

AGENDA**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION****ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR****TUESDAY, MAY 24, 2016****1:30 P.M. - STATE CAPITOL, ROOM 447**

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VOTE-ONLY CALENDAR

7760 DEPARTMENT OF GENERAL SERVICES

VOTE-ONLY ISSUE 1: CENTRAL PLANT: CAPITOL IRRIGATION PROJECT

This proposal requests \$1.692 million lease revenue bond funds to provide a reclaimed water system to reuse cooling tower blow down water from the State's Downtown Sacramento Central Plant for irrigation water at the State's Capitol Park.

BACKGROUND

California is experiencing an ongoing severe drought. The Central Plant Project includes a reclaimed water system which reuses cooling tower blow down water to supply the Project site with water for irrigation, toilets, urinals and a fountain. However, the supply of blow down water greatly exceeds the site's water demands, and the excess blow down water is discharged to the County's sewer system. The State's Capitol Park needs a significant amount of water for irrigation and is currently being under-watered due to the drought. The Central Plant could supply over 5.6 million gallons of reclaimed water per year to Capitol Park's irrigation system. This will save purchasing potable water from the City of Sacramento and treating sewer and treating sewer water by Sacramento County.

This project would provide a reclaimed water system to reuse cooling tower blow down water from the State's Downtown Sacramento Central Plant for irrigation water at the State's Capitol Park. The Project includes piping, piping modifications, 100,000 gallon underground water storage tank(s), pumping, chemical treatment and controls at the Central Plant, piping to the Capitol Park, and signage, piping, piping modifications and appurtenances required to tie into the Park's existing irrigation systems.

Potential Budget impacts:

- At the Capitol Park, an estimated savings of \$7,250 per year
- At the Central Plant, an estimate cost of \$1,500 per year
- Net savings of \$5,750 per year based on current usage and rates

STAFF COMMENTS

At the March 15, 2016 hearing, the Committee discussed how making changes to Capitol Park could occur without a Master Plan in place. Staff would recommend adopting placeholder trailer bill language that would allow projects in Capitol Park to move forward without a completed Master Plan.

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

0860 STATE BOARD OF EQUALIZATION

VOTE-ONLY ISSUE 2: JOINT OPERATIONS CENTER – ENSURING FUEL TAX COMPLIANCE

The BOE requests \$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 3: 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 4: 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.

VOTE-ONLY ISSUE 5: AB 1717 PREPAID MOBILE TELEPHONY SERVICES (MTS) SURCHARGE

The May Revision proposes 3.7 positions and \$1.3 million (Special Funds) in 2016-17, and 2.3 positions and \$188,000 in 2017-18, and ongoing, to continue processing mandated workload associated with AB 1717 (Perea, Chapter 885, Statutes of 2014). AB 1717 imposes a surcharge on prepaid mobile communication services. The additional resources would include funding for personnel in the data analysis section, return analysis unit, audit and information section, and compliance and technology section.

BACKGROUND

AB 1717 enacted the Prepaid Mobile Telephony Services (MTS) Surcharge Collection Act and the Local Prepaid Mobile Telephony Services Collection Act (Prepaid MTS Collection Acts), which imposed upon each prepaid consumer a prepaid MTS surcharge and local charge to be collected by a seller on each retail transaction involving prepaid mobile telephony services, effective January 1, 2016. The bill defines "prepaid consumer" to mean a person who purchases prepaid mobile telephony services in a retail transaction. The statute will sunset on January 1, 2020. The prepaid MTS surcharge and local charges are imposed upon the consumer of prepaid MTS, but are required to be collected by the retail seller and the direct seller. The program for retailers of prepaid MTS will be administered by the Sales and Use Tax Department of the BOE, while the program that applies to direct sellers is administered by the Special Taxes and Fees Department.

The prepaid MTS surcharge rate is subject to calculation each year by BOE. The state rate consists of the 911 surcharge rate, determined by the Office of Emergency Services, plus the California Public Utilities Commission (CPUC) end-user surcharges, which includes the annual user fee established by the CPUC. The local charge rates are to be provided by local jurisdictions to the BOE annually. The BOE is responsible for publishing the combined rate for each jurisdiction by December 1 of each year, with the published rates becoming operative April 1 of the following year.

STAFF COMMENTS

Last year, the Legislature approved resources for administering the fee and approved positions on a limited term basis. The recommendation at the time stated that if additional resources were needed, BOE would have to justify the reasoning. The BOE should be prepared to discuss the justification for the additional staff. Given the vacant positions at BOE, they also should be able to discuss if those positions are currently vacant or filled.

Given that the AB 1717 program has not reached a full year of implementation (commenced in 2016), if the prepaid revenues are much lower than earlier estimated, the administrative costs of the BOE would need to be lowered not increased to assure the financial feasibility of AB 1717 for state and local taxing authorities. Because the program is early in its implementation, BOE should do the following:

- BOE provides to requesting (or participating) city or county the 1st, 2nd and 3rd quarters of 2016 total state and local payment amounts received by the BOE (with MTS, CPUC surcharge and state 911 separate), including BOE administrative costs.
- Make available the number of remitters of MTS to the BOE for the combined last two quarters, and the number of different remitters of MTS to the BOE with sales of \$7,500 or less, for the combined last two quarters (for purposes of estimating the small seller exemption of \$15,000).

Staff Recommendation: Adopt limited term funding for four years, with funding terminating with the expiration of the fee on January 1, 2020 for the limited term positions. Reject new permanent position for external affairs.

VOTE-ONLY ISSUE 6: 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

During the May 3, 2016, hearing, the subcommittee asked for additional information on the backlog of cases for the Appeals and Settlement Unit. Although it appears that there is an ongoing need for the backlog, staff believes that additional information is needed to understand the backlog. Therefore, staff recommends approving resources to address the current and anticipated workload, and allowing some flexibility to revisit this issue in future budget discussions.

Staff Recommendation: Approve the conversion of the existing 22 limited-term positions to permanent and approve 3-year limited term funding for additional 8 positions.

8880 DEPARTMENT OF FINANCE**VOTE-ONLY ISSUE 7: AUDIT OF TAX COMPLIANCE AND ENFORCEMENT PROGRAMS**

An audit evaluation of the Board of Equalization's (BOE's) audit and collections activities related to the sales and use tax would provide important information regarding the most effective deployment of budgeted resources and help ensure the efficient use of taxpayer dollars. The administration has indicated that an effective evaluation would require an augmentation to DOF of \$400,000 in one-time funding if conducted by OSAE. Proposed provisional language governing this report is as follows:

XXX. Of the amount appropriated in Schedule (3), \$400,000 shall be available for the Office of State Audits and Evaluations to perform an evaluation of the Board of Equalization's Sales and Use Tax Department's activities, including, but not limited to, audits, collections, compliance enforcement, and outreach. The scope and objectives of the evaluation shall be defined by the Department of Finance in consultation with the Legislature. A report shall be provided to the Chairs of the Fiscal Committees of each house of the Legislature and the Chair of the Joint Legislative Budget Committee by March 31, 2017.

BACKGROUND

The Board of Equalization (BOE) is responsible for administering the sales and use tax for the state, local governments and various special funds. Sales and use tax revenues are expected to total about \$26 billion for the General Fund in 2016-17, representing about 21 percent of total revenues to the fund. While taxpayer compliance with the sales and use tax law is high, effective enforcement and compliance efforts are a necessary component of every modern tax system. The BOE has several programs that focus on compliance and enforcement, largely in the areas of education, audit and collections.

The 2002 Budget Act requires an annual supplemental report to be provided by the BOE to the Legislature regarding sales and use tax audits and collections. Subsequent refinements to this reporting include requirements to: analyze outcomes of audit system improvements; incorporate of average and marginal benefit to cost ratios; and assess the Statewide Compliance and Outreach Program. The supplemental report provides a useful tool for the Legislature to assess the effectiveness of the existing audit and compliance efforts, as well as means by which to measure whether the level and design of current efforts are appropriate.

Existing budget bill language set forth in Provision 1 of Item 0860 stipulates, in part, that “The State Board of Equalization shall not reduce expenditures or redirect funding or personnel resources away from direct auditing or collection activities without prior approval of the Director of Finance. The director shall not approve any such reduction or redirection sooner than 30 days after providing notification to the Joint Legislative Budget Committee.” The language further states that: “Furthermore, the board shall expeditiously fill budgeted positions consistent with the funding provided in this act.”

As part of the state’s efforts to work toward efficient and fair tax administration, similar reporting language and provisional budget language are in effect for the state’s other tax administration and collection agency, the Franchise Tax Board, which is responsible for personal income taxes and corporation taxes.

STAFF COMMENTS

Given the complexities and changing technology, an outside audit of how resources are being used is important to maintain the integrity of our revenue collections. Given DOF’s fiscal role and the charge given to OSEA, it is appropriate for this unit to conduct the evaluation. The budget bill language is broad enough for staff work with OSEA in order to scope an audit that focuses on some of the issues brought up this year during the Subcommittee process with the BOE. The Senate has taken a similar action.

Staff Recommendation: Approve the proposed budget augmentation of \$400,000 one-time and BBL.

8260 CALIFORNIA ARTS COUNCIL

VOTE-ONLY ISSUE 8: ARTS IN CORRECTIONS PROGRAM EXPANSION

The California Arts Council requests additional reimbursement authority of \$4 million 2016-17, and \$6 million 2017-18 and ongoing, along with position authority for two additional positions to expand the current Arts-in-Corrections programming and to administer the resultant additional workload.

BACKGROUND

For more information on this item, refer to the May 18, 2016, agenda.

According to the Department of Finance, the May Revision proposal does not include any augmentation for CY. Beginning in 2013-14, expenditure authority for this pilot program has been in CDCR's budget, and they've been reimbursing the Arts Council at the levels mentioned below. The two departments signed an interagency agreement in January, which established \$2 million as the ongoing, annual level of reimbursements for the program, beginning in 2016-17. This was our April Finance Letter. The May Revision Finance letter was to increase reimbursements in 2016-17 from \$2 million to \$6 million, and to increase them in 2017-18 and ongoing from \$2 million to \$8 million. This would allow expansion of the program within the existing 19 adult institutions where it's currently implemented, as well as into the remaining adult institutions where it's not yet (bringing Arts-in-Corrections into a total of 34 adult institutions).

- Beginning in 2013-14, the first years of AiC were executed as a pilot, with increasing levels of reimbursement funding in each successive year. The Arts Council collected a total of \$1 million in reimbursements from CDCR in 2013-14, \$1.86 million in 2014-15, and \$3.5 million in 2015-16 (including \$1.5 million in one-time funding).

For more information on Why Arts in Corrections, please see Attachment 1.

STAFF COMMENTS

On April 26, 2016, the Subcommittee approved a Spring Finance Letter to approve \$2 million in funding through an interagency agreement. The funds requested in the May Revise are consistent with previous action taken by the Subcommittee this year.

Staff Recommendation: Adopt May Revision proposal.

VOTE-ONLY ISSUE 9: AUGMENTATION TO CALIFORNIA ARTS COUNCIL

The Subcommittee may wish to consider providing an augmentation of \$6,500,000 to the California Arts Council for the Pasadena Playhouse, Lark Musical Society in Glendale and the Armenian American Museum and Cultural Center of California.

BACKGROUND

The Pasadena Playhouse, California's Official State Theater, will be celebrating its 100th Anniversary in 2017. The theater seeks the \$1 million in funding to pay for retrofits and restoration of its Spanish-style exterior and interior molding.

The Lark Musical Society is a collective of musicians with a passion for great classical and folk music. Musicianship is the cornerstone of Lark's activities, however the last twenty years the Society has expanded to become a hub for artists practicing in all mediums. To help the Lark Musical Society continue to provide their invaluable resources to the community, the subcommittee may wish to consider providing \$500,000 for the Society's facility and infrastructure needs. The funding will help the Society expand and continue to provide resources to the community.

The mission of the Armenian American Museum is to promote understanding and appreciation of the America's ethnic and cultural diversity by sharing the Armenian American experience. The Subcommittee may wish to provide \$5 million to the Museum to help with the construction of the building. In addition, the subcommittee should include provisions that would allocate funding upon the following conditions:

- (1) Appropriate half of the funds upon the start of construction; and
- (2) Appropriate the second half of the funds upon completion of the project.

STAFF COMMENTS

This item would provide a one-time augmentation to the California Arts Council as a pass-through for the Pasadena Playhouse, Lark Musical Society in Glendale, and the Armenian American Museum.

Staff Recommendation: Approve an augmentation of \$6.5 million.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**VOTE-ONLY ISSUE 10: FUNDING FOR AFFORDABLE HOUSING PACKAGE**

This subcommittee may wish to consider allocating one-time funding for an affordable housing package that would aim to address the affordable housing crisis that the state is currently facing.

BACKGROUND

The subcommittee may consider approving one-time funding in the amount of \$650 million (General Fund) for a housing package. The following purposes (which will be finalized as part of the final budget agreement) include, but are not limited to:

- Rental Housing for Lower Income Working Families
 - The Low Income Housing Tax Credit (LIHTC) – (existing program)
 - Multi-Family Housing Program - (existing program)
- Homeownership Opportunities and Rental Housing For Working Families
 - Local Funding Grants for Workforce Housing – (new program)
 - CalHOME - (existing program)
 - Mortgage Debt Forgiveness, which extends the important tax relief to struggling homeowners.
- Housing for Farmworkers and their Families
 - Joe Serna Farmworker Housing Grant Program - (existing program)
 - Farmworker Housing Tax Credit -(existing program)
 - Napa County Farmworker Housing Centers - (existing program)
- Housing Assistance and Production for Homeless Individual and Families
 - Multi-Family Housing Program – Supportive housing - (existing program)
 - Medi-Cal Housing Program – (new program)
 - Emergency Shelter Grant Program - (existing program)

Staff Recommendation: Approve \$650 million and placeholder trailer bill language for an affordable housing package.

ITEMS TO BE HEARD

7760 DEPARTMENT OF GENERAL SERVICES

ISSUE 1: SACRAMENTO REGION: STATE OFFICE INFRASTRUCTURE PLAN

The Governor proposes \$1.5 billion transfer from the General Fund to be deposited into a new State Office Infrastructure Fund for the long-deferred improvement or replacement of state office buildings in the Sacramento area.

BACKGROUND

Sacramento has numerous state office buildings that were constructed in the mid-1950s through early 1980 that have not been substantially updated. These aged buildings are generally inefficient, do not meet current accessibility standards, and require substantial renovation or outright replacement to provide sustainable office space for the state worker in Sacramento.

The 2014 Budget Act appropriated funding to DGS to prepare a long-range planning study for office space in the Sacramento region. Assembly Bill 1656 (Dickinson, Chapter 451, Statutes of 2014) further codified this requirement and directed DGS to examine the long-term suitability of state-owned office buildings in the County of Sacramento and the City of West Sacramento. The study identified the buildings with the greatest infrastructure deficiencies and provided an independent review of repair and costs.

Governor's Proposal. The Governor's proposal requests a \$1.5 billion transfer from the General Fund to establish a new, continuously appropriated. State Office Infrastructure Fund to be used for the renovation or replacement of state office buildings in Sacramento and to address deficiencies in the State Capitol East Annex.

Trailer bill language will be proposed to:

- Establish the new State Office Infrastructure Fund as a continuous appropriation.
- Define the allowable fund uses, including leasing costs; study costs; acquisition, design and construction of capital outlay projects, and program management costs.
- Define the process for establishing capital outlay projects through the State Public Works Board, with prior Legislative notification.

New Natural Resources Headquarters Building (\$530 million). The Resources Building in Sacramento was constructed in 1964 and has not undergone a significant renovation in the intervening 51 years. A 2013 renovation study update confirmed a

variety of fire and life safety, building code, hazardous materials, building systems and Americans with Disabilities Act (ADA) deficiencies, and recommended a full renovation of the building to correct all issues. The Planning Study published in July 2015 ranked the Resources Building first for overall buildings in Sacramento with the highest need for replacement or renovation.

Program Need. The Resources Building is 520,126 NSF and houses approximately 2,400 state employees, 1,100 of which are from the Department of Water Resources, the largest single tenant, which provides essential functions for the operation of California's water distribution system. Other Resources Building tenants total approximately 1,300 employees primarily from other Natural Resources Agency departments, such as the Department of Parks and Recreation, the Department of Fish and Wildlife and Cal Fire. The Department of Water Resources is also the primary tenant in the Bonderson Building (nearly 500 staff), and these staff also would be relocated into the new proposed building.

Infrastructure Deficiency. Construction of a new facility to house the tenants in the Resources and Bonderson buildings would create the opportunity for major renovations or demolition of the Resources and Bonderson Buildings.

New O Street Office Building (\$226 million). This project would demolish the vacant California Department of Food and Agriculture (CDFA) Annex building, and construct a new 205,000 NSF office building on-site. The CDFA Annex Building has been vacant since November 2011 due to fire and life safety deficiencies. A 2010 site feasibility study concluded the highest and best use is to demolish the building and construct a new office building with on-site parking. The Gregory Bateson (Bateson) Building, located at 1600 N Street, was ranked fourth for overall buildings in Sacramento with the highest need for replacement or renovation. This iconic building is recognized as the first major public building to embody the principles of sustainable architecture. In its current condition, however, the building has fire and life safety deficiencies as well as aging building systems and long-standing issues related to water intrusion.

Program Need. The Bateson Building currently houses nearly 1,100 staff comprised of the Health and Human Services Agency and the Departments of Developmental Services and State Hospitals. A new O Street Office Building would create the opportunity to relocate state employees out of the Bateson Building, which was ranked fourth for overall buildings in Sacramento with the highest need for replacement or renovation in the recent Planning Study.

Infrastructure Deficiency. A new O Street Office Building would create the opportunity to relocate state employees out of the Bateson Building.

Capitol Annex. The State Capitol East Annex (Capitol Annex) was constructed between 1949 and 1951 and has not undergone a significant renovation since then. Although the Capitol Annex was not part of the recent Planning Study, the building is

aged, outdated, inefficient and deteriorated. Its deficiencies include electrical and building systems that have far exceeded their useful life expectancy, the presence of hazardous materials and limited compliance with the Americans with Disabilities Act. DGS has evaluated proposals to meet the needs of the Legislature; however, the ultimate scope and design of the project will be established in consultation with the Legislature.

Program Need. The Capitol Annex houses members and staff of the Senate and Assembly, the Governor's Office, Lt. Governor's Office, Department of Finance and California Highway Patrol. The existing building is insufficient to house the number of employees that work in these offices. The building was completed in the early 1950s and has not undergone a significant renovation.

Infrastructure Deficiency. The Capitol Annex does not meet current building codes or accessibility requirements under the Americans with Disabilities Act (ADA). The Capitol Annex contains hazardous materials including asbestos, lead-based paint and Polychlorinated Biphenyls (PCBs). Most of the building systems, i.e., electrical, mechanical, plumbing, heating, ventilation and cooling (HVAC) have exceeded their useful life expectancy and many are deficient. These deficiencies have been exacerbated by frequent office remodels, adding electrical load and changing air distribution requirements not designed into the original building systems, which further burden these old building systems. The Capitol Annex does not meet energy savings mandates due to the age of the fixtures and building systems.

STAFF COMMENTS

It is clear that the State does not intend to use the \$1.5 billion in the 2016-17 year. However, to ensure that the projects identified in the plan are built, and to provide maximum flexibility to ensure project success, the Assembly Funding Plan recommends the following for the State Office Infrastructure Plan.

The Assembly Funding Plan includes the following:

- Approves the Governor's \$1.5 billion for the State Office Infrastructure Plan
- Programs the funding over four years at \$375 million per year.
- Provides flexibility for the Department to move funding from year to year if necessary, with a report to the Joint Legislative Budget Committee explaining the reasons for moving the funds.
- Approves a continuous appropriation process .
- Adopts placeholder reporting language that would require the Department of General Services to report quarterly to the Legislature on the progress of the projects.
- Requires the Department of General Services to work closely with the Legislature in the development of the Capitol Annex.

Staff Recommendation: Adopt the Assembly Funding Plan.

0860 STATE BOARD OF EQUALIZATION**ISSUE 2: CENTRALIZED REVENUE OPPORTUNITY SYSTEM (CROS)**

The Board of Equalization (BOE) requests \$17.5 million and 43.1 positions (22.5 positions and 20.6 temporary help) in 2016-17, to ensure that the Centralized Revenue Opportunity System (CROS) project has the resources required to begin the implementation phase. During the first year, BOE staff, funded by temporary help or overtime, will staff the project. The Contractor will be paid from revenue generated by the solution. BOE also requests budget bill language (BBL) to allow up to \$5.0 million to be made available for possible contractor payments in 2016-17. The project will re-align the contractor payments in next year's 2017-18 budget after the contract award.

BACKGROUND

BOE is in the process of consolidating and modernizing its existing taxpayer information systems through the CROS project. As designed, CROS would replace the BOE's two existing systems of tax information and return management, expand online business and taxpayer services, and provide an agency-wide data warehouse. CROS would replace two legacy systems, the Integrated Revenue Information System (IRIS) and the Automated Compliance Management System (ACMS).

The acquisition of CROS will be achieved through a performance-based, benefits-funded procurement approach. This approach is similar to that used by the Franchise Tax Board (FTB) and the Employment Development Department (EDD) for their respective information and data management systems. The approach does not require up-front vendor funding, as the development and implementation costs are paid under a benefits-funded contract, with payment allowed only when increased revenues are received. Contractor payments would be dependent on the generation of additional revenues attributable to the project and would be capped overall.

STAFF COMMENTS

The CROS project will make changes to both the application and database, and could potentially be one of the largest technology projects for the State of California. The resources requested in this proposal are scaled to reflect the first year of the project. It is anticipated that the resources requested for next year will be significantly larger.

Due to the nature of the project and the challenges that California has faced with IT projects in the past. Staff recommends that the project include additional oversight by the Department of Technology and the Department of Finance. The additional oversight would help to ensure the success of the project, and would ensure that there was adequate project oversight for funding and staffing.

Staff Recommendation: Approve as budgeted and require additional project oversight by the Department of Technology and the Department of Finance.

ISSUE 3: ASSEMBLY ACTION PLAN FOR THE BOARD OF EQUALIZATION

The Subcommittee may wish to consider adopting a plan that aims to reduce the overall costs associated with the administrative functions of the Board of Equalization, while ensuring that the Board continues to have the necessary resources for tax collection functions.

BACKGROUND

During the annual review of the BOE's budget, the Subcommittee discussed a number of issues that put into question the decisions being made at the Executive Department regarding the use of funds at the BOE.

- **Vacant Positions at the BOE** – Currently the BOE has 478 vacant positions. Although BOE staff has provided data on how many vacant positions are currently under active recruitment there still are vacant positions that will not be filled due to salary challenges. For example, in the out-of-state positions, if the BOE filled all the positions, they would exceed their actual funding at the mid-point, therefore they have to leave some of their positions vacant to pay for salaries that are above the mid-step. Staff recommends continuing to monitor the vacant positions at the BOE to ensure that the 478 vacant positions is lowered.
- **Office Space for BOE members** – The BOE members currently occupy various locations throughout the downtown area, which has led to office space leases that cost the taxpayers about \$17,000 a month for each location. Currently, the Board members do not occupy office space in the same building. Staff recommends that DGS work with the Board to create a plan that would reunite Board members in one office space within a state-owned building.
- **Outreach and Public Relations.** Outreach and public relations varies among Board Members. The costs associated with these activities are not defined. In order to increase transparency and maintain accountability to the taxpayer, a closer look at the outreach and public relations activities of the Board should be examined.

STAFF COMMENTS

Assembly Action Plan for the BOE proposes to cut \$11.2 million in the following manner:

- Eliminate BOE Legislative Positions within the Executive Department - \$1.9 million savings
- Cut the remaining Executive Department by 25 percent - \$2.7 million
- Cut External Affairs budget by 25 percent by phasing out positions that do not interact with the public - \$1.6 million
- Reduce rental costs by 25 percent by eliminating redundant local field offices in California--\$5 million in 2016-17 growing in future years as leases are not renewed

Proposed Policy Changes:

- Consolidate Board Members Offices into one location within a state-owned building.
- Require all of the office space procured by the Department of General Services for the BOE to follow the SAM standards related to state employee work space.
- Adopt TBL to allow the FTB to appeal BOE decisions by filing for trial *de novo* in Superior Court, just as taxpayers are allowed to do.
- Require the Department of Finance to Conduct an Audit of Sales and Use Tax collection activities. (See Vote-Only Issue 7).
- Require monthly staff vacant positions reporting to the Joint Legislative Budget Committee.
- Ask the Bureau of State Audit to review the Board of Equalization outreach and public relations expenditures by March 1, 2017.

Staff Recommendation: Approve Assembly Action Plan for the BOE.

0950 STATE TREASURER'S OFFICE**ISSUE 4: SEISMIC SAFETY REVOLVING LOAN PROGRAM APPROPRIATION AND TRAILER BILL LANGUAGE**

The subcommittee may wish to consider approving placeholder trailer bill language that would expand the list of projects eligible for CalCAP financing to include seismic retrofitting of residential and commercial buildings. The proposal would appropriate \$20 million dollars from the General Fund as initial seed money and sustain the expansion of the program as loan repayments are made.

BACKGROUND

As part of the State Treasurer's Office, the California Pollution Control Financing Authority (CPCFA) provides low-cost innovative financing to California businesses. CPCFA consists of three members: the Director of Finance, the State Treasurer, and the State Controller. CPCFA is authorized to issue either tax-exempt or taxable bonds to finance projects that help abate, eliminate, prevent, control, or reduce any form of pollution of the earth, air or water, solid or liquid waste disposal, thermal or noise pollution or radiation contamination.

In addition to the bond financing program, CPCFA also implements and manages the California Capital Access Program (CalCAP). The CalCAP program encourages banks and other financial institutions to make loans to small businesses that fall outside of most banks' conventional underwriting standards. The program is divided into five areas:

- 1) CalCAP Loan Loss Reserve, a form of loan portfolio insurance which may provide up to 100% coverage on certain loan defaults.
- 2) CalCAP Collateral Support, which pledges cash to cover the collateral shortfall of loans of \$50,000 or more. CalCAP CS provides up to 40% of the loan value, with the possibility of an additional 10% for businesses located in a Severely Affected Community.
- 3) On-Road Heavy-Duty Vehicle Air Quality Loan Program, in collaboration with the California Air Resources Board, allows participating loans to be used to finance heavy-duty trucks and buses (over 14,000 GVWR) equipped with engines certified to specified engine emission standards for 2007 and newer model year engines, and diesel exhaust retrofits.
- 4) Electric Vehicle Charging Station Financing Program, in collaboration with the California Energy Commission, allows participating loans to be used for the design, development, purchase, and installation of electric vehicle charging stations at small business locations in California.

5) Americans with Disabilities Act Financing Program (CalCAP/ADA), would assist California small businesses with financing the costs to alter or retrofit existing small business facilities to comply with the requirements of the federal Americans with Disabilities Act (ADA) of 1990. The State Treasurer's Office is still promulgating regulations for the CalCAP/ADA, which took effect January 1, 2016.

STAFF COMMENTS

This proposal would expand the CalCAP program to include Seismic retrofits. As discussed during the March 8, 2016, hearing, protecting our existing affordable housing stock is crucial. This program would build upon existing programs to provide financing for seismic retrofitting.

Staff Recommendation: Approve \$20 M and Placeholder Trailer Bill Language for a Seismic Safety Revolving Loan Program.

0845 DEPARTMENT OF INSURANCE

ISSUE 5: BRACE AND BOLT PROGRAM

The Subcommittee may wish to consider providing a one-time allocation of \$3 million to the Department of Insurance to pass-through to the California Earthquake Authority for the Brace and Bolt program.

BACKGROUND

In the past several years, cities across the state have realized vulnerable building stock in their districts. Soft story and concrete buildings have been identified as two of the most vulnerable types of buildings in California.

Currently the only state run seismic mitigation program is the Brace and Bolt Program, administered by a Joint Powers Agreement between the California Earthquake Authority (CEA) and the Governor's office of Emergency Services (CalOES). This program provides a \$3,000 subsidy for single-family homes and structures with four units or less for the basic anchorage and foundational bolting of these buildings.

STAFF COMMENTS

The Subcommittee heard from statewide experts from various state and local agencies at its March 8, 2016, hearing on Seismic Safety. Staff recommends including \$3 million for the expansion of the Brace and Bolt mitigation program. This action is consistent and builds on the work of the Subcommittee last year to bring awareness to the importance of protecting our housing infrastructure in preparation of an earthquake.

Staff Recommendation: Hold Open.

3100 CALIFORNIA SCIENCE CENTER

ISSUE 6: FUNDING FOR THE CALIFORNIA AFRICAN AMERICAN MUSEUM

The Subcommittee may wish to consider providing one-time funding of \$2 million for the California African American Museum to preserve and digitize museum assets, assist the CAAM in becoming accredited with the American Museum Association and for deferred maintenance and infrastructure projects.

BACKGROUND

The California African American Museum (CAAM) is governed by a seven-member board of directors appointed by the Governor. CAAM delivers its mission to the public through its history and art collections; permanent, self-curated, temporary and traveling exhibits; and, innumerable programs and workshops, lectures, seminars, films, educational services, standards-based curriculums, and cultural presentations. CAAM facilitates the delivery of these services through dozens of outreach efforts including school bus services, docent led tours and creative workshops through Buses & Docents; CAAM Technology Arts Program; employment skill development for high school students under Young Docents at CAAM; Conversations at CAAM; Young Voices at CAAM; literacy promotion through Heads are Turning Children are Learning; Professional Educator's Open Houses; Films & Shorts at CAAM; off-site workshops and professionally led classes in Learning Without Boundaries; and, family and cross-cultural community presentations through Target Sundays at CAAM. For these and many other services CAAM is also generously supported with private contributions and volunteer resources from its 501(c)(3) partner Friends, the Foundation of the California African American Museum.

STAFF COMMENTS

This proposal would provide additional resources for the CAAM museum. This request is supported by the California Black Caucus.

Staff Recommendation: Approve one-time funding of \$2 million for the California African American Museum.

0509 GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT

ISSUE 7: STATEWIDE BONDING ASSISTANCE

The Subcommittee may wish to consider providing one-time funding of \$10 million in 2016-17 for a Statewide Bonding Assistance program within the California Infrastructure and Economic Development Bank (I-Bank).

BACKGROUND

The Governor's Office of Business and Economic Development (GO-Biz) oversees the I-Bank which administers the California Small Business Finance Center. The California Small Business Finance Center administers programs to assist businesses seeking new capital resources, including, but not limited to, the SBLGP. The state currently has the authority to operate a surety bond guarantee program through the Small Business Center at the I-Bank, but the bank does not currently offer these guarantees. Funding for technical assistance and collateral capitalization would be needed for the I-Bank to provide these services.

This funding would help small, disadvantaged, women, minority and disabled-veterans-owned businesses secure public works contracts.

STAFF COMMENTS

This proposal would appropriate a one-time investment of \$10 million to I-Bank for this program. This request is supported by Assemblymember Rob Bonta.

Staff Recommendation: Approve one-time funding of \$10 million for the Statewide Bonding Assistance Program under I-Bank.
