AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION

ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR

TUESDAY, MAY 5, 2015
1:30 P.M. - STATE CAPITOL ROOM 447

VOTE-ONLY CALENDAR

ITEMS TO BE HEARD

VOTE-ONLY CALENDAR

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT

VOTE-ONLY ISSUE 1 – SECURE CHOICE RETIREMENT SAVINGS (SPRING FINANCE LETTER)

This Spring Finance Letter requests an appropriation of $1 million and provisional language allowing for additional expenditure authority in order to conduct a market analysis, financial feasibility study, and legal analysis to determine whether the necessary conditions for implementation of the California Secure Choice Retirement Savings Program (SCRSP) can be met pursuant to SB 1234 (Chapter 734, Statutes of 2012).

BACKGROUND

The California Secure Choice Retirement Savings Program (SCRSP) exists to provide a statewide retirement savings plan for private workers who do not participate in any other type of employer sponsored retirement savings plan. Contributions by employers and employees will be voluntary. In order for SCRSP to become operational, the Board must conduct a market analysis to determine various factors of implementing the SCRSP and to report to the Legislature on its findings. The analysis may be done only if sufficient funds to do so are made available through a non-profit, private entity, or federal funding. SB 1234 requires the Board to conduct a market analysis to determine whether the necessary conditions for implementation of the SCRSP.

Proposed Provisional Language.

> *Notwithstanding any other provision of law, the Director of Finance may authorize expenditures for the California Secure Choice Retirement Savings Investment Board to conduct a market analysis pursuant to Chapter 734 of the Statutes of 2012 in excess of the amount hereby appropriated, but not sooner than 30 days after notification in writing to the chairpersons of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee or his or her designee, may in each instance determine. The additional expenditure authority is contingent upon the receipt of adequate donations through a nonprofit or private entity, or from federal funds.*

STAFF COMMENTS

This proposal is consistent with action taken by the Subcommittee over the past two years and ultimately included in the 2013 and 2014 Budget Acts.

Staff Recommendation: Approve as budgeted.

0985 CALIFORNIA SCHOOL FINANCE AUTHORITY

VOTE-ONLY ISSUE 2 – FEDERAL FUNDS AUDIT REQUIREMENT (SPRING FINANCE LETTER)

This Spring Finance Letter requests $35,000 (Federal Trust Funds) to cover the costs of complying with an annual single audit requirement.

BACKGROUND

Federal law requires annual single audits for state authorities that administer certain federal funds, such as those administered by the California School Finance Authority (CSFA).

STAFF COMMENTS

Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

0989 CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

VOTE-ONLY ISSUE 3: COLLEGE ACCESS TAX CREDIT FUND ADMINISTRATION (SPRING FINANCE LETTER)

This Spring Finance Letter includes a request from the California Educational Facilities Authority (CEFA) for $244,000 for 2015-16, $234,000 for 2016-17, and $126,000 for 2017-18, in expenditure and reimbursement authority to continue the administration of the fund.

BACKGROUND

SB 798 (De Leon, Chapter 367, Statutes of 2014) created the College Access Tax Credit Fund. The purpose of the fund is to attract private contributions to fund additional Cal Grants for students and allow an income tax credit equal to 60 percent, 55 percent, and 50 percent of the amount contributed by an individual or corporate taxpayer to the fund in each of the taxable years beginning on January 1, 2014, 2015, and 2016 respectively. SB 798 is an urgency statute that required the CEFA to administer the fund. SB 798 provides authority for CEFA's administrative costs from the fund proceeds only upon appropriation by the Legislature.

SB 798 expands CEFA's responsibilities by designating it the administrator of the fund. As the administrator, CEFA is required to allocate and certify the credit to personal and corporate taxpayers from January 1, 2014, to December 31, 2016; certify the contribution amounts eligible for the credit within 45 days following receipt of the contribution; establish a procedure for taxpayers to contribute to the fund and obtain certification for the credit; and provide FTB a copy of each credit certification by March 1 of the calendar year immediately following the issue.

SPRING FINANCE LETTER

The SFL proposal includes the following request for positions and contract services:

- One limited-term Associate Treasury Program Officer
- One limited-term Accounting Officer
- Contract Services

The additional function cannot be absorbed by redirection of existing staff because it would affect CEFA's ability to continue its current workload.

STAFF COMMENTS

Staff has no concerns with the proposal. The additional resources allow CEFA to continue the administration of the fund without affecting CEFA's mission and current workload.

Staff Recommendation: Approve as budgeted.

0950 STATE TREASURER'S OFFICE

VOTE-ONLY ISSUE 4: TRAILER BILL LANGUAGE RELATED TO FEDERAL RESERVE BANK AND FEDERAL HOME LOAN BANK (SPRING FINANCE LETTER)

This Spring Finance Letter includes trailer bill language that would remove restrictions and references to "San Francisco" in California Government Code sections. This would allow letters of credit from any Federal Home Loan Bank to be used as securities for deposits and to allow any Federal Reserve Bank, or any branch to receive deposits of securities approved by the Treasurer.

BACKGROUND

The STO Centralized Treasury and Securities Management Division operates' under the provisions specified in California Government Code sections 16300 et seq. (Title 2, Division 4, Part 2). With respect to collateralization of accounts California Government Code allows letters of credit (LOCs) issued by the Federal Home Loan Bank of San Francisco (FHLBSF) to be received as collateral for demand deposits, fiscal agent deposits, time deposits, and State agency deposits outside of the Centralized Treasury System. It also allows the Federal Reserve Bank of San Francisco (FSRSF), or any of its branches to receive deposits of securities approved by the State Treasurer for all of the programs.

Reference to specific bank locations of the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) were originally placed in statute since many of the State's depository banks were located in California, resulting in the designation of FHLBSF as their bank. In addition, FRBSF is California's administrative reserve bank. In recent years, this proscription has presented challenges, since fully half of the State's demand deposits reside outside California. These depositories do not have the option to use LOCs since they are not members of FHLBSF.

In addition, while initial management of the State Treasurer's FRB account operations originated in the FRBSF, the FRB has consolidated these operations in FRB of Boston and FRB of Kansas City, thus placing the management of these accounts out-of-compliance with statute. The STO notes that new requirements under the third accord of Basel Committee on Banking Supervision, Basel III has tightened capital requirements and increased the cost of collateral to banks, which could result in added costs to the state, absent the proposed changes.

STAFF COMMENTS

This a technical change. Staff has no concerns with the proposal.

Staff Recommendation: Approve trailer bill language.

7920 CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM (CALSTRS)

VOTE-ONLY ISSUE 5: TECHNOLOGY PROJECT REAPPROPRIATION REQUEST (SPRING FINANCE LETTER)

This Spring Finance Letter requests that Item 7920-490 be amended to reappropriate $601,000 from 2014-15 to 2015-16 to support the implementation of the Pension Solution system, an information technology project at CalSTRS.

The funding was intended for the project in the current year, but because the vendor was just recently selected, these funds will not be encumbered and this reapprorpiation provides CalSTRS the ability to put these fund toward the Pension Solution system in 2015-16.

BACKGROUND

The new Pension Solution (PS) system will replace the current legacy pension system to more efficiently and securely service members. Although this new PS system is scheduled separately in Provision (2) of the ITPF there are related projects that will be funded by Provision (1) of the appropriation. These projects including data preparation, the requirement management tool implementation, the project portfolio management tool implementation, and the BusinessRenew Program are all critical in supporting the success of the new pension system. On February 5, 2015, the Board accepted staff recommendation of an implementation and software vendor for the PS system, CalSTRS requires all available funding for the design, build, and implementation phases of the PS project in 2015-16.

The updated reappropriation estimates for the 2013-14 and 2014-15, ITPF include direct consultant/support services still needed for information technology projects, but not ready for encumbrance by the end of this fiscal year, because expectation around timelines for procurement and pre-conversion project activities have shifted as the PS vendor selection process was completed.

STAFF COMMENTS

The Spring Finance Letter reflects a technical adjustment to provide more current estimates of amount available for reappropriation in the 2015-16 budget.

Staff Recommendation: Approve as budgeted.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS

VOTE-ONLY ISSUE 6: ELEVATOR PUBLIC SAFETY UNIT

The Division of Occupational Safety and Health (DOSH) requests an increase of authority of $4.4 million (Elevator Safety Account) and 27.5 positions in 2014-15, and $4.1 million ongoing, to reduce inspection backlogs and help the division meet permitting mandates.

This request also includes trailer bill language to suspend the fee for annual inspections in the 2015-16 fiscal year, and to allow for the fee for annual inspections to be suspended in future years, if necessary, to reduce any surplus fund balance.

BACKGROUND

Existing law requires that every conveyance in California may only be operated when a valid permit has been properly issued and displayed. Existing law also states that each conveyance must be permitted and inspected annually in order to meet the minimum safety standard and to be able to be operated lawfully. Additionally, existing law states that plans to construct or modify elevators must be reviewed and approved before new elevator units can be constructed and placed into service.

There are 107,660 conveyances that require permitting in California. It is anticipated that with the improving economy and increased construction activity, new units are expected to continue to grow annually for the next five years. In 2013-14, new construction inspections totaled 2,613 units. Staff resources have remained relatively static over time and the backlog has ranged from 41,000 units to 49,000. This backlog has existed for over a decade.

Surplus Fund Balance. It is projected that the Elevator Safety Account will have a surplus balance of $37 million in 2015-16. According to the Department of Finance, a prudent balance for a fund similar to the Elevator Safety Account would be a two to three month balance. This balance would hover about $4.5 million versus the projected $37 million for the budget year. To address the surplus fund balance, this proposal includes trailer bill language to suspend the fee for annual inspections in 2015-16, and to allow for the fee for the annual inspections to be suspended in future years, if necessary, to reduce any surplus fund balance.

STAFF COMMENTS

This issue was heard in the March 17, 2015, hearing. The proposal was held open so that additional information could be provided to the committee from the Department of General Services regarding the status of elevators located at Posey's parking lot and the San Diego region. The information was provided to the Subcommittee.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 7: 2015-16 LEGISLATIVE PROPOSALS

This proposal includes resources for four legislative proposals for the Department of Industrial Relations (DIR) for 2015-16.

This includes nine positions and $1.011 million in 2015-16, and $940,000 ongoing to implement AB 1522 (Gonzalez, Chapter 317, Statutes of 2014), AB 2272 (Gray, Chapter 900, Statutes of 2014), SB 1299 (Padilla, Chapter 842, Statutes of 2014), and SB 1300 (Hancock, Chapter 519, Statutes of 2014).

BACKGROUND

AB 1522. DIR requests five positions and an augmentation of $590,000 (Labor Enforcement and Compliance Fund) in 2015-16, and $551,000 ongoing, to support the Division of Labor Standards Enforcement's (DLSE) legislative mandates related to AB 1522. AB 1522 enacts the Healthy Workplaces, Healthy Families Act of 2014, and provides that an employee who works in California for 30 or more days within a year from the commencement of employment is entitled to paid sick leave to be accrued at a rate of no less than one hour for every 30 hours worked. An employer is prohibited from discriminating or retaliating against an employee who requests paid sick days.

The proposal requests three Deputy Labor Commissioner I, and two Deputy Labor Commissioner II positions to support additional workload created by AB 1522. This request will help ensure DLSE has sufficient staffing to assist the public with filing claims, hold wage claim conferences, hold investigatory hearings, make appropriate decisions on violations of labor laws, enforce order, decision or awards, and investigate retaliation complaints.

AB 2272. DIR requests one position and $114,000 (State Public Works Enforcement Fund) in 2015-16, and $105,000 ongoing, to support DSLE in efforts to comply with AB 2272. AB 2272 extends coverage under the California Prevailing Wage Law (CPWL) to require that all projects funded by the California Advanced Services Fund (CASF) pay the appropriate prevailing wage to all workers performing labor on these specific projects. AB 2272 extends the reach of the CPWL to include infrastructure projects funded by grants from CASF by including such projects with the definition of public works.

The Senate Labor and Industrial Relations Committee cited that as of December 2013, CASF had committed to funding 56 projects. Each project can have a range of 10-20 contractors. Based on this, DLSE estimates the potential for about 700 new cases for which there could be a complaint. If DLSE receives actual complaints on only 15 percent of these potential cases, there would be 105 additional investigations. DLSE's Public Works investigation unit requires an additional one Deputy Labor Commissioner to handle the increased workload.

SB 1299. DIR requests one position and $156,000 in 2015-16, and one position and $148,000 ongoing, to support the Division of Occupational Safety and Health (DOSH) in meeting the requirements of SB 1299. SB 1299 requires the Occupational Safety and Health Standards Board (OSHSB) to adopt standards developed by the DOSH requiring certain hospitals to adopt a workplace violence prevention plan as part of the hospital's Injury and Illness Prevention Plan (IIPP) by July 1, 2016. The Division also is required to post an annual report by January 1, 2017, on its website containing information regarding violent incidents at hospitals.

The additional staff will enable OSHSB to adopt standards developed by the DOSH, which will require certain hospitals to adopt a workplace violence prevention plan by July 1, 2016, as part of the hospital's injury and illness prevention plan.

SB 1300. DIR requests two support staff and an augmentation of $151,000 in 2015-16, and $136,000 ongoing, to support the new DOSH mandate evaluating the turnaround information provided by refineries on a short time line (at 60 and 30 days prior to on-site inspection) in order to identify expected hazardous work processes to be done at the targeted site and plan an effective and comprehensive inspection.

SB 1300 implements some of the safety recommendation made in the Governor's Interagency Refinery Task Force February 2014 report and will enhance not only worker safety, but the safety of the communities surrounding the refineries. Due to the short timeframes to evaluate and process the documentation, DOSH is requesting two Management Services Technicians to ensure documentation is received, processed, and reviewed and to allow the Process Safety Management Unit to further analyze the data and prioritize turnaround inspections.

STAFF COMMENTS

This issue was heard in the March 17, 2015, hearing. Staff has no concerns with the positions requested for the implementation of the four bills. At the March 17, 2015, hearing a request for funding for outreach for AB 1522 was discussed. The issue of resources for outreach remains open.

Staff Recommendation: Approve as budgeted.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

VOTE-ONLY ISSUE 8: CPUC MOBILEHOME UTILITY CONVERSION PROGRAM (SPRING FINANCE LETTER)

This Spring Finance Letter requests a State Operations augmentation of $952,000 in 2015-16, $928,000 in 2016-17, and $464,000 in 2017-18 (various special funds that are funded through building permit revenues) to fund eight permanent positions. These positions will issue building permits, perform construction inspections, and other supportive services for manufactured home parks converting from park-owned utility systems to public utility owned systems as a result of the recent California Public Utilities Commission (CPUC) decision.

BACKGROUND

The Department of Housing and Community Development (HCD) serves as the building department for 80 percent of mobilehome parks and all mobilehomes. The CPUC decision created a three-year pilot program to address the health and safety risks associated with aging gas and electric infrastructure in manufactured home and mobliehome parks. The pilot program aims to have investor-owned utilities convert 10 percent of the manufactured home spaces in their service areas to individual meters within a 30-month period starting July 1, 2015. The construction work related to upgrading each mobilehome and the mobilehome parks require building permits and associated inspections to ensure completed work meets code and is safe prior to cutover to the new system.

The Mobilehome Park Utility Upgrade Program will begin January 1, 2015, and continue through to December 31, 2017. There was a 90-day open enrollment period, between January 1 - March 31, 2015, in which the CPUC's Safety and Enforcement Division accepted an initial application from Mobile Home Park property owners interested in volunteering to participate in the program. As a result, HCD is requesting a staffing increase and related funding.

STAFF COMMENTS

The request is for permanent staff for a three-year program that ends December 31, 2017, however staff would recommend limited-term staff be used for a project. According to the Department of Finance they are unable to request three-year limited term positions. But in two years, the case for permanent staff based on initial results from the pilot project can be revisited.

Staff Recommendation: Approve the eight positions on a limited-term basis.

VOTE-ONLY ISSUE 9: RECYCLED WATER SYSTEMS FOR RESIDENTIAL STRUCTURES

The Governor's budget requests funding from the Building Standards Administration Special Revolving Fund for one two-year limited term district representative II ($95,000) and $275,000 for a contract for a California Environmental Quality Act (CEQA) study to implement AB 2282 (Gatto, Chapter 606, Statutes of 2014).

BACKGROUND

The state is committed to a 20 percent reduction in per capita water use by 2020 as required by SB 7 X7 (Steinberg, Chapter 4, Statutes of 2009). AB 2282 provides for the development and adoption of mandatory building standards during the 2016 code adoption cycle for the installation of recycled water systems for newly constructed residential, commercial, and public buildings. As part of this law, HCD is required to conduct research, in consultation with the State Water Resource Control Board, the Department of Public Health, and other parties to develop and propose building standards for recycled water systems for adoption by the California Building Standards Commission (CBSC) in 2016. The State Housing Law Program prepares the adoption of National Model Codes with California-specific amendments on a triennial basis, as well as mid-cycle, and emergency code packages.

This proposal requests one staff person and funding for HCD to contract for a CEQA study. The development and installation of infrastructure for use of recycled water may include the use of new materials and water transportation methods that may pose environmental concerns and need to be evaluated through the CEQA process. Through the Department of General Services (DGS) the CBSC is also requesting funds for a CEQA study.

STAFF COMMENTS

The Subcommittee heard this item on April 7, 2015, and held the item open and directed CBSC, HCD, and DGS, to discuss which entity would be the most appropriate to be the lead agency for a CEQA study and come back at the time of May Revise hearings with a request for funding for only one of the entities to conduct the study. The Administration has since come back and states that DGS will be the lead agency on the CEQA study and that the Administration will process a Control Section 1.50 to increase DGS reimbursement authority to receive funds from HCD for the study.

Staff Recommendation: Approved as budgeted, DOF will process a Control Section 1.50 to increase DGS reimbursement authority in order to receive the funds from HCD included in the BCP for the study.

7760 DEPARTMENT OF GENERAL SERVICES

VOTE-ONLY ISSUE 10: CALIFORNIA BUILDING AND STANDARDS COMMISSION

The Governor's budget includes a request to provide the Department of General Services (DGS) California Building Standards Commission (commission) with a one-time augmentation of $305,000 (Building Standards Administration Revolving Fund) for fiscal year 2015-16 to carry out provisions associated with the passage of AB 2282 (Gatto, Chapter 606, Statutes of 2014)

Additionally, the Governor's budget includes a request to provide the commission an augmentation of $206,000 (Building Standards Administration Revolving Fund) and one two-year limited-term position beginning in fiscal year 2016-17 to address workload associated with the passage of AB 2282.

BACKGROUND

Since the early 1980's, all building standards either adopted or proposed by state agencies are to be reviewed and approved by the commission before they are to go into effect. Additionally, all building standards were consolidated into a single code of regulations, Title 24, more commonly referred to as the California Building Standards Code. According to statute, the commission is required to update the California Building Standards Code in its entirety every three years; supplements are published on an annual basis. AB 2282 requires that the commission develop, and propose for adoption, mandatory building standards for recycled water systems during the 2016 intervening code adoption cycle for inclusion in the 2016 California Building Standards Code.

STAFF COMMENTS

The Subcommittee heard this item on April 14, 2015, and held the item open and directed CBSC, HCD, and DGS, to discuss which entity would be the most appropriate to be the lead agency for a CEQA study and come back at the time of May Revise hearings with a request for funding for only one of the entities to conduct the study. The Administration has since come back and states that DGS will be the lead agency on the CEQA study and that the Administration will process a Control Section 1.50 to increase DGS reimbursement authority to receive funds from HCD for the study.

Staff Recommendation: Approved as budgeted, DOF will process a Control Section 1.50 to increase DGS reimbursement authority in order to receive the funds from HCD included in the BCP for the study.

VOTE-ONLY ISSUE 11: MERCURY CLEANERS SITE REMEDIATION

This proposal requests a one-time $9.3 million (General Fund) augmentation to continue remediation efforts associated with the Mercury Cleaners building site, a state-owned property located at 1419 16th Street, Sacramento, CA.

BACKGROUND

A majority of the preliminary site investigation work for the Mercury Cleaners building site was completed in January and February 2014, and a Data Gap Completion Report was completed in May 2014, including findings, conclusions, and recommendations for additional site investigations, monitoring, and remediation work. The results indicate a significant level of contamination at the Mercury Cleaners building site.

The preliminary results of the report indicate a significant level of contamination in the Mercury Cleaners building site and confirms that releases of both tetrachlorethene or perchloroethene (PCE) and petroleum hydrocarbon based solvents (such as Stoddard Solvent) coincide with the locations of historic dry cleaning activities within the site building, thus strongly suggesting that the impacts to soil, soil vapor, groundwater, and indoor air quality at the Mercury Cleaners site are predominately the result of onsite releases. DGS received $3.7 million in one-time General Funding for 2014-15 for remediation of the Mercury Cleaners building site, including site investigation and assessment work.

To address the concern that it was unclear how much of the requested funding will be needed during 2015-16, staff has worked to draft budget bill language that provides DGS with the flexibility to address any issues at the Mercury Cleaners site and surrounding area, but also ensures that any unspent funding would revert back to the General Fund.

Proposed budget bill language: *Of the amount appropriated in this item, $7.6 million shall only be available for (1) the purchase of other structures near the Mercury Cleaners site, (2) demolition and abatement of these structures, and continued environmental remediation efforts on and off the Mercury Cleaners site related to the Mercury source contamination, (3) relocation of tenants, (4) administrative costs associated with these activities, and (5) abatement on the Mercury Cleaners site. Any unspent funds at the end of the 2015-16 fiscal year shall not be available to deposit into the Architectural Revolving Fund and shall revert to the General Fund.*

STAFF COMMENTS

This item was heard at the April 14, 2015, meeting. At that time, it was requested that additional information be provided to the committee regarding state properties and the properties under DGS' control. That information was provided to the committee on April 22, 2015.

Staff Recommendation: Approve as budgeted and adopt budget bill language.

7730 FRANCHISE TAX BOARD

VOTE-ONLY ISSUE 12: PROPOSALS RELATED TO THE ENTERPRISE DATA TO REVENUE PROJECT

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

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

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

BACKGROUND

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

Program Proposal

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

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

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

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

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

IT Proposal

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

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

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

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

STAFF COMMENT

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

This item was heard at the March 3, 2015, Subcommittee hearing. Staff recommended holding it open to evaluate additional Spring Finance proposal. The additional resources for the EDR project are included under the items to be heard and complement the work included in this BCP.

Staff Recommendation: Approve as Budgeted.

0860 BOARD OF EQUALIZATION

VOTE-ONLY ISSUE 13: REVENUE RECOVERY AND COLLABORATIVE ENFORCEMENT PLAN

This item proposes supplemental reporting language on the Revenue Recovery and Collaborative Enforcement (RRACE) Plan, which was included in AB 576 (V. Manuel Perez, Chapter 614, Statutes of 2013).

BACKGROUND

AB 576 established RRACE, intended to enhance existing efforts to combat criminal tax evasion associated with underground economic activities by institutionalizing collaboration among state agencies. RRACE membership is comprised of the Franchise Tax Board, Department of Justice, BOE, and Employment Development Department. In addition, the following agencies may participate in the pilot program in an advisory capacity to the team: California Health and Human Services Agency, Department of Consumer Affairs, Department of Industrial Relations, Department of Insurance, and Department of Motor Vehicles. A key element of the effort is to facilitate data and intelligence sharing among participating state agencies.

The legislation requires that the participating agencies develop a plan for a central intake process and organizational structure to document, review, and evaluate data and complaints. The date for the development of the plan is not specified in statute. Supplemental Reporting language will provide additional information on the program to the Subcommittee. The following supplemental reporting language is recommended:

> *Pursuant to AB 576 (V. Manuel Perez), Chapter 614, Statutes of 2013, the Revenue Recovery and Collaborative Enforcement Team (RRACE) was established in state government as a pilot program. As set forth in statute, RRACE is required to develop a plan for a central intake process and organizational structure to document, review, and evaluate data and complaints. This plan shall be presented in report form and provided to the Senate Committee on Budget and Fiscal Review, the Assembly Committee on Budget, the Senate Committee on Governance and Finance, and the Assembly Committee on Revenue and Taxation on or before December 31, 2015.*

STAFF COMMENTS

At the March 10, 2015, joint hearing with the Revenue and Taxation Committee, the joint committee began discussion on the RRACE program with BOE. This issue is of interest to the Subcommittee and additional information will help with transparency in the program. The supplemental reporting language would direct BOE to complete the plan for RRACE on or before December 31, 2015.

Staff Recommendation: Approve proposed supplemental reporting language.

8860 DEPARTMENT OF FINANCE

VOTE-ONLY ISSUE 14: PUBLIC WORKS BOARD REPORTING LANGUAGE

The Subcommittee will consider reporting language to supplement an action taken on April 21st.

BACKGROUND

On April 21, 2015, the Assembly Budget Subcommittee #4 adopted proposed Trailer Bill Language that eliminates a July 1, 2015, sunset on the Public Works Board's current authority to authorize lease-revenue bonds for asset transfer authority. The asset transfer authority allows the Board to sell bonds on a completed project (and encumber that facility) and use the bond proceeds to fund the design and or construction of another legislatively authorized project(s).

In addition to this action, the Subcommittee could consider the following reporting language be added to the Trailer Bill language:

> *On or before June 30, 2017, the Department of Finance shall report to the fiscal committees of the Legislature the following regarding the removal of the sunset from the asset transfer authority of the Public Works Board, specifically: (1) the number of times the asset transfer authority has been invoked; (2) the aggregate amount of financing secured through such assert transfers; (3) an estimate of the financing savings realized through the use of such asset transfers.*

STAFF COMMENTS

The proposed Trailer Bill Language above is the result of discussion of this item in Senate Budget Subcommittee #4 and is expected to be adopted in that committee. Adopting this proposed Trailer Bill Provisions will allow the two houses to conform on this issue.

Vote-Only Action Recommendation: Adopt Trailer Bill Proposal.

VOTE-ONLY ISSUE 15: INTERNAL CONTROLS ACTIVITIES TRAILER BILL

The Subcommittee will consider trailer bill language proposed by the Department of Finance to modernize the State's internal controls policies.

BACKGROUND

Under current law, the Financial Integrity and State Manger's Accountability Act (FISMAA) of 1983 requires state agency heads to be responsible for the management and maintenance of systems of internal accounting and administrative controls and makes legislative findings and declarations in this regard. The act requires a system of internal accounting and administrative control to include specific elements, including, but not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures. The act requires a state agency head to conduct a biennial review and report the results to the Legislature, California State Auditor, Controller, Treasurer, Attorney General, Governor, and Director of Finance.

Since the act has been in place, there have been substantial changes in government program complexity and a realization of an increased need for monitoring of a broad array of program indices over the last 30 years. In addition, the federal government has provided additional guidelines of appropriate internal controls.

The Governor's Budget proposes Trailer Bill Language to update the oversight and internal control activities of state agencies to reflect current thinking on appropriate levels and focus of internal controls. The update would incorporate additional guidance provided by the Government Accountability Office (GAO) as set forth in the agency's Standards for Internal Control in the Federal Government, known as the "Green Book." Internal control helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations. The Green Book sets the standards for an effective internal control system for federal agencies.

Currently, the applicable law limits internal controls to accounting and administrative control. The proposal would expand well beyond this to include controls related to fiscal, operational, programmatic, strategic, as well as other factors. It also specifies and mandates objectivity on the part of monitoring processes, and specifies the essential components of an effective internal control system (Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring). Finally, the proposal limits, to a certain extent, the recipients of the biennial report, to the most appropriate agencies and bodies (Legislature, State Auditor, Controller, Director of Finance, plus the Secretary of Government Operations).

STAFF COMMENTS

The proposed trailer bill language improves and modernizes the internal controls of the State.

Staff Recommendation: Adopt Trailer Bill Proposal.

8620 FAIR POLITICAL PRACTICES COMMISSION

VOTE-ONLY ISSUE 16: STATEMENT OF ECONOMIC INTERESTS ENHANCED FILING SYSTEM

The Fair Political Practices Commission (FPPC) is requesting $651,000 in 2015-16 to procure a subscription-based, Modified-Off-the-Shelf system for the automation and electronic filing of Form 700s.

BACKGROUND

The FPPC has primary responsibility for administering the Statement of Economic Interests, also known as the Form 700, program. The FPPC also acts as the direct filing officer for 25,000 public officials. The Commission's duties include acting as a liaison to the filing officers in other agencies, logging the forms received, reviewing the forms to ensure compliance, requesting amendments from filers, assessing late fines, enforcing against non-filers, and making available for review any Form 700 requested by the public.

The current process by which this important disclosure is accomplished is unnecessarily complicated, decentralized, and burdensome for all involved. First, most of the work is done manually, making processing and administering Form 700s extremely cumbersome and time consuming. Second, public officials who are required to file the forms are often confused about where to file and are burdened by filing paper forms every year. Third, since there is no central repository of Form 700s and most are not readily available online it is difficult for members of the public, who are entitled to access this important information, to monitor public officials.

In 2012, the Legislature authorized all state and local agencies to develop or procure their own e-filing programs. As noted in the BCP, four state agencies have procured their own systems using state funding, and continue to pay for ongoing subscriptions and maintenance costs. The FPPC estimates these costs are about $145,200. In 2013, AB 409 (Quirk-Silva, Chapter 634, Statutes of 2013) authorized the FPPC to develop and operate an online system for filing Statement of Economic Interest (SEI) forms.

This proposal requests $651,000 in 2015-16, and $1,188,000 in 2016-17, to implement an enhanced filing system for SEIs. In addition, the FPPC is requesting one permanent position: Staff Information Systems Analyst (Specialist) and four two-year limited term positions: 2 Staff Services Analysts, 1 Associate Governmental Program Analyst and 1 Project Manager.

If approved, the SEI Enhanced Filing System project would begin July 1, 2015 and be implemented in four phases, as shown in the table below.

Task Name	Duration	Start and Finish
Project Initiation	72.5 days	7/1/15 – 9/21/15
Vendor Procurement	368.75 days	7/23/15 – 9/30/16
System Planning and Design	181.5 days	9/22/15 – 4/29/16
Phase 0 – Pilot Preparation	412.75 days	7/1/15 – 10/28/16
Phase 1 – Pilot (estimated 1,000 real users)	82.5 days	9/8/16 – 12/15/16
Phase 2 – Go-Live (all 25,000 filers and filing officers)	14 days	10/17/16 – 11/1/16
Phase 3 – Public Portal (Limited Searchable Database Web Portal)	220.25 days	11/1/16 – 7/20/17
Phase 4 – Transition to Maintenance and Operation	33.5 days	7/17/17 – 8/23/17

STAFF COMMENTS

The FPPC's current filing system is manual and labor intensive. This proposal would allow the FPPC to purchase a Modified-Off-the-Shelf program in order to implement an electronic filing system. This proposal will reduce FPPC staff time through the elimination of manual processes and make the filing process for public officials and staff more efficient. According to the FPPC, once an e-filing system has been created for its 25,000 fliers, it will work with the Department of Technology to explore offering the software to other state entities through the newly-implemented CalCloud. This could result in State savings for other Departments wishing to utilize this software in the future.

Staff recommends approval of this proposal.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD

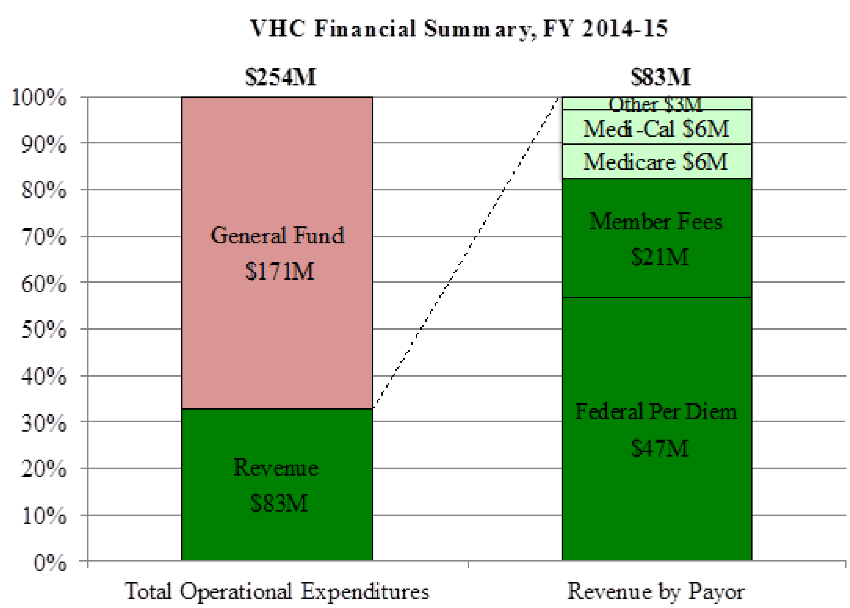
8950 DEPARTMENT OF VETERANS AFFAIRS

ISSUE 1: VETERANS HOME REPORT

The Assembly Budget Committee commissioned a Goldman School of Public Policy researcher to analyze the Centers for Medicare and Medicaid Services (CMS) data pertaining to the quality of care in the State's Veterans Homes. The report draws from the CMS data as well as site visits at various VHC facilities, interviews with VHC administrators, CalVet staff, internal CalVet documents, nursing home administrators and interviews with high-performing veterans' home systems in five states (Colorado, Florida, Maine, Tennessee, and Utah).

BACKGROUND

The valuable services provided by VHCs come at a high cost to the state. In the current fiscal year 2014-15, the VHC systems' projected operational expenditures total $254 million. Revenues, which consist predominantly of federal per diem payments and member fees, total $83 million and offset less than 35 percent of expenditures. The resulting gap in financing—$171 million—is filled by allocations from the State General Fund. The graph below summarizes VHC financial information.



Despite the State's investment to the VHCs, California's veterans' homes consistently receive poor ratings on CMS health inspections. VHC-Yountville, VHC-Barstow, and VHC-Chula Vista, are all currently rated as one star (the lowest possible rating) facilities by CMS. Over the last two years, each VHC has received approximately 16 CMS deficiencies per year, nearly 60% more than the statewide average.

The report reveals problems in three major areas:

- VHCs lack standardized procedures for externally facilitated self-assessment
- Inconsistent electronic health record utilization across homes demonstrates poor use of tools and technology, contributing to observed documentation problems
- Long-term planning for future care delivery and financial performance has been insufficiently detailed.

In the 2014-15 budget, over $170 million General Fund was provided the Department for VHC operations, thus the State has a compelling interest in ensuring that VHCs use resources effectively to deliver high-quality care to California's veterans.

Based on the in-depth analysis of the VHCs, the report makes the following five recommendations:

- Create a centralized CalVet unit to regularly inspect and report on VHC quality
- Implement comprehensive, standardized self-assessments at each VHC, two to four times per year on a set schedule
- Standardize electronic health record (EHR use across VHCs
- Develop a five- to 10-year strategic plan for VHC care delivery
- Analyze and optimize VHC use of state financial resources

STAFF COMMENTS

Many of the recommendations in the report would require CalVet to provide analyses and assessments to the Legislature in order to take steps towards addressing the most pressing issues with the VHC system.

The Subcommittee may wish to work with the LAO and DOF to draft placeholder Supplemental Reporting Language, which would require the Department to respond to many of the recommendations within this report.

Staff Recommendation: Adopt placeholder Supplemental Reporting Language to require the Department of Veterans Affairs to respond to the recommendations within this report by November 2015.

7730 FRANCHISE TAX BOARD

ISSUE 2: ENTERPRISE DATA TO REVENUE – RISK MITIGATION ACTIONS (SPRING FINANCE LETTER)

The Spring Finance Letter requests additional resources to implement the Crawl, Walk, Run portion of the Enterprise Data to Revenue (EDR) project to ensure that the project continues on its path of success.

BACKGROUND

The FTB requests $6.1 million and 17 temporary help positions in 2015-16, and proposed changes to the EDR project that will allow it to take the risk mitigation actions needed to meet the project objectives. These proposed changes fall into three categories:

Business Entities (BE) Return Analysis (RA) Ramp-up Approach – Crawl, Walk, Run - $3.0 Million. The EDR project has two RA deliverables relating to processing workloads where FTB validates tax return for simple logic, such as checking for transposed numbers between tax schedules. The first of the RA deliverables was implemented in December 2014, on the individual tax return workload in which FTB deployed Crawl, Walk, Run approach to manage implementation risks as the solution was delivered and placed in production. This approach minimizes the risk to FTB's filing processes and revenue by allowing for a safe and methodical slow volume ramp up, versus starting quickly with a very large number of returns. This approach assists with mitigating the effects of unforeseen issues associated with initial implementation defects like those FTB ahs seen with previous IT implementations related to data validity and accessibility to downstream systems and staff, initial slow system performance, and last minute system changes due to implementation of changes associated with recently enacted legislation.

Using the Crawl, Walk, Run approach allows FTB to fix initial defects that impact data validity, degraded system performance, and ensure that last minute changes associated with changes made due to new legislation can be thoroughly tested on a smaller universe, resulting in faster stabilization and defect correction of the deliverable without substantial or quantifiable impacts on ongoing operation. Based on lessons learned from the RA for individual returns and other previous IT projects, and considering the complexity of BE workloads and potential negative impacts to return and refund processing if the system does not work at peak efficiency, FTB believes it is necessary to mirror a similar ramp-up approach for the BE RA implementation starting with Release 3.2 (January 1, 2016). Funding is needed to retain the Solutions Provider's specialized staff beyond their currently planned roll-off dates in order to do a slower and safer Crawl, Walk, Run implementation of the BE RA solution. The total cost of this effort is $6 million, which is being split 50/50 between the state and the vendor.

Temporary Help Positions for Crawl, Walk, Run of New BE Return analysis System - $791,000. One of the key components of the EDR project is the RA system, which is the final stage of return processing.
RA will do the following:

- Automate workflow processes from return filing through validation, which is the final stage of return processing.
- Apply business rules to verify data captured from returns regardless of the filing method (paper or e-file).
- Provide better fraud and identity detection
- Provide Case Management functionality to manage workloads.

Consistent with the EDR project approach for phasing implementation, FTB is using the Crawl, Walk, Run approach for the RA system. This approach allows FTB to limit risks and issues to a small number of users and a low volume of cases in initial phases. As the implementation moves forward, additional users and tax years will be added and the volume will increase. These business staff resources will allow FTB to conduct the Crawl and Walk phases of implementation from January to June 2016.

Upgrade Vendor Staff Expertise During 2015-16 to Support Knowledge Management Transfer – $2.3 million. To ensure a successful transition of the EDR solution to FTB, additional funds are requested to retain Solution Provider key staff with high expertise levels during 2015-16. During the 2015-16 period, the contract requires the vendor to provide junior expertise level staff to maintain the EDR solution. However, in order to execute an effective Knowledge Management transfer, the project requires expert level staff.

This request is for the difference in cost between the junior staff and the expert staff being requested. Retention of these expert Solution Provider resources will enable FTB's knowledge transfer protégés more time to understand the key complex architecture and applications to ensure that once FTB takes ownership of the applications, staff will be more capable to implement later enhancements, such as changes for legislation or law, conducting performance forecasting and capacity planning or addressing the overall growth and expansion of the new EDR solution.

STAFF COMMENTS

Staff does not have any issues with the additional resources included in the Spring Finance Letter and would recommend adoption of the resources. The approach by FTB is one that ensures an additional level of project success.

Staff Recommendation: Approve the Spring Finance Letter as budgeted.

0860 BOARD OF EQUALIZATION

ISSUE 3: AB 1717 PREPAID MOBILE TELEPHONY SERVICES SURCHARGE (SPRING FINANCE LETTER)

This Spring Finance Letter proposes $5.7 million (special funds) and 22.3 positions in 2015-16 and $2.6 million (special funds) and 18.9 positions in 2016-17, and ongoing, to implement the provision under AB 1717 (Perea, Chapter 885, Statutes of 2014). With the exception of five positions, the proposal includes all permanent positions.

Additionally, this proposal includes Budget Bill Language that would allow for a budget augmentation upon approval by the Department of Finance and 30-day notification to the Joint Legislative Budget Committee.

This is a new program for BOE and administrative start-up costs will be funded through a temporary loan from the General Fund, which will be repaid, in the same budget year, once fee revenue is generated.

BACKGROUND

AB 1717 imposed a new Mobile Telephony Service (MTS) surcharge and local charge to be administered by the BOE beginning January 1, 2016. The statute sunsets 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 Department of the BOE, while the program that applies to direct sellers will be administered by the Special Taxes and Fees Department.

The prepaid MTS surcharge rate is subject to calculation each year by the BOE. The state rate consists of the 911 surcharge rate, determined by the Office of Emergency Services, plus the California 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.

The program will require that sellers of MTS register with BOE, collect the prepaid MTS surcharge from consumers, and remit amounts collected to the BOE. Administration of the new surcharge will be conducted by Sales and Use Tax Department of BOE, but the surcharge falls under the Fee Collection Procedures Law, and will require several additional functions. Activities required for the implementation and administration of the surcharge will affect registration, return processing, collections, audits, appeals, and refunds.

Registration. Some sellers of the MTS do not sell personal tangible property, so they will need to be registered with BOE. This will require preparation and distribution of the registration materials and information, along with necessary returns and reporting schedules.

Return Processing. This program will require additional programming to the Integrated Revenue Information System. The surcharge will be reported on a separate return, requiring a new e-file return for retail sellers of MTS. Both state and local rates are subject to change, requiring annual testing. Return processing must also incorporate deposits to the 911 and PUC accounts and address direct and retail sellers.

Collections and Audits. The program will result in additional delinquencies from surcharge payers. In addition, the guaranteed funding of 911 surcharges will require BOE calculations regarding any potential deficiency determination and subsequent billing. Additional audits may be required at the end of the three-year cycle, but no resources have been requested at this time.

Appeals and Refunds. The program may generate additional activity for these programs, but no additional resources have been requested at this time.

BUDGET BILL LANGUAGE

The Governor's proposal includes budget bill language that would allow for the allocation of additional funds if necessary. Staff has discussed with DOF and LAO narrowing the budget bill language and proposes the following changes as shown in strikeout and underline.

Add Item 0860-001-3251 as follows:

0860-001-3251—For support of State Board of Equalization payable from the Prepaid Mobile Telephony Services Surcharge Fund………………..2,358,000

Schedule:
(1) 0570—Administration of Board of Equalization…………2,358,000
Provisions:

1. *The Department of Finance may augment the amounts appropriated in Schedule (1) <u>by up to $1,000,000</u> to implement Chapter 885 of the Statutes of 2014, if <u>the number of registered retailers is expected to exceed 6,500 and</u> it is determined that the Board of Equalization requires additional resources to implement the statute. The Department of Finance shall authorize the augmentation not sooner than 30 days after the notification in writing to the Joint Legislative Budget Committee.*

Add Item 0860-001-3270 as follows:
0860-001-3270—For support of State Board of Equalization payable from the Local Charges for Prepaid Mobile Telephony Services Fund………..3,265,000

Schedule:

(1) 0570—Administration of Board of Equalization...........3,265,000

Provisions:

1. *The Department of Finance may augment the amounts appropriated in Schedule (1) <u>by up to $1,000,000</u> to implement Chapter 885 of the Statutes of 2014, if <u>the number of registered retailers is expected to exceed 6,500 and</u> it is determined that the Board of Equalization requires additional resources to implement the statute. The Department of Finance shall authorize the augmentation not sooner than 30 days after the notification in writing to the Joint Legislative Budget Committee.*

TRAILER BILL LANGUAGE

The Governor has also proposed clean-up trailer bill language to AB 1717 that would address three issues including allowing for a de minimis sales threshold for retailers of MTS, a temporary General Fund loan for cash flow purposes, and direct fee revenue to the appropriate funds.

Staff has no major concerns with the concepts of the trailer bill language. However, staff proposes minor amendments the De Minimis Sales Threshold language included in the trailer bill language as outlined below:

Section 4XXXX of the Revenue and Taxation Code is added to read:

Commencing January 1, 2017, a seller, other than a direct seller, with de minimis sales of prepaid mobile telephony services of less than fifteen thousand dollars ($15,000) during the previous calendar year is not required to collect the prepaid MTS surcharge or local charges pursuant to Section 42010. The Department of Finance shall annually review the de minimis sales level and adjust the threshold <u>as necessary to minimize program administration costs and maintain revenues to support program administration, enforcement, and Public Utilities Commission public purpose programs and rulemaking activities</u> ~~to reflect any necessary changes~~. Any adjustment of the de minimis sales threshold shall become operative on January 1 of the following calendar year. Nothing in the section prevents a seller from collecting and remitting the surcharge on a voluntary basis even if they meet the de minimis threshold.

The de minimis sales threshold as defined, shall be based on the aggregate of all sales of prepaid mobile telephone services subject to the surcharge at all retail locations operated by the seller and not the individual sales at each retail location operated by the seller.

This section shall not apply to direct sellers, as defined in 42004(b)(1).

STAFF COMMENTS

The May 21, 2014, Assembly Appropriations analysis stated that BOE projected annual administrative costs of over $11 million for collection and implementation of the program. The BCP before the Subcommittee is for about ½ the costs included in the analysis. Granted that BOE has stated that the audits and collection components piece are not included in this proposal but will come in future budget years. BOE anticipates they will need approximately 2.1 additional positions for audit and collection components, at a cost of $286,000 in the first year and $254,000 ongoing.

DOF has worked with BOE to make the program more cost effective but it still includes a wide range of duplication in activity that exists in the proposal with regard to staffing. BOE has requested all permanent positions instead of limited term positions, "due to difficulties in hiring and retaining staff." Staff understands the challenges of limited term positions but feels that there are many unknowns that still exist in this new program.

The program is based on a universe of 6,500 retailers. It is unknown at the time if that number of retailers is correct until the program is implemented. In order to be able to adjust to the universe, staff would recommend the following six positions be adopted as limited-term instead of permanent in order to gather more information as the program moves forward:

- Sales and Use Department: (1) Business Tax Representative
- External Affairs – Customer Service Center: (2) Business Tax Representatives
- External Affairs – Outreach Services: (1) Associate Gov. Program Analyst
- Compliance and Technology Section: (1) Business Tax Specialist
- Audit and Information Section: (1) Business tax Specialist

Staff Recommendation: Approve SFL and adopt staff recommendation to change six positions from permanent to limited term positions as outlined above; adopt placeholder budget bill language, and adopt placeholder trailer bill language.

ISSUE 4: CIGARETTE TAX AND LICENSING PROGRAMS

The Legislative Analyst's Office will present an overview of Cigarette Tax and Licensing Program as well as their recommendations for the program.

BACKGROUND

The Subcommittee has discussed the issue of the Cigarette Tax and Licensing program at its May 21, 2014, and March 10, 2015, hearings. These hearings have focused on the administrative costs related to the General Fund and three special funds - the Breast Cancer fund, Prop 99, and Prop 10 – to fund the Cigarette and Tobacco Compliance Fund, created under AB 71 (Chapter 890, Statutes of 2003) and the role of the BOE to administer and collect the tax imposed on tobacco products in California.

Due to concerns about the administrative fees of the BOE and the timing of when those concerns came through the budget process, the Subcommittee adopted supplemental reporting language that required BOE to submit a report on the administrative costs of the cigarette and tobacco excise tax and licensing programs, hold a stakeholder meeting, and submit a report on alternative approaches for funding the licensing program. The intent of the supplemental reporting language was to gather information so that the Legislature could evaluate the proposal with the most information possible.

The BOE's report on the funding options yielded 11 proposals that fall under three categories: proposals to raise revenue to pay for licensing program costs, proposals to reduce licensing program administrative costs, and proposal to change the allocation of administrative costs.

As a result, at its March 10, 2015, hearing, the Subcommittee still had additional questions about how to address the issue of administrative costs. The LAO began working on a report that would provide recommendations on how to address the licensing fee.

LAO RECOMMENDATIONS

Summary of their recommendations

Tobacco excise Taxes and Licensing. California imposes excise taxes on cigarettes and on other tobacco products such as cigars and chewing tobacco. Most revenue from these taxes goes to special funds established by ballot measures. The state also licenses tobacco sellers and distributors.

State Administrative Costs. The BOE administers the cigarette and tobacco excise tax and licensing programs. Recently, there has been considerable legislative interest in these programs' costs. The Legislature faces two key decisions: how to pay for BOE's cigarette and tobacco programs, and how much to spend on them.

Recommendation. The LAO recommends that the state use excise tax revenue to pay for excise tax administration but not for the cigarette and tobacco licensing program. To address the current imbalance between the licensing program's costs and revenue, the LAO further recommends that the Legislature do the following:

- Temporarily increase fees on tobacco retailers, wholesalers, and distributors
- Direct BOE and The California Department of Justice (DOJ) to explore options to reduce the program's costs by promoting electronic filing of schedules and tax returns.

STAFF COMMENTS

The issue of the administrative costs will continue unless the Legislature takes steps to address them now. There are many things to consider in this discussion, including the natural decline of revenue from cigarette tax since less people are paying into the program, and ensuring additional oversight to create program efficiencies while balancing enforcement responsibilities under the master settlement agreement. The timing for addressing the administrative costs is very important. There are likely to be future ballot measures to increase the tax as well as new products such as e-cigarettes that may play a future role in the tax. The goal is to ensure that the appropriate level of funding is returning to the special funds rather than being diverted to administrative costs.

Staff Recommendation: Hold Open

0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

ISSUE 5: PROPOSAL FOR THE ADMINISTRATION OF CHEEF PILOT PROGRAM (INCLUDING THE SPRING FINANCE LETTER)

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

Additionally, the Spring Finance Letter requests increased reimbursement and expenditures authority in the amount of $85,000 for 2015-16, and increased reimbursement and expenditure authority in the amount of $918,000 for 2016-17. The Spring Finance Letter also requests two permanent positions.

BACKGROUND

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

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

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

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

STAFF COMMENTS

The Subcommittee first heard this item at its March 3, 2015, hearing. At that hearing, the Subcommittee directed staff to work with CAEATFA on supplemental reporting language to have CAEATFA report back on CHEEF. The agreed upon reporting language will be due in October 2016 and will report back on data points such as the number of lenders participating and financial products supported as well database of financing made through CHEEF pilot programs, providing aggregates and anonymous data.

Additionally, the SRL will call for CAEATFA to create a working group that will include key stakeholders to develop criteria for a comparative assessment of other finance programs available in California including Property Assessment Clean Energy (PACE) mechanisms and the legacy utility on bill financing for short term lending.

For the additional positions included in the Spring Finance Letter, staff would recommend that these positions be limited-term due to the nature of the program being a pilot and the need for additional reporting on the program.

Finally, staff would recommend adopting the proposed Trailer Bill Language below. It is the result of discussion of this item in Senate Budget Subcommittee and is expected to be adopted by the Senate Budget Subcommittee #4. Adopting this proposed Trailer Bill Provisions will allow the two houses to conform on this issue.

> *The CPUC is prohibited from directing ratepayer funds to create programs at any state agency without prior approval of the Legislature.*
>
> *The CPUC will provide a report on the outcomes of the CHEEF program to the policy and fiscal committees of the Legislature prior to approving any extension of the program, as part of a CPUC budget requests.*

Staff Recommendation: Approve the 2015-16 and 2016-17 funding and approve all positions on a limited-term basis. Adopt placeholder supplemental reporting language and placeholder trailer bill language.

0950 STATE TREASURER'S OFFICE

ISSUE 6: PERSONNEL SERVICES FUNDING (SPRING FINANCE LETTER)

This Spring Finance Letter would provide additional funding of $650,000 for compensation for existing STO staff in authorized positions. This would include compensation based on increased staff responsibilities, annual merit salary adjustments, and various unallocated budget adjustments. There are three divisions that are deficient in their personal services budget including public finance division, information technology division, and executive office. Funding for the proposals is based on reimbursements and funding from various boards, commissions, and authority under the STO. There is no General Fund impact.

BACKGROUND

In the past years, the STO has absorbed a number of operational costs without requesting and/or receiving corresponding relief in responsibilities and duties. According to the STO, these costs include, but are not limited to, staff level classification changes necessary to provide compensation commensurate with the level of responsibility and accountability for STO programs, annual merit salary adjustments for eligible employees, and various “unallocated budget reductions” to the STO budget. The deficiency in funding has required the STO to manage vacant positions in order to create enough savings to pay for all personal services.

Given California’s past budget constraints, the STO received minimal staff increases. However, the STO was allowed to upgrade key positions necessary to maintain its vital operations. Funds to pay the salary differential for upgraded positions were not provided until 2008, when, as part of the 2008 Budget Act, the STO requested a personal services augmentation. However, subsequent personal services budget reductions reduced the augmentation.

The STO administration, under newly elected Treasurer John Chiang, recognizes the critical need to staff all vacant positions and operate at full capacity to achieve all goals and objectives in his term of office. The three divisions within the STO that are deficient in their personal services allocation including the following:

- Public Finance Division - $245,000 (Reimbursements)
- Information Technology Division and Executive Office - $405,000

LAO COMMENTS

LAO indicates that it is not uncommon for departments to periodically have higher than expected personal services costs, but that departments are expected to manage their authorized positions within their budgeted authority. Additionally, LAO expresses concern that this proposal may not address the underlying causes of STO's personal services deficiency.

STAFF COMMENTS

Staff acknowledges the valid recommendations by the LAO discussing how departments are expected to manage their budgets. The challenges that are discussed by the STO regarding budgetary constraints are challenges that all departments within the state have faced over these past years. However, staff recognizes that the importance of retaining and recruiting staff.

Staff would recommend that during next year's budget process, the STO should report back on their vacant positions as a result of the increased funding for personal services to ensure that the STO moves in the direction of balancing authorized positions with budgetary authority.

Staff Recommendation: Approve as budgeted.

ISSUE 7: STAFF AUGMENTATION FOR STRATEGIC INFORMATION TECHNOLOGY INITIATIVES (SPRING FINANCE LETTER)

This Spring Finance Letter from the STO, requests upgrades and improvements to the STO information technology (IT) technical services. The proposal includes 11 new positions in three areas (as discussed below) and $1.4 million (reimbursements and special funds).

- Five additional positions for the Data and Government Transparency Unit, to redesign and expand the STO's public website and interfaces with various databases.
- Three additional positions for the Project Management Office, to establish a permanent presence at the STO, in response to a request from the California Department of Technology.
- Three positions for technical support services, to address additional workload from the prior Administration, and manage the conversion from obsolete and dated systems.

BACKGROUND

The STO is attempting to improve the accessibility to services, data and information provided, as well as to improve and upgrade its IT capabilities. The proposal will realign funding in accordance with benefits received and would be consistent with the Treasurer's strategic plan.

LAO COMMENTS

The LAO recommends rejecting the proposed funding positions for the Data and Government Transparency Unit to redesign STO's website and the Project Management Office. LAO states that STO has not adequately justified the creation of these two new units justify the additional costs of five staff on an ongoing basis.

According to the LAO, STO has not identified sufficient ongoing project management needs to justify three positions for this workload on an ongoing basis. LAO states that this proposal would be more appropriate during the January budget process. This additional time would allow STO to further refine their plan and justification for these new units and would also provide the Legislature with additional opportunity to more fully evaluate STO's request to undertake these new activities.

LAO has no concerns with the two technical IT positions or the Deputy Chief of Information Technology position (about $350,000).

STAFF COMMENTS

During its April 21, 2015, hearing, the Subcommittee provided oversight on various IT projects in all stages of development throughout the state. Staff agrees with the LAO, proposals of this magnitude usually come about through the January budget process. This is to ensure that staff and the LAO have adequate time to ask questions and to receive answers that satisfy those questions. This particular proposal was not included in the January budget, because the new Treasurer did not take office until after the January budget was in process. This proposal, which has merit, was only released in a Spring Finance letter and public input on this proposal has been very limited.

Staff has no concerns with funding for the requested positions for the Project Management Office. However, staff agrees with the LAO would recommend a more cautious approach to the new Data and Government Transparency Unit.

Staff Recommendation: Approve one initial position for Data and Government Transparency Unit; Approve funding the requested positions for the Project Management Office; and approve funding for the two technical IT positions on a limited-term basis and approve the IT Deputy chief.