payments are issued monthly, quarterly, semi-annually, and annually and involve verifying legislation, performing calculations and reconciliations, and ensuring cash and authority exist. There are approximately 67 code sections in the Education Code, Government Code, Health and Safety Code, Public Utilities Code, Revenue and Taxation Code, Streets and Highways Code, etc. that require the SCO to calculate, transfer funds, and allocate to local governments. Major apportionments include K-12 Schools and Community Colleges, Proposition 30 (Prop 30), Trial Court Trust Fund, Half Percent Sales Tax for Public Safety, Public Safety Realignment, Mental Health Services, Health and Welfare Realignment, Highway Users Tax, State Lottery, and various transit payments.

From 2011-12 to 2016-17, there has been a 52 percent increase in the number of programs, a 35 percent increase in the number of payments, and a 92 percent increase in the total amount paid out annually to local governments and schools. New programs and associated payments are evaluated every year to determine the impact to the Section. Each year, the increased workload appeared to be absorbable and was addressed through the use of overtime. By 2014-15, the continual increase in workload created an unsustainable level of work that could no longer be absorbed. To address the issue, resources were temporarily redirected to the Section from other areas in LGPSD until permanent resources could be obtained.

The gradual increases in workload have become unsustainable with existing resources because many new or amended statutes are complex and require extensive research and analysis before payments can be issued.

Workload History

Workload Measure	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17[1]	2017-18[2] (Estimated)
Number of Programs	44	55	68	65	65	67	73
Percent Change	-	25.0%	23.6%	-4.4%	0.0%	3.1%	9.0%
Number of Payments	380	420	462	511	511	512	544
Percent Change	-	10.5%	10.0%	10.6%	0.0%	0.2%	6.3%
Amount Paid in Billions	$41.2	$53.1	$61.3	$67.9	$72.5	$79.3[3]	$90.6
Percent Change	-	28.9%	15.4%	10.8%	6.8%	9.4%	14.2%
Number of Inquiries	140	155	182	200	220	450[4]	587
Percent Change	-	10.7%	17.4%	9.9%	10.0%	104.5%	30.4%
Number of Legislative Items Reviewed	100	119	132	156	132	100	102
Percent Change	-	19.0%	10.9%	18.2%	-15.4%	-24.2%	1.7%

[1] Growth from 2011-12 to 2016-17 is calculated as follows (Referenced in Section B: Background/History):
Number of Programs – 52% ([67-44]/44)
Number of Payments – 35% ([512-380]/380)
Amount Paid in Billions – 92.5% ([$79.3-$41.2]/$41.2])
[2] 2017-18 Estimates are based on five-year average growth.
[3] Estimated amount.
[4] Increased queries associated with better tracking methods.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Hold Open.

ISSUE 11: ROAD MAINTENANCE AND REHABILITATION PROGRAM

The SCO requests $909,000 from the Road Maintenance and Rehabilitation Account (RMRA) in 2018-19, to support seven positions to ensure local agencies are spending funds on street, road, and highway purposes related to RMRA.

BACKGROUND

Senate Bill 1, (Chapter 5, Statutes of 2017) was passed April 28, 2017. SB 1 created the RMRP to address deferred maintenance on the state highway system and the local street and road system, and the RMRA for the deposit of various funds for the program.

To receive an allocation and remain eligible for an allocation from the RMRA, cities and counties must maintain their existing commitment of local funds for street, road, and highway purposes, otherwise known as a maintenance-of-effort (MOE). Cities and counties must annually expend from its general fund for street, road, and highway purposes an amount not less than the annual average of its general fund expenditures during 2009-10, 2010-11, and 2011-12, as reported to the Controller pursuant to State Highway Code (SHC) Section 2151. As stated in SHC section 2151, by October 1 of each year each county and city shall provide the Controller a complete report of the expenditures for street and road purposes during the preceding year. SHC section 2154 requires the Controller to annually tabulate and compile data submitted by cities and counties pursuant to SHC section 2151.

The Controller's duties relating to the RMRP, includes but is not limited to, the following:

To calculate and establish the MOE amount, the Controller shall:

- Communicate and collect the required information for all cities and counties for MOE for base years 2009-10, 2010-2011, and 2011 -12.
- Review cities and counties' submitted information.
- Calculate MOE requirements.

To ensure compliance with the MOE requirements, the Controller may:

- Request and review additional fiscal data from the cities and counties in addition to data provided pursuant to SHC Section 2151; as deemed necessary.
- Perform audits, to ensure compliance with subdivision (b) when deemed necessary.

STAFF COMMENTS

These resources are necessary for the SCO to implement the provisions included in the 2017-18 Transportation Funding Package.

Staff Recommendation: Hold Open.