

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

ASSEMBLYMEMBER WENDY CARRILLO, CHAIR

TUESDAY, MARCH 1, 2022

1:30 P.M. – STATE CAPITOL, ROOM 447

The public may attend this hearing in person or participate by phone. Any member of the public attending this hearing will need to wear a mask at all times while in the building location. This hearing can be viewed via live stream on the Assembly's website at <https://assembly.ca.gov/todayevents>.

We encourage the public to provide written testimony before the hearing. Please send your written testimony to: BudgetSub4@asm.ca.gov. Please note that any written testimony submitted to the committee is considered public comment and may be read into the record or reprinted.

*A moderated telephone line will be available to assist with public participation. The public may provide comment by calling the following toll-free number: **877-692-8957 / Access Code: 131 54 47.***

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NON-DISCUSSION ITEMS

0890 SECRETARY OF STATE

ISSUE 1: LEGISLATIVE IMPLEMENTATION-RELATED PROPOSALS
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The Governor's budget includes four BCPs for the Secretary of State that implement various legislation.

BCP 1: California New Motor Voter Program Task Force (AB 796)

The SOS requests \$581,000 General Fund in 2022-23 and \$466,000 General Fund annually thereafter to fund one IT Specialist II, one Research Specialist III, and one Associate Governmental Program Analyst to implement and administer the provisions of AB 796 (Berman, Chapter 314, Statutes of 2021)

AB 796. AB 796 requires a driver's license or identification card application, renewal, or change of address notification to include a voter registration application and would require the Department of Motor Vehicles (DMV) to transmit the application to the SOS according to specified deadlines. The bill would also require the DMV to monitor the timeliness of its transmittals to the SOS, and to provide the SOS information regarding delays and irregularities in its ability to do so. The bill would require the DMV and SOS each to designate an employee to undertake specified responsibilities to ensure compliance with the California New Motor Voter Program and the National Voter Registration Act (NVRA). The bill finally would require the SOS to convene a task force that would provide advice and perform other duties with respect to implementing the California New Motor Voter Program.

This bill followed continued challenges with modernizing the voter registration process at the DMV and with bringing California in compliance with the NVRA. The NVRA, among other provisions, requires the DMV to provide customers the opportunity to register to vote when completing an application for a driver's license or an identification card, when renewing a driver's license or an identification card, or when a change of address transaction takes place. AB 796 codifies several provisions enacted through a settlement agreement in *League of Women Voters v. Annis*.

Proposal. Requested funding would primarily be to cover the expenses for the position of NVRA coordinator and the staff for the taskforce that the SOS is mandated to establish. A Research Data Specialist III is also being requested to work with the SOS' current VoteCal contractors to analyze the voter registration data and assume the responsibilities.

BCP 2: Campaign Disclosures: Limited Liability Companies (SB 686)

The SOS requests \$566,000 General Fund in 2022-23 and \$125,000 General Fund annually thereafter to support one Associate Governmental Program Analyst position and

to incorporate the changes and new filing type to the California Automated Lobbyist and Campaign Contribution and Expenditure Search System (CAL-ACCESS) Replacement System (CARS). Those resources aim to implement SB 686 (Glazer, Chapter 321, Statutes of 2021).

SB 686. SB 686 requires a limited liability company (LLC) that qualifies as a committee or a sponsor of a committee under the Political Reform Act of 1974 to file a statement of members with the SOS. The bill would require the statement of members to include certain information about the LLC, including a list of all persons who have a membership interest in the LLC of at least 10% or who made a cumulative capital contribution of at least \$10,000 to the LLC after it qualified as a committee or sponsor of a committee, or within the 12 months before it qualified.

Proposal. According to the SOS, due to o increased filing activity and assistance with increased filing complexity, one new full time AGPA position will be needed in the SOS' Political Reform Division (PRD). SOS notes that PRD staff are currently unable to handle these additional activities in a timely manner with existing resources. Initially, this new position will assist with integrating new required forms into the SOS's business practices as well as into CAL-ACCESS. These business practices include identifying filing requirements, identifying when this form will be considered late, drafting correspondence templates, and coordinating with other SOS staff to update filing and compliance activities. Integration into CAL-ACCESS will involve working with system developers and Project Management Office staff to ensure proper implementation. Once the form begins to be filed, this position will review filings that come in and assist filers as they file. This position will also refer these filings to SOS and FPPC compliance staff as appropriate.

Of note, this bill has a delayed implementation provision that allows filers to submit the form on paper until the form is integrated digitally into CAL-ACCESS. During this interim period, the new AGPA position will process the paper form and post it to the SOS website as required by the SB 686's provisions. After the form is implemented in CAL-ACCESS, this same AGPA will support filing on that platform on an ongoing basis.

BCP 3: Electioneering Regulations (SB 35)

The SOS requests one time funding of \$50,000 General Fund in 2022-23 for temporary help to assist in the promulgation of regulations required by SB 35 (Umberg, Chapter 318, Statutes of 2021)

SB 35. SB 35 makes changes to the distance within which electioneering and specified political activities near a voting site are prohibited. This bill also extends an existing deadline for a candidate for Governor to submit tax returns to the SOS in order to have the candidate's name printed on the direct primary election ballot and makes changes to the process for submitting those documents.

Proposal. To comply with the provisions of SB 35, the SOS notes that it will be required to promulgate regulations specifying the manner in which notice regarding prohibitions on

electioneering and activity related to corruption of the voting process to be provided to the public. The goal of those regulations will be to ensure the uniform statewide application of the law and the consistent application of the law. According to the SOS, it will need to work with county elections officials, voting rights advocates, and other stakeholders to promulgate and adopt these regulations. The regulatory process will take approximately six to twelve months and includes drafting the text of the regulations and reviewing with agency staff and stakeholders, public notice and publishing of the draft regulations, conducting public hearings, considering comments and drafting potential amendments to the regulations, and final adoption of the regulations. Resources requested would be directed to obtain temporary assistance in the creation of these regulations.

BCP 4: Ensuring Safe at Home Applications and Materials are Available in Additional Languages (AB 277)

The SOS requests \$44,000 General Fund in 2022-23 and \$9,000 General Fund annually thereafter to implement AB 277 (Valladares, Chapter 457, Statutes of 2021) which expands language access to the Safe at Home Program.

AB 277. The Safe at Home program, created in 1998, allows victims of domestic violence or stalking to obtain an alternate confidential address to be used in public records. The program has been expanded over time to include victims of other crimes – including sexual assault, human trafficking, stalking, and elder or dependent adult abuse. In 2002, the Safe at Home program was expanded to include reproductive health care services providers, employees, volunteers and patients who are fearful of their safety. The SOS is responsible for providing a substitute address for these victims while protecting their actual residential addresses, and also acts as the participants' agent for service of process, and forwards mail received at the substitute address. A participant must be certified by the enrolling office and may stay in the program for four years unless recertified.

AB 277 requires the SOS, beginning January 1, 2023, to provide application forms, notices, and explanatory materials related to the Safe at Home program available in at least five languages (English, Spanish, Chinese, Tagalog, Vietnamese, and Korean) and requires information about the Safe at Home program to be included on Judicial Council forms relating to domestic violence.

Proposal. Additional funding requested to implement program expansion would be directed to execute the following activities:

- Providing translation services for all supporting documents.
- Direct language translation services for members of the public or applicants who contact the SOS' Safe at Home program with questions and eliminate potential language barrier issues.
- Printing all informational brochures.

According to the SOS, staff resources needed to implement program expansion is estimated to be minimal and can be absorbed by the SOS.

ISSUE 2: HELP AMERICA VOTE-RELATED PROPOSALS

The Governor's budget includes two proposals related to the federal Help America Vote Act.

BCP 1: Help America Vote Act Spending Plan

The Secretary of State requests \$3.7 million Federal Trust Fund in 2022-23 to continue implementation of the statewide mandates of the Help America Vote Act (HAVA) of 2002.

HAVA. The enactment of HAVA created several new mandates for California with respect to conducting federal elections. California met many of these requirements for the March 2, 2004, federal election, as required by HAVA; however, most of the HAVA requirements had an implementation date of January 1, 2006, or, in some cases, no later than the first federal election after January 1, 2006. California met the deadlines for implementing most of the new mandates but was successful in negotiating additional time for creating and implementing the required statewide voter registration database (VoteCal), which was deployed in August 2016.

Proposal. In 2021-22, the SOS was authorized to expend \$22.735 million for voter education and training programs for election officials and poll workers, development and dissemination of voting information to increase voter participation and confidence, voting system testing and approval, county assistance for improving voting systems, implementing risk limit auditing, ensuring election assistance for individuals with disabilities, and improving the secure administration of elections. SOS proposes to expend \$3.73 million for 2022-23 to continue these activities.

BCP 2: Help America Vote Act spending Plan – VoteCal

The Secretary of State requests \$10.2 million Federal Trust Fund authority in 2022-23 to cover the procurement costs of a new maintenance and operations vendor and data analysis, security assessment, Election Management Systems support and verification, data lines, security enhancements, and off-premises cloud costs for the statewide voter registration system, VoteCal.

VoteCal serves as the single system for storing and managing the official list of registered voters in the state. Additionally, HAVA mandates that the voter registration system utilize data that is contained in systems at the Department of Motor Vehicles, the California Department of Public Health, and the California Department of Corrections and Rehabilitation for voter identification or verification and list maintenance purposes. The VoteCal system also interfaces with the Employment Development Department to validate and correct address information against the U.S. Postal Service's National Change of Address system as required by state and federal law.

Proposal. The SOS requests additional Federal Trust Fund authority to support the procurement costs of a new VoteCal maintenance and operations vendor due to the current vendor's contract expiring; data analysis, security assessment, and Election

Management and Systems support and verification contracts to analyze and support the VoteCal system for vulnerabilities and performance enhancements; increased connectivity costs with counties; and the maintenance of the VoteCal system on a CDT off-premise cloud environment.

8620 FAIR POLITICAL PRACTICE COMMISSION

ISSUE 3: CAMPAIGN DISCLOSURES: LIMITED LIABILITY COMPANIES (SB 686)

The Fair Political Practices Commission (FPPC) is requesting one permanent position and \$131,000 General Fund in 2022-23 and \$124,000 annually thereafter to implement the provisions of Chapter 321, Statutes of 2021 (SB 686). SB 686 requires an LLC that qualifies as a campaign committee or a sponsor of a campaign committee under the Act to file a statement of members with the Secretary of State. The statement of members must include certain information about the LLC, including a list of all persons who have a membership interest in the LLC of at least 10 percent or who made a cumulative capital contribution of at least \$10,000 to the LLC after it qualified as a committee or sponsor of a committee, or within the 12 months before it qualified. The FPPC anticipates an increase in the number of investigations on potential violations and in bringing appropriate enforcement actions against those in violation of the Act. This proposal would add one permanent position, a Special Investigator to conduct investigations for each complaint in relation to the LLC.

1111 DEPARTMENT OF CONSUMER AFFAIRS

ISSUE 4: OFFICE OF HUMAN RESOURCES – LEGISLATIVE AND REGULATORY CONSULTANT

The Department of Consumer Affairs Office of Human Resources (OHR) requests \$175,000 in fiscal year 2022-23, \$167,000 in 2023-24 and ongoing, and one Staff Services Manager I (SSM I) specialist to address workload increases related to legislative and regulatory changes impacting employment law and coordinate the application and interpretation of directives for the Department. OHR does not have a position designated to this responsibility.

ITEMS TO BE HEARD

1115 DEPARTMENT OF CANNABIS CONTROL

OVERVIEW

The Governor's budget includes two budget change proposals (BCPs) for the newly consolidated Department of Cannabis Control (DCC). For the first panel, the subcommittee will receive an update from DCC consolidation efforts, including licensing and enforcement activities, and review the BCPs. The second panel will discuss proposed efforts to reform the California cannabis tax structure.

ISSUE 1: UPDATE ON DCC AND DEPARTMENT BUDGET CHANGE PROPOSALS

DCC will provide an update on cannabis licensing and enforcement activities and discuss the two BCPs included in the Governor's budget.

PANEL

The following individuals will participate in the virtual panel for this issue:

- Nicole Elliott, Director, Department of Cannabis Control
- Rasha Salama, Chief Deputy Director, Department of Cannabis Control
- Charlene Manning, Staff Finance Budget Analyst, Department of Finance
- Kimberly Harbison, Principal Program Budget Analyst, Department of Finance
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office
- Jessica Peters, Principal Fiscal & Policy Analyst, Legislative Analyst's Office

BACKGROUND

Brief history of Cannabis policy in California. In 1996, California voters approved Proposition 215, known as the Compassionate Use Act, which legalized the use of medicinal cannabis in the state. In October 2015, Governor Jerry Brown signed a legislative package made of AB 243 (Wood, Chapter 688, Statutes of 2015), AB 266 (Bonta, Cooley, Jones-Sawyer, Lackey, and Wood, Chapter 689, Statutes of 2015), and SB 643 (McGuire, Chapter 719, Statutes of 2015) – collectively referred to as the Medical Cannabis Regulation and Safety Act (MCRSA) – which established California's first comprehensive regulatory framework for medicinal cannabis. In 2016, California voters subsequently approved Proposition 64, the Adult Use of Marijuana Act (AUMA), which aimed to legalize the recreational use of cannabis in the state by 2018. In June 2017, AUMA and MCRSA were combined to form one system for the regulation of cannabis, known as MAUCRSA.

Following Proposition 64, three state entities were charged with licensing and regulating adult-use commercial activity in California: the Bureau of Cannabis Control (BCC), responsible for licensing retailers, distributors, testing laboratories, and businesses; the California Department of Food and Agriculture (CDFA) CalCannabis Cultivation Licensing Division, responsible for licensing cultivators and implementing California's "track-and-trace" system; and the California Department of Public Health (CDPH) Manufactured Cannabis Safety Branch, responsible for licensing manufacturers of cannabis products, including all non-flower products such as cannabis edibles.

Department of Cannabis Control

In July of 2021, as a result of Assembly Bill 141 (Committee on Budget, Chapter 70, Statutes of 2021) the functions of the BCC, CDFA and CDPH were consolidated into a new, stand-alone Department of Cannabis Control (DCC) under the umbrella of the Business, Consumer Services, and Housing Agency. The consolidation aimed to create a single point of contact for licensees, local governments and other cannabis stakeholders, as well as centralize all licensing and regulatory activities. Today, the DCC is responsible for regulating the cultivation of cannabis plants, the manufacturing of cannabis product, the transportation, tracking and sale of cannabis goods, and the labeling of goods sold by retail entities.

The Governor's 2022-23 budget proposes \$181 million for the DCC and 626 positions. The primary source of funding for the DCC is derived from application, licensing, and renewal fees, which are deposited in the Cannabis Control Fund. Proposed funding for DCC and funding sources are included below.

			Positions			Expenditures		
			2020-21	2021-22	2022-23	2020-21*	2021-22*	2022-23*
1460	Department of Cannabis Control		-	624.0	626.0	\$-	\$293,584	\$181,117
TOTALS, POSITIONS AND EXPENDITURES (All Programs)			-	624.0	626.0	\$-	\$293,584	\$181,117
FUNDING						2020-21*	2021-22*	2022-23*
0001	General Fund					\$-	\$125,733	\$1,429
0995	Reimbursements					-	185	737
3288	Cannabis Control Fund					-	157,666	155,277
3335	Cannabis Tax Fund - Cannabis Control					-	-	13,674
3346	Cannabis Tax Fund - Department of Cannabis Control - Allocation 2					-	10,000	10,000
TOTALS, EXPENDITURES, ALL FUNDS						\$-	\$293,584	\$181,117

DCC Licensing and Enforcement Activities

Licensing

Prior to consolidation, the BCC oversaw the licensing of cannabis distributors, retailers, microbusinesses, temporary cannabis events, and testing laboratories. CDFA was responsible for licensing cannabis cultivators and overseeing the administration of the California Track and Trace System. Finally, CDPH was responsible for licensing cannabis manufacturers. At the time, in order to meet licensing requirements and deadlines, each entity established their own separate licensing systems, with the BCC and CDFA using the software platform Accela, and CDPH using the platform PEGA.

Post-consolidation of regulatory duties into the DCC, the decision was made to maintain all three separate licensing system to prevent any disruption in licensing and renewal activities. DCC is currently examining ways to centralize all licensing applications into a single platform.

Enforcement

In addition to legalizing the adult-use of recreational cannabis, Proposition 64 aimed to create a legal cannabis market to ensure the manufacturing and sale of safe products for the California public. In order to enter the legal market and operate a cannabis business, applicants must undergo a multi-layered licensing process that involves obtaining local permits, filing an application with DCC, pay applicable licensing fees, and ensure continued compliance with California's various laws and regulations.

The illicit cannabis market -- broadly defined as commercial cannabis activities that do not comply with the California regulatory structure -- can pose a significant threat to legal cannabis businesses and the overall stability of the cannabis market. Legal cannabis entities must compete with illegal operators, who can circumvent the licensing process and tax responsibilities entirely.

The DCC is responsible for various enforcement activities on the cannabis market. This includes investigating complaints of unlicensed or illegal cannabis activity and preventing unsafe products from entering the legal cannabis market. Through its Compliance and Enforcement Divisions, DCC collaborates with cities, counties, law enforcement and other state agencies to enforce California's cannabis laws and regulations. The DCC Enforcement Division's budget is \$13,600,000. The Enforcement Division has 87 positions, 77 peace officer positions and 10 non-sworn administrative positions.

Other state entities play a role in combating the illegal cannabis market. The California Department of Justice operates the Campaign Against Marijuana Planting (CAMP) program which aims to eliminate large scale cannabis cultivations. In October 2021, the Office of the California Attorney General announced that it had eradicated 1.2 million

illegally cultivated cannabis plants, seized 180,294 pounds of illegal product, and conducted 491 operations across 26 California counties. The DOJ notes illegal cannabis cultivation continues to move away from public land operations to private property. In 2018, the ratio of illegal activity was approximately 80 percent on public lands and 20 percent on private property. The number of illegal cannabis grows on public lands has continued to decrease steadily over the last few years and in 2021, the DOJ's CAMP program cited less than 30 percent of illegal cultivation activity on public lands.

Similarly, the California Department of Fish and Wildlife investigates illegal cannabis cultivation operations to uncover and eliminate operations that cause significant environmental damage, such as water diversions, habitat destruction, and illegal use of pesticides and poaching. In its year-end numbers for 2021, CDFW reported eradicating 2.6 million illegal cannabis plants, destroying 2 487,270 pounds of illegal cannabis flowers, issuing 1,125 warrants, and removing 32,230 pounds of trash from public lands.

The Governor's budget notes that "The Administration intends to further develop a grant program this spring that will aid local governments in, at a minimum, opening up legal retail access to consumers. Further, the Administration supports cannabis tax reform and plans to work with the Legislature to make modifications to California's cannabis tax policy to help stabilize the market; better support California's small licensed operators; and strengthen compliance with state law."

Licensing and Enforcement by the Numbers

The following data on license status was obtained from the DCC's Cannabis Unified License Search.

License Status*	#
Active	12,429
Canceled	4
Expired	1,922
Revoked	119
Suspended	11
Surrendered	583

*includes all license types in commercial, cultivation, and manufacturer categories

DCC Budget Change Proposals

The Governor's budget includes two proposals for DCC, which are detailed below.

BCP 1: Cannabis Tax Fund – Priority 1 Allocation (Total \$13.7M Cannabis Tax Fund)

DCC requests \$13.7 million in 2022-23 from the Cannabis Tax Fund for three activities: (1) an IT assessment of a unified cannabis licensing system, (2) a consumer awareness campaign, and (3) a data collection and sharing efforts.

IT Assessment (\$5.5M). As discussed above, following the centralization of regulatory duties into DCC, the decision was made to maintain all three separate licensing system that were used by the BCC, CDFA, and CDPH to prevent any disruption in licensing and renewal activities. DCC acknowledges that while these platforms provide continuity, they do not provide the necessary uniformity and agility for the DCC to meet the overall objectives of consolidation, which is to simplify and centralize the licensing process.

This proposal would begin the process of transitioning existing data and planning for a unified cannabis licensing and compliance system. DCC will conduct an IT assessment, in which the Department will identify, document, and map its current business processes and operations within the licensing and compliance divisions. The documentation of these business processes will then be analyzed to inform the development of ideal system requirements. The Department intends to procure services to provide project management and business analysis expertise to facilitate and manage this process to the procurement phase.

Consumer Awareness Campaign (\$6M). This proposal would fund a campaign to provide consumers information needed to purchase cannabis through the legal, regulated market and to deter use of untested, unsafe product obtained from the illicit market. The campaign also aims to provide information about responsible use and consumption of cannabis products.

DCC outlines two phases for this campaign. The first phase will be research & concept development, which will focus on identifying the consumer population, assessing their understanding of the legal cannabis market, identifying areas of opportunity for education, development of a communication strategy, and for the creation of original content. The second phase will be production and campaign rollout, which will use various mediums including web collaterals, social media, TV, radio, and podcasts to disseminate information.

Data Sharing (\$2M). DCC currently collects data through its licensing, compliance, and enforcement programs. Data collected includes information on business activities, business locations and ownership; local allowances and prohibitions for cannabis activity

types; market health and economic activity; public complaints, and unlicensed enforcement outcomes. According to DCC, limited infrastructure has been developed to aggregate this data and use it for actionable analysis. DCC proposes funding the development of a data warehouse that aggregates the information from the multiple sources DCC currently works with. In addition, funding would create data tools to “clean” and maintain the data, and create data displays and visualizations.

BCP 2: Industrial Hemp Products (AB 45)

DCC requests two positions and \$737,000 in 2022-23, and two positions and \$454,000 in 2023-24 and ongoing in reimbursement authority (Fund 0995) to test Industrial Hemp product for a range of cannabinoids for the CDPH through an Interagency Agreement.

Background. Over the last several years, IH-derived cannabinoids, including cannabidiol (CBD) in foods, beverages, and cosmetics, have gained significant popularity with consumers. CBD is one of approximately 100 cannabinoid compounds and can be found in both cannabis plants and IH plants. CBD is not psychoactive, and therefore does not produce a “high” in the consumer, unlike tetrahydrocannabinol (THC) found in non-IH cannabis.

As there are currently no federal standards of IH CBD, several other states have enacted their own laws to allow the sale of IH products. In California, AB 45 (Aguiar-Curry, Chapter 576, Statutes of 2021) authorizes CDPH to establish a program regulating the use of IH and its cannabinoids, extracts, or derivatives in foods, beverages, cosmetics, and pet food products. Of note, AB 45 requires IH products to contain no more than 0.3 percent concentration of THC.

Under AB 45, CDPH would be required to test various IH products, ingredients, and hemp extract to ensure manufacturer compliance and conduct enforcement. CDPH plans to use DCC’s Cannabis Testing Laboratory, which has already established expertise in testing for a wide range of cannabinoids in foods, cosmetics, and inhalable products, via an interagency agreement. In order to perform its contractual obligations, the DCC Laboratory requests funding for equipment, lab analytes to conduct testing, and two positions (a Research Scientist II and a Laboratory Technician).

STAFF COMMENTS

This Subcommittee may wish to ask the following questions:

1. What are the DCC’s short and long-term goals to curb the illicit cannabis market? What enforcement investments, resources, or partnerships would DCC need to improve its enforcement operations?

2. Does DCC have an estimated timeline by when the IT assessment would be complete, and a general time window by when a unified licensing platform could be established?
3. For the proposed awareness campaign, what is DCC's projected target audience? Will the campaign have specific regional focus? Will the campaign have multi-lingual components?

Staff Recommendation: Hold Open

ISSUE 2: CANNABIS TAX REFORM

The Governor's budget notes that "the Administration supports cannabis tax reform and plans to work with the Legislature to make modifications to California's cannabis tax policy to help stabilize the market; better support California's small licensed operators; and strengthen compliance with state law."

This Subcommittee will hear a presentation on the current cannabis tax structure in California and potential upcoming proposals for reform.

Panel

The following individuals will participate in the virtual panel for this issue:

- Seth Kerstein, Economist, Legislative Analyst's Office
- Nick Maduros, Director, California Department of Tax and Fee Administration
- Nicole Elliott, Director, Department of Cannabis Control
- Rasha Salama, Chief Deputy Director, Department of Cannabis Control
- Charlene Manning, Staff Finance Budget Analyst, Department of Finance
- Kimberly Harbison, Principal Program Budget Analyst, Department of Finance

BACKGROUND

Taxation of Cannabis in California. Proposition 64 establishes two state excise taxes on cannabis. The first is a 15 percent excise tax on retail gross receipts. The second is a cultivation tax on harvested plants that is based on weight. The California Department of Tax and Fee Administration (CDTFA), which administers these cannabis taxes, adjusts the cultivation tax rates annually for inflation.

Beginning January 1, 2022, the cultivation tax rates were adjusted, as displayed below:

Cannabis Category	Date Effective 1/1/2020-12/31/2021	New Rate Effective 1/1/2022
Flowers per dry-weight ounce	\$9.65	\$10.08
Leaves per dry-weight ounce	\$2.87	\$3.00
Fresh cannabis plant per ounce	\$1.35	\$1.41

In addition to the two state excise taxes, local governments such as cities and counties may set additional cannabis taxes at their discretion. Generally, these taxes have come in the form of sales tax or unit-based tax on the total square footage of the plant canopy grown by cultivators.

Retail Excise Tax & Point-of-Collection. Cultivators and retailers bear the legal responsibility for the initial payment of the cultivation and retail excise taxes, respectively. However, it is final cannabis distributors—rather than cultivators or retailers— that must remit these taxes to CDTFA, resulting in a multistep payment process.

Retailers must generally pay the retail excise tax to final distributors when they make wholesale purchases. These distributors then remit the retail excise taxes to CDTFA. Retailers must make these payments before they sell the products to consumers, so the tax is based directly on the wholesale price rather than the retail price. CDTFA is responsible for setting the tax based on its estimate of the average ratio of retail prices to wholesale prices, a term commonly referred to as the “mark-up” rate. In 2019, CDTFA has raised the mark-up rate from 60% percent to 80%.

Tax Revenues and Allocations. California deposits the revenues from the two cannabis taxes into the Cannabis Tax Fund. Proposition 64 continuously appropriates Cannabis Tax Fund proceeds to fund three types of activities:

- *Allocation 1—Regulatory and Administrative Costs.* First, tax revenues pay back specific state agencies for any cannabis regulatory and administrative costs that were not covered by licensing and renewal fees.
- *Allocation 2—Specified Allocations.* Second, after regulatory and administrative costs are covered, revenues go to certain research and other programs, such as researching the effects of cannabis and the effects of the measure.
- *Allocation 3—Percentage Allocations.* Third, these revenues go to three broad types of activities: 60 percent for youth programs related to substance use education, prevention, and treatment; 20 percent for environmental programs; and 20 percent for law enforcement. (Unlike the other allocations, funding for Allocation 3 comes from tax receipts from the prior year.)

Allocation funding for 2020-21, 2021-22, and proposed allocation funding for 2022-23 is outlined on the next page. Of note, the Administration projects that cannabis tax revenues will be \$786 million in 2022-23, an increase of \$78.9 million from the prior fiscal year.

California Department of Tax and Fee Administration

California Cannabis Tax Fund (3314) Estimated Revenues & Expenditure Allocations

	2020-21*	2021-22*	2022-23*
REVENUES:			
Beginning Balance	\$337,762	\$669,610	\$594,868
Cannabis Tax	770,380	710,915	786,836
Total Revenues	\$1,108,142	\$1,380,525	\$1,381,704
Allocation 1: Regulatory and Administrative			
Bureau of Cannabis Control (Equity Program)	15,517	-	-
Governor's Office of Business and Economic Development (Equity Program)	-	15,573	15,574
Department of Cannabis Control	-	-	13,674
Department of Fish and Wildlife	7,783	9,084	10,431
Department of Pesticide Regulation	3,418	2,726	2,729
State Water Resources Control Board	10,097	10,728	10,723
Employment Development Department	3,633	3,630	3,630
Department of Tax and Fee Administration	12,425	9,347	9,750
State Controller's Office	-	-	502
Department of Finance	-	440	-
Statewide General Administration	2,897	9,519	14,419
Total Allocation 1	\$55,770	\$61,047	\$81,432
Allocation 2: Specified Allocations for Research and Other Programs			
Public University/Universities in California	10,000	10,000	10,000
California Highway Patrol	3,000	3,000	3,000
Governor's Office of Business and Economic Development	30,000	40,000	50,000
University of San Diego Center for Medicinal Cannabis Research	2,000	2,000	2,000
Total Allocation 2	\$45,000	\$55,000	\$65,000
Allocation 3: Percentage of Remaining Revenue Collection			
Youth Education Prevention, Early Intervention and Treatment Account	202,657	401,766	356,921
Environmental Restoration and Protection Account	67,552	133,922	118,974
State and Local Government Law Enforcement Account	67,552	133,922	118,974
Total Allocation 3	\$337,762	\$669,610	\$594,868
Based on prior year actual tax collection			
Total Expenditures	\$438,532	\$785,657	\$741,300
Balance of Tax Receipts	\$669,610	\$594,868	\$640,404

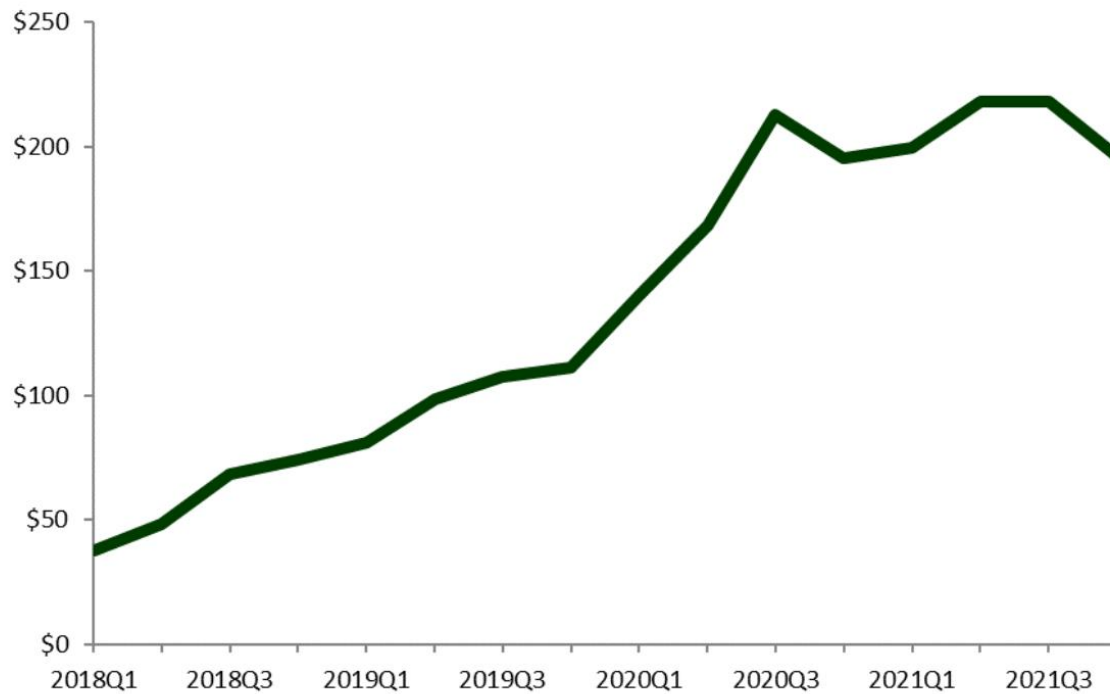
On February 23, 2022, the LAO provided the following Cannabis Tax Revenue Update:

Preliminary Total for Second Quarter of 2021-22: \$196 Million. The administration currently estimates that retail excise tax revenue was \$157 million and cultivation tax revenue was \$39 million in the second quarter of fiscal year 2021-22 (October through December). This revenue estimate is lower than the revised numbers for each of the three prior quarters.

Cannabis Tax Revenue Growth Has Slowed. Based on the administration's current estimate, cannabis tax revenue in the first two quarters of 2021-22 was just 1.6 percent higher than in the first two quarters of 2020-21. This weak growth rate stands in stark contrast to the rapid revenue growth that occurred in the first few years of cannabis licensing.

Quarterly Cannabis Tax Revenue

Millions of Dollars Per Quarter

**STAFF COMMENT**

The Subcommittee may wish to ask the following questions:

1. What are the factors that contribute to fluctuations in cannabis tax revenue?
2. Are there lessons learned from cannabis tax structures in other states?
3. Are there projections modeling how tax levels impact consumption, revenues, and the illicit market?

Staff Recommendation: This item is presented for information only.

0890 SECRETARY OF STATE

OVERVIEW

In the first panel, the Secretary of State (SOS) will provide a report on the costs of the 2021 California gubernatorial recall election. In the second panel, the Subcommittee will hear seven BCPs related to the SOS' facilities as well as its Information Technology (IT) projects. This Subcommittee will also review a proposal to waive business filing fees.

ISSUE 3: COST OF THE 2021 CALIFORNIA GUBERNATORIAL RECALL ELECTION

The SOS will provide a report on the costs of the 2021 California gubernatorial recall election.

PANEL

- Susan Lapsley, Office of the Secretary of State

BACKGROUND

On June 23, 2021, the SOS notified the Department of Finance (DOF) that a sufficient number of verified signatures had been submitted to initiate a gubernatorial recall election. Existing law provides that in such instances, the DOF is required to consult with county elections officials and the SOS to estimate the costs of the recall election and submit the estimate to the Governor, the SOS, and the Chairperson of the Joint Legislative Budget Committee. The estimate must consider costs of verifying signatures, printing ballots, voter information guides, operating polling places, as well as the costs if the recall election was to be held as a special election or consolidated with the next regularly scheduled election.

On July 1, 2021, DOF provided an original estimate of \$215.2 million to administer a statewide special recall election. AB 121 (Ting, Chapter 21, Statutes of 2021) appropriated that amount from the General Fund, and provided that any excess funds received by the county shall be used to offset state costs for the next election conducted by the county. AB 121 also required the SOS to report the final costs of the gubernatorial recall election by February 1, 2022.

Subsequently, SB 152 (Committee on Budget and Fiscal Review, Chapter 34, Statutes of 2021) required the recall election to be held as a regular election. Working with county elections officials, DOF updated estimated the costs of the recall elections to be \$243,583,308.50. Additionally, SB 152 appropriated an additional \$35,000,000 from the General Fund to the Secretary of State for the purpose of supporting statewide and county costs related to administering the recall election.

Therefore, as a result of AB 128 and SB 152, \$243,583,308.50 was allocated to California's 58 counties and \$35,000,000 was allocated to the SOS, for a total of \$278,583,308.50, to conduct the September 14, 2021 gubernatorial recall elections.

Final Cost. The SOS reports that the total statewide cost of the gubernatorial recall election was \$200,241,680. Of that amount, \$174,059,031.11 were costs incurred by the county and \$26,182,649.08 were incurred by the SOS.

County Cost Breakdown. The total cost by county is detailed below.

County	Allocated Gubernatorial Recall Election Costs	Actual Gubernatorial Recall Election Costs	Remaining Balance of Funds from Gubernatorial Recall Election Allocation	Additional Funding Needed for Gubernatorial Recall Election Costs Incurred
Alameda	\$21,013,151.00	\$9,605,891.79	\$11,407,259.21	
Alpine	\$41,950.00	\$43,416.92	(\$1,466.92)	\$1,466.92
Amador	\$119,440.00	\$120,043.62	(\$603.62)	\$603.62
Butte	\$958,450.00	\$580,905.39	\$377,544.61	
Calaveras	\$194,197.00	\$222,843.52	(\$28,646.52)	\$28,646.52
Colusa	\$101,395.00	\$122,161.64	(\$20,766.64)	\$20,766.64
Contra Costa	\$5,506,800.00	\$4,976,675.37	\$530,124.63	
Del Norte	\$120,447.00	\$112,217.56	\$8,229.44	
El Dorado	\$879,750.00	\$724,917.63	\$154,832.37	
Fresno	\$4,072,000.00	\$3,096,230.24	\$975,769.76	
Glenn	\$198,645.00	\$138,959.63	\$59,685.37	
Humboldt	\$585,300.00	\$494,411.95	\$90,888.05	
Imperial	\$490,165.00	\$431,732.99	\$58,432.01	
Inyo	\$97,777.47	\$160,049.63	(\$62,272.16)	\$62,272.16
Kern	\$2,916,032.00	\$1,972,111.59	\$943,920.41	
Kings	\$546,497.00	\$259,097.20	\$287,399.80	
Lake	\$306,275.00	\$272,013.13	\$34,261.87	
Lassen	\$74,700.00	\$95,036.00	(\$20,336.00)	\$20,336.00
Los Angeles	\$59,793,000.00	\$52,920,735.00	\$6,872,265.00	
Madera	\$743,800.00	\$643,007.34	\$100,792.66	
Marin	\$1,617,392.00	\$1,221,644.12	\$395,747.88	
Mariposa	\$64,275.00	\$70,549.81	(\$6,274.81)	\$6,274.81
Mendocino	\$293,004.00	\$457,631.16	(\$164,627.16)	\$164,627.16
Merced	\$1,108,813.35	\$1,111,175.60	(\$2,362.25)	\$2,362.25
Modoc	\$39,230.00	\$43,674.84	(\$4,444.84)	\$4,444.84
Mono	\$189,307.00	\$111,812.51	\$77,494.49	
Monterey	\$2,944,401.00	\$1,936,590.34	\$1,007,810.66	
Napa	\$557,155.92	\$561,978.46	(\$4,822.54)	\$4,822.54
Nevada	\$717,006.00	\$433,379.60	\$283,626.40	

Orange	\$7,778,712.00	\$8,559,262.93	(\$780,550.93)	\$780,550.93
Placer	\$2,251,950.00	\$1,678,076.79	\$573,873.21	
Plumas	\$74,231.00	\$68,485.46	\$5,745.54	
Riverside	\$5,000,000.00	\$7,905,838.93	(\$2,905,838.93)	\$2,905,838.93
Sacramento	\$8,039,887.50	\$3,288,675.22	\$4,751,212.28	
San Benito	\$449,250.00	\$442,706.14	\$6,543.86	
San Bernardino	\$33,898,412.00	\$11,014,207.17	\$22,884,204.83	
San Diego	\$21,800,000.00	\$14,039,587.38	\$7,760,412.62	
San Francisco	\$8,985,238.00	\$8,085,256.22	\$899,981.78	
San Joaquin	\$6,579,551.00	\$3,169,175.76	\$3,410,375.24	
San Luis Obispo	\$1,173,430.26	\$952,671.63	\$220,758.63	
San Mateo	\$4,330,000.00	\$3,722,113.29	\$607,886.71	
Santa Barbara	\$2,836,509.00	\$1,712,600.14	\$1,123,908.86	
Santa Clara	\$16,127,225.00	\$13,493,052.72	\$2,634,172.28	
Santa Cruz	\$1,360,996.00	\$1,123,771.06	\$237,224.94	
Shasta	\$1,207,876.00	\$766,195.44	\$441,680.56	
Sierra	\$24,700.00	\$25,710.04	(\$1,010.04)	\$1,010.04
Siskiyou	\$330,598.00	\$342,010.68	(\$11,412.68)	\$11,412.68
Solano	\$2,991,426.00	\$2,377,480.59	\$613,945.41	
Sonoma	\$1,454,863.00	\$561,582.86	\$893,280.14	
Stanislaus	\$1,708,212.00	\$1,277,206.18	\$431,005.82	
Sutter	\$345,961.00	\$225,716.61	\$120,244.39	
Tehama	\$180,314.00	\$187,762.46	(\$7,448.46)	\$7,448.46
Trinity	\$137,139.00	\$108,842.10	\$28,296.90	
Tulare	\$1,685,537.00	\$1,035,498.01	\$650,038.99	
Tuolumne	\$206,750.00	\$147,501.89	\$59,248.11	
Ventura	\$4,288,976.00	\$3,490,885.38	\$798,090.62	
Yolo	\$1,729,200.00	\$1,055,075.89	\$674,124.11	
Yuba	\$316,009.00	\$261,187.56	\$54,821.44	
Totals:	\$243,583,308.50	\$174,059,031.11	\$69,516,628.44	\$4,022,884.50

Based on the breakdown above, the SOS notes that 42 counties have remaining funds available, totaling \$69,516,626.44. Sixteen counties will need additional funding in the amount of \$4,022,884.50. The counties and the additional funding needed by county are:

Alpine	\$1,466.92
Amador	\$603.62
Calaveras	\$28,646.52
Colusa	\$20,766.64
Inyo	\$62,272.16
Lassen	\$20,336.00
Mariposa	\$6,274.81

Secretary of State Costs. The total costs for Secretary of State by category were \$26,182,649.08. The Secretary of State had estimated \$32,408,658.16 in costs and was allocated \$35,000,000 through Senate Bill 152. The Secretary of State did have \$1,682,215.11 in costs that were not previously identified.

Staff Recommendation: This item is presented for information only.

ISSUE 4: SOS BUDGET CHANGE PROPOSALS

The Governor's Budget includes thirteen proposals for the Secretary of State. This panel will discuss seven of them. Two are related to SOS' physical facilities and four are related to IT projects. This Subcommittee will also hear a proposal to waive business filing fees.

PANEL

- Maria Walton, Office of the Secretary of State
- Shannon Kauffman, Office of the Secretary of State
- Tamara Martin, Office of the Secretary of State
- Betsy Bogart, Office of the Secretary of State
- Joe White, Office of the Secretary of State
- Maria Walton, Office of the Secretary of State
- Kristin Dagsher, Office of the Secretary of State
- Tim Weber, Principal Program Budget Analyst, Department of Finance
- Tamara Johnson, Finance Budget Analyst, Department of Finance
- Nick Schroeder, Principal Fiscal and Policy Analyst, Legislative Analyst's Office

BACKGROUND

Facilities-Related Budget Change Proposals

BCP 1: Augmentation of Rent Funding for the Secretary of State.

The SOS requests \$3.6 million in 2022-23 and \$4 million annually thereafter, split between the Business Fees Fund and the General Fund, to cover rent cost of the March Fong Eu Secretary of State Building.

In 2014-15, the SOS received a total increase of \$1.4 million to address a rent adjustment calculation when the bond on the SOS building was paid off and the SOS moved from an individual rate building to a Building Rental Account rate. As a result of the 2014-15 increase, the rent authority was \$7.1 million to cover the March Fong Eu Headquarters Building in Sacramento. However, according to the SOS, the Department has paid an average annual increase of 4 percent in expenditures for rent of the March Fong Eu Building while not receiving a budget augmentation, which will create a \$3.6 million deficit in the SOS' budget. To date, the SOS has absorbed these additional rental costs through a combination of deferred equipment purchases and savings generated by leaving positions vacant for Additional time. However, the SOS states that it is no longer able to absorb these costs.

Of note, the funding requested is only projected to cover rent costs through 2023-24. The Department projects that based on the annual increases, the gap between allotments and invoice will once again begin from 2024-25 onward.

BCP 2: Expanding Space and Resources to California's Historic Artifacts and Records

The SOS requests \$1,005,000 General Fund in 2022-23 and \$645,000 annually thereafter to support two positions and to convert existing storage space and expand protective measures for historic records housed in the California State Archives.

Of note, the 2021 Budget included \$3.2 million General Fund in 2021-22, and \$1.6 million annually thereafter, to automate paper-based processes and support increased online and contactless access to the State's historic public records and data held in the State Archives in response to the COVID-19 pandemic.

State Archives. The State Archives, a division under the SOS has collected, preserved, and provided access to California's historical public records and artifacts since 1850. According to the SOS, the State Archives houses 350 million records and roughly 7,700 boxes of artifacts and oversized items that document California's history. The State Archives' collections are stored at the SOS March Fong Eu Building in Sacramento. To preserve the collection, physical records in a variety of formats are stored in acid-free archival boxes on six floors of climate and humidity-controlled stacks.

Proposal. The SOS notes that work is currently being done to provide broader online access to the State Archives' collections and services through the funding provided in 2021-22. However, the SOS points out to increased workloads and diminishing physical storage facilities, which have created the needs associated with historical records storage, access, and State Archives staffing. The following list outlines challenges identified by the SOS and how additional resources would address them:

- Limited physical storage space for records and artifacts. The current SOS records facility is approximately 85 percent full, with a combination of fixed shelving (unable to be moved) and mobile shelving (compact shelving that can be moved to accommodate more records). The SOS anticipates that the influx of records this year may fill approximately 5 percent to 7 percent of the remaining available space. Additionally, the SOS notes that artifact storage is currently at 69 percent capacity. Allocation of one-time funding to fully convert remaining fixed shelving ranges will allow the State Archives to add an additional 109 mobile shelving units to the existing storage space. This will double the number of years before the building runs out of storage space.
- Limited scanned records available to the public on the SOS website. The SOS notes that one-time funding was received in 2021-22 for a bulk digitization project. However, there is no dedicated ongoing funding for scanning paper records and physical items for public access. Digitization projects not only provide broader online access but may free up physical storage space with digital preservation copies of records. The SOS requests funding for ongoing digitization of State Archives artifacts and records, providing broader online and remote access to

historical documents for the public. This would allow members of the public to view records and artifacts remotely.

- Limited disaster recovery resources to repair physical historical records that arrive to the State Archives damaged. The State Archives does not currently have a large freezer storage to prevent wet records that arrive to the State Archives damaged, from developing mold. The SOS requests onetime funding to allow the State Archives to purchase a freezer and equipment to repair physical historical records that arrive to the State Archives damaged, such as from wildfires or other natural disasters. The freezer and equipment will serve a dual purpose and will be a critical part of the check-in process for newly arriving records to ensure that there is no mold or pests with the records when they are added to the storage areas.
- Limited staffing. The SOS notes that it has limited funding and staffing for responding to public request, processing increased quantities of records and scanning records for remote access. The SOS requests allocation of ongoing funding and positions to add one Staff Services Manager II, one Digital Composition Specialist I to support larger and more diverse volumes of artifact collection materials, ongoing preservation support, education and exhibit information about historical records, and broader access for the public.

Information Technology Budget Change Proposals

BCP 3: California Business Connect Project

The SOS requests \$8.1 million in 2022-23, split between the Business Programs Modernization Fund and the Business Fees Fund Modernization Fund to complete the California Business Connect project. SOS notes that the total project cost for 2022-23 is \$9.7 million of which \$8.1 million is new spending authority and \$1.6 million represents costs to be absorbed within existing resources.

California Business Connect. The SOS has the responsibility for processing and filing important commerce and trade documents including business formations, changes, and terminations. Many business entity documents and information requests are submitted to the SOS via mail or in-person in Sacramento and Los Angeles. The SOS currently relies on several antiquated electronic and “paper” databases systems in order to process more than two million business filings and requests for information submitted on an annual basis.

The California Business Connect (CBC) Project is an SOS IT project that aims to automate paper-based processes, allowing businesses to file, request and access copies of records online and allow fee payments to be processed quickly. Several components of CBC have been implemented and currently providing services to business entities, as outlined below.

The SOS notes that it is nearing completion of CBC, and that starting in the last quarter of 2021-22, the project will move into the maintenance and operations phase.

Proposal. The 2022-23 funding request would support a contract for systems integration vendors, project management services, Independent Project Oversight, Independent Verification and Validation, Organizational Change Management, temporary help to backfill behind redirected staff, and other operating expenses related to the project. The consultants will also work with SOS staff on organizational change management planning. According to SOS, fee increases are not required to support the CBC project, as the fund to support the project exists through the fees currently paid by businesses for filings and services.

There is one remaining module to be implemented for CBC related to filing for Business Entities.

BCP 4: Business Programs Division Processing Times.

The SOS requests \$5.3 million from the Business Fees Fund to support 47 positions, temporary help, and overtime cost to continue processing work for the Business Filings and Statements of Information until the California Business Connect system is fully implemented.

As noted previously, the SOS relies on several antiquated electronic and paper-based databases systems in order to process business filings. Until the California Business Connect Project (which is discussed in the section above) is fully implemented to provide automation for these processes, SOS requests funding to support positions, temporary help, and overtime cost to continue services that require manual workload and provide customer service for business, financial, and legal entities. According to the SOS, those resources will help SOS maintain its goal of five-business day turnaround times for business filings.

According to the SOS, the COVID-19 Pandemic has negatively impacted SOS's ability to maintain acceptable processing times. Due to stay-at home restrictions at the outbreak of the pandemic, guidance from governmental agencies to continue to offer telecommuting to staff when feasible and limiting staff to 25 percent in the office through June 16, 2021. The SOS notes that processing times for business entities have grown from 4 to 14 days in 2019-20 to 5 to 35 days in 2020-2021. Processing times for Statement of Information have grown from 3 to 8 days in 2019-20 to 2 to 10 days.

This request would provide an extension of the spending authority for positions, temporary help and overtime through 2022-23 to allow the SOS to lower and maintain average processing times of 5 business days in areas that still need manual processing until CBC is fully implemented.

BCP 5: Improving the Project Management Office Structure, Processes and Standards in Project Management and Portfolio Reporting.

The Secretary of State (SOS) requests 6 positions and \$1,347,000 for 2022-23, and \$1,317,000 annually thereafter, split between the General Fund and the Business Fees Fund to recruit and hire IT professionals to support election reporting, political campaign disclosure, business registration and filings, and the California historical Archives.

Project Management Office. According to the SOS, Project Management Office (PMO) within SOS was centralized under the executive leadership in 2016 to provide more visibility into the progress of information technology projects that include public facing elements; establish governance to address issues, challenges, and delays with project implementation; prioritize new technology investments and spending; and bring organizational changes and increase responsiveness for SOS services.

Currently, the PMO consists of 13 positions funded by the General Fund and Federal Trust Fund. Some of these positions have backgrounds in IT application support, IT-related areas, and non-IT related program areas. These resources are typically added into projects during the execution phase. Some may have had relevant IT experience to perform IT procurement, risk management, contractor management, and system development oversight work. However, there remains a significant gap in skills and resources with regards to project planning and execution. According to the SOS, the common practice has been to pair PMO state staff with contracted consultants to run projects. During project execution or implementation, state staff are primarily responsible for managing contracted workers who carryout projects and reviewing and approving project deliverables.

Proposal. This proposal will support the following projects:

1. CARS Project
2. CBC Project
3. VoteCal Migration
4. SOS EMS Certification
5. Increasing Access to California Historic Records
6. SOS Legal Division
7. Enterprise Portfolio Reporting

BCP 6: Systems Unit FI\$Cal Augmentation

The Secretary of State requests a permanent funding augmentation of \$136,000 (\$95,000 Business Fees Fund and \$41,000 General Fund) in 2022-23 and \$131,000 (\$93,000 Business Fees Fund and \$38,000 General Fund) annually thereafter to fund one existing, but currently unfunded, Associate Accounting Analyst position within the Systems Unit of the Fiscal Affairs Bureau. The funding will position the Secretary of State with the resources necessary to transact effectively and successfully in the Financial Information System of California.

The SOS transitioned to FI\$Cal in July 2018. According to the SOS, transition challenges have caused delays in completing and submitting financial statements on time. According to the SOS, The additional full-time resource will improve timely and efficient submission of monthly and year-end financial statements. The newly established Systems team within the SOS' Accounting Section will take on responsibility for setting up accounting and tracking codes within FI\$Cal and establishing cost allocation.

Business Filing Waiver Proposal

BCP 7: Fee Relief for New Businesses

The SOS requests \$39.8 million on-time General Fund to waive document filing fees on a one-time basis for all new businesses registering with the Secretary of State from July 1, 2022 through July 30, 2023, to encourage business growth in California.

According to the SOS, despite the negative impacts of the COVID-19 Pandemic, over the past few years the number of California filings for corporations, limited liability corporations (LLCs) and limited partnerships (LPs) has continued to rise as new businesses have been created, formed, and relocated. In 2018 the total number of filings was 289,879, in 2019 the number of filings was 301,614, in 2020 the number of filings was 343,877, and in 2021 (through November 30) the number of filings was already 396,290. Various documents are required to be filed with the SOS when forming a business in California, and the necessary document filings are accompanied by filing fees of \$100 for a corporation and \$70 for a LLC or LP.

In addition, the SOS requests that budget bill language be added that will: (1) allow the amount available for transfer to be increased, if necessary, by an amount sufficient to backfill revenues lost as a result of the fee waivers, (2) require the SOS to report to the Department of Finance, by January 1, 2024, on the revenues related to waiving the first-time SOS filing fees, and (3) allow the funds to be available for transfer through September 30, 2023.

Budget Bill Language:

1. The amount available to be transferred in this item shall be limited to backfilling revenues related to waiving first-time Secretary of State filing fees for businesses (corporations, limited liability companies and limited partnerships).
2. Upon order of the Department of Finance, the amount available for transfer in this item may be increased by an amount sufficient to backfill revenues lost pursuant to the fee waivers referenced in Provision 1.
3. The funds in this item, in addition to any amount augmented using Provision 2, shall be available for transfer through September 30, 2023.

4. The Secretary of State shall report to the Department of Finance, by January 1, 2024, on the revenues related to waiving first-time Secretary of State filing fees. Any excess funds transferred to the Secretary of State Business Fees Fund not used for this purpose shall revert to the General Fund.

LAO COMMENTS

The LAO provides the following comments regarding the SOS request to waive business filing fees:

Waiving Fee Likely Would Do Little to Stimulate Business Growth Businesses likely consider the filing fees an unwelcome cost. However, the proposed one-time fee waiver would provide limited financial assistance to new businesses relative to the overall cost of starting a new business. These costs—such as equipment, construction costs, employee salaries, and rent—often sum to tens of thousands of dollars, or considerably more. Paying a \$100 or \$70 fee likely is not a barrier to the formation of new business entities in California. Further, the request indicates that the number of filings has grown considerably over the past few years—from 289,879 in 2018 to 343,877 in 2020 and—through November 30—396,290 in 2021. This growth in new business entity formations has been occurring under the existing fee structure. Although new businesses may appreciate the one-time filing fee relief, we doubt that the administration’s proposal would do much, if anything, to stimulate meaningful business growth.

Business Filing Fee and Reserve Structure Needs Attention. The Business Fees Fund consistently has a fund balance in excess of \$1 million at the end of the fiscal year. This has resulted in significant sums of money being transferred from the Business Fees Fund to the General Fund. For example, between 2011-12 and 2020-21, the General Fund received \$179 million from the special fund. The amount transferred to the General Fund has varied significantly year to year, ranging from \$5 million in 2011-12 to \$36 million in 2017-18. As a percentage of revenues, the transfer to the General Fund has varied from 9 percent of fee revenues in 2019-20 to 41 percent of fee revenues in 2017-18. The consistent and large transfers to the General Fund suggest that business entities have been paying higher fees than are necessary to support the program. The fee structure should be designed so that businesses pay fees that are at a level that is reasonable for the support of the program. That being said, lowering fees creates risk that the special fund might not have sufficient resources in a particular year. This is demonstrated by the volatility in revenues to the fund. For example, between 2011-12 and 2020-21, year-over-year growth in revenues ranged from a 40 percent *increase* in revenues between 2013-14 and 2014-15 (from \$50.7 million to \$71.1 million) and a 5 percent *decrease* between 2017-18 and 2018-19 (from \$87.8 million to \$83.3 million). The current reserve limit of \$1 million makes it difficult for SOS to charge businesses a lower fee while still fulfilling the requirements of Section 12176 that the fund be self-sufficient. A higher reserve limit for the fund would allow a lower fee for all businesses while still providing that the fund is self-sufficient.

California Business Connect (CBC) Should Change SOS Operations. The CBC project is automating the business filing processes at SOS. While many processes already have been automated under the project, filings related to business entities is the last module to be rolled out. This module is scheduled to be completed by April 2022. The project is scheduled to be through maintenance and operations by April 2023. Once fully operational, CBC will fundamentally change SOS operations. This could lead to changes in revenues and resource needs for the program.

Budget Bill Language Could Be Clearer. The administration proposes budget bill language to implement its plan to waive filing fees for new business entities. Specifically, provision one of the language states that the \$39.8 million General Fund appropriation “shall be limited to backfilling revenues related to waiving first-time Secretary of State filing fees for businesses (corporations, limited liability companies and limited partnerships).” If the Legislature is interested in adopting this fee waiver, this language could be clearer as to which fees are waived for 2022-23.

STAFF COMMENTS

The Subcommittee may wish to ask the following questions related to the document filing fee proposal:

1. Does SOS have projections about how many entities will be eligible for the waiver?
2. Can SOS provide additional details on how the \$39.8 million figure was developed?
3. Per the LAO comment, does SOS have a list of the specific fees that are proposed to be waived?

Staff Recommendation: Hold Open

1111 Department of Consumer Affairs

ISSUE 5: BREEZE AND BUSINESS MODERNIZATION

The Governor's budget includes two budget proposals related to the BreEZe system and DCA's Business Modernization plan.

PANEL

- Jason Piccione, CIO, Department of Consumer Affairs
- Sean O'Connor, Chief, Department of Consumer Affairs
- Charlene Manning, Staff Finance Budget Analyst, Department of Finance
- Andrew Hoang, Finance Budget Analyst, Department of Finance
- Kimberly Harbison, Principal Program Budget Analyst, Department of Finance
- Jessica Peters, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

BACKGROUND

The DCA encompasses several boards and bureaus responsible for the regulation, licensing, and enforcement of various professional and vocational occupations. Historically, these regulatory entities have used multiple and different computer systems to fulfill their regulatory duties, such as issuing and renewing occupational and vocational licenses.

In 2012, the Department of Consumer Affairs implemented BreEZe, a system that planned to support the IT needs of all boards and bureaus under DCA. The original implementation plan intended to take a phased approach into bringing the various boards and bureaus onto the BreEZe platform. Currently, 18 boards and bureaus operate BreEZe.

Following implementation challenges, DCA opted to not bring the remaining boards and bureaus on the BreEZe system. Instead, DCA launched a Business Modernization Initiative which would, overtime, put the remaining boards and bureaus on legacy systems through a structured modernization process that would identify individual business needs and implement tailored IT solutions.

In January 2020, three boards and one bureau completed the business modernization analysis and began project implementation activities. These programs include the Board for Professional Engineers, Land Surveyors, and Geologists (BPELSG), the Bureau for Private Postsecondary Education (BPPE), the California Acupuncture Board (CAB), and the Board of Chiropractic Examiners (BCE). Collectively, these programs are referred to as Business Modernization Cohort 1. According to DCA, the business modernization efforts for Cohort 1 have delivered key functionality such as online application

submissions, online consumer complaint submissions, and real-time application status updates through email and text messages.

The following two BCPs are related to BreEZe maintenance and Cohort 1.

BCP 1: BreEZe System Maintenance and Credit Card Funding

DCA's Client Services Division requests \$8.5 million in 2022-23 and ongoing for the continued support of BreEZe Maintenance and Operations, as well as \$4.2 million in 2022-23 and ongoing for Boards and Bureaus to fund credit card processing fees on behalf of users of credit card payments, for a total of \$12.7 million from various special funds in 2022-23 and ongoing.

DCA reports progress in transitioning BreEZe maintenance and operations duties to state staff, which have implemented new license types, fee changes, online applications, reporting functionality, an improved license search. DCA requests \$8.5 million to continue to fund 37.0 positions to continue support the core maintenance and operations services. This is the same level of staffing that has been supporting BreEZe maintenance and operations since July 2019.

This proposal also requests ongoing funding for payment of credit card processing fees on behalf of users of credit card payments.

BCP 2: Business Modernization Cohort 1 Maintenance and Operations

DCA requests \$1,695,000 million in 2022-23 for maintenance activities associated with Business Modernization Cohort 1, as well as \$343,000 in 2022-23 to cover credit card services, for a total of \$1,695,000 million from various special funds.

The total breakdown of funding requested by board and bureau is provided below

Program	2022-23
CAB*	\$272,000
BCE	\$113,000
BPELSG	\$263,000
BPPE	\$694,000
OIS**	\$511,000

*Includes the elimination of the residual 0.5 position authority for Acupuncture

**Supports 3.0 existing positions dedicated to project activities (cost included within program amounts above)

The proposal also includes funding for payment of credit card processing fees on behalf of users of credit card payments.

STAFF COMMENTS

The Subcommittee may wish to ask the following questions:

1. When will the remaining boards and bureaus on legacy systems expected to undergo business modernization?
2. Are there still boards and bureaus that are unable to accept credit card or online payment?
3. The Business Modernization BCP requests one time funding to cover credit card processing fees. Will DCA boards and bureaus continue to absorb credit card processing fees in the future, or will DCA eventually pass the cost down to applicants and licensees?

Staff Recommendation: Hold Open

ISSUE 6: REGULATORY BOARD PROPOSALS

The Governor's budget includes eight budget proposals to support various boards and bureau workload.

PANEL

- Taylor Schick, Fiscal Officer, Department of Consumer Affairs
- Charlene Manning, Staff Finance Budget Analyst, Department of Finance
- Andrew Hoang, Finance Budget Analyst, Department of Finance
- Kimberly Harbison, Principal Program Budget Analyst, Department of Finance
- Jessica Peters, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

BACKGROUND**BCP 1: Various Boards and Bureaus: Legislative Workload**

DCA requests \$3.884 million and 20.0 positions in 2022- 23, \$3.482 million and 21.0 positions in 2023-24, \$2,219 million and 17.5 positions in 2024-25 and ongoing to address licensing and enforcement-related workload associated with provisions passed during the 2020-21 legislative session across numerous Boards and Bureaus.

This proposal includes a General Fund (GF) loan in the amount of \$157,000 in 2022-23 and \$149,000 in 2023-24 to the Veterinary Medical Board Contingent Fund for initial implementation costs related to Chapter 752, Statutes of 2021 (AB 1282). AB 1282 established community blood banking for animals in California. This loan shall be repaid once sufficient revenue is available from the new community blood bank registration fee and annual renewal fee.

Additionally, DCA is requesting GF appropriation of \$3.292 million in 2022-23 and \$1.646 million in 2023-24 to support costs associated with Chapter 693, Statutes of 2021 (AB 107). AB 107 expanded the requirement to issue temporary licenses issued by any board or bureau within the DCA.

Boards requesting resources that are included in this proposal:

- | | |
|-----------------------------------|-----------------------------------|
| - Board of Optometry | - Dental Hygiene Board of |
| - Board of Pharmacy | California |
| - Professional Fiduciaries Bureau | - Cemetery and Funeral Bureau |
| - Bureau of Household Goods and | - Board of Vocational Nursing and |
| Services | Psychiatric Technicians |
| | - Osteopathic Medical Board |

- Medical Board of California

BCP 2: Board of Optometry – Enforcement, Continuing Education Audits, and Opticianry Professions Practice Analysis

The California State Board of Optometry is requesting \$366,000 in fiscal year 2022-23 and \$316,000 in 2023-24 and ongoing and two positions to reduce enforcement case closure timeframes, address enforcement workload related to continuing education audits, and provide uniformity to higher-level enforcement actions (probation monitoring, auditing, subject matter expert verification and training). The request also includes a one-time budget augmentation of \$34,000 in fiscal year 2022-23 to fund a scope of practice study of the licensed professions of spectacle lens dispenser and contact lens dispenser, and the unlicensed profession of optometric assistant. According to the Board of Optometry, the study is needed to clarify the actual practice and parameters of each profession.

BCP 3: Board of Pharmacy – Site Licensing Staff Augmentation

The California State Board of Pharmacy requests 2.0 Associate Government Program Analyst (AGPA) positions and \$314,000 in fiscal year 2022-23 and \$298,000 ongoing. According to the Board of Pharmacy, its Licensing Unit needs those resources to address an increase in temporary license applications received and increased workload from the expansion of Board authority related to management and control of site licenses.

BCP 4: Board of Registered Nursing - Permanent Funding for Licensing and Call Center Positions

The Board of Registered Nursing requests \$1,879,000 in fiscal year 2022-23 and ongoing to support 22.0 positions provided in 2019-20 with limited-term funding. According to the Board of Registered Nursing, these positions will continue to answer questions, process applications, and provide general customer service.

Breakdown of positions:

- Public Information Unit (PIU) – Consumer Assistance Call Center and Correspondence: 14.0 positions
- Licensing Division - Fingerprint Unit: 3.0 positions
- Licensing Division - United States Licensing Evaluation: 5.0 positions

The Board of Registered Nursing notes that this request also includes a reduction of 9.0 positions previously assigned to the Call Center that were authorized in 2019-20. Due to various efficiencies these positions will no longer be required to address ongoing workload.

BCP 5: Dental Board – Permanent Resources for Chapter 929, Statutes of 2018 (SB 501)

The Dental Board of California is requesting \$586,000 and 4.0 positions (1.0 Staff Services Manager I, 2.0 Associate Governmental Program Analysts, and 1.0 Staff

Services Analyst) and an additional \$20,000 for IT support and software licensing in 2022-23 and ongoing to allow the continued implementation of the provisions outlined in Chapter 929, Statutes of 2018 (SB 501). SB 501 enacted new provisions governing the use of deep sedation and general anesthesia for dental patients. Additionally, the Board is requesting two-year limited-term funding of \$182,000 in fiscal year 2022-23 and \$272,000 in 2023-24 to support required modifications to the Board's BreEZe Licensing IT system for costs associated with the implementation of SB 501.

Total Request by Fiscal year:

- FY 2022- 23 - \$788,000
- FY 2023-24 - \$878,000
- FY 2024-25 ongoing - \$606,000

BCP 6: Dental Hygiene Board - Continuing Education Audit Analyst

The Dental Hygiene Board of California is requesting \$129,000 in fiscal year 2022-23 and \$121,000 in 2023-24 and ongoing, and 1.0 Staff Services Analyst position to increase annual continuing education audits for license renewal compliance.

BCP 7: Bureau of Household Goods and Services Enforcement Staff Augmentation

The Bureau of Household Goods and Services is requesting four positions and an increase in expenditure authority of \$620,000, Household Movers Fund, Professions and Vocations Fund, in fiscal year 2022-23 and \$588,000 in 2023-24 and ongoing to actively target household movers operating without a valid permit in violation of the Household Movers Act. The majority of the consumer harm and violations against the Act are performed by household movers who have spent years eluding permit requirements. Additional Special Investigator (SI) positions are being requested for enforcement activities.

BCP 8: Permanent Funding Extension for the Office of Student Assistance and Relief

The California Bureau for Private Postsecondary Education (BPPE) requests an increase in expenditure authority of \$1,539,000 Private Postsecondary Education Administration Fund in 2022- 23 and ongoing to support 11.0 existing positions to continue the operation of the Office of Student Assistance and Relief (OSAR) and the Student Tuition Recovery Fund (STRF) Unit. According to the BPPE, ongoing funding to support these existing positions will address the backlog of STRF claims received, manage the ongoing demand of processing transcript requests for students, and support the additional outreach efforts of the OSAR staff in collaboration with its legislatively mandated partners.

STAFF COMMENT

DCA boards and bureaus are special-funded entities that generally do not receive general fund monies. These special funds derive revenue from licensing and renewal fees. The

fees are usually set in statutes, up to a specified maximum. Should a board or bureau experience a budget deficit, it can address the structural imbalance by raising licensing or renewal fees.

The Subcommittee may wish to ask the following question:

- Does DCA anticipate that these funding augmentations for various boards and bureaus would create budget structural deficits significant enough to necessitate future fee increases?

Staff Recommendation: Hold Open

2320 DEPARTMENT OF REAL ESTATE

ISSUE 7: DRE BUDGET CHANGE PROPOSALS

This Subcommittee will hear three BCPs related to the Department of Industrial Relations (DRE).

PANEL

- Sonja Palladino, Assistant Commissioner of Legislation and Regulations, Department of Real Estate
- Marcus McCarther, Chief Deputy Commissioner, Department of Real Estate
- Andrew Hoang, Finance Budget Analyst, Department of Finance
- Kimberly Harbison, Principal Program Budget Analyst, Department of Finance
- Jessica Peters, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

BACKGROUND**BCP 1: Information Technology Security**

DRE requests \$370,000 in 2022-23 and \$354,000 in 2023-24 ongoing, from the Real Estate Fund, and 2.0 Information Technology Specialist II's to meet State of California mandated information technology security regulations and processes and to support DRE's Information Technology and Security Programs, which will provide compliance with statewide IT and cybersecurity policies.

BCP 2: Internal Audit Workload

DRE requests \$176,000 in 2022-2023, and \$168,000 in 2023-2024 ongoing, from the Real Estate Fund, and 1.0 Senior Management Auditor in the newly formed Internal Audit Unit within the DRE's Audit Program. Currently, DRE has 1.5 positions dedicated to internal audits. According to DRE, the additional resources will allow the Internal Audit Unit program to meet internal audit workload demands.

BCP 3: Real estate applicants and licensees: education requirements: fair housing and implicit bias training (SB 263)

DRE requests \$216,000 in 2022-23, and \$200,000 in 2023-24 and ongoing, from the Real Estate Fund, and 1.0 Associate Governmental Program Analyst, and 1.0 Office Technician (General) to meet the requirements of Chapter 361, Statutes of 2021 (SB 263). SB 263 made changes to required pre-licensure courses and continuing education requirements for real estate licensees, include the requirement to take implicit, explicit, and systemic bias training.

STAFF COMMENTS

The DRE fund balance is steadily declining, from \$36.3 million in 2020-21, to \$25.2 million in 2021-22, to a projected \$13.9 million in 2022-23. The Subcommittee may wish to ask the following question:

- As DRE requests additional resources, how will the Department address its fund sustainability?

Staff Recommendation: Hold Open

6540 CALIFORNIA ARTS COUNCIL

ISSUE 8: CAC BUDGET CHANGE PROPOSALS

This committee will hear two BCPs included in the Governor's budget for the California Arts Council (CAC).

PANEL

- Anne Bown-Crawford, Director, California Arts Council
- Ayanna Kiburri, Deputy Director, California Arts Council
- Kristin Margolis, Legislative Director, California Arts Council
- Tim Weber, Principal Program Budget Analyst, Department of Finance
- Tamara Johnson, Finance Budget Analyst, Department of Finance
- Jessica Peters, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

BACKGROUND**BCP 1: California Poet Laureate and Youth Poet Laureate**

The CAC requests \$173,000 ongoing General Fund to support the California Poet Laureate and California Youth Poet Laureate. Funding would include an Associate Governmental Program Analyst position to provide outreach and technical assistance to California counties on literary arts programs, including the Poet Laureate, Youth Poet Laureate, and the Poetry Out Loud programs.

Existing law allows the Arts Council to establish an appropriate stipend for the California Poet Laureate and shall provide for the payment of the poet laureate's expenses incurred in fulfilling their responsibilities. Historically, the Arts Council has provided a \$5,000 stipend annually to the Poet Laureate when feasible.

Additionally, the Arts Council has not established metrics of activities completed by past Poets Laureate since there is no allocation for administration of the program. This request would fund a staff person to facilitate the Poet Laureate search and application process and manage and support the Poet Laureate program. Currently, the Arts Council contracts with a consultant to administer the Poet Laureate application process but Poet Laureates have not been supported in their role due to lack of Arts Council staff.

BCP 2: Support for Cultural Districts

The CAC requests \$30 million one-time General Fund, to be spent over three years, to support the existing 14 cultural districts and to expand the cultural districts program to serve traditionally underserved communities, represent a cohort that reflects the

geographic and racial diversity of the state, and give CAC additional resources to provide technical assistance to the districts.

Background. Chapter 396, Statutes of 2015 (AB 189) required the Arts Council to develop a state designated Cultural Districts Program for the development, support, and preservation of California's cultural assets. A cultural district is generally understood as a well-defined geographic area with a high concentration of cultural resources and activities. The California program seeks to identify, support, and connect centers of arts and cultural activity through the designation process. The aim of the Cultural Districts Program is to honor and celebrate California's cultural and creative assets and to help leverage these assets for community benefit.

In 2017, the Arts Council designated through a public process 14 districts representing various cultural groups, cultural centers urban, suburban and rural locations, as well as districts with an emphasis on cultural consumption, cultural production and cultural heritage and districts that are at varied points in the life-cycle, from emerging to established. The CAC allocated a portion of its support budget to each district with an initial stipend of \$5,000 per district, totaling \$10,000 per district. According to the CAC, this stipend cannot be sustained without an increase in Arts Council's General Fund, Local Assistance appropriation.

Proposal. The CAC notes that it will prioritize the gaps in the existing Cultural Districts with these funds. Specifically, the Arts Council will focus on the establishment of the following:

- African American districts, or Black “umbrella” districts that encompass several culturally specific communities within it, who are absent from the current cultural district cohort.
- Districts that represent Chinese American and Native American communities, who are also absent from the current cohort.
- Districts that represent Latinx and Asian American communities, who are underrepresented in the current cultural district cohort.
- Districts in lower-income and rural counties.

Upon certification as a cultural district, a district may gain access to selected state resources, from grants to tax credits and other financial incentives, as well as partnerships with various state agencies that would enable expedited permit review and special marketing initiatives to support the arts.

STAFF COMMENTS

The Subcommittee may wish to ask the following questions:

1. Can the CAC describe its planned public outreach and input that will be used to determine the establishment of future cultural districts? How will the CAC ensure that cultural districts are inclusive of California's diverse communities?
2. What will be the metrics to determine success of funding that will be provided to the cultural districts? How will that funding be used?
3. Does the CAC have planned minimum / maximum amounts of funding that would go towards supporting cultural districts?
4. The CAC has currently 23 authorized positions. Does the Council have enough personnel resources to administer a much more sizeable program?

Staff Recommendation: Hold Open

3100 EXPOSITION PARK

ISSUE 9: EXPOSITION PARK BUDGET CHANGE PROPOSALS

The Governor's budget includes four BCPs related to Exposition Park.

PANEL

- Cameron Shaw, California African American Museum
- Vanessa Esparza, Office of Exposition Park Management
- Michael McGinness, Department of Finance
- Helen Kerstein, Legislative Analyst's Office

BACKGROUND**BCP 1: Budget Increase for Public Safety (OEPM)**

The Office of Exposition Park Management (OEPM) requests an ongoing reimbursement authority increase of \$850,000 to account for anticipated increases in reimbursable public safety expenses arising from the opening of the Lucas Museum of Narrative Art (LMNA) and increased activity throughout the Park. According to OEPM, the current staffing level and reimbursement authority would be insufficient to cover the needs of LMNA. The museum is creating 11 acres of new park space that is projected to bring hundreds of thousands of visitors each year.

BCP 2: Budget Increase for Temporary positions (OEPM)

OEPM requests \$100,000 ongoing from the Exposition Park Improvement Fund (EPIF) to support temporary positions to assist with cyclical surges in park activity due in part to lost opportunities during the COVID 19 stay at home orders and normal seasonal park activity trends. As a result of a 15-month hiatus in events and park activity, OEPM reports that there has been a significant spike in events, visitors, museum attendance and activity throughout the Park.

BCP 3: Conversion of Temporary Position to Permanent Position (CAAM)

The California African American Museum requests position authority without increased funding to establish a permanent position to assist with analysis of the procurement needs of the exhibitions and education departments, including managing budgets, contracts, purchase orders, and vendor agreements, and to serve as liaison between the accounting, curatorial/education, and executive functions of the museum

BCP 4: Peace Officers: Exposition Park (AB 483)

OEPM requests \$2,115,000 one-time General Fund, \$265,000 ongoing General Fund, and two full-time ongoing positions for compliance with Assembly Bill 483 Peace officers: California Science Center and Exposition Park (AB 483). AB 483 granted peace officer

status to security officers appointed by the Exposition Park Manager and clarified the training requirements for those peace officers. These resources will support all one-time and on-going activities and administrative support for AB 483. All twenty-one Museum Security Officers and three Supervising Museum Security Officers of the OEPM's Department of Public Safety must meet the clarified trainings requirements of completing the regular basic training course prescribed by the Commission on Peace Officer Standards and Training.

STAFF COMMENTS

Staff does not have concerns with the proposals at this time.

Staff Recommendation: Hold Open

**8660 PUBLIC UTILITIES COMMISSION
7502 DEPARTMENT OF TECHNOLOGY**

ISSUE 10: BROADBAND

The Subcommittee will receive its first update on the \$6 billion broadband investment that was included in the 2021 budget package.

BACKGROUND

Last year, as part of the 2021 August budget actions, the Legislature adopted SB 156, (Senate Budget and Fiscal Review, Chapter 112 Statutes for 2021) a three-year, \$6 billion package to expand broadband access across California:

There are three major elements to the broadband package:

1. **Middle-Mile.** SB 156 creates a structure and framework for the construction of a \$3.25 billion state-owned open-access middle mile broadband infrastructure through a third-party administrator overseen by the Department of Technology. This bill prioritizes for middle mile construction a geographically diverse group of projects in rural and urban areas of the state to achieve the greatest reductions in the amount of households unserved by broadband internet access service meeting federal and state standards. This bill also outlines the roles of the Department of Technology, the Public Utilities Commission, and the Department of Transportation in the project and establishes a Deputy Director of Broadband as the central point of contact. Finally SB 156 establishes a broadband advisory council, with legislative appointments, and includes reporting measures. It is estimated that over 8,000 road miles of network will be built with these funds.
2. **Last Mile.** SB 156 amends the existing Broadband Infrastructure Grant Account program to allocate the \$2 billion for last mile expenditures. Of this amount, at least \$1 billion must be used for last mile projects in rural counties, and \$1 billion is initially allocated to urban counties
3. **Loan Loss.** SB 156 creates a continuously appropriated loan-loss fund to assist local governments and non-profits in financing broadband service projects. The budget includes \$750 million in total funds for this purpose.

2021-22 Broadband Infrastructure Three-Year Spending Plan^a

(In Millions)

Project or Program	2021-22			2022-23 Total Funds ^b	2023-24 Total Funds ^b	All Fiscal Years		
	Total Funds	General Fund	Federal Funds			Total Funds	General Fund	Federal Funds
Middle-mile network	\$3,250	—	\$3,250 ^c	—	—	\$3,250	—	\$3,250
Last-mile projects	1,072	—	1,072 ^d	\$125	\$803	2,000	\$928	1,072
Broadband Loan Loss Reserve Account	50	\$50	—	125	575	750	750	—
Totals	\$4,372	\$50	\$4,322	\$250	\$1,378	\$6,000	\$1,678	\$4,322

^a This spending plan is pursuant to the 2021-22 budget agreement between the administration and the Legislature.^b All funding in 2022-23 and 2023-24 is General Fund.^c The \$3.250 billion in federal funds for the middle-mile network in 2021-22 is appropriated to the California Department of Technology out of the state's American Rescue Plan (ARP) fiscal relief allocation.^d Of the \$1.072 billion in federal funds for last-mile projects in 2021-22, \$550 million is the state's allocation from the ARP's Coronavirus Capital Projects Fund and \$522 million is some of the state's ARP fiscal relief allocation.

In November 2021, the administration announced its identification of 18 initial middle-mile network projects. The administration intends to use these initial projects to accelerate existing projects in areas unserved by open-access middle-mile infrastructure, coordinate existing CASF last-mile broadband infrastructure projects with middle-mile infrastructure, incorporate new middle-mile infrastructure into pending California Department of Transportation (Caltrans) construction projects, and test different approaches to implementation across a variety of geographic areas. The estimated total length of the initial middle-mile network projects is between 800 and 900 miles, with projects that range from less than 10 miles in length to at least 150 miles in length.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Mark Monroe, Department of Technology
- Rob Osborn, California Public Utilities Commission
- Damien Mimnaugh, Department of Finance
- Brian Metzker, Legislative Analyst's Office

STAFF COMMENTS

The 2021 Broadband package put the Department of Technology at the center of the Middle Mile initiative, which positions Subcommittee 4 as the venue for continued oversight of this initiative.

It is early in the implementation of this package, so little spending has occurred, with much of the funding still unencumbered. If there are good shovel-ready last or middle mile projects left unfunded after projects are awarded funding, these one-time investments may be a good candidate for additional one-time funding in the budget. Staff recommends the Subcommittee revisit this issue later this Spring, when that information may become available.

Staff Recommendation: Hold Open

0840 STATE CONTROLLER

7501 DEPARTMENT OF HUMAN RESOURCES

ISSUE 11: CALIFORNIA STATE PAYROLL SYSTEM

The State Controller's Office (SCO) and the Department of Human Resources (CalHR) request resources to begin implementation of the California State Payroll System (CSPS)

BACKGROUND

In 2016, the SCO started planning a replacement for the state's current payroll system—CSPS. Through the California Department of Technology's (CDT's) Project Approval Lifecycle (PAL)—the state's IT project approval process—SCO and CalHR have conducted market research and identified available technical solutions to meet the identified business needs and opportunities for a new payroll system. Currently, the proposed CSPS IT project is in the third stage of the PAL process—Stage 3 Solution Development. To complete the Stage 3 Solution Development, state government entities are required to develop their primary system development and implementation solicitation (and any additional ancillary solicitations) and release it for bids. SCO and CalHR anticipate CDT approval of the proposed CSPS IT project through Stage 3 Solution Development by March 2022, with any procurement activities starting shortly thereafter.

The Governor's 2022-23 Budget requests \$101.3 million (\$62.1 million) and 48 positions for SCO and CalHR to complete the planning of the proposed CSPS IT project and start its development and implementation. Of the total \$101.3 million, \$83.3 million (\$50 million General Fund) would cover the cost of hosting services, system integrator services, and system licensing for the project once it starts development and implementation. The current project timeline anticipates CDT approval through the PAL process by January 30, 2023, so the administration includes proposed provisional budget bill language requiring the \$83.3 million to be withheld until CDT approves the proposed project through the PAL process, DOF approves the allocation of funding, and DOF provides written notification within 30 days of its approval to both budget committees and the JLBC. Assuming the full 30-day notification period, the estimated project timeline starts development and implementation on March 6, 2023.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Chris Maio, State Controller's Office
- Jennifer Urban, State Controller's Office
- Brendan Murphy, CalHR

- Miriam Ingenito, Fi\$Cal
- Dominick Guidera, Department of Finance
- Susan Wekanda, Department of Finance
- Ted Ryan, Department of Finance
- Brian Metzker, Legislative Analyst's Office

LAO COMMENTS

LAO Concerns With Budget Proposal. The State Controller's Office (SCO) and the California Department of Human Resources (CalHR) requests \$101.3 million (\$62.1 million General Fund) and 48 positions in 2022-23 to complete planning and start development and implementation of the proposed California State Payroll System (CSPS) information technology (IT) project. Of the \$101.3 million requested in this proposal, \$83.3 million (\$50 million General Fund) would fund vendor contracts to begin development and implementation of the project after (1) project planning is completed and (2) the Department of Finance (DOF) has approved the funds and provided a 30-day written notification to the Legislature. As we discuss in greater detail later in this email, we raise a number of concerns with this approach, summarized below.

- Inadequate Information for Legislative Approval. The Legislature does not have final project approval documents for the CSPS IT project. As such, the Legislature is missing key pieces of information including a final baseline project cost, schedule, and scope and signed primary vendor contracts.
- Administration's Assumed Timeline Likely Unrealistic. Recent delays in project planning and other risks identified by the project suggest that the timeline the administration assumes in the request to complete planning is optimistic.
- Proposed Schedule Limits Opportunities for Legislative Oversight. The proposed oversight mechanisms would lead to parallel consideration of project funding through the Joint Legislative Budget Committee (JLBC) process (2022-23 funding request) and the annual budget process (2023-24 funding request) and limit legislative consideration of the final project plan to just one month before funding is released.

Recommendation. The proposed CSPS IT project was last estimated to cost at least \$767 million General Fund and would affect nearly every state government entity. As such, if it is approved, the project would be one of the costliest and most complex IT projects undertaken by the state. While we raise no concerns with the \$14.5 million (\$8.7 million General Fund) and 48 positions requested in 2022-23 to continue project planning, we recommend that the Legislature defer consideration of the remaining \$83.3 million (\$50 million General Fund) in development and implementation funds for this project until 2023-24.

STAFF COMMENTS

The California State Payroll System is the second attempt to replace our legacy payroll process with a modern system. The previous attempt, the “21st Century” project, was one of the state’s most spectacular IT project failures, resulting in years of litigation and controversy.

The legacy of that failure should be caution and humility regarding the difficulty and risk associated with this project. While the Controller’s Office has a much stronger plan to address the key challenges the State had with the last project, particularly change management, it seems premature for the Legislature to green light the entire project at this early stage. The LAO has provided some options to continue to allow the project to move forward without making the ongoing commitment, which the Subcommittee could explore.

One of the more disappointing elements of this CSPS plan is that it seems to draw from the Controller’s office need to maintain operational independence from the broader administration. Most large organizations use centralized Enterprise Resource Planning systems that integrate payroll and position control with the other accounting, budgeting, and procurement functions. The state’s ERP system, Fi\$Cal, was actually based of a Peoplesoft payroll platform, but it appears the project did not even consider using Fi\$Cal as an option for this new functionality. While Fi\$Cal may not be the right system for this purpose, it doesn’t appear that obvious option was explored at all.

The Subcommittee may wish to consider how far the State should bend normal business practice to accommodate the operational independence of a constitutional officer. To be fair to the Controller, there were long periods of history where a Republican Governor’s administration worked to undercut the Democratic Controller’s office, resulting in a rational shift towards independence. However, technology and administration has moved these functions towards inevitable integration and the new system needs to reflect that reality.

Staff Recommendation: Hold Open

8880 Fi\$CAL
0840 STATE CONTROLLER
8860 DEPARTMENT OF FINANCE

ISSUE 12: DEPARTMENTAL YEAR-END CLOSE REPORTING

A recent update to California State Auditor relating to Fi\$Cal highlighted the delay in departmental year-end financial reporting.

BACKGROUND

Fi\$Cal is the main enterprise resource information system of the state and includes the central state accounting, budgeting, and procurement functions. The project was recently fully implemented, although the cash management functions performed by the Controller will take a few years to migrate from their legacy systems.

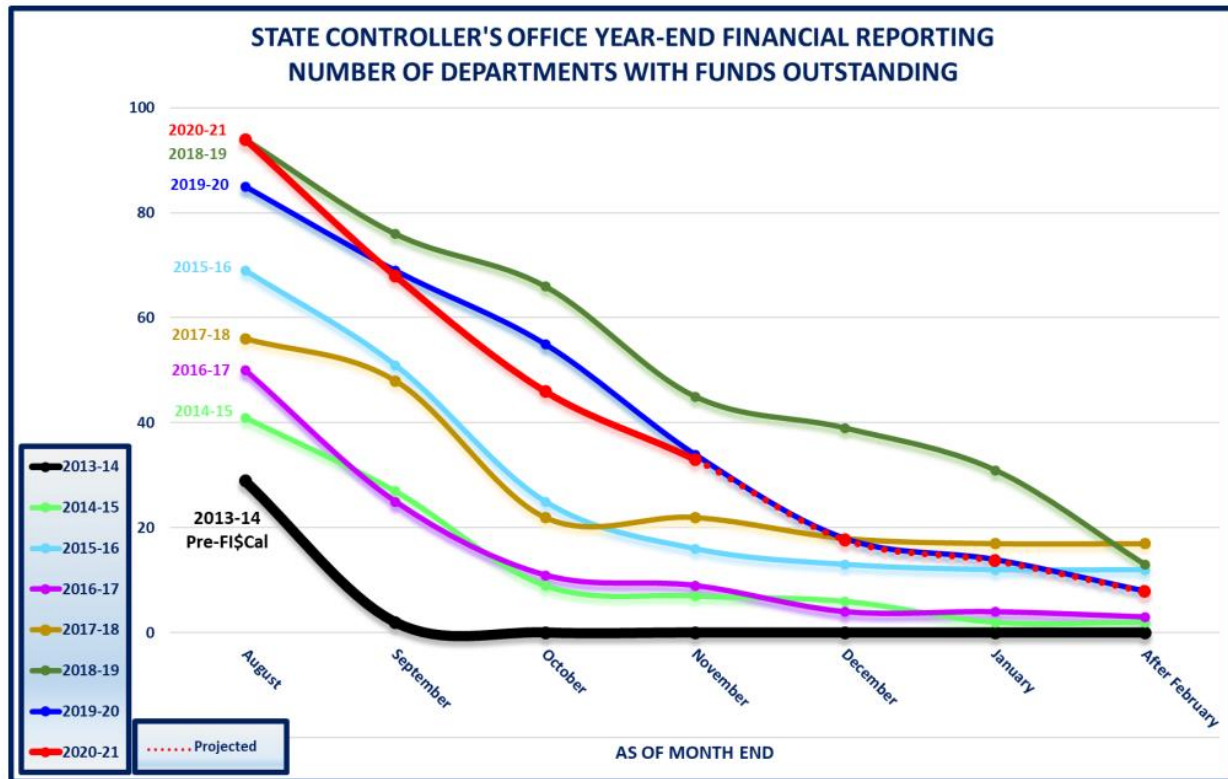
In December 2019, the California State Auditor released a report related to the implement of the Fi\$Cal system. The audit had two major findings:

1. The Auditor disagreed with the action taken by the Legislature to end the “project” phase of Fi\$Cal and treat the system as fully implemented. This was a discussion item considered by the Subcommittee, as almost all of the functionality and departments were onboard the system, but the cash management functions and some larger legacy departments would take years to migrate fully into the system.
2. The Auditor noted that departments were reporting their year-end closure numbers late to the Controller, which has resulted in the State releasing the required Annual Comprehensive Financial Report (ACFR) document late. Theoretically, the late release of this document could impact the State’s creditworthiness.

On January 4, 2022, the Auditor released an update to the 2019 audit. Included in the findings were the following:

State agencies’ struggles with using FI\$Cal have contributed to these delays in publishing the State’s annual financial statements. In our October 2020 Internal Controls report, Report 2019-001.1, we described how 12 agencies of significance to the State’s overall financial reporting did not perform their fiscal year 2018–19 monthly account reconciliations to the records of the State Controller in a timely manner and many chose to only complete annual reconciliations. Some of the explanations that agencies provided for this lapse included unfamiliarity with the FI\$Cal system and its complexity. Planned Compliance.

The Controller's Office reports that departmental challenges reporting in the more stringent Fi\$Cal system has led to chronic delays in reporting for the fiscal year close out. The Controller's Office provided the following chart to illustrate the difference in reporting before and after the implementation of the system.



PANEL

The following individuals will participate virtually in the discussion of this issue:

- Kathleen Webb, State Controller
- Miriam Ingenito, Fi\$Cal
- Jeff Carosone, Department of Finance

STAFF COMMENTS

Given California's current fiscal position and large pools of available cash, it seems very unlikely that the timing of the bureaucratic and not very user friendly ACFR document is going to have a meaningful impact on our credit rating. The ACFR reporting delay in itself is not important, but the underlying reasons for it occurring are troubling.

The Fi\$Cal system requires departments to tie each expenditure to the original funding source, which some accounting departments have struggled to reconcile in the transactional manner required by the system. This is the standard accounting practice used in the public sector, but because of the unique financial situation of the State was not historically necessary. Given the transition into a new IT system and a new business process, the delays documented by the Controller during implementation were an understandable short-term outcome. Since that time, the pandemic, and the resulting tightening of the labor market have made it difficult to focus on increasing the quality of accounting in various departments.

However, year-end reporting is a foundational accounting activity and the fact that large governmental entities are unable to achieve this common fiscal task suggests a weakness in overall financial internal controls. Staff believes the Subcommittee needs to take an active role in highlighting organizations that are having this challenge with their accounting fundings to inspire improvement. Therefore, staff recommends the Subcommittee adopt the following Supplemental Report Language:

The State Controller's Office will report to the budget committee on March 1, 2023 the department name, fund name, and closure date on any funds not closed out for the 2021-22 fiscal year by November 1, 2022. It is the intent of the Legislature to review this list and require departments with profound, chronic, or unexplained delinquency in reporting to testify to the Budget Committee about the path toward correcting this deficiency.

Staff Recommendation: Adopt Supplemental Reporting Language

7502 DEPARTMENT OF TECHNOLOGY**ISSUE 13: CYBERSECURITY REPORTING AND DEPARTMENTAL BUDGET PROPOSALS**

The Subcommittee will consider the Department of Technology's budget proposal and revisit a conversation of the State's cybersecurity efforts.

BACKGROUND**Budget Proposals:**

- The Governor's budget proposes \$54.6 million General Fund each year for three fiscal years, starting in 2022-23, for CDT to (1) reduce State Data Center IT service rates by shifting funding for some of its internal administrative expenditures and positions from cost recovery to General Fund, and (2) cover short-term net revenue losses in the TRSF resulting from some state entities moving the provision of their IT services from the State Data Center to private vendors because of, for example, lower service rates. CDT proposes that, over the next three fiscal years, it will undertake a "rate re-evaluation process" to assess (among other considerations) its current rate development processes and State Data Center service offerings. The administration's intent for this re-evaluation is to make CDT's cost recovery model more sustainable to, for example, avoid additional short-term net revenue losses. Once a revamped cost recovery model and associated rate structure is in place, the administration would revert the expenditures and positions funded by General Fund in these proposals to cost recovery (in 2025-26). The two components of these proposals are discussed further below:
1. CDT requests that \$41.1 million in expenditures and 205 positions shift from cost recovery (TSRF) to General Fund to reduce State Data Center rates by an estimated 10 percent. The department also requests an additional \$3.1 million General Fund for external consulting costs and internal positions to work on statewide strategic initiatives, such as the development of a statewide IT Strategic Plan. Figure 2 details the funding and positions in this proposal.
 2. Use General Fund to Cover Short-Term Net Revenue Losses From Some State Entities Moving Provision of Contracted Services From CDT to Private Vendors. CDT also requests \$10.5 million General Fund to cover the short-term net revenue losses from state entities, such as the Department of Child Support Services and the Department of Motor Vehicles, migrating some of their business applications and IT services off the State Data Center and onto service offerings from private vendors. (CDT estimates total revenue losses from State Data Center services at \$20.7 million, but projects \$10.2 million of these losses will be covered by higher-than-anticipated revenues from other services.)

Audit of Cybersecurity:

On January 18, 2022, the California State Auditor issued an update to their previous audit on statewide information security. The Audit found:

We found that CDT has yet to establish an overall statewide information security status for the State's 108 reporting entities. CDT relies on compliance audits and technical security assessments to summarize each reporting entity's information security development into a single score, called a maturity metric. However, because CDT was slow to complete compliance audits, it only calculated 18 of the 39 maturity metric scores it should have determined by June 2021. Despite being aware of shortcomings with its approach, CDT failed to expand its capacity to perform compliance audits.

Moreover, even though CDT requires reporting entities to complete various self-assessments of their information security each year, it does not use this information to inform the statewide security status. Nonetheless, the information CDT does have shows that reporting entities continue to perform below recommended standards, and have not improved over the last several years. However, CDT has not taken critical steps to help reporting entities improve, such as holding them accountable for identifying potential risks to their critical information systems.

Finally, we surveyed 32 nonreporting entities and found that they also have not adequately addressed their information security. Although 29 of the 32 nonreporting entities have adopted an information security framework or standards, only four reported that they achieved full compliance with their chosen framework or standards. We previously noted that some nonreporting entities have an external oversight framework that requires them to assess their information security regularly. In fact, we found that nonreporting entities with external oversight were generally further along in their information security development. Accordingly, we recommended that the Legislature create an oversight structure for all nonreporting entities

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Russ Nichols, Department of Technology
- Miles Burnett, Department of Technology
- Vitaliy Pancych, Department of Technology
- Ryan Weinberg, Department of Finance
- Brian Metzker, Legislative Analyst's Office

LAO COMMENTS

Approve Only One Year of Funding for Both Proposals. We recommend the Legislature approve only budget-year funding for both proposals and reject requested outyear funding to ensure legislative oversight continues through the annual budget process. Annual funding for these proposals also would allow CDT to better forecast additional net revenue losses, for example, and make associated budget requests to cover them (if necessary). Budget-year funding to shift some internal administrative costs to the General Fund also would allow the Legislature to evaluate whether the anticipated reduction in State Data Center rates changes state entities' demand for IT services from CDT.

Direct CDT and DOF to Work With Legislature on Trailer Bill Language to Allow More Legislative Direction and Oversight of the Rate Re-Evaluation Process. We also recommend the Legislature adopt placeholder trailer bill language that directs CDT and DOF to work with the Legislature to define the rate re-evaluation process over the next several years and provide oversight. The Legislature could adopt the trailer bill language that is ultimately developed as a means to provide its policy direction to guide the department's rate re-evaluation process. We recommend the language include at least the following components:

Objectives for the Process. Some of the objectives for the rate re-evaluation process could include the ability of state entities to directly compare IT services offered by the State Data Center with private vendors (including benefits and costs that are specific to State Data Center customers), and the elimination of State Data Center services that cannot be offered at rates competitive with private vendors, particularly if reduced to only cover direct costs.

Outcome Metrics for the Process. Some outcome metrics for the process could be the percentage reductions in State Data Center rates, on average and within different IT service categories, and projected changes in IT service subscriptions over the next several years based on the new rates.

Evaluation of CDT's Current Business Model for Providing IT Services. To build on the rate re-evaluation process, CDT could evaluate whether the State Data Center model as operated today is the most cost-effective, efficient, and strategic model for providing IT services to state entities. The evaluation could consider, for example, whether a move to additional statewide VHSS contracts, in place of certain State Data Center services, is a viable alternative. Other changes in how State Data Center services are administered also could be considered as part of the evaluation, such as mandatory use of some state-hosted services, which might ensure a certain level of service for critical programs. Lastly, term agreements—as are standard in private vendor contracts—could be considered to improve revenue and expenditure forecasting and make cost recovery more sustainable in the future.

STAFF COMMENTS

Budget Proposals

The Department has slowly been moving away from a fee-for-service approach towards a more hybrid model of funding, better reflecting the actual workload and expectations for nimble resources to address IT challenges.

Staff recommends holding these items open as the Legislative Analyst's Office's input was received after the planning for this hearing was completed, so this hearing will be the first opportunity for the administration to respond to the recommendations.

Cybersecurity Audit

This Subcommittee has discussed the Cybersecurity issues before the original 2019 audit and in response to it. The slow progress for compliance is disappointing. In addition, the Subcommittee should consider how state policy should apply to "nonreporting entities" which are typically constitutional officers that have operational independence from the Governor.

Staff recommends adopting Supplemental Reporting Language to get more detailed cybersecurity compliance information to allow for future oversight discussion this year, with potential budget action before the end of the session. This will also allow the Subcommittee to also build on the work of the Select Committee on Cybersecurity, which held a hearing on this audit on February 23, 2022. The proposed language would detail compliance gaps, anticipated compliance, and possible options for insuring nonreporting entities meet cybersecurity standards.

Staff Recommendation: Adopt Supplemental Reporting Language

7760 DEPARTMENT OF GENERAL SERVICES**9860 CAPITAL OUTLAY STATEWIDE PLANNING AND STUDIES**

ISSUE 14: DEPARTMENT OF GENERAL SERVICES BUDGET PROPOSALS

The Department of General Services has nine budget proposals and the administration has a proposal for Capitol Outlay Statewide Planning and Studies.

BACKGROUND

The Governor's budget includes \$100.7 million one-time General Fund in 2022-23 to address critical elevator and Direct Digital Control deficiencies in buildings owned and operated by DGS.

In addition, the budget proposes \$2,000,000 General Fund in capital outlay statewide planning and studies funding to be allocated by the Department of Finance to state agencies to develop design and cost information for new projects. These studies assist departments and decision makers with the evaluation of project feasibility and to inform funding levels for future budgets. These funds will be used to develop refined design, cost, and schedule information (budget packages or studies) for new capital outlay projects. This helps ensure total project costs are more accurate, funding levels are appropriate, and the project scopes are feasible. More accurate funding information also provides decision makers with a better understanding of total project costs to ensure the proposed solution is cost-effective and has been vetted to ensure viability.

The Department of General Services has eight other minor budget proposals in the budget:

- \$4.9 million in authority from the Service Revolving Fund in 2022-23 and 2023-24, and then \$4.7 million in ongoing authority from the Service Revolving Fund beginning in 2024-25. DGS also requests position authority for 7.0 permanent positions and limited-term funding for 2.0 positions beginning in 2022-23 to support DGS' information technology (IT) security, privacy, and enterprise services.
- \$412,000 in ongoing authority from the Service Revolving Fund (SRF) and 3.0 positions beginning in 2022-23 due to the increased need for public affairs services to DGS programs and external customers.
- Position authority for 5.0 permanent positions for workload related to the recently expanded California Preschool, Transitional Kindergarten, and Full-Day Kindergarten Facilities Grant Program.

- \$728,000 (\$305,000 ongoing) two-year limited-term authority from the Service Revolving Fund and 5.0 positions in 2022-23 to support emergency procurement services workload in accordance with the State Emergency Plan
- \$36,000 from the General Fund in 2022-23 to exercise the lease purchase option to acquire the Joe Serna Jr. California Environmental Protection Agency (CalEPA) Building located at 1001 “I” Street in Sacramento. The building is occupied by various CalEPA departments, which will continue to be housed there after the acquisition. The 25-year lease agreement will expire in May 2023, and DGS has the option to purchase the building for one dollar at the end of the term. The request also includes funding for related acquisition and real estate due diligence activities necessary to complete the transaction. A facility condition assessment is currently underway using existing departmental funding, which will help inform future maintenance and operation of the building by DGS.
- Position authority for 10.0 permanent positions effective 2022-23 to transition workload associated with deferred maintenance, special repair projects, and ongoing technology maintenance from a private contractor to state personnel.
- \$153,000 in ongoing authority from the Service Revolving Fund (SRF) and 1.0 position to provide the necessary support to sustain their Equipment Management Maintenance Insurance Program (EMMP).
- \$738,000 ongoing Service Revolving Fund authority and 4.0 permanent positions beginning in 2022-23 to address increasing workload from emergency response functions, support the training and compliance auditing of the statewide travel policy, and increase usage of its services among optional users.

The administration has proposed technical trailer bill language related to the Public Buildings Construction Fund which allows other sources of funds, beyond the General Fund, to repay bonds in the future.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Jaqueline Campion, Department of General Services
- Jason Kenny, Department of General Services
- Alyssa Lee, Department of Finance
- Jessica Peters, Legislative Analyst’s Office

STAFF COMMENTS

The Department reports that the State has roughly \$3 billion in deferred maintenance needs for DGS facilities, with this budget continuing efforts in recent years to address chronic issues with building elevators.

Staff does not have concerns with the budget proposals but included this item on the agenda because of the intersection of these capital items with the changing pattern of work in state government may spark questions or comments from members.

The proposed technical change to the Public Construction Fund appears noncontroversial, but staff recommends adopting it as placeholder to allow for possible fine tuning of the actual language.

Staff Recommendation: Approve as Budgeted and Adopt Placeholder Trailer Bill Language

0511 GOVERNMENT OPERATIONS AGENCY

ISSUE 15: GOVERNMENT OPERATIONS BUDGET PROPOSALS AND INFORMATION PRACTICES ACT

The Government Operations Agency has two budget proposals, one of which includes provisions related to the Information Practices Act

BACKGROUND

The Government Operations Agency has two proposals in the budget:

- Administration Positions: 2 positions and \$435,000—\$170,000 General Fund and \$265,000 reimbursements—in 2022-23 and ongoing to fund and manage existing workload associated with oversight and management of state government operations. Approving this request will allow GovOps to appropriately support and provide oversight for our emergency services functions under the State’s Emergency Plan and provide policy development and statewide input on privacy policies for our agency and reporting departments.
- Government Excellence and Transformation Center: 4 positions and \$665,000 General Fund in 2022-23 and ongoing to staff the Government Excellence and Transformation Center (GET Center) and accelerate the modernization of state operations. The GET Center will accelerate the modernization of state operations by partnering with state departments to conduct innovative pilots that could be scaled across state government for broad adoption. Additionally, the GET Center will establish a repository of best practices and case studies of successful operational innovations that measurably improve the state’s operational effectiveness.

The budget also includes two trailer bill proposals:

- Adopts language clarifying that Government Operations staff are “excluded employees” consistent with their role as the oversight entity for CalHR. This language already applies to entities like CalHR, PERB, Legislative Council and the Department of Finance, where their confidential role in human resources practices set them apart from other state staff.
- Formerly establishes the Chief Equity Officer position, approved in last year’s budget, in Government Code.

COMMENTS FROM PRIVACY COMMITTEE
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The additional position for information privacy reintroduces conversations that policy committee staff have regarding the need to improve and modernize the Information Privacy Act of 1974. The staff have asked the committee to adopt trailer bill language to include this reform in the budget package.

The proposed changes would include the following amendments to the Act:

- The definition of “personal information” is amended to more adequately encompass data, whether or not it is deidentified, that is reasonably capable of identifying or describing an individual.
- The definition of “record” is amended to mean a file or grouping of personal information that is maintained by an agency.
- Data minimization: the statute is amended to prohibit agencies from using records containing personal information for any purpose or purposes other than the purpose or purposes for which that personal information was collected, except as required by federal law, or as authorized or required by state law.
- Amendments specify that negligent violation of the provisions of the IPA by an officer or employee of an agency constitutes a cause for discipline, rather than only intentional violations.
- Amendments ensure that intentional disclosure of medical, psychiatric, or psychological information in violation of the IPA is punishable as a misdemeanor, whether or not the wrongful disclosure results in economic loss or personal injury to the individual to whom the information pertains.
- Rather than prohibiting an agency from disclosing any personal information in a manner that would link the information disclosed to the individual to whom it pertains, except as specified, the amendments prohibit an agency from disclosing any personal information in a manner that could link the information to the individual.
- Amendments require that intra- and inter-agency disclosures of identifiable personal information further the purpose for which the information was acquired, rather than simply being related to or compatible with those purposes, to better regulate unexpected or inappropriate uses of the information.
- To simplify the statute, the definition of “system of records” is struck from the statute, since it serves little function beyond the provided definition of “records.” Any reference to a “system of records” is replaced by a reference to “records.”

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Justyn Howard, Governmental Operations Agency
- Stuart Drown, Governmental Operations Agency
- Joy Bonaguro, Governmental Operations Agency
- Ryan Weinberg, Department of Finance

STAFF COMMENTS

The proposed Government Excellence and Transformation Center offers the potential to modernize and improve state government. The Subcommittee may wish to articulate to the Agency which innovations should be explored. For example, there has been member interest in improving language access services at state departments and agencies and this center could offer logical home to such an initiative.

Staff recommends adopting placeholder trailer bill language on information privacy to allow the speaker and policy staff to work with the Senate and the administration on changes to the Information Privacy Act. By taking this action early, staff intends to provide as much transparency as possible for this language if the intent is to include it in a budget trailer bill later in the process.

Staff also recommends adopting the two proposed trailer bill provisions for the Agency, as placeholder.

Staff Recommendation: Approve as Budgeted and Adopt Placeholder Trailer Bill

0650 OFFICE OF PLANNING AND RESEARCH**ISSUE 16: OFFICE OF COMMUNITY PARTNERSHIPS**

The Office of Planning and Research (OPR) requests \$65 million General Fund in 2022-23 and ongoing to create and implement the Office of Community Partnerships and Strategic Communications (OCPSC) in order to manage the state's highest priority public awareness and community outreach campaigns.

BACKGROUND

In recent years the State has undertaken specific outreach targeting hard to reach communities in California for various purposes. These include the 2020 Census and COVID-19 Outreach efforts, which were both one-time in nature. The Governor's Budget proposes ongoing funding for a dedicated effort for this purpose.

According to the budget proposal:

The Office of Community Partnership and Strategic Communications (OCPSC) will formalize and leverage the infrastructure and work the state developed to support the 2020 Census and COVID-19 public awareness and community engagement campaigns that are currently dispersed among Governor's Office staff and disparate state agencies. The OCPSC will be established within OPR to centralize and streamline statewide efforts to manage the state's highest priority public awareness and community outreach initiatives. Formalizing this office will also help institute many of the best practices learned from the 2020 Census and COVID-19 public awareness outreach and communications efforts.

Specifically, the OCPSC will work directly with respective state departments that will serve as subject matter experts to develop priority public awareness and community outreach initiatives; facilitate coordination and collaboration across state departments to maximized impact to community; provide grant funding to CBOs and other partner organizations; share community insights with relevant state departments; and collaborate with the Strategic Growth Council member agencies and California Volunteers to share resources with CBOs and other partners about resources the state has to offer and explore other opportunities for capacity building and technical assistance. The OCPSC will work with state partners to identify opportunities to reduce the administrative burdens for CBOs of government partnerships without reducing outcomes. OCPSC will directly engage Californians experiencing the greatest health and social inequities with culturally competent and actionable information that improves the quality of their lives. The Office will prioritize-to the extent possible- communities indexed at 68 and above on the Department of Finance's Hard-to-Count Index, characterized by income, language,

broadband access, reliance on public programs, age, disability, etc. OCPSC will report to the Director of OPR as well as engage directly with Governor's Office staff and Cabinet Secretaries to coordinate community engagement and outreach activities.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Samuel Assefa, Office of Planning and Research
- Brian Weatherford, Legislative Analyst's Office
- Kevin Clark, Department of Finance

LAO COMMENTS

The Administration Identifies a Legitimate Need... The state has a number of disparate efforts to raise awareness of critical issues across state government, as described above. There is no single entity that coordinates or standardizes these activities. For this reason, there could be benefits from designating a single entity to focus on maintaining a statewide network of CBOs and other trusted messengers, managing communications grant programs, and coordinating interagency expertise and resources. For example, the designated entity could develop a statewide portal to advertise funding opportunities and accept grant applications. Further, the entity could merge and continue to develop the data, marketing materials, and local relationships with CBOs that have been assembled by the agencies conducting outreach activities to date.

...Unclear Whether Proposal Addresses This Need. The OPR proposal is conceptual and lacks detail, so we cannot assess how effectively it would address this need. Should the Legislature agree that some action in this area is necessary, we suggest it weigh several key considerations discussed below.

Key Considerations:

- Is OPR Best Situated to Administer? While the Governor has proposed to locate this function in OPR, this choice is not driven by any of its statutory responsibilities. The Legislature could consider an alternative, such as the Government Operations Agency (GovOps). GovOps has experience with public outreach, having overseen the 2020 Census outreach effort. Further, as GovOps mission is not necessarily focused on a particular public policy area, it may be more neutral about which topics to focus on.
- What Amount of Ongoing Staff and Funding Would Be Necessary? The \$65 million request lacks a clear and detailed justification and it does not discuss staffing needs. A mature proposal would include a detailed justification for all ongoing funding and position authority. While the proposal generally describes the various activities that might be funded, it does not provide a specific justification for the

need of each activity and why ongoing funding would be appropriate. We are skeptical that ongoing funding in this amount would be necessary. Rather, we would suggest only providing administrative funding on an ongoing basis and providing one-time funding for other specific initiatives, such as marketing campaigns and outreach grants, so that the amounts of funding and allocation priorities could change with the state's needs over time.

- How Would the Legislature Oversee the New Office? Increased communications spending may not have a significant incremental benefit. We suggest planning how best to evaluate the effectiveness of the community partnership and communications activities while developing the proposal to ensure that appropriate resources are provided and the necessary data will be collected and evaluated. The plan should include (1) transparent accounting of which organization are receiving funding and the populations reached, and (2) assessments of the effectiveness of the outreach activities.
- How Would Communications Priorities Be Set? The proposal would focus on the state's highest-priority public awareness and community outreach campaigns. While the proposal specifically identifies outreach efforts related to the Census and the COVID-19 pandemic, how the new entity would determine the state's highest-priority communications needs in any given year is unclear.
- How Would Proposed Entity Coordinate With Other State Agencies? How the new entity would coordinate its activities with those state agencies that currently house the relevant policy expertise is unclear. For example, how would the new entity coordinate with CDPH public health experts if it assumed responsibility for COVID-19-related public awareness campaigns? Several other state agencies, such as CSD and DSS contract with many of the same organizations that also participate with the state's 2020 Census outreach and COVID-19-related public awareness campaigns. Would the scope of the proposed new entity include the other ongoing public outreach activities, such as those for CalEITC and CalFresh? If so, what would be the role of the department that oversees the program—and therefore current outreach activities—now? If not, how would the new entity coordinate its activities with the similar activities of these other agencies to share information and avoid duplication of effort?

STAFF COMMENTS

This proposal is responsive to comments made by this Subcommittee for the need for consistent and durable outreach to vulnerable and disconnected populations within our state.

However, the vision of the Subcommittee was also focused on the eliminating the barriers government programs have for these populations such as language access and a lack cultural competency in our programs. This initiative does not look suited as a vehicle for improvements on this goal. It is more about communication outward than listening and

making inward change. But it does provide a meaningful step forward to addressing concerns raised by members of this committee.

Since the Office of Planning and Research is just an extension of the Governor's Office, the proposal would provide \$65 million ongoing for public relations for the Governor. While the Newsom Administration intends to use these funds to outreach to vulnerable communities, future administrations could redirect their use for any public relations purpose. The Subcommittee may wish to consider whether to include limitations or restrictions to the funding if approved.

This initiative will be difficult for the Office of Planning and Research to implement as described. The design in the BCP envisions the Office bringing together state departments and agencies to play a central role in coordinating efforts. The Office of Planning and Research has a reputation for being a nimble, lean, home for special projects, but is not known for being effective at partnering for change with giant bureaucratic entities.

Staff is aware of concerns raised regarding the award of the funding provided in this initiative. According to the Office, the proposed funding would use the normal state procurement process

Finally, it is important to note that since this initiative is placed in the Governor's Office, the proposal envisions the accountability for its work to be solely to the Governor's Office. If the Subcommittee approves this proposal, it may want to consider options for continued legislative oversight of this important initiative.

Staff Recommendation: Hold Open

ISSUE 17: CALVOLUNTEERS

The Governor's budget includes three proposals for CalVolunteers.

BACKGROUND

As the State Service Commission, California Volunteers oversees service, volunteerism, and civic engagement in California. As the lead for AmeriCorps, a national service program that engages people in meaningful service opportunities, California has years of experience establishing, implementing, and scaling service and volunteerism throughout the state. California Volunteers administers approximately 70 AmeriCorps programs in California.

The Budget includes three new proposals for this entity:

- *\$10 Million Ongoing General Fund to Expand Neighbor-to-Nighbor Program.* This proposal would significantly expand the Neighbor-to-Nighbor program that was established during the pandemic
- *\$10 Million One Time to Expand Foster Grandparent and Senior Companion Programs.* The requested funding would be used to expand the capacity of Area Agencies on Aging—a public or nonprofit agency designated by the state to address the needs and concerns of all older persons at the regional and local levels—to increase the number of AmeriCorps FG and SC projects. California Volunteers would competitively award one or more grants to Area Agencies on Aging that apply for funding to administer FG and SC projects.
- *\$3.86 Million to Establish Climate Action Corps Permanently.* The Governor proposes to establish the California Climate Action Corps permanently. This proposal is for \$3.86 million General Fund for 2024-25 and ongoing.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Josh Fryday, Office of Planning and Research
- Brian Weatherford, Legislative Analyst's Office
- Kevin Clark, Department of Finance

LAO COMMENTS

Legislature Lacks Information About Newer Programs. As the state agency providing oversight of the AmeriCorps programs, California Volunteers collects data on the Climate Action Corps program. The participation in and outcomes of the Climate Action Corps program will be evaluated following the end of its initial three-year period. The Neighbor-to-Neighbor program is not an AmeriCorps program but California Volunteers has developed a plan to collect extensive data to support the programs' objectives, provide monthly progress reports, and other program evaluations. However, at this time, California Volunteers has only provided anecdotal information about the initial outcomes of these newer programs. We recommend that California Volunteers; the Board of Commissioners; and its independent nonprofit organization, the California Volunteers Fund (which receives private sector donations), should be required to prepare an annual report that provides an accounting of all its activities, volunteer membership, and financial statements. This report should be provided to the fiscal committees of both houses of the Legislature and made readily available on its website.

Scope of Neighbor-to-Neighbor Proposal Outside California Volunteer's Statutory Responsibilities. The role of California Volunteers in statute is to administer the state AmeriCorps programs and coordinate disaster response and recovery efforts with other state agencies. California Volunteers traditionally has served these roles by making grants to those nonprofits and CBOs that apply for funding for their AmeriCorps service programs. Local governments, nonprofits, and other CBOs traditionally have been responsible for advertising all of their other service needs, recruiting volunteers, and managing service projects. As described above, the current Neighbor-to-Neighbor program somewhat expanded the scope of California Volunteers to include direct outreach, recruitment, and training of volunteers. While, this expansion could possibly be consistent with California Volunteer's disaster response and recovery responsibilities, this budget proposal would significantly expand the program, on an ongoing basis, beyond disaster response and recovery.

Increased State Role Directly Managing Volunteerism Is Not Justified. California's local governments, nonprofits, and CBOs have a great deal of experience in developing service opportunities and recruiting, training, and managing volunteers. The longstanding model of California Volunteers supporting—and not duplicating—these organizations' efforts is reasonable and appropriate. The administration has not articulated a clear and compelling need for the state to provide the various new coordination, outreach marketing, and training services proposed by the Neighbor-to-Neighbor proposal. The Legislature should ask California Volunteers to explain what aspects of volunteerism in the state are not working well and how this proposal would specifically address those needs.

Benefits of Foster Grandparent and Senior Companion Programs Well Documented. The AmeriCorps Foster Grandparent and Senior Companion programs were established in 1973 and are evaluated on a three-year cycle. Recent studies show that these programs

expand service opportunities to diverse groups of participants. Participants reported fewer symptoms of depression and feeling less socially isolated. Further, expanding the number of Foster Grandparent and Senior Companion service opportunities likely would be consistent with the state's Master Plan for Aging by increasing the number of opportunities to volunteer.

California Climate Action Corps Funding for AmeriCorps Grant Cycle. California Volunteers requests funding for the Climate Action Corps program in 2024-25 in this budget cycle so that it can demonstrate the state's funding commitment to this program when it applies for continued federal AmeriCorps funding in spring 2023. While ongoing funding for this program likely would strengthen the application, it seems premature. Should the Legislature support the efforts of California Volunteers to enhance its AmeriCorps application for this program with a firm funding commitment, we would recommend instead providing another round of temporary funding (through 2026-27). The Legislature should plan to review the outcomes and effectiveness of the Climate Action Corps program in several years, when more information is available.

STAFF COMMENTS

The Office of Planning and Research has long been the recipient of the federally funded AmeriCorps grant for California, which this administration has used as foundation for the Governor's priority to encourage service and volunteerism. In recent year, the budget has provided General Fund to grow this function, but most of these large investments have been limited in duration. The proposals in this budget envision an ongoing permanent state investment in CalVolunteers, including a proposal that would take effect until two fiscal years in the future.

These proposal give the impression that the newly expanded CalVolunteers mission will be an ongoing and durable part of state government going forward. However, since these permanent ongoing General Fund expansions are within the Governor's Office, a future administration can redirect these resources for any purpose. If the intent is to create a durable service and volunteerism department, then eventually this function needs evolve into a dedicated state department, with the corresponding accountability measures like a formally confirmed department director.

Staff notes that the Foster Grandparent and Senior Companion programs once received dedicated funding in the Department of Aging, but this funding was eliminated during the budget reductions made during the Great Recession.

Staff Recommendation: Hold Open

ISSUE 18: OTHER OPR BUDGET PROPOSALS

The Subcommittee will consider the other 14 budget proposals for the Office of Planning and Research.

BACKGROUND

The Office of Planning and Research has several budget proposals covering a variety of different policy areas.

Higher Education Proposals

Office of Planning and Research has three proposals related to Higher Education:

- Proposes \$30 Million One-Time General Fund for New Round of Innovation Awards. The Golden State Awards initiative would support at least 20 awards to individuals or teams at, or associated with, the public higher education segments who have developed or are developing innovative practices. Unlike past innovation award programs, this initiative not only would aim to improve student outcomes but also could cover any activity deemed innovative and high impact, including, but not limited to, programs that improve student outcomes, research on climate change, and research on low-carbon industries. CELL would administer the grant program, with oversight from a 12-member grant selection committee, with 10 members appointed by the Governor, 1 member by the President pro Tempore of the Senate, and 1 member by the Speaker of the Assembly. CELL would have three years to award the funds and would be required to report by January 1, 2026 on how the awards were allocated.
- Proposes \$3 Million Ongoing General Fund for CELL. Of this amount, \$2 million would restore CELL's ongoing base to its pre-pandemic level of \$10 million. According to the administration, this restored base would allow the program to offer more grants, support more professional development, resume efforts to develop its "best of" library, and host intersegmental convenings on effective pedagogical practices. The remaining \$1 million would support the expansion of a free adaptive learning homework system. The existing system, which was developed by faculty at UC Davis, CSU San Bernardino, and Mendocino College for introductory chemistry, was supported by a one-time CELL grant. According to CELL staff, the ongoing funding would enable faculty to expand the system for more chemistry courses and STEM subjects, as well as improve the system's current functionality
- \$20 million one-time General Fund for a grant to Carnegie Science for a climate research hub in Pasadena. Grant will construction of a new research hub that intended to "broaden and deepen our knowledge of the environmental, biological, and energy threats facing California and the world". The Carnegie Institution for Science has three research divisions on both coasts of the United States and at

the Las Campanas Observatory in Chile. It is an endowed, independent, nonprofit institution. Significant additional support comes from federal grants and private donations. A board of trustees, consisting of leaders in business, the sciences, education, and public service, oversees Carnegie's operations. Each of the divisions has its own scientific director who manages day-to-day operations.

Subcommittee 2 intends to hear these proposals, as they are central to the Governor's Higher Education approach.

Precision Medicine

"Precision medicine" is a developing approach in the health sector that takes into account an individual's genes, environment, and lifestyle for disease diagnosis, treatment, and prevention. The 2014-15 Budget Act made a one-time appropriation of \$3 million to OPR to fund precision medicine biomedical research. OPR, in collaboration with the University of California (UC) San Francisco, issued a call for proposals to UC campuses. Two demonstration projects—California Kids Cancer Comparison at UC Santa Cruz and Precision Diagnosis of Acute Infectious Disease at UC San Francisco—were awarded funding. OPR also developed an inventory of data, research, experts, and other resources related to precision medicine to facilitate cooperation in precision medicine research. The Legislature provided \$10 million in one-time funding for precision medicine research again in 2016-17 and 2017-18. The 2018-19 budget provided an additional \$30 million in one-time funding for precision medicine research. In 2020, at the onset of the pandemic, \$18.2 million of this amount was redirected to other budgetary needs. The 2021-22 budget restored \$12.4 million in funding to OPR for precision medicine research to specifically address Adverse Childhood Experiences.

- Proposes \$10 Million One-Time General Fund for Depression Research. This funding would provide grants to precision medicine research projects focusing on depression. These precision medicine research projects would be located in California. Funded institutions would need to provide in-kind contributions to cover indirect costs. CIAPM would require the research teams to partner with a nonprofit community organization, patient organization, or county institution that provides support to people with depression. Funding would prioritize research projects that support progress in providing solutions for disproportionately underserved areas. The intended outcome of this funding would be new tools for preventing, diagnosing, measuring, and treating depression, using precision medicine methods, that are appropriate and effective across the state's diverse communities.
- Proposes \$9.25 Million One-Time General Fund to Increase Diverse Participation in Biomedical Research Projects. This proposal would create a network of ten state agencies and eight nongovernmental agencies to raise awareness of and participation in research among groups that are underrepresented in biomedical research studies. The goal is to sustainably increase the number of participants

from underrepresented backgrounds who are recruited, enrolled, and retained in biomedical research studies. Diverse participation in these studies could improve the quality of both that research and the information available to nationwide precision medicine databases. The funding would support the costs of meetings for the various partners, to produce promotional products, and to hold promotional events. Promotional products would be translated into at least one other language.

Other Budget Proposals

There are six additional OPR proposals before Subcommittee 4:

- Extend and Re-Appropriate Funding for Climate Change Research. Proposes to extend and re-appropriate \$4.75 million Greenhouse Gas Reduction Fund (GGRF) appropriated in 2019 for the Climate Research Program.
- Extend Funding for Market Development for Woody Biomass. \$4 million one-time General Fund over two years: \$2 million in 2022-23 and in 2023-24 to expend pilot program adopted in 2021.
- Support California Jobs Plan Act of 2021. Proposes \$574,000 GGRF and one position ongoing to support the California Air Resources Board with workload related to the implementation of Chapter 746 of 2021 (AB 680, Burke). The new position would coordinate across agencies and update guidelines, provide technical assistance materials, improve application processes, and provide technical assistance for applicants to meet the new labor standards for the program.
- Proposes \$438,000 Ongoing General Fund for Legislative Workload. This proposal would fund two new positions to support bill analysis workload across OPR and its programs such as California Volunteers and the Strategic Growth Council. The Governor and the Legislature have continued to expand OPR's responsibilities. Currently, OPR has only one full-time staff dedicated to legislative workloads. The additional staff would assist in the preparation of bill analyses and in responding to legislative inquiries.
- CEQA Workload (AB 819). Proposes \$374,000 General Fund and one position to modernize the CEQA filing process and other responsibilities related to the implementation of Chapter 97 of 2021 (AB 819, Levine). While this legislation initially was not expected to have significant implementation costs, the California Department of Technology subsequently identified additional necessary expenses.
- Affordable Rental and Owner-Occupied Housing (AB 1095). Proposes \$158,000 General Fund and one position ongoing to support new workload related to the implementation of the Affordable Housing and Sustainable Communities Program pursuant to Chapter 355 of 2021 (AB 1095, Cooley)

The following issues were already considered in Subcommittee 3 because they also impact departments in that Subcommittee:

- Tribal Affairs: Truth and Healing Council. \$450,000 Environmental License Plate Fund for three years to support the California Truth and Healing Council as part of the package to establish the Governor's Office of Tribal Affairs.
- Clean Energy Package Implementation (AB 525). Proposes \$354,000 General Fund one time for technical assistance to support a study of supply chain, economic development strategies, and workforce development assessments to meet the requirements of Chapter 231 of 2021 (AB 525, Chiu).
- Climate and Wildfire Workload. Proposes \$219,000 General Fund and one position ongoing to support workload related to several new laws enacted last year.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Josh Fryday, Office of Planning and Research
- Brian Weatherford, Legislative Analyst's Office
- Kevin Clark, Department of Finance

LAO COMMENTS**Higher Education**

Innovation Awards Have Unclear Statewide Benefit. Past innovation award initiatives have had a few basic shortcomings—all of which also apply to the Governor's new award initiative. One shortcoming is the initiative would provide relatively large sums to a small number of recipients without any clear mechanism for disseminating best practices. A related shortcoming is that the initiative is unclear in how selected activities would be sustained and scaled, in turn potentially creating considerable future cost pressure for the state. A third shortcoming is that the added value of rewarding existing activities potentially begun without state direction, funding, or reporting is questionable.

Proposed Award Initiative Lacks Focus. Though innovation award initiatives by design are problematic, the Governor's proposal is especially concerning given its broad scope ranging from higher education to climate change to any other area of interest to the administration. This lack of focus almost certainly would undermine the initiative's ability to meaningfully impact any one area. The broad scope also means the program likely overlaps with other existing state efforts. For example, the state has funded research on climate-related issues through other programs and departments.

Reject Golden State Awards. Given its fundamentally poor design, we recommend the Legislature reject the proposed \$30 million General Fund and redirect the funds toward other high one-time priorities.

Assessment of Ongoing CELL Funds Forthcoming. On January 26, the administration provided our office additional information on the proposed \$3 million ongoing General Fund for CELL. Our office is still reviewing this information and we plan to release our assessment later this budget cycle.

Precision Medicine

State Spending Is Modest Compared to Other Sources of Biomedical Research Spending. California's academic and research institutions conduct a wide variety of research with the potential to improve Californians' health and wellbeing. Most of the state's research institutions, including UC, receive a majority of their direct funding for research from federal, private, and other nonstate sources. The administration has never clearly demonstrated that the available federal resources for precision medicine research are inadequate.

Administration Has Provided More Details Than Previous Requests for Funding... Previous precision medicine proposals often lacked important details. We credit the administration for submitting precision medicine proposals that provide significantly more information about the goals and objectives of the research and how grants would be awarded.

...However, Unclear How Administration Determines Funding Priorities. Despite additional detail provided by the administration, we find it challenging to evaluate the proposals because the state does not have a framework for prioritizing the allocation of General Fund monies across various research topics. There is no framework to justify why the state should now direct research towards another new topic area (depression) over any of the several prior focus areas of CIAPM, such as developing a better understanding of disparities in cancer risk, or other important biomedical research questions, such as developing tools to better diagnose autism, preventing and treating inflammatory diseases, or improving our understanding of the effects of wildfire smoke on health. Justifying the allocation of state funding for specific precision medicine research topics over other research areas or general funding for academic research is difficult absent an overarching framework.

CIAPM Claims Its Research Influences National Research Funding Priorities. The administration justifies continued state funding for biomedical research despite the concerns we raise above because they believe that the NIH research funding priorities in precision medicine somehow lag social needs. For example, CIAPM claims that funding for depression research is necessary because of the increased prevalence of depression during the COVID-19 pandemic. However, CIAPM did not provide a clear gap analysis. CIAPM claims that they can demonstrate to the NIH what types of research in this area are possible. While state-directed research might influence federal decision

makers, there could be other ways for researchers in California to influence NIH research priorities, such as by participating in advisory bodies.

Proposal to Increase Diverse Participation in Biomedical Research Projects May Have Merit. The network of state agencies and their partners requesting funding to increase the number of diverse participants in biomedical research previously applied for, but did not receive, funding for this proposal from the NIH All of Us Initiative. CIAPM noted that successful proposals mostly were submitted by national organizations and coalitions, whereas this proposal is specific to California. While this proposal could duplicate national precision medicine data collection efforts in some ways, its focus on California suggests it may have merit. Some groups have been historically underrepresented in biomedical research and this has led to documented health disparities. California has diverse demographics that are different from other parts of the country and this proposal could benefit statewide public health goals by ensuring that the diverse communities in California are well represented in the federal All of Us research database system.

STAFF COMMENTS

Over the last two decades, public policy has become more intersectional, requiring the state to work across policy area to address novel and emerging problems. Key examples include climate change, housing affordability, and coordination of state education systems with higher education. The traditional siloed state bureaucracies struggled with the change, which has led to Office of Planning and Research often stepping in to fill that gap.

However, the Office now has a vast and disjointed portfolio of programs: volunteerism, housing, climate change, medical research, CEQA review, workforce development, fire prevention, higher education, energy, and now community engagement. Every year, the Office adds new policy areas to this list. This creates a management dynamic similar to this agenda item, a laundry list of initiatives that superficially sound useful, but are presented in a way that makes further analysis more difficult.

For example, this agenda item includes a \$4 million extension of the woody biomass market development initiative which reflects a long-standing Assembly priority in natural resources. This small study is a critical component of the State's forest management strategy, as landowners lack uses for the millions of dead trees in our forests. But at the Office, this initiative is buried in a list of bullets. It is hard to see how much attention this initiative is getting at an executive level, given that it is competing with so many other items that are trending.

Having the Governor's personal staff lead these important initiatives brings gravitas and attention to them. However, the downside of this approach is that Office staff have not been as responsive to stakeholders, including the legislature, and often lack skills at navigating bureaucracies to create institutional change. The Subcommittee may wish to

explore at what point some of these programs should be converted into departmental or agency functions.

Finally, staff notes that last year Subcommittee 2 took action to reject some Office proposals that impacted both TK-12 and higher education policy. The proposed Innovation Grants in this year's budget proposal may again raise objections on policy grounds and in that case staff recommends deferring to Subcommittee 2's direction on those items.

Staff Recommendation: Hold Open

9210 LOCAL GOVERNMENT FINANCING

ISSUE 19: EXCESS ERAF TRAILER BILL PROPOSAL

The Subcommittee will consider a trailer bill proposal regarding the treatment of property tax revenue for education.

BACKGROUND

Fifty years ago, local property tax revenue were the primary source of local school funding, with the State have a supplemental funding role. However, this approach meant that localities with more valuable land had more resources for schools AND lower tax rates on property than areas with lower value property to tax. This inequity led to a series of court cases in the 1970's called the Serrano cases, in which the State was compelled to intervene to provide a statewide level of funding for all schools, which is now today manifested in the Local Control Funding Formula funding level. This created a minimum equal level of per pupil funding for all schools, but for some districts across California, local property tax revenue is sufficient to cover this entire amount and they received no state support. These districts are called "basic aid" districts.

Almost immediately upon the State receiving this new funding requirement, voters adopted Proposition 13 on the 1978 ballot. This measure reduced local property taxes across the state and slowed the rate of growth for this local revenue stream. Because of the Serrano cases, the State was compelled to use General Fund to backfill the lost property tax. As a result, the State became the largest source of K-12 revenue and the current state system we have today began. Also the impact on property tax revenues were so profound, very few school districts has property tax revenue to meet basic aid threshold.

Proposition 13 and the Serrano cases also disrupted the funding equilibrium that had existed between the State and local districts. Since for most of the State property tax revenue that would accrue to schools offset State support, it meant the school share of property tax revenue would have a direct impact on General Fund costs. This led to a serious of fights, laws, and ballot measures that sought to clarify how property taxes were divided and accrued and which level of government was responsible for emerging costs and programs that had no historic precedent prior to the events of the 1970's. One of the most major changes was a shift in the 1990s of city, county, and special district funding to an Education Revenue Augmentation Fund (ERAF) for schools

Since the 1970's the grown of the Silicon Valley and the Napa Wine region in economic importance has led to a massive increase in property tax revenues in these locations. As this occurs, districts in this area are transitioning into basic aid status, which changes their funding source. As these districts enter basic aid, it has unique impacts on how various

state-local government revenues shifts would work. For five counties, Marin, Napa, San Francisco, San Mateo and Santa Clara, local revenues exceeded the requirement for ERAF and extra funds were available for “Excess ERAF”. When this occurs, the excess funding is allocated back to cities, counties and special districts.

2020 Excess ERAF Calculation Debate

The 2020 budget package included trailer bill language to address how Excess ERAF funding would be determined. The bill addressed two issues: First, that any property tax revenue returning to schools from the dissolution of Redevelopment Agencies would not be counted as ERAF revenue; and second that charter schools should be included in the calculation of the ERAF amount. The LAO estimated that the impact of these two assumptions would prevent \$350 million per year being shifted to the counties from the state General Fund. However, the Controller ultimately sided with counties on how to interpret the trailer bill and provided counties with the excess ERAF they had claimed. This difference in interpretation is currently subject to litigation.

2022 Trailer Bill Proposal

The proposed 2022 trailer bill revisits the Excess ERAF issue. This time, the Department of Finance is addressing how the State implement the Vehicle License Fee reduction that was implemented in 2003. Because Vehicle License Fee revenues also support city and county operation this reduction, part of the 2003 Recall election promise to “Stop the Car Tax”, resulted in a loss of local funding. The State largely made up for this loss by providing school property tax revenues in lieu of the lost Vehicle License Fee revenue, these school property taxes would the naturally be replaced by State General Fund. However, this solution does not work for districts that have only basic aid districts, as there is no way to provide state funds to offset the lost property tax.

As a recent practice, the State has provided General Fund support to localities that were not made whole for the Vehicle License Fees. In this trailer bill, the Department of Finance proposes capturing Excess ERAF revenue as the funding source, in lieu of State General fund support. This results in savings to the State but means counties will have less Excess ERAF funding going forward. The Department of Finance also proposes a continuous appropriation which would provide more certainty about the future ability of the Counties to receive reimbursement for insufficient ERAF funding.

PANEL

The following individuals will participate virtually in the discussion of this issue:

- Chris Hill, Department of Finance
- Lourdes Morales, Legislative Analyst’s Office

STAFF COMMENTS

The Trailer Bill attempts to settle an argument on local funding responsibilities without clear historic precedent.

The Department of Finance is arguing that the Excess ERAF, which only accrues in some of the wealthiest areas of the State, should pay the local Vehicle License Fee obligations for the locals instead of all of California continue to subsidize these localities through a General Fund allocation. Even after paying this obligation, these Excess ERAF local governments will have additional revenues that will continue to grow, while the rest of the State will not have such a benefit.

The counties and cities are arguing that the lost Vehicle License Fee revenue is a result of a state action to reduce fees, so the State must provide the local offset. Making local governments use this new revenue for this purpose, means that the State is requiring the local governments to pay for a policy for which the rest of the State was made whole.

Staff continues to have concerns about the lack of clarity around the 2020 Excess ERAF calculation. If unaddressed, excluding charter school students from the calculation of school obligations sets a potential precedent to provide local governments a fiscal incentive to increase charter school enrollment.

Staff Recommendation: Hold Open
