California State Assembly

Assembly Budget Agenda

Subcommittee No. 5
on State Administration

Assemblymember Sharon Quirk-Silva, Chair

Tuesday, April 23, 2024
1:30 P.M. – State Capitol, Room 447

Items To Be Heard

Item	Description	Page
7600	**California Department of Tax and Fee Administration**	**2**
Issues	1. Tire Recycling Fee Program and Trailer Bill Language	2
	2. SB 96 Historic Venue Restoration and Resiliency Act Clean-Up Trailer Bill Language	3
	3. Elimination of Bad Debt Sales Tax Deduction/Refund	5
7730	**Franchise Tax Board**	**8**
Issues	4. Federal Free File	8
	5. Enterprise Data to Revenue Project 2	10
	6. Net Operating Loss Limitation to 80 Percent of Income	12
	7. Charitable Conservation Easements	14
	8. Eliminate Oil and Gas Direct Tax Subsidies	16
	9. Other TBL proposals	19
0509	**Governor's Office of Business and Economic Development**	**21**
Issues	10. CA Small Agricultural Business Drought & Flood Relief Grant Program Update	21
	11. California Competes Grant Program	23
	12. Infrastructure State Revolving Fund	25
1701	**Department of Financial Protection and Innovation**	**27**
Issues	13. Broker Dealer Investment Advisor Workload	27
	14. Continuation of California Consumer Financial Protection	29
	15. Continuation of Debt Collector Licensing and Regulation	32

Items To Be Heard

7600 California Department of Tax and Fee Administration

Issue 1: Tire Recycling Fee Program and Trailer Bill Language

The California Department of Tax and Fee Administration (CDTFA) requests converting the funding mechanisms for the Tire Program from a reimbursement mechanism to a Budget Act appropriation.

CDTFA requests a Budget Act appropriation from the Tire Fund in the amount of $2,541,000 in 2024-25, $2,511,000 in 2025-26, and ongoing. CDTFA also requests a corresponding reduction in reimbursement authority of $2,541,000 in 2024-25, $2,511,000 in 2025-26, and ongoing to offset the Budget Act appropriation from the Tire Fund. This request includes trailer bill language.

Background. CDTFA has administered the Tire Program for over 30 years. AB 2836 (Chapter 355, Statutes of 2022) extended the Tire Fee Program's sunset date to January 1, 2034. As a result, CDTFA, CalRecycle, and California Air Resources Board (CARB) agreed that CDTFA seek direct appropriation for Tire Program administrative costs in lieu of reimbursements.

According to CDTFA, the Tire Program has 13,876 registered feepayers that generated $61.6 million in revenue in 2022-23. Program costs over the last three fiscal years have averaged $2.2 million annually and are expected to remain stable.

Trailer bill language. Trailer bill language proposes statutory changes to seek a direct budget appropriation and deletes language related to the reimbursement process.

Panel

- Jason Mallet, Chief Financial Officer, CDTFA
- Chris Hill, Principal Program Budget Analyst
- Jack Wyatt, Finance Budget Analyst
- Seth Kerstein, Economist, Legislative Analyst's Office

Staff Comments

Approval of this issue is consistent with CDTFA's goal of modernizing tax collections. According to the BCP, CalRecycle and CARB are supportive of this change.

Staff Recommendation: Hold Open.

Issue 2: SB 96 Historic Venue Restoration and Resiliency Act Clean Up Trailer Bill Language

The CDTFA proposes clean up trailer bill language to address issues in the SB 96 (Chapter 595, Statutes of 2023).

Background. SB 96 enacted the Historic Venue Restoration and Resiliency Act to require that retailers making sales at historic venues during qualified events segregate the taxable sales from those sales on a separate line or form when filing sales tax returns to CDTFA.

Trailer Bill Language. The trailer bill makes the following changes to SB 96:

1. Requires that the return filed with the CDTFA and DOF, specify the taxable sales made at a qualified event for each confirmed historic venue.
2. Limits the requirement to segregate taxable sales on the return to qualified events that occur on or before June 30, 2029.
3. Requires that DOF no later than 15 days after enactment of the annual Budget Act, for each confirmed historic venue located within the geographic boundaries of a city or county report to the Controller the amounts to be allocated from the fund to each city and county.
4. Changes the requirement from 90 to 10 days that a city or county, or its designee notify any retailers who will be making sales during the qualified event of their reporting obligation as specified.
5. Deletes the requirement for a city or county to deliver a report to CDTFA by January 1, 2027.
6. Specifies that CDTFA's annual report is due November 1 of each year.

Panel

- Michele Linton, Chief, Legislative Bureau, CDTFA
- Hill, Principal Program Budget Analyst
- Jack Wyatt, Finance Budget Analyst
- Seth Kerstein, Economist, Legislative Analyst's Office

Staff Comments

Staff has concerns that the trailer bill proposes changes to a bill that should have been addressed as the bill made its way through the legislative process and that making these changes in the budget process sets up a bad precedent for amending bills outside of the policy process.

Additionally, the fiscal analysis states that there is a cost of $531,000 in 2023-24, and $307,000 ongoing to implement SB 96. There is no BCP from CDTFA to cover these costs, and CDTFA states that the costs for implementation will be absorbed by the department. Currently there are over 20 bills that were enacted last year that do not include a budget change proposal for resources to implement the bills and that action on this proposal should be evaluated in concert with those bills after May Revision.

The Subcommittee may wish to ask the following:

CDTFA

1. How long can CDTFA absorb the costs to implement this bill?
2. Is SB 96 being prioritized for implementation over other chaptered legislation from last year?
3. Why was the reporting requirements for local governments deleted from the bill? Did your staff reach out to the appropriate committees to discuss these changes?

DOF

4. Is there a cost associated with the new role for DOF with SB 96?

Staff Recommendation: Hold Open.

Issue 3: Elimination of Bad Debt Sales Tax Deduction/Refund

The Governor's budget proposes trailer bill language to eliminate the sales and use tax deduction and refund for a lender or retailer's affiliate for sales and use tax previously paid by a retailer on accounts found worthless and charged off for income tax purposes (subsequently referred to as bad debt) beginning on January 1, 2025. Retailers would remain eligible to claim such deductions or refunds.

The administration estimates that the proposal would raise General Fund revenues by $25 million in 2024-25, and by $51 million in 2025-26, and ongoing. They estimated that revenues for other funds, which support various local programs, would increase by roughly $30 million in 2024-25, and $60 million in 2025-26, and ongoing.

Background. Existing law allows retailers, lenders, and retailers' affiliates to deduct, for income tax purposes, and to claim a refund for sales and use tax paid on bad debt used to purchase taxable goods on credit. Typically, loans to purchase goods are offered not by retailers but by retailer-affiliate lenders such as banks, credit unions, and other financial companies, meaning these are the entities that ultimately benefit from the bad debt deduction.

This proposal eliminates a tax benefit primarily granted to large financial institutions which, in effect, subsidizes the loans they offer. Loan offers typically include interest payments and late payment penalties as conditions of the loan. These interest payments are calculated on the total purchase amount including the amount of sales tax owed on the purchase, benefiting the lender in the form of higher payments. Lenders are currently able to claim the deduction even if they have made a profit on the loan through interest and penalty payments. Lenders evaluate and price the higher risk of default in the elevated interest rate they charge when they decide to accept the risk. In effect, this law provides a double benefit to lenders, who both make money on the loans and are partially protected in the case of a borrower default.

The bad debt deduction/refund is unusual in that it is allowed to lenders even though sales tax due related to purchases made on credit is paid by the retailer, not the lender. Furthermore, the borrower pays the sales tax reimbursement related to the purchase to the retailer, not the lender. Under current sales tax law, typically only the payer of sales tax (the retailer) can claim a refund. Administrative complexity resulting from this unusual arrangement creates significant workload for CDTFA's audit team. Bad debt refunds are likely to increase in times of financial distress for borrowers, such as recessions, in which the state may also be experiencing budget difficulties.

Panel

- Henry Lucho, Deputy Director, Field Operations Division, CDTFA

- Jacob Kirn, Principal Program Budget Analyst, Department of Finance
- Seth Kerstein, Economist, Legislative Analyst's Office

LAO Comments

Proposal Warrants Serious Consideration*.* Overall, we do not see a compelling policy argument either for or against the proposal. This year, the condition of the General Fund could force the Legislature to consider some highly undesirable choices, so budget solutions whose policy merits are ambiguous warrant serious consideration.

Lenders Have Multiple Ways to Reduce Losses From Bad Debts. In addition to the sales tax deduction or refund, lenders have several ways to reduce the financial losses that they incur from bad debts. Even after a lender charges off a bad debt, they may continue to pursue repayment from the borrower through a collection agency or eventually through litigation. They also may deduct bad debts on their income taxes.

Current Law Encourages Risky Lending*.* The deduction or refund available under current law slightly reduces lenders' losses from bad debts. As a result, it weakens their incentives to avoid lending money to borrowers who are relatively unlikely to repay the debt. Eliminating this subsidy could make lenders slightly less willing to offer credit to such consumers.

Refunds Costly to Administer. Although lenders may claim deductions for bad debt on tax returns, they often opt to file separate claims for refunds. The administration estimates that CDTFA's field auditors spend roughly 6,000 hours per year verifying these refund claims. (We estimate that these hours account for 0.4 percent of CDTFA's field audit personnel.) These claims also generate substantial workload for other audit staff, though precise estimates of this workload are not available. The administration argues that this costly verification process is necessary because non-retailer lenders' records generally do not document sales tax payments as thoroughly as retailers' records. The administration further argues that these audit resources could be put to better use pursuing revenue-generating audits.

January Projections Do Not Reflect Timing of Refund Claims. Although the Governor's proposal would make bad debt charged off after December 31, 2024 ineligible for deductions or refunds, lenders would have additional time—in many cases, up to three years—to claim deductions or refunds for the bad debt they charged off before that date. The administration's January revenue estimate does not reflect the resulting delay in revenues that would be raised by the proposal. They plan to revise their May Revision estimate to address this issue.

Staff Comments

Opponents to this trailer bill state that the proposal could potentially limit consumer access to credit. The Subcommittee may wish to ask LAO to respond to what this proposal if they anticipate this affecting consumer access to credit.

Staff Recommendation: Hold Open

7730 Franchise Tax Board

Issue 4: IRS Direct Filer Portal Update

The Franchise Tax Board will provide an update on the Internal Revenue Service (IRS) Direct Filer Portal.

On January 29, 2024, the IRS began a pilot program allowing qualified individuals to file their federal tax return directly with the IRS using the IRS supported free file tool. Currently, the Direct File pilot is available to eligible taxpayers residing in Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Wyoming and Washington.

For California, the IRS will direct Californians to a CalFile application once they complete the filing of their federal return.

For New York and Arizona, Code for America is working with the IRS on the Direct File Portal to allow filers to use their existing infrastructure to file the NY and Arizona state returns.

Finally, it is understood that Massachusetts is participating as well.

Other Key Facts:

- The new IRS service is optional and does not replace any existing filing options for taxpayers. The Direct File Portal is one more choice.
- IRS plans to have 400 agents to support real-time, live chat functions to assist taxpayers using the new tool.

How many taxpayers use free file services today:

- CalFile: Approximately 80,000 – 90,000 annually
- VITA: Approximately 410,000 in 2023 for California returns.
- Federal Free Filing Alliance: An annual stat is not available. Per Free File Alliance Organization, 71 million returns over the last 22 years,
- Tax software vendor free filing products: Unable to identify.

Panel

- Jeanne Harriman, Chief Financial Officer, Franchise Tax Board
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Chris Hill, Principal Program Budget Analyst, Department of Finance
- Jack Wyatt, Finance Budget Analyst, Department of Finance

Staff Comments

The Subcommittee may wish to ask FTB the following:

- With the federal file pilot program, did FTB see an increase in CalFile users?
- What challenges face FTB with the two systems?
- How is FTB preparing for next tax season? What resources, if any, will FTB need to make this process more successful?
- How is FTB monitoring taxpayer behavior between using resources like free file and VITA sites?

Staff Recommendation: This item was presented for information only.

Issue 5: Enterprise Data to Revenue Project 2

The Franchise Tax Board (FTB) requests an augmentation of $127,066,000 and 28 permanent positions, and 10 limited-term positions for the fourth-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle.

Background. FTB's legacy systems are using outdated technology and need modernization. In 2024-25, FTB will be entering the fourth year of the EDR2's project implementation. The technology currently supporting two out of three of FTB's major legacy systems {(Accounts Receivable Collection System (ARCS), Integrated Nonfiler Compliance (INC), and Professional Audit Screening and Support System (PASS)}, which annually allow FTB to collect over $4 billion in compliance revenue, are nearing end-of-life and will no longer be supported after December 31, 2025. Replacing these systems before they reach end-of-life will ensure FTB business operations generating significant compliance revenue for the state will not experience any critical failures. Additionally, the EDR2 project will deploy new tools to assist taxpayers in complying with their obligations as well as enhance FTB's compliance activities.

Phase 2 of the TSM effort is the EDR2 project, which began in 2021. This project as proposed and approved builds on the enterprise data, modeling, CM platform and infrastructure provided by EDR by expanding the enterprise CM and modeling to other systems and processes including Audit, Legal, Filing Enforcement (FE), and Underpayment. Phase 2 also expands the functionality for the Taxpayer Folder and MyFTB in addition to positioning FTB to decommission multiple legacy systems.

This phase will provide technology to move FTB compliance workloads to a single case management system and modeling tool as well as implementing new Audit, FE, and Underpayment compliance strategies. Moving the compliance workloads and processes to the enterprise platform also results in efficiencies across program operations. In addition, the EDR2 project presents an opportunity for FTB to address legacy systems that are using outdated technology. The following table shows the systems FTB plans to replace with EDR2 and their original implementation dates and ages.

The EDR2 project plans to achieve the following objectives in 2024-25:

- Utilize the new data analytic tools to support the development of new work including functionality for models, treatment paths, and data visualization (reports and dashboards);
- Perform data analysis and clean-up of the INC application data prior to the conversion of the data into the EDR2 case management platform;

- Analyze and resolve issues with collection cases that will not convert in an automated fashion prior to contractor's automated conversion from the PIT collection legacy to new system;

- Enhance the ability to successfully select best value cases for compliance efforts and complete quality cases efficiently;

- Ensure new data fields can be captured from paper returns and other stand-alone tax forms to assist with developing potential modeling strategies and business rules which will result in increased revenue;

- Develop and implement Training and Organizational Change Management activities to support FTB enterprise including the field offices who will utilize the systems impacted by the EDR2 project implementation and changes;

- Maintain the data integrity and availability in FTB's tax systems and their ability to perform critical state tax functions;

- Enhance the capabilities of the previously implemented solution that is used by the Underpayment BSOW to identify available assets to levy during the Personal Income Tax involuntary collection cycle;

- Continue design and development of deliverables to be implemented in future years, including self-services and additional case management solutions

Panel

- Thi Luong, Financial Management Director, Franchise Tax Board
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Chris Hill, Principal Program Budget Analyst, Department of Finance
- Jack Wyatt, Finance Budget Analyst, Department of Finance

Staff Comments

According to FTB, the EDR2 project will improve efficiency and provide a better taxpayer experience while increasing revenue.

Staff has no concerns with the proposal.

Staff Recommendation: Hold Open.

Issue 6: Net Operating Loss Limitation to 80 percent of Income

The Governor's Budget proposes to limit the use of Net Operating Loss (NOL) deductions to 80 percent of a business' taxable income in a particular year. Currently, if a business has enough NOL deductions, they can offset 100 percent of their taxable income, resulting in a tax payment of only $800. (Even when they have no taxable income, corporations are required to pay a minimum franchise tax of $800.

The administration estimates this change would increase revenues by $300 million 2024-25 and $200 million each year thereafter.

Background. An NOL is generated when a business's deductions exceed its taxable income during a given taxable year. NOLs can then be applied in a subsequent year for which the business has taxable income. The rationale is to provide more equitable tax treatment between businesses with volatile income and businesses with steady income.

As part of the Tax Cuts & Jobs Act (TCJA, 2017), the federal government limited the use of NOLs generated beginning in 2018 to 80 percent of a business's taxable income, reducing the allowable amount from 100 percent. TCJA also allowed unlimited carryforwards, up from the previously allowed 20 years, and barred the use of carrybacks, which allowed NOLs to be applied to earlier tax years to receive a refund. Most states conformed to these provisions, either in part or in full.

California has not conformed to the limit on NOLs, allowing businesses to use NOLs up to 100 percent of their taxable income, while continuing to cap carryforwards at 20 years. In 2019, California conformed to the federal elimination of carrybacks, which had been allowed for up to the two preceding years under prior law. In 2020, when the state expected a revenue shortfall resulting from the COVID-19 Pandemic, California put temporary restrictions on NOLs, suspending the use of NOLs for businesses with more than $1 million in net income. Those restrictions were in place for tax years 2020 and 2021, before being lifted for tax year 2022. The temporary suspension on NOLs is expected to lead to increased utilization after their restoration because businesses continued to generate and amass NOLs during the suspension.

Panel

- Colby White, Principal Program Budget Analyst, Department of Finance
- Nicholas Thomas, Finance Budget Analyst, Department of Finance
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Denis Armstrong, Legislative Director, Franchise Tax Board

LAO Comments

NOL Deductions Provide More Equitable Treatment of Taxpayers. The smoothing of profits and losses via NOL deductions results in businesses with similar profits over time paying similar taxes. Without this smoothing, businesses that have large swings in profits and losses from year to year pay more taxes than businesses with similar but more stable profits. Some businesses are more prone to large swings because they are in riskier or more innovative industries. For example, profits of businesses in the technology, motion picture, transportation, and real estate sectors tend to fluctuate more than other sectors. NOL deductions allow for a more equitable treatment of these types of businesses. As such, limiting NOL deductions, as the Governor proposes, would lead to a less equitable tax system. In effect, the Governor's proposal would levy a tax increase focused on riskier or more innovative business activity. This, in turn, could discourage business owners from making investments that, while riskier, sometimes emerge highly successful.

Not Meaningful Conformity to Federal Law. In general, conformity is good because it streamlines the tax filing process for taxpayers and tax agencies. The Governor's proposal, however, would not offer these streamlining benefits because it differs from federal law in key ways. First, federal law applies the 80 percent limit only to losses experienced after 2017, whereas the Governor proposes to apply the limit to losses from all prior years. Second, federal law allows NOLs to be carried forward indefinitely, whereas California would maintain its 20 year limit. Because of these and other differences, taxpayers and tax administrators would still need to track their NOLs separately for federal and state purposes. No meaningful streamlining would be achieved.

California Policy on NOLs Would Be Among the Most Limiting in the Country. The majority of other states limit NOL deductions to 80 percent of taxable income. They do so, however, as part of full conformity to federal law, including applying the limit only to losses after 2017 and allowing NOLs to be carried forward indefinitely. By limiting NOL deductions to 80 percent while not conforming to other federal changes that broadened the use of NOLs, the Governor's proposal would result in California having one of the most restrictive policies in the country.

Staff Comments

The Subcommittee may wish to ask DOF why this proposal goes beyond federal conformity?

Staff Recommendation: Hold Open

Issue 7: Charitable Conservation Easements

The Governor's budget includes trailer bill language to conform California law to the 2023 federal changes in the Consolidated Appropriations Act (CAA), limiting deductions for charitable conservation easements to two and a half times the investment cost for the purchaser, and disallowing the deduction for any taxpayer who has previously engaged in fraud.

The administration estimates this will raise $55 million in 2024-25, and $25 million annually thereafter.

Background. Under current federal law, property owners who elect to give up rights to develop certain land are allowed a deduction equal to the property development's value.

The federal CAA of 2023 did the following: 1) Limited the deduction for owners of pass-through entities to two and a half times the value of the taxpayers' investment; and 2) Disallowed the deductions for participants who had previously engaged in fraud.

For example, a partial owner who invested $100 dollars is now limited to claiming a deduction of up to $250. California law conforms to federal law in allowing deductions for charitable conservation easements, however, the state has not conformed to the 2023 changes listed above. California would join the majority of states in conforming to this provision of the CAA.
The intent of the deduction for charitable conservation easements is to provide an incentive to conserve open lands and historic sites. The tax deduction provides private landowners an incentive to preserve their land or building for future generations. However, some taxpayers began taking improperly large deductions based on inflated appraisals or not complying with the rules and regulations governing the contributions of conservation easements. The IRS has repeatedly catalogued syndicated conservation easements on its "Dirty Dozen" list, a warning for taxpayers to beware of bogus tax avoidance strategies that reduce or eliminate tax liability.

Panel

- Colby White, Principal Program Budget Analyst, Department of Finance
- Robin Finnestead, Staff Finance Budget Analyst, Department of Finance
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Denis Armstrong, Legislative Director, Franchise Tax Board

LAO Comments

Federal Change Sought to Rein in Misuse of Conservation Easements. The 2023 federal law change was motivated by concerns about misuse of conservation easements by some taxpayers. The Internal Revenue Service had expressed concerns that some promoters were creating opportunities for taxpayers to claim charitable contribution deductions that were based on inflated property value appraisals. The 2023 change sought to curb those misuses.

Conformity Streamlines Tax Administration. As mentioned, state conformity with federal tax law generally is good because it streamlines the tax filing process for taxpayers and tax agencies. In this case, conformity should allow the Franchise Tax Board (FTB) to leverage federal data collection and enforcement efforts with respect to conservation easements.

Revenue Gains Highly Uncertain. Information on charitable conservation easements is very limited. As a result, the actual revenue gains associated with conformity could vary significantly from the administration's estimate.

Approve Conformity with Federal Law. Conforming to federal law would help curb potential misuses of charitable conservation easements deductions and could streamline state tax administration. We recommend approving the Governor's proposal.

Staff Comments

This proposal is reasonable and could help address misuses of charitable conservation easements deductions.

Staff Recommendation: Hold Open

Issue 8: Eliminate Oil and Gas Direct Tax Subsidies

The Governor's budget proposes three trailer bills that eliminate oil and gas direct tax subsidies as follows:

1. Proposes to eliminate accelerated Intangible Drilling Costs (IDC) expensing for oil and gas wells. The administration estimates that this proposal would generate $7 million in 2024-25 and the next 3 years. Since this proposal shifts some tax collections from later years into earlier years, the annual savings likely would be somewhat lower in the following years.

2. Proposes to eliminate percentage depletion for oil, gas, coal, and oil shale. Percentage depletion would remain for other minerals, such as sand, gravel, gold, and lithium. The administration estimates that this proposal would generate $15 million General Fund in 2024-25 and $10 million ongoing.

3. Proposes to eliminate the Enhanced Oil Recovery (EOR) cost credit. The administration does not assume any fiscal effect associated with this proposal over the next few years since crude oil prices are expected to remain above the price threshold used to determine when businesses can claim the credit.

Background. California law provides special tax rules for certain businesses—or rules different from the general rules that apply to most other businesses—sometimes known as "tax expenditures." These are often intended to achieve some specific policy goal. A few of these special tax rules apply specifically to businesses that extract natural resources. These rules dictate when and how much businesses can deduct certain costs when calculating their taxable income. They include:

> **Accelerated Intangible Drilling Cost Expensing.** State law allows oil and gas producers to immediately deduct IDCs for wells. (This provision does not currently apply to businesses drilling geothermal wells.) IDCs are expenses related to drilling or modifying a well, excluding equipment that has a salvageable value. Examples of IDCs include survey work, ground clearing, drainage, and repair costs. Independent producers can immediately deduct 100 percent of IDCs and integrated producers can deduct 70 percent of these costs immediately with the remaining 30 percent spread out over the next 5 years. By comparison, for most other capital investments that are expected to provide benefits over a long period of time, the costs are deducted over the useful life of the investment.

Percentage Depletion. Businesses can deduct costs associated with using up a resource. Percentage depletion allows businesses extracting natural resources—including oil, gas, coal, sand, gravel, and lithium—to annually deduct a set percentage of gross income generated from the sale of the resource. Most notably in California, "independent" oil and gas producers—or producers that do not have a major refining or retailing business—may deduct 15 percent of gross income up to 1,000 barrels of average daily production per property. In many cases, this provides a larger cost deduction than is allowed for the depletion of other kinds of resources.

Enhanced Oil Recovery (EOR) Costs Credit. State law allows independent oil producers to claim a nonrefundable tax credit up to 5 percent of EOR costs. EOR is a process whereby steam, gas, or chemicals are injected into a reservoir to extract oil that is difficult to obtain using more conventional extraction methods. This credit is only available if oil prices in the prior year are below an inflation-adjusted threshold price ($56 per barrel in 2023).

Panel

- Colby White, Principal Program Budget Analyst, Department of Finance
- J.T. Creedon, Finance Budget Analyst, Department of Finance
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Denis Armstrong, Legislative Director, Franchise Tax Board

LAO Comments

Proposals Generally Make Oil and Gas Industry Tax Rules More Consistent Across Businesses. One key principle of effective tax policy is consistency across businesses, including consistency between different businesses within an industry and across different industries. The Governor's proposals generally move the state towards a more consistent tax structure.

Percentage Depletion. First, within the oil and gas industry, eliminating percentage depletion would make independent producers subject to the same depletion rules as integrated producers. Second, moving to cost depletion would treat the oil and gas industry in a similar manner to other businesses. More generally, moving to cost depletion ties the deductions more closely to the underlying cost paid for the resource. Percentage depletion, in contrast, can allow resource owners to claim deductions that total more than the cost of the investment.

IDC Expensing. First, independent producers would be subject to the same rules for IDCs as integrated producers. Second, rules for oil and gas companies would have the same IDC rules as geothermal companies. Third, the rules for intangible costs would be treated similarly to investments in tangible assets, such as equipment with salvageable value.

EOR Credit. The EOR cost credit gives preferential tax treatment to oil producers that does not generally apply to other industries. Furthermore, this preferential treatment only goes to EOR methods, but not primary or secondary extraction processes.

Special Tax Rules Would Remain for Some Types of Natural Resource Extraction. The Governor's proposal leaves some special tax rules in place for certain types of natural resource extraction. Most notably, percentage depletion would remain for companies that extract other resources, such sand, gravel, gold, and lithium.

Staff Comments

Adopting these trailer bills to conform to federal law will provide more uniformity in the application of the state's tax laws.

Staff Recommendation: Hold Open

Issue 9: Other trailer bill proposals

This item summarizes four additional requests for technical trailer bill language as follows:

1. **Middle Class Refund Tax Technical Clarification.** The trailer bill language amends current law to specify that any unexpended or unclaimed funds from the Middle Class Refund Tax will be returned to FTB to be deposited in the General Fund instead of those funds going back to “the state”.

2. **Terminate Transfers to Delinquent Tax Collection Fund.** This trailer bill repeals the provisions related to transfers to the Delinquent Tax Collection on June 30, 2024, and terminates the Fund.

3. **Repealing the Expiration Date for Electronic Notifications to Taxpayers Trailer Bill language.** This trailer bill eliminates the sunset date

4. **Extend Exemption from IRC 280 E for Cannabis Businesses.** Extends provisions for businesses to deduct their ordinary and necessary business expenses related to licensed commercial cannabis activities from January 1, 2025, to January 1, 2030.

Background.

1. The technical changes included in this trailer bill clarifies a process for collecting unexpended or unclaimed funds from the Middle Class Refund Tax.

2. FTB’s Delinquent Tax Collection Fund (0167) in the amount of $404,000 was previously used to cover costs related to interagency collection activities for third party in state and out of state collections. With the full implementation of deliverables of the EDR project, FTB no longer outsources collection efforts. This collection activity has been suspended for quite some time but the budget authority has not been removed. This TBL is just to clean up the statute and stop having $404,000 transferred automatically from the General Fund to FTB’s Delinquent Tax Fund.

3. Existing law authorizes FTB to implement an alternative communication method that allows FTB to provide notification to the taxpayer electronically and allows the taxpayer to file a protest, notification, and other communication to FTB in a secure manner until January 1, 2025. This TBL would extend the provision indefinitely.

4. AB 37 (Chapter , Statutes of 2019) included provisions to equalize the treatment of taxpayers subject to the Corporation Tax (CT) Law and the Personal Income Tax (PIT)

Law by allowing taxpayers subject to the PIT Law to deduct their ordinary and necessary business expenses related to licensed commercial cannabis activities. This bill extends these provisions from January 1, 2025, to January 1, 2030.

Panel

- Colby White, Principal Program Budget Analyst, Department of Finance
- Chris Hill, Principal Program Budget Analyst, Department of Finance
- Jack Wyatt, Finance Budget Analyst, Department of Finance Denis Armstrong, Legislative Director, Franchise Tax Board
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Thi Luong, Financial Management Director, Franchise Tax Board

Staff Comments

Staff has no concerns with these trailer bills.

Staff Recommendation: Hold Open

0509 Governor's Office of Business and Economic Development

Issue 10: CA Small Agricultural Business Drought & Flood Relief Grant Program

The Governor's Office of Business and Economic Development will provide an update on CA Small Agricultural Business Drought and Flood Relief Grant Program.

The 2022-23 budget includes $75 million to provide direct assistance to eligible agriculture-related businesses that have been affected by severe drought conditions and an additional $20 million was included in the 23-24 budget. This item provides an update on the allocation of these grants by CalOSBA through a third party vendor Lendistry.

The following information was provided by CalOSBA about the California Small Agriculture Business Drought and Flood Relief Grant Program. Below are the categories that could receive funding:

Category	Funding Available	Number of Awards **PRIOR** to 2/15 deadline	Amount Awarded **PRIOR** to 2/15 deadline
Flood Group	$20,000,000	381	$20,000,000
Drought Group 1 & 2	$60,700,000	308	$23,400,000
Drought Group 3	$6,750,000	N/A	N/A
Total	$87,450,000	TBD	TBD

Drought Group 3 is for late tax filers. Applications will open mid-May 2024, but applications for the other categories were launched at the end of August 2023 until February 15, 2024. This was the only period "round" of funding. Applications were funded on a rolling basis until that 2/15 deadline. CalOSBA and Lendistry received 1,000 applications before the 2/15 deadline. The team is continuing its application review and anticipates being able to share an update on the number of awards and amount awarded per category by May 10th. The process is fluid as Lendistry is working with applicants to verify documents and award as many eligible applicants as they can.

CUSP. Under the California Department of Food and Agriculture, there is a second program called the California Underserved and Small Produce Grant Program (CUSP) to facilitate support for small and medium scale California agricultural producers, or small and medium scale Socially Disadvantaged Farmers and Ranchers (SDFR's) through technical assistance with business planning, financial and marketing strategies. This two-year grant program also provides direct farmer grants for drought relief for those same priority groups. The estimated start date for these projects is May 2023 and will continue through April 30, 2025.

Panel

- Chris Earl, Assistant Deputy Director, Innovation & Entrepreneurship and Southern California Regional Advisor, CalOSBA
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Jessie Romine, Principal Program Budget Analyst, Department of Finance
- Charles LaSalle, Finance Budget Analyst, Department of Finance

Staff Comments

The Subcommittee may wish to ask the following:

1. Describe in detail how Lendistry conducted outreach for this program.
    a. Please include which state and local entities were consulted, informational materials presented on-line or through social media, and partnerships with agricultural organizations.

2. What were some of the challenges in generating and processing these applications? How were these challenges resolved?

3. Given that GO-Biz plans to spend remaining funds by July 1, how does GO-Biz/Lendistry plan to accelerate an increase in applications?

4. What is the current status of the funding?
    a. How much funding is unspent?
    b. How much has Lendistry been paid in administrative fees?
    c. Did any other organization receive an administrative fee?

5. How does this program differ from the CA Underserved Small Producers (CUSP)
    a. How would you compare the level/distribution of grants between the two programs
    b. Have you incorporated any of the outreach activities utilized by the CUSP with this program

Staff Recommendation: This item is presented for information only.

Issue 11: CA Competes Tax Grant Program

The Governor's Office of Business and Economic Development requests $60 million one-time General Fund, comprised of $10 million in savings and $50 million in new funding for 2024-25 to extend the CA Competes Grant Program.

Background. California Competes is an economic development tax incentive program that allows GO-Biz to negotiate agreements to provide financial incentives to companies that agree to meet hiring and investment targets. Companies that meet their targets can claim tax credits against their corporation or income taxes. On the other hand, the state "recaptures" tax credits from companies that fail to meet their targets. GO-Biz is permitted to make agreements committing $180 million plus amounts recaptured from prior agreements in tax credits each year. In each of the last three years, the state has made one-time allocations of $120 million to allow California Competes to award grants in addition to tax credits.

Panel

- Philip Chen, Budget Officer, GO-Biz
- Scott Dosick, CalCompetes Deputy Director, GO-Biz
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Jessie Romine, Principal Program Budget Analyst, Department of Finance
- Charles LaSalle, Finance Budget Analyst, Department of Finance

LAO Comments

California Competes Grants Remain a New, Unproven Model. Last spring, we discussed how recent research had shown promising results for the effectiveness of the traditional California Competes tax credit program. At the same time, we also noted that these results should not be extended to the newer grant program because the grant program differs from the tax credit program in key ways. One key difference is the grant program's focus on businesses making big investment promises, which has led it to make significantly larger awards to a smaller number of businesses. Given these differences, the grant program should be evaluated separately from the tax credit program. To date, GO-Biz has not reported any final results from grant awards, nor are we aware of any rigorous research on the effectiveness of the grants. Testing an expansion of the traditional California Competes model may have been reasonable a few years ago when the state was flush with resources. In today's environment, however, it is not prudent.

Other Options to Support Potential Semiconductor Investments. A primary argument for continuing California Competes grants for a fourth year is the need for state incentives to encourage CHIPS Act projects to locate in California. The CHIPS Act requires projects to demonstrate they have been offered incentives from state or local governments. California Competes has been the state's primary tool in this area the last couple of years. Around one-third of California Competes grants across 2022-23 ($30 million) and 2023-24 ($51 million) went to semiconductor companies. However, given the state's current fiscal situation, it makes sense for the state to look to other existing programs to provide incentives to CHIPS Act projects. Some options include: California Competes tax credits, New Employment tax credits, Research and Development tax credits, and the California Alternative Energy and Advanced Transportation Financing Authority's sales and use tax exclusion program. These alternatives may not be as straightforward as grants, but also would be less likely to exacerbate the current budget problem.

If Concerned About CHIPS Act Projects, Consider Providing Contingent Funding. If the Legislature is concerned that existing incentives could be insufficient to attract CHIPS Act projects to California, it could consider setting up a contingent funding mechanism for California Competes grants. For example, if at some point over the next year GO-Biz has exhausted all other options to attract a particular CHIPS Act project to California, they could submit a request for grant funds to the Joint Legislative Budget Committee (JLBC). This request would describe the project, the amount of grant funding requested, and GO-Biz's efforts to exhaust all alternatives. Grants funds could then be made available upon JLBC approval. Such contingent funding could be capped at $30 million, which is enough to support two projects based on recent award amounts.

Staff Comments

The subcommittee may wish to ask the following:

- Why is there an additional $10 million in savings from the Cal Competes grant program?
- In the last round of the Cal Competes grant program, how many grants were awarded? How many of these were dedicated for the CHIPS program?
- Has the state looked at other options to attract CHIPS businesses to California such as the California Competes tax credits, New Employment tax credits, Research and Development tax credits, and the California Alternative Energy and Advanced Transportation Financing Authority's sales and use tax exclusion program?
- What metrics are included in the grant program to measure the success of these investments?

Staff Recommendation: Hold Open.

Issue 12: The Infrastructure State Revolving Fund

The Governor's Office of Business and Economic Development requests $50 million one-time (General Fund) for the California Infrastructure and Economic Development Bank (IBank) to recapitalize the Infrastructure State Revolving Fund (ISRF) Loan Program. This will allow IBank to continue providing low-cost financing to support municipal infrastructure projects.

Background. The ISRF, administered by IBank, provides low-cost loans to public agencies to support infrastructure projects. ISRF loans typically offer lower interest rates and longer repayment periods than public agencies could receive from other financing sources. Loans are made to public agencies on a first-come, first-served basis. To fund its loans, ISRF sells revenue bonds which are repaid from loan payments from public agencies. Over the last five years, ISRF has made, on average, around $50 million in loans per year.

Panel

- Philip Chen, GO-Biz Budget Officer
- Clint Kellum, IBank Chief Deputy Director
- Brian Uhler, Deputy Legislative Analyst, Legislative Analyst's Office
- Jessie Romine, Principal Program Budget Analyst, Department of Finance
- Charles LaSalle, Finance Budget Analyst, Department of Finance

LAO Comments

ISRF Could Continue Normal Operations in 2024-25 Without Additional $50 Million. Without this proposal, IBank currently anticipates having around $60 million in ISRF funds available to loan to public agencies in 2024-25. ISRF loans have exceeded $60 million multiple times in recent years ($95 million in 2018-19 and $86 million in 2022-23), which points to a need for additional cash, perhaps around $50 million, should they wish to avoid turning away eligible borrowers in 2024-25. Traditionally, IBank would meet this need by selling revenue bonds. IBank, however, has expressed reservations about selling revenues bonds at this time. They are concerned that their low cash on hand will prevent them for receiving the lowest possible borrowing costs on their bonds and, therefore, have requested $50 million General Fund to boost their cash on hand and ensure favorable borrowing terms. The extent to which IBank's concerns about selling revenue bonds are well founded is unclear to us. Regardless, taking the concerns as given, the primary consequence of selling revenue bonds without an additional $50 million General Fund cash cushion likely would be modestly higher borrowing costs. This, in turn, would result in slightly less favorable terms on ISRF loans to public agencies.

In light of the state's fiscal situation, we do not view this consequence as significant enough to warrant a General Fund allocation in 2024-25.

In Light of Fiscal Situation, Reject GO-Biz Funding Proposals. While both proposals offer some potential benefits, these benefits are insufficient to warrant new General Fund spending at a time when the state faces a significant budget problem and may need to consider consequential spending cuts in other areas of the budget. We recommend rejecting both GO-Biz proposals.

Staff Comments

Staff Recommendation: Hold Open.

1701 Department of Financial Protection and Innovation

Issue 13: Broker Dealer Investment Advisor Workload

The Department of Financial Protection and Innovation requests 2.0 positions and an increase in expenditure authority of $456,000 (Financial Protection Fund) in 2024-25, and $432,000 in 2025-26 for the review of continuing education requirements related to the Broker-Dealer and Investment Advisor Program.

Panel

- Sophia Smith, Deputy Commissioner, DFPI
- Michael Nelson, Acting Deputy Director, DFPI
- Jared Sippel, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

LAO Comments

The Broker-Dealer and Investment Adviser Program (BDIA or Program) of the Department of Financial Protection and Innovation (Department) is responsible for licensing and regulating broker-dealers (BD), broker-dealer agents (Agents), investment advisers (IA), and investment adviser representatives (IARs). Regulatory oversight safeguards that the investing public is protected from unethical and fraudulent activities.

The North American Securities Administrators Association (NASAA) has approved a model rule on investment adviser representative continuing education requirements for adoption by state regulators. There are currently no continuing education requirements for IARs in California state law. Existing law requires all IARs that conduct advisory business with California residents to be registered. IARs are tested for knowledge and must meet qualification requirements before they are registered, but there is no mechanism to verify that their level of knowledge and competence is maintained or expanded. By comparison, most other financial professionals are subject to continuing education requirements including broker-dealer agents, insurance agents, certified financial planners, and real estate agents. Currently, the NASAA model rule has been adopted by thirteen state securities regulators and many others have rulemaking in progress.

California is adopting the NASAA model rule. Rulemaking is in process and the Department anticipates the final rule will be adopted around mid-2024. California's proposed regulation includes protecting consumers who use investment advisers to manage their funds by verifying that IARs remain competent and knowledgeable about current industry regulations, developments, and best practices when handling their clients' life savings. The proposed regulations will verify that IARs are receiving continuous education on the ethical issues related to investment advising.

Staff Comments

There is no General Fund impact since this item uses special funds for the resources.

According to the Department, the rulemaking will improve the overall quality of investment advice and professionalism provided by IARs when meeting with clients.

Staff Recommendation: Hold Open.

Issue 14: Continuation of California Consumer Financial Protection

The Department of Financial Protection and Innovation requests an increase in expenditure authority of $14 million (Financial Protection Fund) in 2024-25 and in 2025-26 to continue funding for 55.0 positions for the implementation of the California Consumer Financial Protection Law.

AB 1864 (Chapter 157, Statutes of 2020) established the California Consumer Financial Protection Law (CCFPL), which expanded the Department of Financial Protection and Innovation's (Department) authority to oversee financial products and services previously not regulated by the Department. The 2020 Budget Act included $8.3 million Financial Protection Fund and 44.0 positions in 2020-21 and the 2021 Budget Act included $9 million and 45.0 positions in 2021-22, growing to $12.1 million and 55.0 positions in 2022-23, and $12 million and 55.0 positions in 2023-24. The Department requests an increase in expenditure authority of $14 million Financial Protection Fund in 2024-25 and in 2025-26 to continue funding for 55.0 positions for the implementation of the California Consumer Financial Protection Law.

The CCFPL gives the Department broad authority over covered persons, engaged in the business of offering and/or providing consumer financial products or services. The Department is allowed to prescribe rules regarding registration requirements for specified covered persons. Meaning, while the Department has authority over a larger universe of covered persons, only some will be subject to registration under the CCFPL. Covered persons required to register will be identified through consumer complaint analysis, market monitoring and research, and stakeholder input. The Department has the authority to investigate, examine, and require annual reporting for both registered and non-registered covered persons. The Department can also require an annual assessment or registration fee for registrants. The Supervision and Registration of New Covered Persons (NCP) program has been established to implement the CCFPL and perform these supervisory functions.

The CCFPL is unique in that it provides supervision over a widespread number of industries that were not previously under the purview of the Department and permits registration of financial products and services that will be identified through continuous industry research, market monitoring, and consumer complaint review. The number of registrants will grow as registration is required for more industries via rulemaking. The current proposed regulations cover businesses providing debt settlement services, student debt relief services, education financing, and income-based advances. The regulations are scheduled to be finalized in March 2024 with Office of Administrative Law (OAL) approval anticipated by May 1, 2024. From approximately April through June 2024, it is estimated that 385 applications will be submitted for this initial group of registration categories. While the estimated 385 initial registrants is lower than the 2,000 registrants previously estimated, additional industries will be included in future rulemaking. It is critical that staffing levels account for growth in registrants as additional financial products and services are identified for registration through future rulemaking.

Below is a summary of the status of each currently pending regulation package as well as challenges the Department has faced:

- CCFPL Registration Regulations – The Department anticipates the complete rulemaking package will be filed with the OAL the first quarter of 2024. This package has taken significant time and staff resources to develop because it covers four industries the Department has identified through stakeholder engagement to be areas where increased oversight is necessary and includes many nuanced legal issues. In addition, the Department received an abnormal number of public comments for this rulemaking package, including duplicates created by one of the Earned Wage Access (Income-Based Advances) providers. This resulted in a time-consuming process for the Legal Division to identify unique public comments and respond to each as required.

- Consumer Complaints Regulations – After extensive review of public comments and additional analysis of the fiscal impact, the Department decided to continue working on this rulemaking package through 2024 and break up the provisions into multiple packages to phase-in the requirements. Opposition to these regulations due to its potential economic impact on covered persons has resulted in this rulemaking proceeding at a slower pace than anticipated. This rulemaking package includes substantive requirements for financial services providers to investigate and respond to consumer complaints, and related recordkeeping and reporting standards, was highly controversial. Obstacles were faced once it was determined by an economist that requirements around staffing and recordkeeping would have a major fiscal impact. The Department decided to take a new approach to this rulemaking package. The Department anticipates finalizing the portion of the regulations for substantive complaint handling standards in early 2025, and the remaining regulations for staffing and recordkeeping after.

- Small Business Unfair, Deceptive, or Abusive Acts or Practices (UUDAAP) Protections – The rulemaking package was approved on August 2, 2023, and became effective on October 1, 2023.

Panel

- Sophia Smith, Deputy Commissioner, DFPI
- Suzanne Martindale, Senior Deputy Commissioner, DFPI
- Jared Sippel, Principal Fiscal and Policy Analyst, Legislative Analyst’s Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst’s Office

Staff Comments

The overall goal and intent of the CCFPL law to provide a more robust system of consumer protection in California has merit. Given the importance of the program, the implementation of the CCFPL has been slow and therefore the Subcommittee may wish to ask questions about how to make this program successful. What is needed to move this program forward?

1. When does DFPI anticipate that CCFPL be self-sufficient? Do we need to reassess our initial goals of the program?

2. What are the challenges to getting regulation packages out? Why has it taken so long to get these first packages out?

3. In 2020, while discussing this proposal, there was a big debate about requiring entities to register. Does DFPI anticipate registering any potential groups? If no, when do they anticipate that this will occur?

4. How much of DFPI is dedicated to CCFPL implementation? Is the CCFPL taking up resources and bandwidth to the detriment of their other programs? Have they reallocated resources to the CCFPL that could have otherwise supported their banking team and its supervision of large regional banks?

5. Can DFPI provide an update on the fee study?

Staff Recommendation: Hold Open.

Issue 15: Continuation of Debt Collector Licensing and Regulation

The Department of Financial Protection and Innovation requests an increase in expenditure authority of $11.75 million (Financial Protection Fund) in 2024-25, and 2025-26, to support 51.0 positions authorized to license, regulate, and examine debt collectors pursuant to SB 908 (Chapter 163, Statutes of 2020), the Debt Collection Licensing Act (DCLA).

Background. It was expected the initial 3,500 anticipated applications would be processed within the first three fiscal years and the primary funding source would come from assessments beginning in 2022-23. Delays resulting from issues with access to background checks have impacted the ability to process applications and initiate assessments. Some delays also impacted the number of applications submitted. To date 1,400 of the expected 3,500 applications have been received. The Program continues to anticipate an increase in applications as regulations are implemented to clarify licensing requirements. Based on the most recent estimates, the adjusted licensee count is expected to be 2,150. This estimate is based on the number of applications received to date, the average number of applications received per month, the number of unlicensed activity cases waiting to be investigated, and the number of inquiries received regarding pending regulation. The most significant impact will occur with the finalization of the regulation package which will provide clear definitions of which entities need to be licensed.

Due to the lack of specificity of the DCLA, the Department was denied access to Federal Bureau of Investigation background checks, which was required to approve applications. As a temporary solution, AB 156, (Chapter 569, Statutes of 2022) allowed the Department to conditionally approve applicants to operate pending approval or denial of their application as the Program works to resolve the background check issue. The long-term solution required a legislative change which was approved. The Department has applied for approval with the NMLS and should be able to start implementation in February 2024.

Without the ability to approve applications for the first twelve months, the Program experienced a backlog. As of December 31, 2023, there are 1,053 approved licensees and 264 applications in the backlog that still need to be processed. Program projects to have the backlog cleared by March 2024 based on 100 applications processed per month including the on-average ten new applications that are received per month. This backlog has subsequently resulted in a delay in examinations as all resources have been redirected to application review. In addition, the delay in application approval is a contributing factor in not being able to initiate assessments to provide the expected income for the Program. The next obstacle with the assessment is the need to define the terms from 3 the original legislation associated with the assessment. An additional rule making package is in process to define the terms of the assessment and the first assessment invoices are planned for September 2024.

Overview of Positions

Positions	2021-22 Authorized	(2021-22 – 2023-24) Established	(2024-25 – 2025-26) Requested Resources	Change from 2021-22 Authorized
Calculation	**A**	**B**	**C**	**C-A**
Program	-	-	-	-
Deputy Commissioner (CEA B)	1	1	1	0
Regional Deputy (CEA A)	2	0	0	-2
Financial Institution Manager	2	3	4	2
Senior Financial Institution Examiner	8	6	10	2
Financial Institution Examiner	13	13	9	-4
Associate Governmental Program Analyst	4	4	4	0
Executive Secretary	1	1	0	-1
Office Technician	1	1	0	-1
Program Total	**32**	**29**	**28**	**-4**
Enforcement	-	-	-	-
Assistant Chief Counsel	1	1	1	0
Attorney IV	2	2	2	0
Attorney III	4	4	4	0
Senior Financial Institutions Examiner	0	2	2	2
Financial Institutions Examiner	1	0	0	-1
Supervising Special Investigator I	1	1	1	0
Investigator	1	1	1	0
Legal Analyst	1	1	1	0
Enforcement Total	**11**	**12**	**12**	**1**
Legal	-	-	-	-
Legal Analyst	1	1	1	0
Assistant Chief Counsel	1	1	1	0
Attorney III	1	1	1	0
Attorney IV	1	1	1	0
Attorney V	1	1	1	0
Legal Total	**5**	**5**	**5**	**0**
Consumer Services Office	-	-	-	-
Associate Governmental Program Analyst - Intake	0	1	1	1
Associate Governmental Program Analyst - Resolution	0	1	1	1
Consumer Services Office Total	**0**	**2**	**2**	**2**
Administration	-	-	-	-
FMO – Senior Accounting Officer	1	1	1	0
HRO - Associate Governmental Program Analyst	1	1	1	0
HRO - Staff Services Manager I	1	1	1	0
ITSD – Information Technology Specialist I	0	0	1	1
Administration Total	**3**	**3**	**4**	**1**
Total	**51**	**51**	**51**	**0**

Panel

- Sophia Smith, Deputy Commissioner, DFPI
- Melinda Lee, Deputy Commissioner, DFPI
- Jared Sippel, Principal Fiscal and Policy Analyst, Legislative Analyst's Office
- Drew Soderborg, Deputy Legislative Analyst, Legislative Analyst's Office

Staff Comments

The Subcommittee may wish to ask the following:

- Did DFPI receive approval from NMLS to receive background check info? BCP notes DFPI applied, but it is not clear if it was approved. If so, what is the status of processing the backlog?

- Can the department discuss the adjustments made to positions since 2021-22?

Staff Recommendation: Hold Open.

This agenda and other publications are available on the Assembly Budget Committee's website at: Sub 5 Hearing Agendas | California State Assembly. You may contact the Committee at (916) 319-2099. This agenda was prepared by Genevieve Morelos.