

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER JIM COOPER, CHAIR

MONDAY, MAY 21, 2018

2:30 P.M. - STATE CAPITOL, ROOM 444

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ITEMS FOR VOTE-ONLY

7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

VOTE-ONLY ISSUE 1: 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 Subcommittee. 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.

BACKGROUND

During the March 6, 2016, hearing, the Subcommittee discussed the two conflicting timelines included in the Supplemental Reporting language due in October 1, 2019, and the timeline to provide options to the Board in November of 2018. The purpose of the Supplemental Reporting Language was to provide legislative oversight. With the new Board timeline, the legislative oversight is lost.

STAFF COMMENTS

Staff recommends changing the date of the Supplemental Reporting Language from last year, from October 1, 2019, to July 1, 2018.

Staff Recommendation: Approve Staff Recommendation.

VOTE-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, and increases investment transparency.

BACKGROUND

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.

BUDGET BILL LANGUAGE

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

This item was heard on March 6, 2018. This item provides for additional staffing that will inevitable result in a need for more space for CalSTRS. The approval of this item is not approval for a second tower by the Legislature.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 3: CREDIBLE COMPENSATION

The May Revision includes an increase of \$5,583,000 for CalSTRS for credible compensation.

BACKGROUND

As compared to the Governor's budget, the Defined Benefit payment will increase by \$4,163,000 and the Supplemental Benefit Maintenance Account contribution will increase by \$1,420,000 for a total of \$5,583,000. The adjustments are consistent with existing statutory funding requirements pursuant to the Education Code sections 22954 and 22955.1.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt May Revision Proposal.

1701 DEPARTMENT OF BUSINESS OVERSIGHT

**VOTE-ONLY ISSUE 4: INFORMATION TECHNOLOGY OFFICE OF CONSULTING SERVICES
WORKLOAD**

A Spring Finance Letter proposes \$132,000 in 2018-19 (\$130,000 ongoing) in reimbursement authority and one permanent Information Technology Specialist I position to provide information technology support services to the Business, Consumer Services and Housing Agency (Agency), the Seismic Safety Commission (SSC), and the newly formed Cannabis Control Appeals Panel (CCAP).

BACKGROUND

The Agency has requested the Department of Business Oversight (DBO) begin providing dedicated IT services to itself, SSC, and CCAP. A dedicated network is required for each of the three entities to support approximately 40 employees. Agency, SSC, and CCAP have determined that it would be more efficient and cost effective to contract with the DBO for IT services than to hire their own IT staff or external contractors. If they do not contract with the DBO, each entity would need to hire, at minimum, one full-time position and contract with external consultants for any additional projects.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt Spring Finance Letter.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

VOTE-ONLY ISSUE 5: CLOUD SUPPORT AND BUSINESS ANALYSIS

GO-Biz is requesting budget authority of \$277,000 in General Fund and two positions beginning in 2018-19, and ongoing. The Information Technology unit within GO-Biz requests this funding to add one Systems Software Specialist III (Technical) and one Staff Information Systems Analyst.

BACKGROUND

Since September 2013, the GO-Biz Information Technology Application Portfolio has grown from one IT staff member and four supported applications to six IT staff members and sixteen supported applications. High-profile GO-Biz applications such as the California Competes Tax Credit Application and California Film and Tax Credit Applications have facilitated the award of hundreds of millions in tax credits to businesses and film and television production companies. The application process for both programs is completed online. Each new GO-Biz application is regularly updated and fourteen of the applications have been updated significantly with new functionality and content.

The GO-Biz Information Technology team currently consists of six staff. Development, maintenance, support, and management of the sixteen applications is shared by the team. Three of the IT staff are specifically dedicated to the California Competes Tax Credit Program, the California Film Commission, and the California Infrastructure and Economic Development Bank (IBank). The remaining ten applications are maintained, supported and updated by the remaining three staff. Tasks in the Workload History listed with zero hours are existing tasks that are needed and not currently performed, in the current year, 1,672 hours in additional tasks are being completed by existing staff which causes delays, backlogs or incomplete work.

STAFF COMMENTS

This item was heard at the April 10, 2018, hearing.

Staff Recommendation: Approve as Budgeted.

VOTE-ONLY ISSUE 6: CALIFORNIA COMPETES TAX CREDIT PROGRAM EXTENSION AND TRAILER BILL LANGUAGE

GO-Biz requests a five-year extension of the California Competes Tax Credit program, tax credit allocation authority of \$180 million per year through 2022-23, and \$1.4 million in budget authority from the General Fund per fiscal year through 2022-23, to maintain the 10 positions associated with administering the program. This proposal also requests to remove provisions of law that reserve a portion of the credit allocation for businesses with gross receipts of less than \$2 million.

BACKGROUND

The California Competes program works within GO-Biz and is aimed at furthering the Governor's goal of economic growth for California. On July 11, 2013, Governor Brown signed into law Assembly Bill 93, (Chapter 69, Statutes of 2013) and Senate Bill 90, (Chapter 70, Statutes of 2013), now commonly referred to as the Governor's Economic Development Initiative. AB 93 and SB 90 phased out the Enterprise Zone Program and replaced it with three new tax incentives.

Trailer Bill Language. This trailer bill language proposes to remove provisions of law that reserve a portion of the credit allocation for businesses with gross receipts of less than \$2 million.

STAFF COMMENTS

Staff recommends the following be added to the placeholder trailer bill language:

- 1) Require Go-Biz, prior to finalizing contract negotiations and the Committee hearing process, to provide information, so long as the information is not confidential, to the Committee members regarding the potential awardees and allow the Committee members to work through Go Biz to ask questions of the applicants if needed.
- 2) Allow for investment in training opportunities offered by the taxpayer to be a factor that GoBiz should consider.
- 3) Require LAO to do a detailed analysis of the economic effects and administration of the tax credit by January 1, 2021.

Staff Recommendation: Approve as budgeted and adopt placeholder trailer bill language.

VOTE-ONLY ISSUE 7: CALIFORNIA SMALL BUSINESS DEVELOPMENT TECHNICAL ASSISTANCE EXPANSION PROGRAM AND TRAILER BILL LANGUAGE

The Governor's Office of Business and Economic Development (GO-Biz) is requesting an appropriation of \$20 million in General Fund annually for the next five years. Of this amount, \$17 million will go to establish and support the Small Business Development Technical Assistance Expansion Program, and \$3 million will go to the California Small Business Development Center Program to assist in drawing down federal funds.

BACKGROUND

GO-Biz requests \$3 million for the federal small business technical assistance programs to assist in drawing down federal funds, which will enable the SBDCs to focus on access to capital for small businesses. In past years, resources for SBDCs were not included until the May Revise. This proposal would provide a stable source of resources for SBDCs for the next five years.

GO-Biz's request also includes \$17 million and proposed trailer bill language to establish the California Small Business Development Technical Assistance Expansion Program, which will be a competitive grant program to support an expansion in services provided by federal small business technical assistance programs to small businesses and pre-venture entrepreneurs. These funds will be in addition to existing local and federal funds already used to assist small businesses. The purpose of this program is to expand federal small business technical assistance programs into new and/or underserved small business segments. Specifically, this funding will focus on an expansion of no-cost, one-on-one consulting and low-cost training to small businesses in the areas of capital access, commercialization, business plans and strategy, export assistance, sales, operations, financial management, marketing, cybersecurity, manufacturing assistance, emergency preparedness, business continuity and disaster recovery and increased productivity and innovation, among other areas.

STAFF COMMENTS

This item was heard at the April 10, 2018, hearing. Assemblymembers Quirk-Silva and Cervantes have requested an additional \$3 million, targeted for other federal small business technical assistance centers.

Staff Recommendation: Approve as budgeted, adopt placeholder trailer bill language and adopt an additional \$3 million one-time funding for other federal small business technical assistance centers.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS

VOTE-ONLY ISSUE 8: VICTIMS OF WAGE THEFT

DIR requests budget bill language to allow fund balance transfers in 2018-19, from the Industrial Relations Unpaid Wage Fund (Unpaid Wage Fund), to the Garment Manufacturers Special Account, the Car Wash Worker Restitution Fund, and the Farmworker Remedial Account, upon approval of the Department of Finance to pay valid claims, in the event of a cash shortage in any of the restitution funds.

BACKGROUND

The Garment Account has been insolvent since 2015-16 because the amount of new claims is greater than the account's annual revenue. This results in over \$4.5 million of claims that cannot be paid. The Garment Account receives an average of \$300,000 each year from fees, but in recent years expends \$800,000 to \$1.5 million for unpaid wage claims annually. The Unpaid Wage Fund transfers between \$2 million to \$6 million of unencumbered funds to the GF every year. If approved, the unencumbered funds from the Unpaid Wage Fund may satisfy the unmet demand of the Garment Account in the 2018-19 fiscal year before any transfer to the General Fund.

BUDGET BILL LANGUAGE

7350-011-0913-For transfer by the Controller, upon order of the Director of Finance, from the Industrial Relations Unpaid Wage Fund to the General Fund.

Provisions:

1. *For the 2018/19 fiscal year and notwithstanding any other Provision of law, and upon approval by the Department of Finance revenue from the Industrial Relations Unpaid Wage Fund may be transferred to: 1) the Farmworker Remedial Account: 2) the Garment Manufacturers Special Account: and/or 3) the Car Wash Worker Restitution Fund and be used to Day any valid claim for any unpaid worker, in the event of a cash shortage in any of the aforementioned funds. Prior to any transfer from the Industrial Relations Unpaid Wage Fund to the General Fund.*

STAFF COMMENTS

This item was heard at the March 13, 2018, hearing.

Staff Recommendation: Approve as budgeted.

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**VOTE-ONLY ISSUE 9: TECHNICAL ADJUSTMENTS**

The May Revision proposes adjustments to seven items in the CalPERS operational budget proposed at the CalPERS Board Meeting on April 17, 2018, and anticipated to be approved at the May 2018 Board Meeting.

BACKGROUND

CalPERS is anticipated to approve its budget at its May 2018 Board meeting, and the budget includes the following changes:

- 1) Item 7900-003-0830, CalPERS board administrative costs paid by the Public Employees Retirement Fund, decrease by \$8,324,000;
- 2) Item 7900-015-0815, CalPERS board administrative costs paid by Judges' Retirement Fund, increase by \$620,000;
- 3) Item 7900-015-0820, CalPERS board administrative costs paid by Legislators' Retirement Fund, decrease by \$34,000;
- 4) Item 7900-015-0830, CalPERS board administrative costs paid by the Public Employees Fund, increase by \$13,608,000;
- 5) Item 7900-015-0833, CalPERS board administrative costs paid by the Annuitants' Health Care Coverage Fund, increase by \$477,000;
- 6) Item 7900-015-0849, CalPERS administrative costs paid by the Replacement Benefit Custodial Fund, decrease by \$1,000; and
- 7) Item 7900-015-0884, CalPERS board administrative costs paid by Judges' Retirement System II Fund, increase by \$637,000.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt May Revision.

9800 EMPLOYEE COMPENSATION

VOTE-ONLY ISSUE 10: AUGMENTATION TO EMPLOYEE COMPENSATION

The May Revision proposes technical changes to reflect the following:

- 1) Increases to salaries and benefits for the recently negotiated memoranda of understanding for Bargaining Unit 6;
- 2) Natural changes to enrollment in health and dental plans;
- 3) Updated employment information for salary increases and other post-employment benefit contributions;
- 4) Revised pay increase for Judges; and
- 5) Updated costs related to the salary survey estimates for Bargaining Unit 5.

STAFF COMMENTS

The figures included are estimated health premium rates, and the final health rates will be adopted by the CalPERS Board in May 2018.

Staff Recommendation: Adopt May Revision proposal.

C.S. 3.60 CONTROL SECTION 3.60**VOTE-ONLY ISSUE 11: STATE RETIREMENT CONTRIBUTION RATES**

The May Revise proposes to amend C.S. 3.60 to capture changes in state retirement contribution rates adopted by the California Employees' Retirement System (CalPERS) and Judges' Retirement System II by CalPERS Board on April 18, 2018, and February 14, 2018 meetings.

BACKGROUND

With exception to the State Safety plan, the reduction in state employer contribution rates for CalPERS state members is a result of greater than expected investment returns in 2016-17, the state's \$6 billion supplemental pension payment per Chapter 50, Statutes of 2017 (SB 84), and more new hires entering the system under lower benefit formulas pursuant to the Public Employees' Pension Reform Act of 2013.

The newly adopted state employer contribution rates for CalPERS state members result in additional state costs of \$340,513,000, a decrease of \$18,050,000 from the \$358,563,000 included in the Governor's Budget. Of the \$18,050,000 decrease, the General Fund is \$12,439,000, special funds are \$4,547,000, and other nongovernmental cost funds are \$1,064,000. Additionally, it is requested that CalPERS' fourth quarter deferral be reduced by \$2,516,000 General Fund from the Governor's Budget to reflect the changes in retirement rates.

The reduction in the state employer contribution rate for JRS II members is attributed to a revision in demographic assumptions; CalPERS is assuming lower growth in life expectancy. The newly adopted rate results in General Fund costs of \$74,359,000, a decrease of \$5,274,000 from the \$79,633,000 General Fund included in the Governor's Budget.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt Spring Finance Letter.

VOTE-ONLY ISSUE 12: CONTROL SECTION 3.60 TRAILER BILL LANGUAGE

The Governor's May Revision proposes trailer bill language to amend Section 3.60 (f) of the Budget Act of 2017 (Chapter 181, Statutes of 2017) related to the supplemental retirement contributions by the state to California Employees' Retirement System (CalPERS).

BACKGROUND

This trailer bill proposes to amend Section 3.60 (f) of the Budget Act of 2017 (Chapter 181, Statutes of 2017) related to the supplemental retirement contributions by the state to California Employees' Retirement System (CalPERS). The proposed changes to Section 3.60 (f) will allow the State Controller, upon order by Finance, to transfer the amount of Proposition 2 (2014) debt repayment funds allocated to make a supplemental pension payment to CalPERS to pay the state's unfunded liability or repay the Pooled Money Investment Account (PMIA) for principal and interest costs on a cash loan made to supplement the state's retirement contributions.

In 2017-18, the state borrowed \$6 billion from the PMIA to make a supplemental pension contribution to CalPERS per SB 84 (Chapter 50, Statutes of 2017). The pension loan is eligible for repayment under Section 3.60 (f). Section 3.60 (f) of the Budget Act of 2017 limits the amount allowed for transfer to \$146 million based on an estimate of Proposition 2 debt repayment funds available for the 2017-18 supplemental pension contribution. However, based on a recalculation of debt repayment amounts, Finance determined that an additional \$113 million is available to repay the SB 84 pension loan.

We note that the maximum amount available for debt repayment under Proposition 2 is approved by the Legislature in the Budget Act; however, debt repayment amounts (i.e. weight fees loan) can change from the initial estimate in the Budget Act. The proposed language will provide the necessary flexibility to increase the pension loan repayment amount should additional Proposition 2 debt repayment funding become available.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt placeholder trailer bill language.

0840 STATE BOARD OF EQUALIZATION**VOTE-ONLY ISSUE 13: STAFFING**

The 2017 Budget Act required the Department of Finance (DOF) to evaluate the ongoing personal staffing needs of BOE's Board Members, and to report any recommended changes to the Legislature by April 1, 2018. DOF's report, dated March 28, 2018, provides recommendations on staffing of the four Board Members who represent equalization districts (the State Controller is not assigned staff for BOE duties).

BACKGROUND

This item was heard at the April 10, 2018, hearing. Currently, the Board of Equalization (BOE) Members each have 12 positions authorized for their offices. These consist of four positions that are exempt from civil service, and an additional eight positions that are subject to civil service protection. These positions were authorized by a combination of various statutes and the California Constitution. However, AB 102 (Chapter 16, Statutes of 2017), as amended by AB 131 (Chapter 252, Statutes of 2017), repealed many of these statutes and added Government Code (GC) Sections 15600(g)-(h). GC Section 15600(g) limits each Board Member to two staff persons exempt from civil service, "and any other civil service positions approved by the Legislature through the budget." GC Section 15600(h) precludes the Board from having any authority over career executive assignment positions and non-civil service managers. Although these provisions became operative July 1, 2017, Provision 5 of the Budget Act of 2017, SB 108 (Chapter 54, Statutes of 2017), authorized each Board Member "to employ the same number of personal staff who are exempt from civil service as they employed on June 15, 2017," which is the number of positions currently allocated to their offices. Provision 5 will expire, unless extended by the Budget Act of 2018. Although some of the Board Members' exempt staff have taken other positions, many will lose their jobs immediately if their positions are not extended in the Budget Act.

Earlier this year, the Department of Finance (DOF) produced a report on Board Member staffing levels. This report recommended that each Board Member retain two exempt staff and six civil service staff, for a total of eight positions, consistent with its assessment that Board Member workload has been reduced by 30 percent. DOF also recognized that BOE, CDTFA and OTA are still experiencing transitions and that it is important to allow the Administration and Legislature to revisit staffing in the future. On the other hand, the Legislative Analyst Office (LAO) recommended that Board Member staffing be reduced even further to two exempt staff and four civil service positions, effectively cutting Board Member staff by half.

The California Department of Tax and Fee Administration (CDTFA) provides administrative and technology support to the BOE, and administers the Alcoholic Beverage Tax and Insurers program on BOE's behalf, pursuant to an interagency agreement. BOE administers non-constitutional property tax functions on behalf of the CDTFA, also pursuant to an interagency agreement. BOE has indicated that the shift of

personnel to the California Department of Tax and Fee Administration (CDTFA) from BOE has created resource and personnel gaps related to responding to Public Records Act (PRA) requests, and other Legal Department activities. They also cite personnel gaps related to Alcoholic Beverage Tax and Insurers Program duties not assumed by CDTFA.

DOF and LAO agree that the current level of Board Member staffing is no longer needed, while BOE staffing is not commensurate with its more substantial workload. Two of the current Board Member's terms are ending, while the other two Board Members are running for higher office. All four elected Board Members will be leaving the BOE as of December 2018.

STAFF COMMENTS

(1) Adopt budget bill language to allow Board Members to retain their current staffing level until the end of the current term in December of 2018, and (2) As of January, 2019, allow Board Members to retain two exempt and four civil service positions and move the two positions that are reduced from each Board Member office to the BOE Headquarters.

Staff Recommendation: Adopt staff recommendation.

7730 FRANCHISE TAX BOARD**VOTE-ONLY ISSUE 14: HIRING TAX CREDIT TRAILER BILL LANGUAGE**

The Governor's budget proposes trailer bill language to create a California Hiring Credit. This credit would be an expansion of the existing New Employment Credit. The new credit, calculated at the same 35 percent rate of qualified wages as the existing credit, would be expanded in several ways: by geography, industry, and the range of qualified wages. The new credit would be available for hires on or after January 1, 2019, and before January 1, 2024.

BACKGROUND

This item was heard at the April 10, 2018, hearing.

In order to provide a stronger incentive, the trailer bill creates a credit that expands on the current credit in several ways. The wage range for qualified wages would be 100 percent to 350 percent of minimum wage. The current range is 150 percent to 350 percent. Another change is that the new credit uses the maximum of the local minimum wage, or the statewide minimum wage, to determine qualified wages. The existing credit uses the statewide minimum wage. The new credit would apply to qualified hires in all of California, whereas the existing credit applies only to qualified hires within qualified zones (designated census tracts plus former Enterprise Zones). Finally, the types of qualified employers would be expanded under the new credit to include retail and food services.

STAFF COMMENTS

At the April 10, 2018, hearing, concerns were expressed about expanding the tax credit to the retail and food services and whether adding these sectors would be the best use of the tax credit. Staff recommends rejecting the changes and leaving the hiring credit as is.

Staff Recommendation: Reject the Governor's January proposal. Adopt placeholder trailer bill language to extend the current hiring credit for five years.

0511 GOVERNMENT OPERATIONS AGENCY

VOTE-ONLY ISSUE 15: CIVIL SERVICE TRAILER BILL LANGUAGE

The Governor's budget proposes trailer bill language (TBL) to make the civil service system more efficient and transparent.

BACKGROUND

According to GovOps, the goal of the Civil Service Improvement Initiative is to produce a modern human resource system that will allow state departments to find and quickly hire the best candidates through a fair and merit-based process. Departments will be able to systematically determine their workforce needs and will be equipped to train and develop their employees to maximize their individual potential to better serve their departments' mission. An improved civil service system will produce a capable and engaged state workforce that is able to adapt to new challenges in serving the people of California, and will reflect the diversity of the population it serves.

STAFF COMMENTS

This item was heard on April 24, 2018. During the last check in on this language, GovOps was still working with stakeholders to address concerns with the language. Staff recommends moving placeholder language forward in order for the concerns to be addressed. However, if the

Staff Recommendation: Adopt placeholder trailer bill language.

0870 OFFICE OF TAX APPEALS

VOTE-ONLY ISSUE 16: ADDITIONAL STAFF

The May Revision includes two proposals for additional staff for the Office of Tax Appeals (OTA). The May Revision proposes nine positions to provide the OTA with sufficient legal and administrative staff to fulfill its mission. Seven of the requested positions will assist with business tax appeal workload and two positions will perform administrative duties. All of the positions will be funded within current budget authority.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt May Revision Proposal.

ITEMS TO BE HEARD

0000 VARIOUS DEPARTMENTS

ISSUE 1: CANNABIS REGULATION, IMPLEMENTATION, AND ENFORCEMENT

The May Revision includes a total of \$133.3 million for cannabis-related activities across several departments. In addition, the May Revision includes a General Fund loan of up to \$59 million to the Cannabis Control Fund. The May Revision provides funding for all activities on a two-year limited-term basis in order to allow for a comprehensive review of all resources including those allocated last year.

BACKGROUND

The tables below and on the following page show all proposed expenditures and funding sources for cannabis-related activities:

Proposed Expenditures

Fund Name	2018-19		
	Governor's Budget	May Revision	Change
Cannabis Control Fund	\$87,704,000	\$145,625,000	\$57,921,000
Cannabis Tax Fund	-	\$66,764,000	\$66,764,000
General Fund	\$2,324,000	-	-\$2,324,000
Environmental License Plate Fund	\$2,569,000	-	-\$2,569,000
Motor Vehicle Fuel Account	\$5,000	-	-\$5,000
Business Fees Fund	-	\$440,000	\$440,000
Service Revolving Fund*	-	\$13,034,000	\$13,034,000
Total	\$92,602,000	\$225,863,000	\$133,261,000
*Source funding is from the Cannabis Control Fund.			

Department	2018-19		
	Governor's Budget	May Revision	Change
Bureau of Cannabis Control and Dept of Consumer Affairs	\$33,131,000	\$77,007,000	\$43,876,000
Department of Food and Agriculture	\$21,117,000	\$49,378,000	\$28,261,000
Department of Public Health	\$16,022,000	\$26,590,000	\$10,568,000
Department of Justice	-	\$13,966,000	\$13,966,000
Department of General Services*	-	\$13,034,000	\$13,034,000
Governor's Office of Business and Economic Development	-	\$10,000,000	\$10,000,000
Department of Fish and Wildlife	\$8,842,000	\$8,842,000	-
State Water Resources Control Board	\$7,577,000	\$7,577,000	-
Department of Tax and Fee Administration	\$2,425,000	\$4,766,000	\$2,341,000
Employment Development Department	-	\$3,707,000	\$3,707,000
California Highway Patrol	-	\$3,000,000	\$3,000,000
Cannabis Control Appeals Panel	\$1,215,000	\$2,650,000	\$1,435,000
Department of Pesticide Regulation	\$2,273,000	\$2,273,000	-
University of California	-	\$2,000,000	\$2,000,000
Secretary of State	-	\$440,000	\$440,000
Department of Finance	-	\$440,000	\$440,000
Franchise Tax Board	-	\$193,000	\$193,000
	\$92,602,000	\$225,863,000	\$133,261,000
*Source funding is from the Cannabis Control Fund.			

Details of the specific proposals are described below:

General Fund Loan: The May Revision proposes a General Fund loan of \$59.3 million to the Cannabis Control Fund.

Department of Consumer Affairs – Bureau of Cannabis Control: The May Revision proposes an increase of \$33.9 million (Cannabis Control Fund); \$900,000 reimbursements; and a total of 74 positions. The funds will be used to continue implementation of cannabis licensing and enforcement programs. The positions will be phased in beginning in 2018-19, reaching the total 74 positions in 2019-20. Funding includes resources to establish a local liaison unit, regional licensing and enforcement offices, a public awareness campaign, and safety assurance and financial compliance activities. In addition, funding is provided for interagency agreements for cash collection, the track and trace system and proprietary plant and package tag costs, and the administration of microbusiness licensure.

Additionally, it is requested that provisional language be added for the department to have the flexibility to increase resources, subject to Department of Finance approval and not sooner than 30 days after written notification to the Legislature. This will allow the department to respond to increased licensing, compliance, and enforcement workload.

Department of Food and Agriculture: The May Revision proposes \$28.3 million Cannabis Control Fund and \$18.2 million reimbursements in 2018-19; \$21.7 million Cannabis Control Fund and \$18.1 million reimbursements in 2019-20; and 79 positions. The request also includes provisional language to continue the implementation of cannabis cultivation licensing and enforcement. Funding for these activities has been phased-in based on timing of statutory requirements, and these resources will primarily support the ramp-up of annual licensing, compliance, and enforcement activities, as well as costs for proprietary plant and package tags for use with the track-and-trace system.

Additionally, it is requested that provisional language be added for the department to have flexibility to increase resources, subject to Department of Finance approval and not sooner than 30 days after written notification to the Legislature. This will allow the department to respond to increased licensing, compliance, and enforcement workload.

Department of Public Health: The May Revision proposes a total of \$11.1 million (\$10.6 million Cannabis Control Fund and \$533,000 in reimbursements) in 2018-19; \$12.5 million (\$11.9 million Cannabis Control Fund and \$527,000 in reimbursements) in 2019-20; and 38 positions to support cannabis manufacturing, licensing, and information technology activities. The positions will be phased in beginning in 2018-19 (for a total of 38 positions in 2019-20) to implement SB 94 (Budget and Fiscal Review Committee), Chapter 27, Statutes of 2017, including establishing new offices for licensing and cash collection, information technology enhancements, and licensing and enforcement resources in anticipation of increasing licensing workload.

In addition, it is requested that provisional language be added to give the department the flexibility to increase resources as needed, provided the workload needs are clearly demonstrated, subject to Department of Finance approval and not sooner than 30 days after written notification to the Legislature. This will allow the department to respond to increased licensing, compliance and enforcement workload. Language is also requested to make the information technology resources contingent upon the department working with the California Department of Technology to complete a special project report.

Department of Justice: The May Revision proposes trailer bill language to establish expenditure authorization from the California Cannabis Tax Fund in Revenue and Taxation Code 34019 (a) to support the enforcement of illegal cannabis activities by the Department of Justice. The language provides expenditure authority of \$14 million and 47 positions to establish one interdiction and four investigation teams to combat the illegal cannabis market.

Department of General Services: The May Revision proposes \$11.5 million Service Revolving Fund and 26 positions in 2018-19 and 2019-20; and a one-time augmentation of \$1.6 million for facility expansion projects to accommodate the new positions in 2018-19. The Office of Administrative Hearings within the department conducts mediations and hearings for state and local agencies.

Governor's Office of Business and Economic Development (GO-Biz): Consistent with the provisions of Proposition 64, the May Revision proposes \$10 million (Cannabis

Tax Fund) in 2018-19, \$20 million (Cannabis Tax Fund) in 2019-20, and \$30 million (Cannabis Tax Fund) in 2020-21 for GO-Biz to oversee the Community Reinvestment Grants Program. Four percent of funding per year may be spent on administrative costs to implement the program. In addition, GO-Biz requests ten permanent positions phased in as follows: three positions in 2018-19, four positions in 2019-20, and three positions in 2020-21. These resources will allow GO-Biz to fund grants to local health departments and qualified community-based nonprofit organizations that support various substance abuse treatment, job placement, legal services, and other cannabis use-related programs.

California Department of Tax and Fee Administration: The May Revision proposes several changes to reallocate funding and provide support to the department for the collection of cannabis tax payments. The department is requesting to redirect resources that were approved in the budget act of 2017 and seeking additional resources in 2018-19 and 2019-20. The specific changes include:

- A reduction of 7.4 positions in 2017-18 and a redirection of \$689,000 Cannabis Control Fund from personal services to operating expenses and equipment.
- A reduction of 1.1 positions and an increase of \$2.5 million Cannabis Control Fund in 2018-19.
- An increase of 1.1 positions and \$2.6 million in 2019-20.

Employment Development Department: The May Revision proposes \$3.7 million (California Cannabis Tax Fund) and 16.5 positions be provided pursuant to Revenue and Taxation Code section 34019 (a) to collect and process cash payments of employer taxes from cannabis business and to provide employment services. This includes information technology system enhancements, security upgrades to ten field offices where cash transactions are conducted, and California Highway Patrol security and armored car service contracts.

Cannabis Control Appeals Panel: The May Revision proposes \$1.4 million (Cannabis Control Fund) and five positions in 2018-19 and 2019-20 to support additional workload resulting from the projected increase in appeals related to cannabis licensing. The requested resources will support two new panel members, an additional attorney, administrative support, and facilities and travel costs.

Secretary of State: The May Revision proposes \$440,000 (Business Fees Fund) in 2018-19; \$425,000 (Business Fees Fund) in 2019-20; and three positions to implement SB 94 (Budget and Fiscal Review Committee), Chapter 27, Statutes of 2017. SB 94 established the authority of the Secretary of State to register trademarks and service marks related to lawful cannabis activities. While many applicants for cannabis-related licenses may seek a license from only one of the three state licensing agencies, it is likely that SOS will receive business filings for each of these applicants, leading so a significant increase in workload at the SOS.

Franchise Tax Board: The May Revision proposes trailer bill language to establish expenditure authority from the California Cannabis Tax Fund. This will provide the board \$193,000 to provide support for the election of cannabis tax cash payments in 2018-19.

In addition, \$247,000 is proposed for the same purpose in 2019-20. The board will collaborate with CDTFA to leverage the infrastructure CDTFA has in place to collect cannabis cash payments from taxpayers.

Legislative Analyst's Office (LAO). The LAO finds that most proposals appear reasonable. There is considerable uncertainty regarding the amount of resources that will be needed for cannabis-related activities in 2018-19 and ongoing. Accordingly, the Administration's approach of providing resources on a two-year limited-term basis makes sense. The LAO notes that the Legislature will want to consider what types of specific information on these programs, if any, it would like the Administration to collect, to facilitate its evaluation of the requests it will likely receive in 2020-21 to extend cannabis-related funding.

Legislative Request. Provide \$25 million (General Fund loan) for a three-year grant through a competitive grant process administered by the Board of State and Community Corrections to cities, counties or local joint powers authorities in jurisdictions that license retail and cultivation. Local governments would provide a 25 percent match to receive these funds.

Proposition 64 established an architecture for cannabis tax revenue to fund grants to local law enforcement efforts related to the implementation of legal cannabis; however, this funding is not currently anticipated until 2019-20. In light of the time sensitive need to suppress the illicit market so that the nascent lawful market may thrive, it is requested that the state provide resources in the 2018-19 Budget to fund these grants. This request includes trailer bill language.

STAFF COMMENTS

The resources provided in all the BCPs are provided on a two-year limited term. This allows for a comprehensive review of resources approved last year on a three-year limited term basis along these resources.

There have been a number of concerns about funding the DOJ proposal from Proposition 64. Staff recommends changing the funding source to General Fund if the Legislature moves forward with this proposal.

Staff Recommendation: Adopt May Revision proposal, amend the DOJ proposal to fund it from General Fund not Prop. 64; adopt \$25 million for grants to local law enforcement, and adopt placeholder trailer bill language.

0840 STATE CONTROLLER'S OFFICE

ISSUE 2: LEGISLATIVE WORKLOADS

The May Revision proposes \$115,000 General Fund in fiscal year 2018- 19 (\$113,000 in 2019-20 and ongoing) and \$230,000 from the Road Maintenance and Rehabilitation Account in 2018-19 (\$226,000 in 2019-20, \$113,000 in 2020-21 and ongoing) for additional positions, to address new and increased accounting workload associated with the Road Maintenance and Rehabilitation Program (SB 1), the 2017-18 Supplemental Pension Payment (SB 84), the California Healthcare, Research and Prevention Tobacco Tax Act (Proposition 56), and the Control, Regulate and Tax Adult Use of Marijuana Act (Proposition 64).

BACKGROUND

SCO provides fiscal controls and independent oversight of more than \$100 billion in annual receipts and disbursement of public funds. SCO is responsible for the processing and allocation of funds. Specifically, the State Accounting and Reporting Division (SARD), maintains uniform and systematic control accounts of all receipts, payments, state fund balances. The Local Government Programs and Services Division (LGPSD), reports on local financial transactions and government compensation and disburses state funds to local counties, cities, and districts. The recent passage of Senate Bill (SB) 1 (Chapter 5, Statutes of 2017), SB 84 (Chapter 50, Statutes of 2017), Proposition (Prop.) 56 and Prop. 64 has impacted SCO and increased the workload for SARD and LGPSD.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve May Revision Proposal.

ISSUE 3: CALIFORNIA STATE PAYROLL SYSTEM (CSPC)

The May Revision proposes \$4.6 million General Fund in 2018-19 (\$3.4 million in 2019-20, \$2.6 million in 2020-21, and \$1.9 million in 2020-21, and ongoing) to fund positions to complete the Project Approval Life Cycle (PAL) process, including selection and implementation of the selected payroll solution. This also includes development of additional features/functionality and statewide implementation of the Employee Self-Service portal web application.

BACKGROUND

Beginning in 2016, the State Controller's Office (SCO) began to assess current information technology and the latest industry standards, and initiated the re-engineering of a new Human Resource Management and Payroll System. The new initiative named the California State Payroll System Project (CSPS). A 2016-17 approved May Revision Budget Change Proposal (BCP) funded eight positions and \$2.4 million in 2016-17, and \$2.8 million in 2017-18 to support positions in performing business process documentation of human resource management and payroll processing practices to refine the scope of the future project, and to complete the California Department of Technology (CDT) PAL Stage 1 Business Analysis (S1BA).

In May 2017, SCO submitted the PAL S1BA to the California Department of Technology (CDT) for approval. The S1BA documents the governance plan, leadership participation, stakeholders, resources, organizational change management, data management, strategic goals, program background, and the problems and opportunities for the project. The information provided in the S1BA will be detailed and refined through each stage of the PAL process. CDT approved the S1BA on October 18, 2017.

An approved 2017-18 BCP provided an additional \$2.97 million to support 11 limited-term positions, to continue performing business process documentation of human resource management and payroll processing practices, and begin the CDT PAL Stage 2 Alternatives Analysis (S2AA), which includes a current-state assessment of SCO's as-is business processes. The 11 staff have and will continue to provide subject matter expertise (SME) on the existing Legacy HR, Payroll, and Leave Accounting systems, and direct input into PAL documentation.

The 2017-18 BCP also authorized funding to contract with a procurement support vendor to create new, or refine existing, mid-level solution requirements, assist with the performance of a market survey, conduct the final alternative analysis, prepare financial analysis worksheets, and aid in the development of a procurement strategy. In February 2018, SCO conducted solicitations for a procurement support vendor and expects to award a contract this month.

SCO is requesting permanent and limited-term resources to support both the development of PAL deliverables/documentation and the development and implementation of a statewide ESS portal web application, as follows:

- **CSPS PAL Development.** SCO requests funding to support 19 continuing positions to continue work on the project activities that will drive the review of business process and payroll policy reengineering, assessing options, and designing a new statewide payroll approach. As part of this request, SCO is requesting that 11 of the existing limited-term positions be continued permanently with eight of the remaining positions being requested as one-year limited-term and one being requested as one-year limited-term in 2019-20. The 11 positions support the core project staff and administrative support and the need for these positions will continue for the duration of the project. In addition to these positions, SCO will retain the services of retired annuitant staff with decades of experience and extensive knowledge in all personnel and payroll disciplines in 2019-20. These staff will provide critical support to the documentation process. The continued presence of these staff serve as a mitigation against the institutional knowledge lost due to the ongoing retirement of other long-term key staff.
- **Statewide ESS Portal.** SCO is requesting resources for five positions for 2018-19 and 2019-20 to complete the development and implementation of a statewide ESS web portal. While the CSPS project is pursuing a long-term alternative solution to the payroll system, many years will lapse before a new system is implemented. In the interim, SCO is developing an ESS web portal application designed to interface with the legacy mainframe system that provides employees access to read specific payroll data, such as leave balances, W-2s, employment history, and paystubs.

LAO COMMENTS

The LAO recommends the Legislature approve the planning resources on a two-year basis and reject the ongoing proposal. SCO proposes ongoing resources so that it can finish Stage 2 of its plans and move onto Stage 3. In Stage 2, SCO will analyze various alternatives for the project, and Stage 3 involves moving onto procurement planning based on the alternative selected in Stage 2. The LAO notes that, if approved, this funding prevents the Legislature from using the budget process to weigh in on its preferred alternative for the project.

STAFF COMMENTS

The Subcommittee may wish to ask the SCO how the ongoing resources will allow for additional legislative review.

Staff Recommendation: Hold Open.

ISSUE 4: AUTOMATED TRAVEL EXPENSE REIMBURSEMENT SYSTEM

The May Revision proposes \$1.6 million in 2018-19 (\$704,000 in 2019-20 through 2021-22) to support: (1) additional positions to work with the current vendor on making necessary minor modifications to the legacy CalATERS system to enhance data interface with FI\$Cal and help reduce manual accounting workload on departments using FI\$Cal; (2) purchase of the CalATERS code from IBM; (3) hiring/developing staff or outsourcing expertise for the maintenance of the CalATERS system until a replacement system is implemented; and (4) complete a Proof of Concept process that will identify complexities, technical feasibilities, and the level of customization associated with implementing a new system. This request includes budget bill language authorizing augmentation or reversion, as necessary, for costs associated with these efforts.

BACKGROUND

The SCO, Personnel and Payroll Services Division (PPSD), operates and maintains CalATERS as a mandated service to state department accounting offices and employees. Departments are currently required to use CalATERS, with limited exceptions.

To support the system statewide, SCO's CalATERS Unit includes 8.5 permanent positions within PPSD and partner divisions. CalATERS is responsible for two types of reimbursements: travel expense reimbursement claims paid to employees, and travel advance reimbursement claims paid to reimburse departmental Office Revolving Funds (ORF). The data captured in CalATERS is beneficial to other state entities such as the California Department of Human Resources (CalHR) and Department of General Services (DGS), during bargaining and contract negotiations, and in some cases allows the state to negotiate better lodging or travel rates based on this data. Currently, 109 departments, with 118,863 users, use CalATERS, with an additional five agencies having requested to begin using CalATERS in 2018-19.

In May 2014, IBM announced they would discontinue support for the CalATERS system, effective March 31, 2016. However, SCO has been able to contract with IBM for continued support and maintenance of the current system and has a current agreement in place through June 2020.

In December 2014, SCO released a Request for Information (RFI) to survey the Information Technology (IT) vendor community for potential solutions to replace the current system and received responses to provide the needed functionality to replace CalATERS. The replacement of the system qualifies as an IT project, requiring SCO to work through the California Department of Technology's (CDT) PAL process. In July 2015, SCO began working through the PAL process with three one-year limited-term positions. Through subsequent BCPs, limited-term funding was provided to support three positions in 2016-17 and 2017-18 to continue working through the PAL process.

The current SCO-PPSD CalATERS team is dedicated to day-to-day existing system operations and maintenance, as well as customer service and administrative tasks. As

presently staffed, CalATERS does not have the capacity to take on the added workload required to complete the remaining stages of the PAL process, conduct the procurement, select a vendor, and assist the vendor through the design and build of a replacement system.

LAO COMMENTS

The LAO recommends the Legislature modify the budget bill language to limit the potential cost increase using this mechanism to \$200,000. If costs incurred are larger than this, they suggest utilization if the 9840 process.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve May Revision proposal.

7730 FRANCHISE TAX BOARD**ISSUE 5: REMOVE REPEAL DATE FOR TAX DATA EXCHANGE TRAILER BILL LANGUAGE**

The May Revision proposes to remove the repeal date for the tax data exchange agreement between the Franchise Tax Board (FTB) and local governments.

BACKGROUND

The FTB compiles information from a variety of sources including employers, financial institutions, and other governmental entities for purposes of ensuring compliance with the state's income tax laws. Since 2002, the FTB has had authority to enter into reciprocal data sharing agreements with local governments. The data sharing assists the FTB in ensuring income tax compliance, and assists local governments in ensuring compliance with city business tax requirements. The FTB currently has entered into data sharing agreements with 74 California cities. For the 2016-17 fiscal year, the FTB collected over \$10 million from personal income and corporation tax taxpayers, identified by using the data from these cities. Additionally, the participating cities have obtained significant benefits. Although complete data is not available from all the participating cities, a sampling of a few that participated shows local revenue gains of almost \$20 million.

Under current law, FTB's authority to enter into data sharing agreements ends at the end of 2018. Thus, without a statutory change, this method of identifying noncompliance and generating state and local revenue will be lost, increasing the tax burden on compliant taxpayers, as well as requiring the state to devote resources to develop alternative methods of identifying and collecting from this population of noncompliant taxpayers.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt placeholder trailer bill language.

ISSUE 6: CALIFORNIA EARNED INCOME TAX CREDIT

The May Revision proposes to expand the Earned Income Tax Credit (EITC) to working individuals who are aged 18 to 24, and those over the age of 65. In addition, the qualifying income range for the credit is proposed to be expanded so that employees working up to fulltime at the 2019 minimum wage of \$12 per hour would qualify for the credit. This expansion of the credit is expected to cost about \$60 million in 2018-19 and to benefit over 700,000 households.

BACKGROUND

The Subcommittee heard this issue at its April 10, 2018, hearing. The Governor's May Revision incorporates some of the options for expansion during that hearing. However, the May Revision excludes low-income working immigrant families, who are currently not able to claim the EITC. In addition, the May Revision does not include resources for outreach and free tax preparation services to ensure the success of the EITC.

STAFF COMMENTS

Approve the Governor's May Revision proposal. In addition: (1) expand the EITC to cover low-income working immigrant families with federally assigned Individual Taxpayer Identification Numbers or Social Security Numbers, and (2) \$20 million for additional outreach and free tax preparation services.

Staff Recommendation: Adopt Staff Recommendation.

7600 CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION**ISSUE 7: CDTFA REPORTING REQUIREMENT SALES TAX EXEMPTION TRAILER BILL LANGUAGE**

The May Revision proposes to eliminate an unnecessary component of the reporting requirement for the California Department of Tax and Fee Administration (CDTFA), related to the sales and use tax exemption for manufacturing equipment, and clarifies that the estimate of revenue loss is from the Department of Finance (DOF).

BACKGROUND

In 2013, legislation associated with the elimination of enterprise zones and the creation of new tax incentives required the Board of Equalization (BOE) to report annually on the usage of the sales and use tax exemption for manufacturing equipment, compare to original estimates made by the DOF, and put forth options for expansion if actual usage was below estimate. The purpose of this comparison was to allow interested parties to understand how much of the exemption was being used relative to the amount originally estimated. The BOE, and subsequently the CDTFA, released four annual reports in 2015, 2016, 2017, and 2018.

AB 398 (Eduardo Garcia, Chapter 135, Statutes of 2017), expanded the sales and use tax exemption for manufacturing equipment beginning in 2018 and the cost of expansion was backfilled by the Greenhouse Gas Reduction Fund. When drafted, references in the section containing the reporting requirement to the “Department” were defined to mean the CDTFA, and therefore the revenue estimate for comparison was inadvertently changed from the DOF’s original estimate to the CDTFA’s most recent estimate. This inadvertent change rendered the comparison useless for the purpose for which it was intended.

This trailer bill language fixes the inadvertent change that resulted in the CDTFA preparing a current estimate for comparison purposes and clarifies that the original DOF estimate should be used. In addition, this language eliminates the requirement for the CDTFA to report on options for expansion, as the reporting of those options has become redundant with information contained in prior year reports.

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Adopt placeholder trailer bill language.

**7502 CALIFORNIA DEPARTMENT OF TECHNOLOGY
7760 DEPARTMENT OF GENERAL SERVICES****ISSUE 8: INFORMATION TECHNOLOGY PROCUREMENT**

The May Revision includes a trailer bill proposal to clarify the role of the Department of Technology and the Department of General Services in information technology procurement.

BACKGROUND

The Department of Technology (CDT) proposes several clarifying amendments to the Public Contract Code (PCC) to delineate between those information technology (IT) procurements that CDT has authority over versus IT procurements that the Department of General Services (DGS) has authority over. CDT indicates that, as currently written, the PCC does not accurately describe what an IT project is, which causes confusion at the department level regarding which procurements CDT and DGS have authority over. CDT and DGS worked collaboratively on this proposal.

Typically, DGS handles the procurement of IT goods and services, such as computers, software licenses, cloud storage capacity. CDT oversees “projects,” which include customizing off the shelf products or implementing large scale information technology integration into a department’s operations.

STAFF COMMENTS

The proposed amendments reflect the evolution of state IT project management, that transitions systems into “maintenance and operations” while they are still evolving and changing due to business requirements. For example, the state’s largest project, Fi\$Cal, will be transitioning into maintenance and operations while one of the major project components has yet to be fully implemented. DGS’s process is focused on getting the state the best value for the purchase of a good, CDT is balancing procurement costs against overall risk and training cost for a technology change. CDT’s approach is more appropriate for large projects that are still evolving in the maintenance and operations stage.

Some stakeholders have raised concerns that the specific language in the bill is too broad and may go beyond the intent of the proposal. Staff recommends adopting placeholder trailer bill language to allow time for stakeholders and the Department of Finance to work out changes to avoid such a consequence.

Staff Recommendation: Hold Open.

8860 DEPARTMENT OF FINANCE

ISSUE 9: BUDGET DEFICIT SAVINGS ACCOUNT

The Subcommittee will consider the Budget Deficit Savings Account.

BACKGROUND

On May 3, 2018, Assembly Budget Subcommittee # 6 heard AB 1740 (Daly), a bill that creates a new Budget Deficit Savings Account. The proposed account would receive deposits on October 1 of each year from the General Fund. The bill requires that funds deposited into this account are not to be used, unless there was an estimated budget deficit. Similar to the State Rainy Day Fund, California's Budget Stabilization Account, only half of the fund balance could be withdrawn during such a year.

STAFF COMMENTS

As the intent of the bill was to create this account for the 2018-19 fiscal year, this proposal has been converted into a budget request so it can be adopted in time to be included in the 2018-19 Budget.

The proposed account would provide the state with an additional mechanism to increase reserves. It would not interact or diminish Proposition 98 expenditure requirements or required deposits into the Rainy Day Fund.

The proposed action recommended here would simply create the account. The amount to be deposited into this account will be determined when the final architecture of the Assembly budget plan is finalized.

Staff Recommendation: Adopt Proposed Trailer Bill Language.

0650 OFFICE OF PLANNING AND RESEARCH**ISSUE 10: 2020 CENSUS OUTREACH FUNDING**

The Subcommittee will adopt 2020 Census Outreach funding.

BACKGROUND

The Governor's budget includes a census outreach proposal for the next three years. The proposed \$40.3 million plan includes 22 limited term positions, \$17.5 million for a media campaign and \$12.5 million of outreach efforts conducted by nonprofit entities.

The Subcommittee heard this issue on April 24, 2018. At the hearing, advocates, counties, and other stakeholders testified that the recent inclusion of the citizenship question on the census form would dramatically reduce the response to the Census. Combined with the federal government's reduced outreach efforts, the citizenship question has created a larger challenge for Californians to all be counted.

STAFF COMMENTS

After considering analysis from advocates and experts, the State will likely need to make a sizable investment to overcome the chilling effect that the current federal government has had upon civic participation. Based upon recent efforts to increase Affordable Care Act enrollment, advocates estimate that over 14 million Californians will need to be targeted with specialized outreach to generate adequate response rates. This will likely result in an overall cost of over \$200 million over the next three years for media, nonprofit outreach, and local county efforts.

However, the State is nowhere near ready to launch an initiative of this size, with only currently four staff onboard and no identified contract management mechanism. If these issues are not resolved in 2018, it is unlikely that the infrastructure will be in place to allow for an effort of the size and scope necessary can be achieved. Ideally, the State would put aside sufficient funding for three years of efforts this year, but given the slow ramp up to date, the Assembly would be in a better position to continue oversight by first insisting the administration have a strong structure in place to administer the funding.

Staff recommends increasing the Governor's proposal by \$27 million, to \$67.3 million total, which will allow for contracts and planning to take place for the State's effort, but likely represents only a third of the total needed. In addition, staff recommends provisional budget bill language to allow the Department of Finance to augment this item during the fiscal year, subject to the review of the Joint Legislative Budget Committee, including allowing the Office to add position authority.

To ensure that the State's efforts are moving at an aggressive pace, staff recommends adopting trailer bill language that will provide reporting over the fiscal year, so that the two select committees on the census, as well as both house's budget committees, can

continue to monitor our census outreach efforts. The reports will include the following elements:

- A report, due October 1, which articulates the Administration's contract management approach for census outreach, media, public relations, and local effort initiatives.
- A report, due December 1, which projects expenditure levels by contractor, state staffing levels, expenditures by local partners linked to the State.
- Monthly reporting of expenditures, encumbrances, and vacancies for the Census Outreach effort.

Staff Recommendation: Appropriate \$67.3 million and placeholder Trailer Bill Language.
