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February 25, 2015

CALIFORNIA LEGISLATURE

LEGISLATIVE ANALYST
MAC TAYLOR

925 L STREET, SUITE 1000
SACRAMENTO, CALIFORNIA 95814
(916) 445-4656

Mr. Michael Cohen, Director
Department of Finance
Room 1145, State Capitol
Sacramento, California 95814

Dear Mr. Cohen:

In a letter dated January 27, 2015, you notified the Joint Legislative Budget Committee (JLBC) of a request from the Department of Consumer Affairs (DCA) to enter into a contract amendment for its BreZE information technology (IT) project that would (1) terminate the contract with the current vendor (Accenture) after Release 2, and (2) increase project costs by \$17.5 million. This request was made pursuant to Control Section 11.00 of the *2014-15 Budget Act*.

Do Not Concur At This Time. I have reviewed the Section 11.00 request and do not concur at this time. The Section 11.00 letter reflects a significant change in project cost and scope—with project costs that are roughly three times the original estimate and a project scope that is roughly half of what was originally proposed. Despite the magnitude of these changes, the Administration has failed to provide adequate information necessary to inform the Legislature's review and decision-making. In particular, it is critical for the Legislature to understand:

- ***DCA's Long-Term Plan for the Project.*** The Legislature needs the department's long-term plan for moving forward with the project, including the anticipated cost and timeline for providing IT solutions for the board and bureaus in Release 3. The DCA has indicated they do not plan to conduct this analysis until sometime after Release 2 is completed in 2016. However, this information is necessary for the Legislature to adequately evaluate whether the proposed course of action is the best available long-term approach.
- ***Allocation of Project Costs.*** Information is also needed on how project costs will be allocated across boards and bureaus and how those costs will affect license fees for each entity. The Administration did not initially provide this information when requested by legislative staff. On February 24, 2015—just two days before the end of the JLBC's 30-day review period—the Administration provided some pertinent in-

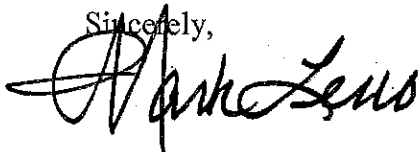
formation. However, this does not leave the Legislature with adequate time to meaningfully review and analyze this information.

Reassess Request Following Oversight Hearings. By not concurring with the Section 11.00 request at this time, it will provide budget and policy committees with an opportunity to more fully evaluate the options for moving forward with the project. The Legislature has several hearings already scheduled this spring in which committees could consider these issues—March 12 (Senate Budget and Fiscal Review Subcommittee No. 4 on State Administration and General Government), March 23 (Joint Hearing of the Senate Business, Professions, and Economic Development Committee and the Assembly Business and Professions Committee), and April 14 (Assembly Budget Subcommittee No. 4 on State Administration). These hearings will also provide stakeholders and the broader public with an opportunity to inform the decision-making process. The DCA should be prepared to provide these committees with detailed responses to the issues raised above.

The DCA has indicated that there may be some additional project delays and costs to the state associated with not concurring with the Section 11.00 request at this time. Specifically, the department indicates that these costs could be about \$1.7 million per month (\$1.3 million per month for Accenture and roughly \$400,000 per month for other state staff and contractor costs). While I expect the Administration to make every effort to minimize the costs associated with this short delay; on balance, I believe that it is worth the risk of incurring these costs in order to provide a more informed, thorough, and public decision-making process. I believe that such a process may ultimately provide a better outcome that could save the state money in the long run.

Accordingly, I do not concur with the Section 11.00 request at this time. However, I will reconsider the merits of the proposed approach following upcoming legislative oversight hearings.

Sincerely,



Mark Leno
Chair

cc: Members of the Joint Legislative Budget Committee