

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION****ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR****TUESDAY, MAY 3, 2016
1:30 P.M. - STATE CAPITOL, ROOM 447**

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VOTE-ONLY CALENDAR

VOTE-ONLY ISSUE 1: JOINT OPERATIONS CENTER – ENSURING FUEL TAX COMPLIANCE

The BOE request \$296,000 (Federal Funds) in FY 2016-17, and ongoing to permanently establish 2.0 expiring limited term positions for continued participation in the Joint Operations Center (JOC) for the National Fuel Compliance Project. Participation in JOC project has allowed the BOE to leverage state and federal resources to identify evasion, non-reporting and under-reporting.

BACKGROUND

The JOC project combines staff, data, and expertise from both federal and state governments to identify fuel taxes under-reporting, non-reporting and trends leading to evasion. These pooled resources provide benefits to both state and federal fuel tax compliance efforts.

The JOC project has established a National Data Center in Washington, DC. The National Data Center is receiving and combining data sets, which continue to increase with the addition of each new state government from federal, state and third party sources. Analytical tools are applied to the data sets to identify anomalies, inconsistencies and omissions in the data, and generate leads for JOC audit teams to follow up on in the field. There are currently nine states participating in the JOC.

BOE received resources in 2007-08 to assist with the development and implementation of the JOC project. The positions were extended in 2010-11 for a three-year limited-term in order to transition from the budget development/implementation phase to the operational phase. During the 2013-14 budget process, the BOE received limited term funding for two positions that are set to expire on June 30, 2016.

STAFF COMMENTS

The extension of these positions is consistent with past actions by the Subcommittee. If termination of federal funds occur, BOE would prepare a negative BCP to eliminate the two positions.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 2: PERMANENT ESTABLISHMENT OF THE FIRE PREVENTION FEE POSITIONS

The BOE requests \$1.4 million (Special Funds) and 8.6 positions (permanent establishment of limited-term positions set to expire on June 30, 2016) and 7.2 in temporary help in 2016-17, and ongoing to continue processing workload associated with the Fire Prevention Fee program.

BACKGROUND

In 2012-13, the BOE received limited term positions that expired on June 30, 2014, to address workload associated with the Fire Prevention Fee program. The estimated workloads in 2012-13 were based on the BOE's experience implementing special tax and fee programs for primarily businesses. The initial workload was underestimated by the BOE. Funding was provided in 2012-13, to cover two billing cycles. BOE overspent its budgeted amount in 2012-13 by \$1.7 million to cover one billing cycle alone. The BOE hired temporary help full-time equivalents, and utilized overtime to assist in processing over 775,000 fire prevention fee billings in a timely manner. Temporary full-time equivalent resources and overtime were used again during 2013-14 for the 2012-13 billing.

In 2014-15, BOE converted 42 expiring positions to permanent, continued 12 as limited-term and established 9.7 one-year temporary staff, and nine new two-year limited term positions to address the workload. The limited-term positions are set to expire on June 30, 2016. Prior positions were approved as limited-term to ensure the workload continued. Prior positions were also approved because there was a question of how the IT program at BOE, CROS would make the administration of this program more efficient.

As compared to other tax and fee programs that the BOE administers, advisory services and account maintenance continue to be at an extremely high volume and longer than average duration of phone calls generated by notices and billings. There are approximately 800,000 registrants in the Fire Prevention Fee program. The average duration of phone call is between 10 and 20 minutes per call.

BOE implemented changes to processing procedures that have resulted in achieving greater efficiency; however even accounting for improved processing efficiencies, permanent resources are necessary to handle the ongoing high volume workload.

STAFF COMMENTS

The subcommittee may wish to clarify with BOE as to how the temporary help positions will be used on an ongoing basis. The resources requested are reasonable to handle the ongoing work associated with the Fire Prevention Fee Program.

Staff Recommendation: Approve as budgeted.

**VOTE-ONLY ISSUE 3: SPRING FINANCE LETTER: REGIONAL RAILROAD ACCIDENT
PREPAREDNESS AND IMMEDIATE RESPONSE PROGRAM**

This Spring Finance Letter includes \$821,000 and 2.4 positions in 2015-16, \$475,000 and 1.3 positions in 2016-17, and \$278,000 and 1.3 positions in 2017-18 and ongoing from special funds to administer the provisions of SB 84 (Committee on Budget and Fiscal Review, Chapter 25, Statutes of 2015). SB 84 authorizes a new fee, the Regional Railroad Accident Preparedness and Immediate Response (RRAPIR) fee, to be imposed on owners of the 25 most hazardous material commodities at the time that hazardous material is transported by loaded rail car in California.

The workload includes registering fee payers, processing returns, collecting fees, and processing audits and appeals. BOE is requesting permanent resources due to the difficulties in hiring and retaining staff in limited-term positions.

BACKGROUND

The BOE has entered into an interagency agreement with the Office of Emergency Services (OES) to establish and implement and collect the RRAPIR fee on behalf of the OES. The collection of the fee is scheduled to begin October 1, 2016. Fee revenue is to be deposited in the RRAPIR Fund, with a portion of the deposited funds used for administrative expenses. The OES has agreed to provide BOE \$821,000 for fiscal year 2015-16, for costs to establish and implement the new fee collection program. BOE's implementation costs include:

- One-time contract programming resources and data center services necessary to add a new fee program to the BOE's Integrated Revenue Information System (IRIS) and Automated Collection Management System (ACMS); and
- Funding for BOE positions and operating expenses for work involved in the implementation of the RRAPIR fee collection program.

This request is for ongoing resources to administer and maintain the new RRAPIR fee program and be in compliance with the requirements of SB 84. The fee is levied on owners of the 25 most hazardous material commodities, as identified in regulations adopted by the OES, contained in or on a rail car transported by rail in California and is assessed on the number of loaded hazardous material rail cars transported within the state. The bill requires the OES director to establish a fee schedule based on each loaded rail car.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD

0860 STATE BOARD OF EQUALIZATION

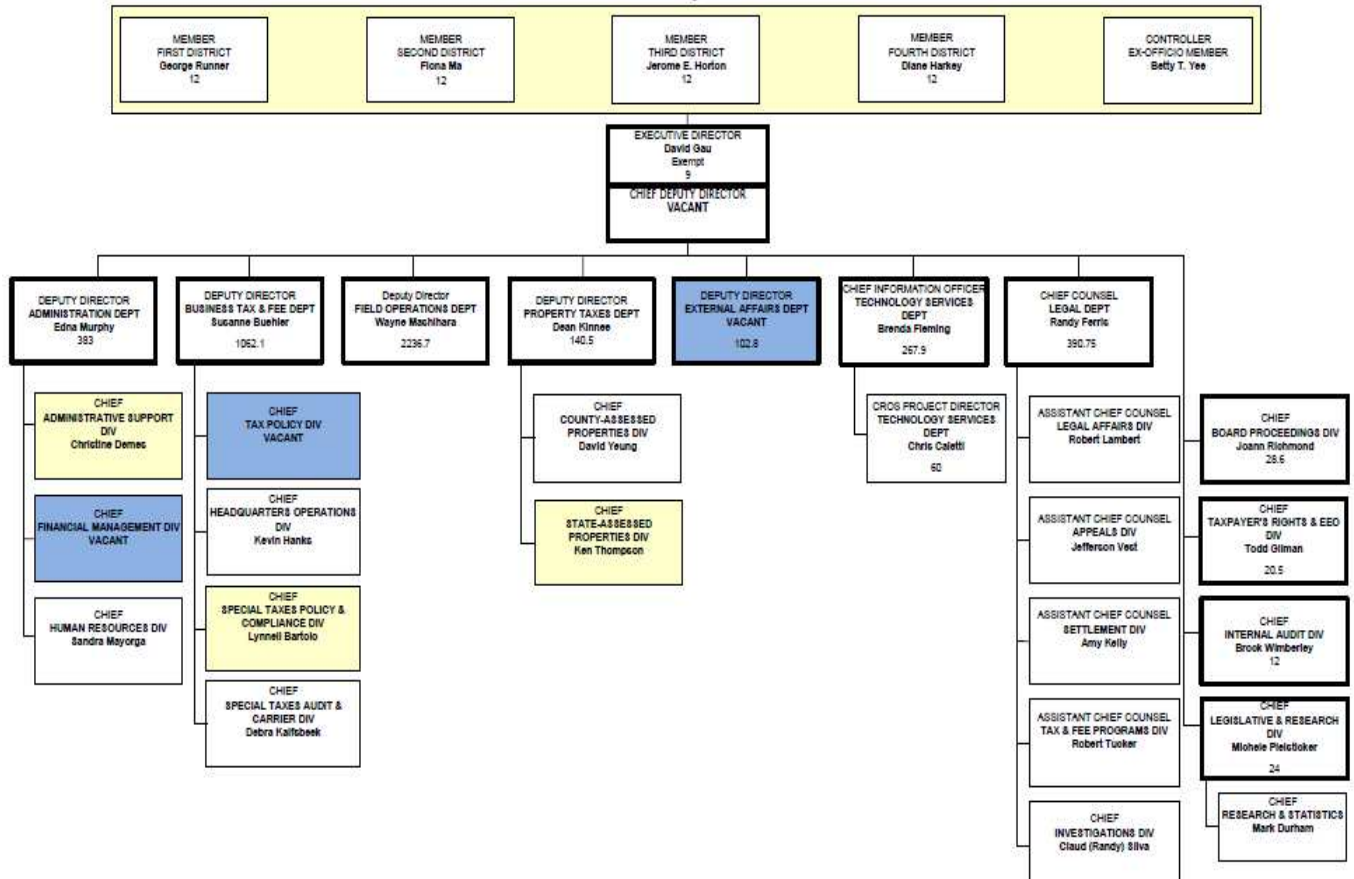
ISSUE 1: BUDGET OVERVIEW

The State Board of Equalization (BOE) is comprised of five members: four members each elected specifically to the Board on a district basis, plus the State Controller. The BOE administers the sales and use tax (including all state and local components), oversees the local administration of the property tax, and collects a variety of excise and special taxes (including the gasoline tax, insurance tax, and cigarette and tobacco products taxes) and various fees (including the underground storage tank fee, e-waste recycling fee, and fire prevention fee). The BOE establishes the values of state-assessed property, including inter-county pipelines, railroads, and regulated telephone, electricity, and gas utilities. The BOE also hears taxpayer appeals of FTB decisions on personal income and corporation taxes.

The Governor's Budget proposes resource support of \$598.3 million (\$319.3 million General Fund), and 4,667.5 positions for the BOE in 2016-17.

Department	Positions	
	2015-	2016-
	16	17
Executive Department	152.1	151.1
CROS	61.0	61.0
Technology Services Department	259.9	254.9
External Affairs Department	112.8	110.3
Legal Department	388.8	367.8
Administration Department	371.5	372.0
Sales and Use Taxes (SUTD)	2,848.5	2,851.0
Property and Special Taxes (PSTD)	595.3	574.8
TOTALS, AUTHORIZED POSITIONS	4,789.9	4,742.9
FI\$Cal Current Service Level Adjustment	-	45.0
BASELINE POSITIONS	4,789.9	4,787.9
<i>Temporary Help</i>	<i>62.7</i>	<i>61.3</i>
<i>Regular/Ongoing Positions</i>	<i>4,852.6</i>	<i>4,849.2</i>
Budget Position Transparency	-232.9	-184.5
BASELINE BUDGETED POSITIONS	4,619.7	4,664.7

ORGANIZATIONAL CHART
BOARD OF EQUALIZATION



California Board of Equalization

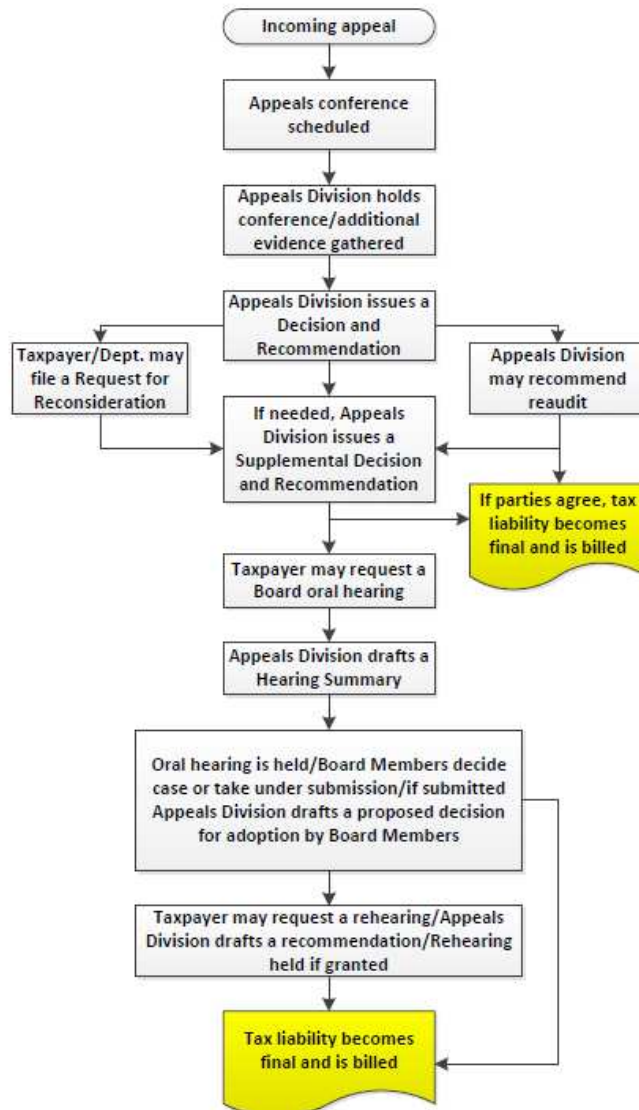
Equalization Districts & Offices 2016

Equalization Districts



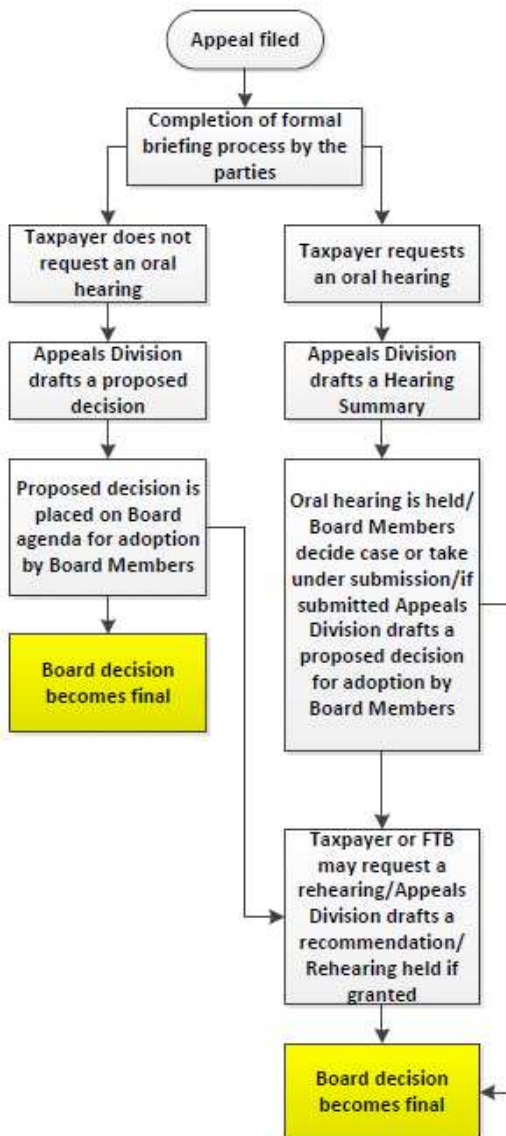
**Appeals Process
Business Taxes**

The Appeals Division provides independent and impartial review of each appeal and acts as independent legal counsel to the Board Members



**Appeals Process
Franchise and Income
Taxes**

The Appeals Division provides independent and impartial review of each appeal and acts as independent legal counsel to the Board Members



STAFF COMMENTS

The Subcommittee may wish to have the Department of Finance to explain the budget transparency line for BOE. How has the funding associated with the positions under the budget transparency been reallocated within the BOE budget?

Additionally, last year during a Joint Hearing with the Revenue and Taxation Committee, the hearing focused on Outreach and Compliance by the BOE. The Subcommittee may wish to ask follow up questions about Outreach and Compliance – what the activities look like this year compared to last year.

The Subcommittee may wish to ask the BOE to provide a brief overview of the Appeals process at the BOE? How many appeals go to each district versus the Southern California Appeals and Settlement Unit? What has been the number of appeals in the last three years that have not wen to the SCAS.

Additionally, out of the FTB appeals in the last two years, how many appeals went in favor of the taxpayer versus the State? What is the impact to the State?

Staff Recommendation: This item is for information only.

ISSUE 2: CIGARETTE AND TOBACCO PRODUCTS TAX PROGRAM: STATE AUDITOR'S REPORT

In March 2016, the State Auditor released a report on their audit concerning the costs to administer the Cigarette and Tobacco Products Tax Program and Licensing Program by the State Board of Equalization. This item will lay out background to the issue and the recommendations by the State Auditor for discussion by the Subcommittee.

BACKGROUND

For the past three years, the Subcommittee discussed the Cigarette Tax and Licensing program. Hearings focused on the administrative costs related to the General Fund and three special funds - the Breast Cancer fund, Prop 99, and Prop 10 – to fund the Cigarette and Tobacco Compliance Fund, created under AB 71 (Chapter 890, Statutes of 2003) and the role of the BOE to administer and collect the tax imposed on tobacco products in California.

As part of the budget action last year, the Subcommittee submitted a request to the Joint Legislative Budget Audit (JLAC) Committee to address how the state can reduce the administrative and enforcement costs of BOE's tobacco programs while maintaining program effectiveness for the purpose of the Master Settlement Agreement.

In March 2016, the State Auditor's report revealed the following:

- The Fees charged for licenses do not cover all the licensing program's costs resulting in an \$8 million shortfall a year.
- The licensing program's compliance fund has accumulated an excess balance that the BOE could use to offset the licensing program's costs.
- Options exist to make the licensing program self-supporting that include a combination of retailer, wholesaler, and distributor license fee changes and increases, as well as a cigarette tax increase.
- The BOE's method for identifying costs associated with each program appears to be reasonable but its allocation of some of these costs is flawed.
- A reduction in the number of inspections for the licensing program could result in an annual savings of more than \$360,000 for the BOE with no sacrifice in effectiveness.
- The methods used by the BOE to enforce compliance with excise tax laws for cigarettes and tobacco products prevented the loss of \$91 million in tobacco tax revenue.

Pending Legislation. Currently, special session bill AB X2 11 (Nazarian) is currently in the Assembly in Engrossing and Enrolling. This bill revises the Cigarette and Tobacco Products Licensing Act of 2003 to change the retailer license fee from a \$100 one-time fee to a \$265 annual fee, and increases the distributor and wholesaler license fee from \$1,000 to \$1,200.

The revisions in the fee structure are consistent with both findings from the Legislative Analyst's office in late 2015 as well as the audit released by the State Auditor in March of this year.

Cigarette and Tobacco Products Compliance Fund. One issue that was not addressed in AB X2 11 is the Cigarette and Tobacco Products Compliance Fund. The Cigarette and Tobacco Licensing Program regulate the activities of tobacco sellers and collects fees from them. These fees go into the Cigarette and Tobacco Products Compliance Fund. The Governor's proposed budget includes spending of only \$2.3 million to support the licensing program, leaving \$7.9 million balance remaining.

STAFF COMMENTS

As discussed in the Auditor's report, the balance in the Cigarette and Tobacco Tax Compliance Fund is too high. Staff would recommend that the fund balance be reallocated based on the percent share of that particular tax funds subsidy to the program along with retaining a reserve as shown below.

Current "Cigarette Tax Fund" Support of the Licensing Program (in thousands)		
General Fund	951	11.35%
Breast Cancer Fund	192	2.29%
Cigarette and Tobacco Products Surtax Fund	2,411	28.78%
CA Children and Families First Trust Fund	<u>4,824</u>	57.58%
Total	8,378	
Annual Licensing Program Expenditures	10,694	
3-month reserve	2,674	
Current Fund Balance	7,875	
Less: 3-month reserve	<u>2,674</u>	
Total Available for Reallocation	5,201	
Reallocation to "Cigarette Tax Funds"		
General Fund	590	
Breast Cancer Fund	119	
Cigarette and Tobacco Products Surtax Fund	1,497	
CA Children and Families First Trust Fund	<u>2,995</u>	
Total	5,201	

Staff Recommendation: Approve the reallocation of \$5.2 million for the Cigarette and Tobacco Tax Compliance Fund

ISSUE 3: APPEALS DIVISION'S BUSINESS TAX PROGRAM AND SETTLEMENT WORKLOAD

The BOE requests \$5.1 million (\$3.3 million General Fund, \$1.8 million Reimbursements, and \$66,000 in Special Funds) and 22.0 permanent positions, and 8.0 permanent positions in 2016-17. \$5 million (\$3.2 million General Fund, \$1.8 million Reimbursements, and \$64,000 in Special Fund) in 2017-18 ongoing, to address the increase in combined workload of 108 percent for the Appeals Division's Business Taxes Section and Settlement Program from 2010-11 through 2014-15.

BACKGROUND

The Southern California Appeals and Settlement Unit (SCAS) was created in FY 2010-122 to address increased taxpayer demand for the appeals and settlement programs, educate taxpayers on reporting requirements, and increase voluntary compliance with tax law. Since the creation of the program, SCAS has completed 3,206 appeals and settlement cases through 2014-15.

Appeals and Settlement Workload Background								
	FY 08-09	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15
Beginning Inventory	695	699	1,017	1,387	1,407	1,586	1,603	2,011
Incoming Cases	834	1,092	1,260	1,208	1,449	1,466	2,001	2,514
Completed Cases	830	774	890	1,188	1,270	1,449	1,593	1,751
FY Ending Inventory	699	1,017	1,387	1,407	1,586	1,603	2,011	2,774

The ending inventory (backlog) of cases has increased from 699 cases in FY 2007-08, to 2,774 cases in FY 2014-15. The positions requested in this proposal are expected to address 1,223 cases annually, which will minimize the growing backlog of cases, assuming demand for services remain steady at the 2014-15 level.

STAFF COMMENTS

The Subcommittee may wish to ask about the backlog of cases, why it is happening, whether it is a problem, and how has the BOE tried to address it. With the requested resources included in this BCP, the BCP states that the by 2019-20 the backlog will continue to grow to 5,100 cases. Can the BOE explain why it will continue to grow?

Is the SCAS, the only unit that handles appeals or is there another process in place?

Staff Recommendation: Hold Open

8955 DEPARTMENT OF VETERANS AFFAIRS

ISSUE 4: PREVIOUS VETERANS AFFAIRS INITIATIVES OVERSIGHT

The Subcommittee will receive an update from the Department of Veterans Affairs (CalVet) on County Veterans Service Officers and Strike Force Teams.

COUNTY VETERANS SERVICE OFFICERS

The County Veterans Service Officers (CVSOs) are veterans, and county employees who are there to assist the veteran community in applying for and maintaining available benefits and entitlements to which they may be eligible. Allocations for county services aid in the reduction of veterans claims backlog and improve turnaround times, which overall improves the quality of life for Veterans. CVSOs link veterans to their federal benefits and assist the veteran community in applying for and maintaining available benefits and entitlements to which they may be eligible.

These Officers participate in community outreach events to educate veterans on eligible benefits, and provide assistance for veterans to obtain benefits and services. According to the California Association of County Veterans Service Officers, in fiscal year 2014-15, CVSOs were able to file claims with the federal government, which resulted in payments of about \$380.5 million to veterans in California.

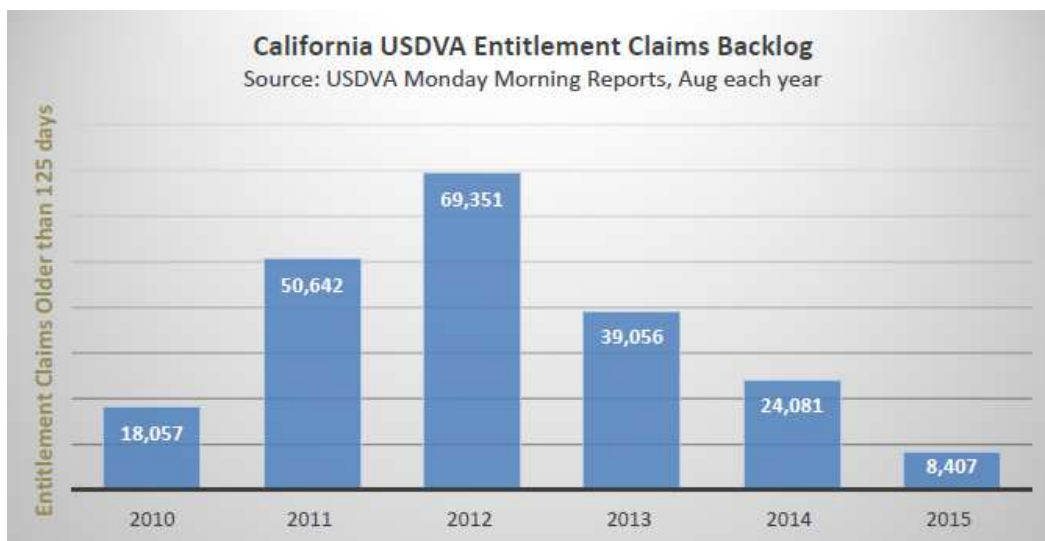
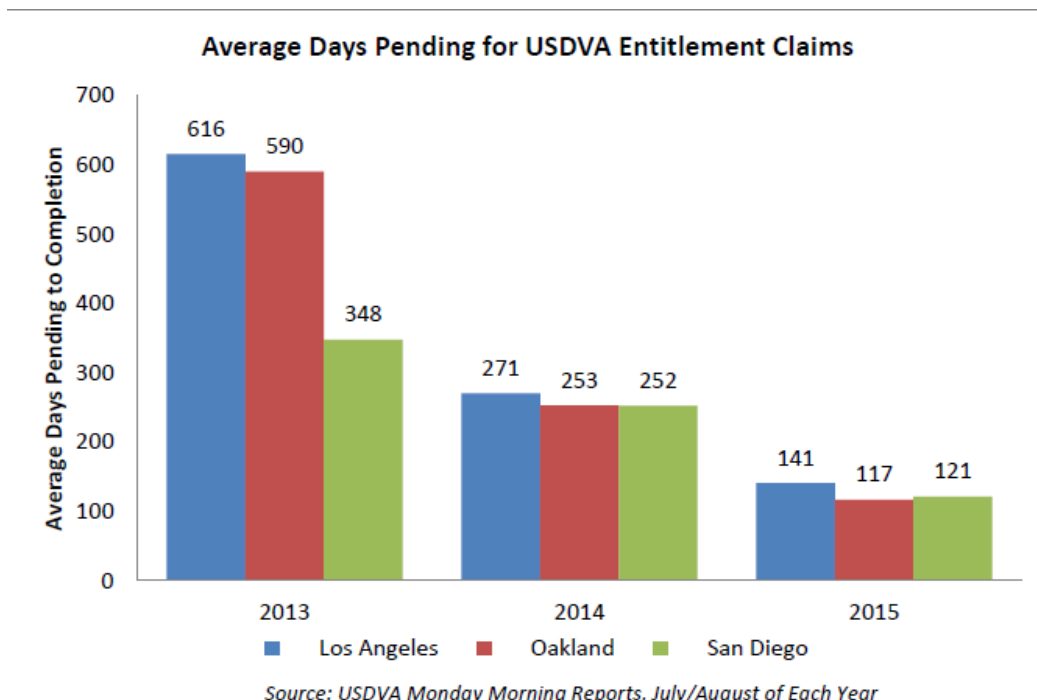
The 2015 budget established a permanent \$3 million funding level for CVSOs. The 2016-17 Budget includes a total of \$5.6 million General Fund for local assistance to CVSOs. This funding will allow counties to hire, train, and retain qualified CVSOs.

STRIKE FORCE TEAMS

The Budget Act of 2013 included \$3 million and 36 limited-term positions for “strike force” team members to help California veterans and their families receive their benefits more quickly and help reduce the backlog of claims that have kept some veterans waiting for nearly two years. This funding and position authority is set to expire June 30, 2016. To start the three-year program, a Memorandum of Understanding (MOU) was signed by the California Department of Veterans Affairs and the U.S. Department of Veterans Affairs (USDVA) on September 18, 2013, to solidify this project. The 2015 Budget Act made the positions permanent, but the additional funding was not included in this year’s Budget.

The team members are placed and managed at each of the three CalVet District Offices, which are co-located at the USDVA Regional Offices in San Diego, Los Angeles, and Oakland. The Review Team of veteran claims representatives begin with claims that have been pending the longest and work their way forward. The Support Team at each location reviews new incoming claims to make them fully developed and ready for USDVA rating.

The following two charts from the Joint Claims Initiative Progress Update, released in January 2016, show the effect of the Strike Teams on the turn-around time of Entitlement Claims and the downward trend of backlog claims. In Los Angeles, the increased funding and positions, Strike Force teams have been able to decrease the amount of days it takes to process a claim from 616 days in 2013, to 141 days in 2015. The claims backlog has also diminished from nearly 70,000 claims pending in 2012 to 8,500 in 2015.



Although the overall time to process claims and backlog of claims has decreased, claims appeals have remained steady. According to the Department, “The appeals inventory is expected to remain high and is projected to increase in the next few years due to the expedited ratings given to clear the backlog in recent years and the implementation of the national work queue. The national work queue will allow the USDVA to work California cases in other states and the volume of rating decisions will increase along with the volume of appeals.” See the chart below.

**STAFF COMMENTS**

These items are informational, and no action is needed at this time. Last year this Subcommittee took action to continue the funding for the CVSOs and to make the positions for the Strike Force Teams permanent in order to ensure that Veterans have access to their entitled benefits. It is worth noting that the Subcommittee may wish to see the Department focus on decreasing the appeals backlog, as this could provide yet another barrier to Veterans receiving their benefits.

Staff Recommendation: Informational Item.

ISSUE 5: SPRING FINANCE LETTER: VETERAN SERVICES DIVISION SUPPORT

CalVet requests \$1.7 million General Fund to fund sixteen existing but unfunded positions and to reclassify four positions in order to process claims for federal veteran benefits. This augmentation includes \$1.7 million in ongoing costs.

BACKGROUND

The CalVet manages three District Offices throughout the state, which are co-located within the United States Department of Veterans Affairs (USDVA) Regional Offices in Los Angeles, Oakland, and San Diego. The funding requested in this Spring Finance Letter would provide funding for sixteen existing, but unfunded, positions and to reclassify four positions at the District Offices throughout the State. These positions will ensure that California's veterans and their families receive proper federal claims representation as well as receive their federal benefit awards in a timely manner.

The Budget Act of 2013 included an additional \$3 million General Fund and 36 limited-term positions for three years to CalVet to initiate the Joint Claims Initiative. The Joint Claims Initiative is a partnership between USDVA and CalVet, which formed a twelve-person "Strike Team" in each of the District Offices. These positions were aimed at reducing the backlog of pending initial entitlement claims. The Budget Act of 2015 made the 36 positions permanent; however, associated funding is still set to expire on June 30, 2016.

The following chart displays the current and proposed positions from this proposal.

Location	<u>Currently Projected 2016-17 Position Funding</u>	<u>Requested 2016-17 Funding in this Proposal</u>	<u>Total 2016-17 and ongoing Positions if Proposal is Approved</u>
Los Angeles	1 Staff Services Manager (SSM) I 4 Associate Governmental Program Analysts (AGPA) 1 Office Technician, Typing (OT(T))	Reclassify SSM I to SSM II 5 AGPAs	1 SSM II 9 AGPAs 1 OT(T)
Oakland	1 SSM 5 AGPAs 1OT(T)	Reclassify SSM I to SSM II 7 AGPAs	1 SSM II 12 AGPAs 1 OT(T)
San Diego	1 SSM I 2 AGPAs 1 OT(T)	Reclassify SSM I to SSM II 3 AGPAs	1 SSM II 5 AGPAs 1 OT(T)

The chart below provides veteran population per USDVA Regional Office jurisdiction:

Location	<u>Veteran Population for Region</u>	<u>Number of Veterans per Projected 2016-17 Funded Claims Staff in Region</u>	<u>Number of Veterans Per Claims Staff With Approved Proposal</u>
Los Angeles	549,190	137,298	61,021
Oakland	761,620	152,324	63,468
San Diego	491,636	245,818	98,327

This proposal would make the funding for sixteen of these positions permanent, reclassify one AGPA to AMA, and upgrade one of the three District Office managers from SSM I to SSM II.

STAFF COMMENTS

As a result of this Subcommittee's actions, the Strike Force Teams were deployed to help ensure that Veterans have access to benefits they have earned. From September 2013 through February 25, 2016, expedited processing of \$105.3 million in lump sum payments (meaning retroactive payments based on the time the claim has been sitting at USDVA) and monthly award payments totaling \$14.6 million to California Veterans. Annually, this is about \$175 million in payments going to veterans every year for the rest of their lives.

It is worth noting that this proposal does not continue the Strike Force Teams, but instead provides additional resources to the District Offices in order to ensure the quality of claims prior to submission to USDVA. In prior discussions with the Department, it was noted that the initial claims backlog had slowly decreased, but the appeals had continually increased.

Staff recommends holding this item open to review with any additional May Revisions proposals.

Staff Recommendation: Hold open.

ISSUE 6: HUMAN RESOURCES DIVISION STAFF

CalVet requests \$334,000 (\$301,000 General Fund and \$33,000 Farm and Home Building Fund of 1943) and three positions in 2016-17 in order to provide personnel management service, support, oversight, training, and guidance to programs including the eight Veterans Homes of California as a result of rapid growth.

This request includes three ongoing positions as well as \$317,000 (\$286,000 General Fund and \$31,000 Farm and Home Building Fund of 1943) annually.

BACKGROUND

Since 2009-10, staffing at CalVet has increased about 56 percent, largely due to the opening of the five newest Veterans Homes. The opening of the new Veterans Home of California-Fresno and Veterans Home of California-Redding, the expansion of the Veterans Home of California-West Los Angeles, and the development of the Seaside cemetery has generated new additional workload for Classification and Pay (C&P) analysts related to the extensive recruitment efforts and hiring of staff. These analysts also provide assistance and direction to the veterans homes' Human Resources staff.

Currently, Human Resources Division has three permanent C&P Analysts that provide guidance, consultation, make recommendations and review all recruitment, and performance management efforts for all headquarters divisions and eight veterans' homes. The Transactions Unit currently has one Senior Personnel Specialist and one Personnel Specialist. They are dedicated to technical transaction processing such as appointments, leave, retirement, benefits, workers compensation, and state disability insurance.

Additionally, the Transactions Unit within the Human Resources Division is unable to keep current with new policies and procedures set by CalHR, the State Controller's Office, and the California Public Employees' Retirement System.

STAFF COMMENTS

The positions requested will allow CalVet's Human Resources Division to provide adequate training and services throughout the Department's many functions. Staff recommends leaving this proposal open to consider with any forthcoming proposals from CalVet.

Staff Recommendation: Hold open.

ISSUE 7: SPRING FINANCE LETTER: ADMINISTRATIVE SUPPORT SERVICES

CalVet requests \$1.75 million (\$1.65 million General Fund and \$103,000 Farm and Home Building Fund) for 2016-17 in order to fund fifteen currently authorized but unfunded positions to provide support to various CalVet programs. This proposal also requests \$1.67 million (\$1.6 million General Fund and \$99,000 Farm and Home Building Fund) ongoing.

BACKGROUND

CalVet has grown exponentially in the past few years. Between 2010 and 2013, five new Veteran Homes opened. Not only has the number of Veterans Homes in the State increased, but also have gone from one Veteran Cemetery to three since 2004 (the California Central Coast Veterans Cemetery is scheduled to open in Summer 2016.) More information about the expansion of the Department is included in the previous issue regarding the additional need for Human Resources Division Staff.

The requested positions in this proposal are:

Information Services Division

- 1 Staff Information System Analyst
- 1 Assistant Information System Analyst

Contracts

- 1 Staff Services Manager I
- 3 Associate Governmental Program Analysts
- 1 Office Assistant General

Human Resources Division

- 1 Staff Services Manager I
- 3 Associate Personnel Analysts

Legal Division

- 1 Attorney III

Reasonable Accommodation

- 1 Staff Services Manager I

Payroll-Based Journal

- 2 Associate Governmental Program Analysts

Information Services Division. The additional positions will allow ISD to support the current volume of incoming Helpdesk and desktop requests. Requested resources will be measured along with workload improvements through monthly workload analysis reports.

Contracts. The additional staffing in this division will allow 100 percent of the bidding and contract processes for all eight Veterans Homes and three cemeteries to be completed by the Headquarters Contracts Unit.

Human Resources, Legal Division, and Reasonable Accommodation. The requested positions will enable CalVet to provide and assist with meeting the new homes' recruitment shortfalls, as well as adequately train managers/ supervisors and personnel staff in the areas of personnel/performance management and employee-employer labor relations.

Payroll-Based Journal. The requested positions will enable the Veterans Homes to submit the required data in the specified format to the Centers for Medicare and Medicaid Services (CMS).

STAFF COMMENTS

CalVet has grown exponentially in the past few years and the positions requested will enable various divisions within CalVet to provide adequate services throughout the Department's many functions. Staff recommends leaving this proposal open to consider with any forthcoming proposals from CalVet.

Staff Recommendation: Hold open.

ISSUE 8: SPRING FINANCE LETTERS: YOUNTVILLE VETERANS HOME RENOVATIONS

The Subcommittee will hear two proposals related to renovations at the Veterans Home of California – Yountville.

The first proposal requests a reappropriation of the unencumbered balances of the working drawings and construction phases of the Steam Distribution Renovation project. The total estimated project costs for working drawings and construction are \$6.9 million (\$2.8 million lease revenue bond funds and \$4.1 million federal funds).

The second proposal requests a reappropriation of the unencumbered balance of the construction phase of the Chilled Water Distribution System Renovation project. The total estimated project costs for construction are \$5.4 million (\$1.7 million lease revenue bond funds and \$3.7 million federal funds).

BACKGROUND

Steam Distribution System Renovation proposal. In the 2015-16 Budget, Calvet requested \$3,387,000 GF for the preliminary plans, working drawings and construction phases of the Veterans Home of California-Yountville Steam Distribution System Renovation. The current proposal reappropriates unencumbered balances from last year's proposal in order to continue with the project. As a result of design and contracting delays, completion of preliminary plans is scheduled for March 2017. Working drawings are schedule for completion by April 2018 and construction is scheduled to being in October 2018.

The steam system provides heating and hot water to all 120 buildings at the Yountville facility. This project includes replacement of underground lines and valves and removal of badly deteriorated asbestos insulation that is a safety hazard. Renovation of the system will ensure a safer and more energy efficient operation and the uninterrupted availability of steam for the facility's critical daily operations.

Chilled Water Distribution System Renovation proposal. In the 2015-16 Budget, CalVet requested an appropriation of \$2,236,000 for the working drawing and construction phases of the Veterans Home of California – Yountville Chill Water Distribution System Renovation. The current proposal reappropriates unencumbered balances from last year's proposal in order to continue with the project. As a result of design and contracting delays, completion of the working drawings is scheduled for August 2016. Construction is scheduled to begin January 2017 and project completion is scheduled for April 2018.

This project will correct system deficiencies and increase chiller capacity, which will ensure the facility has the required chiller capacity to maintain a proper temperature throughout the campus to protect the health and safety of the elderly and/or disabled veteran residents.

STAFF COMMENTS

These two proposals request funding that are unencumbered balances from proposals in the 2015-16 Budget. The Subcommittee may wish to ask the following questions of the Department of Veterans Affairs:

1. What is the current status of both of these projects?
2. Why have both the Steam Distribution System and Chilled Water Distribution System projects been delayed for so long?

Staff Recommendation: Hold open.

0890 SECRETARY OF STATE

ISSUE 9: SPRING FINANCE LETTER: CAL-ACCESS REPLACEMENT PROJECT

SOS requests an augmentation of \$757,000 in Budget Year 2016-17 from the Political Disclosure, Accountability, Transparency, and Access (PDATA) Fund in order to procure contracted services to assist with the completion of system and business requirements, additional market research, and project management to implement the California Automated Lobbying and Campaign Contribution and Expenditure Search System (CAL-ACCESS) replacement project.

BACKGROUND

When CAL-ACCESS was first launched fifteen years ago, it promised to increase accountability and transparency. However, the system has not kept pace with policy changes or technological advances. According to the Secretary of State, replacing CAL-ACCESS will “give SOS the opportunity to improve efficiency and customer service using mechanisms such as electronic workflow and online/electronic communication with users... These opportunities will eliminate manual processes and improve functionality for registration, campaign review, correspondence and enforcement activities, and the ‘workarounds’ necessary to accommodate the new legislative mandates.” The Department maintains that this improved data validation will lead to better data quality as well as the opportunity to provide more transparency and a wider range of reporting to the public.

This proposal makes progress toward the replacement of CAL-ACCESS, which is beyond its useful life, unsupported, and at risk of failure. It also responds to the Administration’s priorities to improve and expand campaign finance and lobbying activity transparency. The Secretary of State anticipates making a future funding request based upon the results of the Project Approval Lifecycle Stage/Gate process to complete the project.

STAFF COMMENTS

Staff notes no issues with the proposals at this time. The Subcommittee may wish to ask the following questions of the Secretary of State:

1. What is the nature of the business problems that have been identified by users of the CAL-ACCESS system?
2. What specific problems does the Department plan to address with the consultant service?

Staff Recommendation: Hold open.

ISSUE 10: SPRING FINANCE LETTER: CALIFORNIA BUSINESS CONNECT

SOS requests \$2.6 million (\$2 million from the Business Programs Modernization Fund and \$605,000 from the Business Fees Fund) in spending authority in Budget Year 2016-17, in order to continue implementation of the California Business Connect project. An additional \$325,000 is also requested for temporary help (and corresponding DGS service fees) in order to backfill staff positions redirected to the project.

BACKGROUND

Business Filings. The Secretary of State's Business Programs Division continues to process business formation filings and Statements of Information within an average of five business days. January 2016 was an exception at an average of six business days due to increased business filings and year-end workload. This is the only time since reaching the five business day average in October 2013 that processing times have exceeded the five business day average.

California Business Connect. The California Business Connect project is an effort to replace the antiquated and labor-intensive business filing process with a modern automated process that will both improve the customer experience and reduce operational costs for the State. The project includes a comprehensive technology upgrade that will increase online services for business filings and copy orders, allowing the Secretary of State to process documents within as quickly as a few hours and avoid seasonal processing fluctuations. This will allow business to quickly open their doors, create bank accounts, acquire loans, hire employees, and generate income regardless of the time of year, creating a friendlier business environment in California.

Currently, the Uniform Commercial Code and Statement of Information filings are on paper, manually sorted, tracked on different automation systems, including a system on three-inch by five-inch index cards. The SOS received its feasibility study report (FSR) approval for the project on April 1, 2011; and a contract was awarded on January 10, 2014. On April 10, 2015, the SOS and its system integrator, Bodhtree Solutions Inc., mutually terminated the contract for \$8.9 million.

Special Project Report #2. On December 28, 2015, the SOS submitted a Special Project Report (SPR) to the California Technology Department which proposed:

- Changing the project scope to focus on the largest annual volume filings and reducing the complexity of the project,
- Changing the schedule to a phased implementation approach; and
- Changing the project's budget.

The revised project was approved by the California Department of Technology on April 1, 2016. According to the Department, "Instead of a big bang implementation of all filings, a more results oriented, risk based approach is proposed. In addition, the project will include a fewer number of filing types to focus resources on the most common and largest volume filing types. The Business Programs Division will add the low volume,

niche filings to the system after this project is completed thus reducing the initial complexity of the core implementation. The project approach will be to phase the system and accompanying functionality into production by lines of business, to minimize the risk to the organization and to maximize the benefit to the organization including the benefit of decommissioning legacy systems.

The project efforts will be focused on the highest volume filings for the most common lines of business.

- Business Entities:
 - Limited Liability Companies
 - Limited Partnerships
 - Corporations
- Uniform Commercial Code (UCC)
 - Financing Statements
 - Federal and State Tax Lien Notices
 - Other lien notices including Judgment Liens and Attachment Liens
- Trademarks and Service Marks

After a thorough analysis and refinement of business processes, the Secretary of State will conduct a business-based procurement solicitation for California Business Connect. SOS provided the following information regarding the project timelines:

Major Milestones	Estimated Completion Date
Release of Request For Proposal	8/01/2017
Contract Awarded	9/01/2018
Vendor On-board	11/01/2018
Phase 1: LLC & LP Deployment	8/31/2019
Phase 2: Corporations Deployment	2/29/2020
Phase 3: Uniform Commercial Code Deployment	8/31/2020
Phase 4: Trademarks Deployment	1/31/2021
First Year Contract Maintenance and Operations	1/31/2022
Post Implementation Evaluation Report	1/31/2022

January Budget Request. In January, the Governor's budget requested 52 temporary help positions to assist in processing business filings and statements of information until California Business Connect is implemented in 2020. This proposal is still being held open by this Subcommittee.

Spring Finance Letter Request. SOS requests \$2.6 million (\$2 million from the Business Programs Modernization Fund and \$605,000 from the Business Fees Fund) in spending authority in Budget Year 2016-17, in order to continue implementation of the California Business Connect project. An additional \$325,000 is also requested for temporary help (and corresponding DGS service fees) in order to backfill staff positions redirected to the project.

STAFF COMMENTS

California Business Connect was halted last year when the project fell behind and there were issues with the vendor. This proposal appears to be in line with the updated project scope and timelines provided to the Subcommittee. This Subcommittee may wish to require regular quarterly updates on the status of the Business Connect project.

Staff Recommendation: Hold open.

1110/1111 DEPARTMENT OF CONSUMER AFFAIRS

**ISSUE 11: SPRING FINANCE LETTER: BUREAU FOR PRIVATE POSTSECONDARY EDUCATION
STUDENT TUITION RECOVERY FUND ADMINISTRATIVE COSTS**

The Bureau for Private Postsecondary Education requests to transfer expenditure authority of \$183,000 and two positions (one Staff Services Analyst and one Associate Program Governmental Analyst) related to the administration of Student Tuition Recovery Fund (STRF) claims from the Private Postsecondary Education Administration Fund (Admin Fund) to the STRF.

BACKGROUND

Private Postsecondary Education Administration Fund. The Admin Fund provides general operational support for the Bureau to administer the Private Postsecondary Education Act of 2009, including the administration of STRF awards. Revenues are derived primarily from license and other regulatory fees. Revenues are projected to be approximately \$9.7 million in Fiscal Year 2016-17.

The Bureau notes that revenues derived from licensees are generally expended on licensing and enforcement activities to regulate those licensees.

Student Tuition Recovery Fund. The STRF was created as a continuously appropriated fund to reimburse students in the event of a school closure. Current law requires every Californian student enrolled in a private postsecondary institution to pay a STRF assessment fee based upon the student's tuition paid quarterly. The STRF fee is intended to reimburse students who might otherwise experience a financial loss as a result of an untimely school closure.

STAFF COMMENTS

Upon a school closure, a student may file a claim with the Bureau for reimbursement from the STRF. STRF is funded by assessments on students. The BPPE Administrative Fund is funded by fees on regulated postsecondary institutions. By shifting STRF administrative costs from the Admin Fund to the STRF, this proposal shifts the burden of paying for the administrative costs associated with the closure of higher education institutions to the students. Essentially, students would be paying for the administrative costs associated with objectionable activities of a BPPE-regulated institution.

The Subcommittee may wish to ask the following questions of the Bureau for Private Postsecondary Education:

1. Where will the positions requested in this proposal be transitioned to?
 - How does this differ from where these positions were previously?
2. What is the rationale for shifting the burden of the administrative costs to the STRF?
3. How does this proposal align with the Bureau's overall plan to increase STRF participation?

Staff Recommendation: Hold open.

CONTROL SECTION 6.10

ISSUE 12: DEFERRED MAINTENANCE PROJECTS

The budget proposes to allocate \$500 million (General Fund) for deferred maintenance projects in 2016-17.

BACKGROUND

In addition to the \$500 million, the proposal includes \$289 Proposition 98 General Fund and \$18 million Motor Vehicle Account for deferred maintenance projects for the California Highway Patrol and Department of Motor Vehicles.

Under this proposal, departments would provide DOF a list of deferred maintenance projects for which the funding would be allocated. The DOF would review and provide the approved list to the Chairperson of the Joint Legislative Budget Committee (JLBC) 30 days prior to allocating any funds. The amounts specified above would be available for encumbrance or expenditure until June 30, 2018. If a department made a change to the approved list after the funds have been allocated, DOF's approval is required and the JLBC would be notified 30 days prior to the change being approved.

On Friday, April 29, a draft list of deferred maintenance project lists was released for Control Section 6.10. The 46 pages of project lists is still in draft form, and the projects included in the lists may change. The Department of Water Resources was not included in the list.

C.S. 6.10 is identical with the exception for the amounts and departments, to the list proposed last year as part of the Governor's budget. Outside of this program, most deferred maintenance is funded through the baseline support budget provided to individual departments. Departments have some discretion to use these funds for maintenance projects or other higher priority needs within the department.

LAO COMMENTS

The Legislative Analyst Office (LAO) continues to express concern regarding the Legislature's abrogation of its authority for capital outlay and deferred maintenance and recommends steps that would reinsert the legislative perspective in this process. For the current deferred maintenance proposal, the LAO recommends: (1) requiring lists of proposed projects to be funded by each department by April; (2) requiring individual departments to report at budget hearings regarding the projects; (3) modifying departments' funding levels based on project reviews; and (4) requiring that funded projects be listed in a Supplemental Report to the 2016 Budget Act.

STAFF COMMENT

The Governor continues to address the funding needs for deferred maintenance projects throughout the State. Similar to last year, the approach is to include General Fund dollars instead of other financing tools such as bonds or user fees. Consistent with last year, on Friday, April 29, 2016, the department provided a draft list of deferred maintenance projects to be funded with the budget request.

Staff Recommendation: Hold open.
