

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 0890	Department Secretary of State	Priority No. 003
Budget Request Name 0890-002-BCP-BR-2016-GB		Program 0700-FILINGS & REGISTRATIONS 9900100-ADMINISTRATION	Subprogram

Budget Request Description
 Business Programs Division Filings Processing

Budget Request Summary
 The Secretary of State's office (SOS) is requesting a continuation of the temporary support needed to maintain the average five (5) business day turnaround/processing time for business filings and statements of information, as sought by the Legislature until automation is implemented. The amount requested to continue to maintain the five (5) business day turnaround time is spending authority of \$5.5 million and 52.0 additional positions, temporary help, and overtime for FY 2016/17 and FY 2017/18. The SOS is requesting the augmentation from the Business Fees Fund, comprised of the filing and service fees that businesses pay to the SOS.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
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Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
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For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.
 FSR SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Becky Lopez, Budget Officer	Date DECEMBER 23, 2015	Reviewed By Kristin Dagsher, Fiscal Affairs Manager	Date DECEMBER 23, 2015
Department Director Cindy Hanneman, Chief, Mgmt Svcs Div	Date DECEMBER 23, 2015	Agency Secretary Kimberly L. Gauthier, Deputy SOS, Operations	Date DECEMBER 23, 2015

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA 	Date submitted to the Legislature 11/7/16
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Analysis of Problem

A. Budget Request Summary

In March 2013, the Secretary of State (SOS) was asked by the legislative staff what it would take to reduce the processing times for business filings, focusing on business formation filings and statements of information, and sustain a processing time of approximately five (5) business days thereafter. As a result of this ask, the SOS submitted a Finance Letter that was approved for 56.0 limited-term positions in FY 2013/14, 54.0 of the 56.0 limited-term positions in the second and third years (FYs 2014/15 and 2015/16) and additional temporary help and overtime. These additional resources and efforts were focused on eliminating the backlog of business filings waiting to be processed and maintaining processing times for business filings including Statements of Information (SI) filings to an average of 5 business days until the planned implementation of the business filings automation project. The SOS was able to reach its goal of 5 business day turnaround times in October 2013 and has sustained an average 5 business day turnaround since then.

The automation project, when fully implemented, will alleviate a majority of the manual, labor-intensive workload; improve customer service; and meet the needs of the business, financial, and legal communities. Until the automation project is fully implemented, however, manual processing of paper-based filings will continue and backlogs will be inevitable without the limited-term augmentation of funds and personnel (including overtime). Due to unforeseen delays during the Initiation and Planning and the Design phases of the automation project, a Special Project Report (SPR) will need to be developed and submitted to the Department of Technology during which a revised implementation date for automation will be determined. As a result of the delayed implementation date, the need for additional spending authority, from the Business Fees Fund (comprised of filing and service fees businesses pay to the SOS for these services), of \$5.5 million for 52.0 additional positions, temporary help and overtime is requested to continue until the automation is implemented.

B. Background/History *(Provide **relevant** background/history and provide program resource history. Provide workload metrics, if applicable.)*

The SOS serves millions of customers (business entity officers, directors, members, stockholders, partners, attorneys, bankers, notaries public, other professionals, small business owners, consumers, service companies, other governmental agencies, members of the public, etc.) annually who file documents and applications, access records, and request certificates and copies of records on file with the SOS. The SOS maintains business records, and provides information relating to business filings of record within this office to the public and other governmental agencies. The SOS processes over 150 different types of business filings, using more than 20 different software applications. In addition, the data for several types of these business filings continues to be recorded on 3" x 5" index cards.

The SOS has business-related responsibilities including, but not limited to:

- Overseeing the creation of new businesses including corporations, limited liability companies, limited partnerships, and other business entities subject to the California Corporations Code, enabling these businesses to open their doors, do business in California, hire employees and pay taxes.
 - The 1.6 million business filing documents received annually for filing include formations, amendments, dissolution/cancellations, statements of information, agent resignations, mergers, conversions, and other business filings, which must be reviewed for statutory compliance before being filed by the SOS;
 - The annual/biennial statements of information filed by corporations and limited liability companies identify the key principals operating the business, as well as the authorized person who will accept litigation papers when the business is being served (agent for service of process).
- Providing accurate copies of records and information to members of the public and other governmental agencies for taxing, licensing, and regulatory purposes.
- Providing Good Standing Certificates on businesses of record with the SOS, which allows these entities to open bank accounts, as well as provides them with the supporting documentation they need to enter into contracts and expand their businesses.
- Filing information through the Publicly Traded Disclosure Search about publicly traded corporations in which the public are considering investing.

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- Providing personal property lien notices (Uniform Commercial Code filings) and state and federal tax lien notices to secure lien priority. Filing with the SOS serves to perfect a security interest in named collateral and establish priority in case of a debtor's default or bankruptcy.
- Providing lien data to financial institutions for their assessment and approval of secured loans.
- Commissioning notaries public and certifying the authenticity of notary public and other public official signatures for use in foreign countries.
- Registering trademarks, business bonds, domestic partners, and filing advance health care directives and other special filings.

The SOS's business customers include:

- The business community (owners, officers, lawyers, accountants, bankers, lenders, notaries public) conducting business in California;
- The general public wishing to obtain information on business filings maintained by this office;
- Franchise Tax Board for assessing and collecting state taxes and penalties;
- Internal Revenue Service, Franchise Tax Board, Board of Equalization, and Employment Development Department for recording tax liens and for regulatory purposes; and
- California Attorney General, Department of Corporations, and Department of Real Estate for regulatory and enforcement purposes.

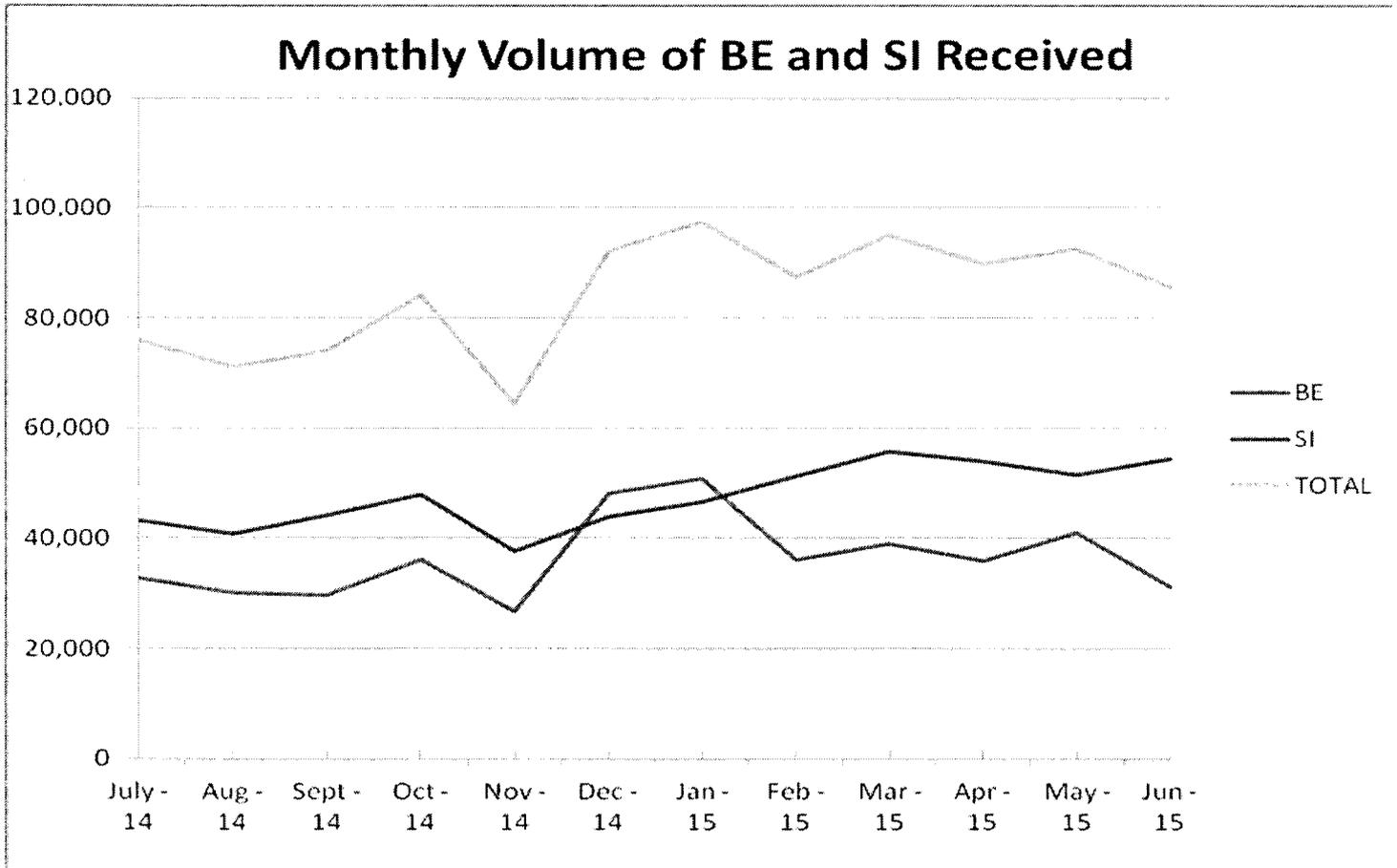
The majority of all incoming business filing documents, with the exception of online UCC financing statements and E-filed corporate statements of information, are submitted on paper, accompanied by a payment and are processed manually as follows:

- Documents are received via mail, or in person at the Sacramento or Los Angeles offices;
- Documents are manually stamped with the date received by the SOS;
- Documents are manually sorted by document type;
- Documents are manually tracked by inputting specific data into one of two separate legacy information technology systems, Access databases or Excel spreadsheet logs;
- Documents with filing fees (checks) attached are batched and walked to one of three legal review units;
- For most corporate change documents, microfilm jackets must be manually pulled (and later re-filed). Most limited liability company and limited partnership documents have been scanned and are available in the internal Business Entity (BE) Image Viewer for staff to review when filing a change document for limited liability companies and limited partnerships;
- Documents are reviewed and evaluated to determine legal compliance;
- A response (plain and/or certified copy(ies) of filed documents, or rejection) is prepared and sent to the customer (if the response is mailed to the customer, an envelope also must be prepared);
- If the document is determined to be compliant with law, it is given either an entity number or document number, which is hand-stamped on the document;
- The filing fees, and if applicable, the special handling or expedited service fee, are removed at the end of the process, manually reconciled and calculator tapes are run in preparation of the bank deposits;
- Bank deposits and calculator tapes are sent to the SOS Accounting Office in the Management Services Division for further processing and depositing into the bank;
- Additional information is captured through manual input into one of two separate legacy information technology systems, Access databases, Excel spreadsheets, other databases or handwritten into a log book and typed onto 3" x 5" index cards;
- Each filed corporation, limited liability company, and limited partnership document is reviewed for quality control and scanned (point forward scanning began in April 2010) and made available to staff electronically in the BE Image Viewer;
- All original filed documents must be manually sorted and boxed for permanent storage to be shipped to the State Records Center;
- Customer correspondence and filings are manually sorted and stored in chronological order in file folders or cabinets;
- Customer correspondence and filing history are manually purged according to appropriate retention policies; and

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- Expedited filings ('expedites') follow the same process, however these documents are tracked separately and manually walked through the process individually to assure the guaranteed turnaround requested and paid for by the customer (\$350 to \$750 per expedite).

Additionally, the FY 2014-15 Volume of BE and SI Documents Received chart below depicts the cyclical nature of the business filings received. There are peaks in BE filings in December and January and again in March and April. Statements of information volumes see peaks in January, March and May every year. As stated earlier, temporary help and overtime would be used to help cover these peak volumes to maintain the historically low processing times.



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The chart below illustrates the historical processing times in BE formation and SI documents and the major improvements in processing times that the SOS has been able to achieve with the additional spending authority commencing in FY 2013/14. The resources provided by the augmentation have been invaluable in allowing this office to reach and maintain an average processing time of 5 business days.

Resource History (Dollars in thousands)

Program Budget	PY - 4	PY - 3	PY - 2	PY - 1	PY
Revenues Collected	\$42,370	\$44,687	\$47,510	\$51,099	\$71,898
Expenditures	\$36,983	\$38,563	\$32,866	\$40,175	\$53,217
Fund Balance	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Excess Revenue Trnsfd to GF	\$4,387	\$5,124	\$14,643	\$10,925	\$18,680
Reimbursements Collected	\$24,204	\$29,822	\$32,194	\$21,895	\$129
Reimbursements Budgeted	\$6,977	\$9,520	\$10,508	\$12,088	\$8,000
Excess Reim Trnsfd to GF	\$17,227	\$20,302	\$21,686	\$9,807	(\$7,871)
Total Rev & Reimb Trnsfd to GF	\$21,614	\$25,426	\$36,329	\$20,732	\$10,809
Authorized Positions	276.3	275.3	272.8	327.8	326.8
Filled Positions	252.6	256.6	250.5	291.7	307.8
Vacancies	23.7	18.7	22.3	36.1	19

Workload History

Workload Measure	PY - 4	PY - 3	PY - 2	PY - 1	PY	CY
Year-end formation documents in process	11,681	5,361	7,788	2,848	3,982	3,982
Fees associated with formation in process	\$956,160	\$326,860	\$654,375	\$206,395	\$265,645	\$265,645
Processing Times during FY Formations (low & high business days)	21 - 45 days	19 - 53 days	9 - 45 days	4 - 13 days	4 - 5 days	4 - 5 days
Year-end Statements of Information in process	120,288	100,279	67,221	10,164	10,878	10,878
Fees associated with Statements of Information in process	\$2,710,138	\$1,504,180	\$755,443	\$101,173	\$125,415	\$125,415
Processing Times during FY Statements of Information (low & high business days)	48 - 84 days	71 - 95 days	30 - 74 days	3 - 38 days	3 - 5 days	3 - 5 days

C. State Level Considerations

The SOS serves a critical function for businesses, citizens, the legal community, law enforcement and other governmental agencies in California. The ability to timely and efficiently file business documents and to provide information regarding businesses of record with the State is imperative to the economic environment and recovery of the State.

Prolonged processing times will negatively impact the business community throughout the State, as well as slow down economic growth. Prior to receiving the additional spending authority in May 2013, processing times were approximately 55 - 65 calendar days. The additional spending authority and positions received in FY 2013/14 allowed the SOS to adequately address the needs of the business community by reducing and maintaining (since October 2013) the turnaround processing times to an average 5 business days, as well as provide information about businesses in an efficient and timely manner to the Employment Development Department, Franchise Tax Board, State Board of Equalization, and Attorney General's office, among others, for taxing, enforcement, and investigatory purposes.

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Additionally, the reason the prior augmentation (additional spending authority for additional positions, temporary help and overtime) was only approved for three fiscal years (FYs 2013/14, 2014/15, 2015/16) was to enable the SOS to reduce and maintain the turnaround times to an average 5 business days until the business filings automation project was implemented. With the delay in the automation project's implementation date, the SOS is requesting an extension of the spending authority for the additional positions, temporary help and overtime through FY 2017/18 in order to allow the SOS to maintain an average processing time of 5 business days for business formation filings and statements of information in the current manual paper process environment. The ability to process these documents as quickly as possible will continue to aid in the economic recovery of California.

D. Justification

SOS staff review business filings for statutory compliance that are submitted by businesses, financial institutions, government agencies and individuals for filing. Upon request, this information is available to California businesses, financial institutions, government agencies, professionals, and the general public.

The Workload Staffing Needs and Processing Times chart under the Background/History section show the total time needed to process filing documents resulting in a need for an additional 50.0 positions until the automation project is implemented. Additionally, the Information Technology position and the Human Resources position will also be needed to support the additional temporary staffing. The Information Systems Technician will provide all tech support including the maintenance of SOS hardware, software, user accounts and profiles and respond to technology inquiries. The Associate Personnel Analyst will perform Human Resources duties including assisting with the recruitment process, corrective discipline process, labor relations, reasonable accommodations, workers compensation issues and other Human Resources related issues.

The timely processing of business filings results in timely deposits of the accompanying fees. In turn, additional interest and more revenue are transferred to the General Fund. The continued timely processing of business formation documents will aid the State economy by reducing unemployment (new businesses equal more jobs), increasing tax revenue, and increasing the flow of personal spending.

It is only since FY 2013/14 when additional positions, temporary help and overtime were approved that the SOS has been able to reach and sustain an average 5 business day turnaround time. If these resources are not continued, it is anticipated that the turnaround times will again increase to pre-FY 2013/14 levels until the automation is implemented. An increase in processing times will lead to frustration on the part of the business community, which is detrimental to the health of California's economy. Furthermore, delays in processing filings and requests will not allow for the timely processing and deposit of filing and service fees. Please note that a fee increase is not necessary; the SOS simply needs authority to spend monies that already are paid by businesses.

E. Outcomes and Accountability *(Provide summary of expected outcomes associated with Budget Request and provide the projected workload metrics that reflect how this proposal improves the metrics outlines in the Background/History Section.)*

The projected outcome is to continue processing business filings at an average processing time of 5 business days for business formation filings and statements of information, along with timely processing of requests for copies of business records. The filings and processing times are monitored daily. With the approval of this budget change proposal, SOS's goal would be to continue maintaining average processing times of 5 business days utilizing the current manual processes until the automation project is fully implemented.

Additionally, SOS will continue to deposit filing and service fees as quickly as possible given the manual processes. Further, new businesses will continue to be able to open bank accounts and hire employees more quickly, which results in new jobs and more personal spending; and the taxing agencies will be able to collect taxes more timely.

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Projected Outcomes

Workload Measure	CY	BY	BY+1	BY+2	BY+3	BY+4
Year-end formation documents in process	3,982	3,982	3,982			
Fees associated with formation in process	\$265,645	\$265,645	\$265,645			
Processing Times during FY Formations (low & high business days)	4 – 5 days	4 – 5 days	4 – 5 days			
Year-end Statements of Information in process	10,878	10,878	10,878			
Fees associated with Statements of Information in process	\$125,415	\$125,415	\$125,415			
Processing Times during FY Statements of Information (low & high business days)	3 - 5 days	3 - 5 days	3 - 5 days			

F. Analysis of All Feasible Alternatives

1. Approve the request for 52.0 additional positions, temporary help and overtime and spending authority of \$5.5 million from the Business Fees Fund in FY 2016/17 and FY 2017/18 in order to maintain the current processing times for business formation filings and statements of information.

- Pros:
- The increased limited-term appropriation will enable SOS to hire and/or retain additional staff, temporary help and schedule additional overtime to maintain historically low processing times of 5 business days until the automation project is fully implemented.
 - The increased overtime and additional help will accommodate cyclical peaks in the workload during the fiscal year most notably at the end and beginning of each calendar year.
 - The ability to maintain acceptable processing times allows new businesses to get up and running more quickly, which leads to job creation and reduced unemployment, new businesses paying taxes, and an increase in the flow of spending; all of which aids the restoration of California's economy.
 - The extension of the additional limited-term spending authority, additional positions, temporary help and overtime will continue to give the SOS the means to plan staffing and resource allocations to meet the fluctuating demands of the various business filings and requests for information based on the current manual paper processes.

- Cons
- This proposal, given how budgeting is done, does not and cannot reflect the reality that the increased spending authority requested here will lead to an overall net gain for state and local general and special funds.

2. Approve \$2.1 million spending authority for temporary help and overtime but no additional positions.

- Pros:
- The increased spending authority will provide authority for overtime and additional help, which will slow the growth of the turnaround times for processing business filings.
 - This alternative will allow more new businesses to get up and running, but at a much slower pace.

- Cons:
- Without the extension of the full amount of spending authority for additional positions, temporary help and overtime the processing times for business filings will grow. The Legislature established a 5 business day processing goal with the support and concurrence of the SOS; and with approval of a lesser amount of spending authority, the SOS will not be able to maintain the 5 business day processing goal until automation is fully implemented.
 - Without the extension of the full amount of spending authority, there will be insufficient resources to handle the peaks in filings, most notably at the end and beginning of each calendar year.

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3. Do not approve any augmentations.

Pros: • State expenditures would not increase.

Cons: • Without the extension of the spending authority for additional positions, temporary help and overtime, the processing times for business filings will grow, frustrating the business community by stalling new businesses from opening their doors.
• Stalling new businesses also stalls the recovering economy and the State's taxing agencies' revenue collection.
• Increased processing times will prevent the SOS from collecting fees in a timely manner, which will delay fees from being deposited and corresponding revenue being transferred to the General Fund, and a decrease in interest collected on deposited fees.
• Increased processing times will prohibit new businesses from being able to open up a bank account, hire employees, and generate revenue and pay taxes.
• This alternative will increase customer dissatisfaction, and the business community may once again lose confidence in California.
• Monies paid by businesses for these services would be swept to the General Fund and used for other than their intended purpose to process business filings and requests for information.

G. Implementation Plan

Upon the enactment of the budget and additional spending authority, SOS will continue to fill its additional positions and temporary help (including retired annuitants, limited-term intermittents and students), plan overtime days for the fiscal year, and obtain/retain the necessary support and additional resources to assist in maintaining SOS's and the legislature's goal of processing business filings and statements of information within an average 5 business days. The additional resources also include the operating expenses that are required to support the additional staff. Any vacancies in the approved additional positions and temporary help will continue to be advertised and filled as soon as possible. The additional resources will aid in maintaining acceptable processing times for business filings and requests for information, especially during our cyclical peaks in volumes received, until the automation project is fully implemented.

H. **Supplemental Information** (*Describe special resources and provide details to support costs including appropriate back up.*)

Contracts: Amendment to University Enterprises, Inc. contract for student assistants (temporary help).

Other: Postage, printing and additional security guards needed for extended work shifts.

I. Recommendation

Approve Alternative 1. The current systems are manual and archaic and rely heavily on staffing resources to process the workload. We have been able to maintain 5 business day processing times since October 2013 with the additional spending authority and additional positions.

Without sufficient staffing, we will be unable to meet the Legislature's goal to maintain an average 5 business day turnaround time on business filings. Business filings processing times and turnaround times to process requests for information will increase. The increased processing times will stall new businesses from starting up and will have the following negative impacts:

- Businesses cannot open bank accounts, and therefore, cannot hire people for jobs
- Less jobs result in less personal (consumer) spending
- Tax collection by government agencies is hindered
- SOS filing and service fees are slow to be deposited
- Increase in outdated checks
- Increase in stop payment checks, thereby creating more work for Accounting Office staff to collect on bad checks
- Less interest collected
- Less money generated and delayed deposits for the General Fund

Slow processing times frustrate the business community and the general public. Fewer businesses in California mean fewer jobs and less revenue to the State (fewer taxes collected and less consumer spending).

Additionally, delayed processing times hinder criminal investigations. If a specific entity is being investigated and all documents related to that entity are needed, it is difficult and time-consuming to find a document in process (a manual search through thousands of pieces of paper must be done). Further, if the inquiry includes a statement of information in process, it would be impossible to determine if the statement was submitted.

Upon full implementation of the automation project, the SOS anticipates reducing the number of positions needed to process the workload while improving the turnaround times to process formation, statements of information and other business filing documents submitted by business entities, and requests for information submitted by business entities, other governmental agencies and law enforcement agencies. However, until a new automation system is implemented, the SOS must depend on staffing resources to maintain reasonable processing times. Therefore, it is imperative for the SOS to continue to receive the additional positions and spending authority for the next two fiscal years to meet the SOS's and legislature's processing time goals until the automation project is fully implemented.

BCP Fiscal Detail Sheet

BCP Title: Business Programs Division Filings Process

DP Name: 0890-002-BCP-DP-2016-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	52.0	52.0	0.0	0.0	0.0
Total Positions	0.0	52.0	52.0	0.0	0.0	0.0
Salaries and Wages						
Earnings - Permanent	0	1,893	1,893	0	0	0
Earnings - Temporary Help	0	248	248	0	0	0
Overtime/Other	0	73	73	0	0	0
Total Salaries and Wages	\$0	\$2,214	\$2,214	\$0	\$0	\$0
Total Staff Benefits	0	1,010	1,010	0	0	0
Total Personal Services	\$0	\$3,224	\$3,224	\$0	\$0	\$0
Operating Expenses and Equipment						
5301 - General Expense	0	416	416	0	0	0
5302 - Printing	0	52	52	0	0	0
5304 - Communications	0	52	52	0	0	0
5306 - Postage	0	52	52	0	0	0
5322 - Training	0	52	52	0	0	0
5340 - Consulting and Professional Services - External	0	1,600	1,600	0	0	0
5344 - Consolidated Data Centers	0	52	52	0	0	0
Total Operating Expenses and Equipment	\$0	\$2,276	\$2,276	\$0	\$0	\$0
Total Budget Request	\$0	\$5,500	\$5,500	\$0	\$0	\$0
Fund Summary						
Fund Source - State Operations						
0228 - Secretary of States Business Fees Fund	0	5,500	5,500	0	0	0
Total State Operations Expenditures	\$0	\$5,500	\$5,500	\$0	\$0	\$0
Total All Funds	\$0	\$5,500	\$5,500	\$0	\$0	\$0

Program Summary

Program Funding						
0700 - Filings and Registrations	0	5,500	5,500	0	0	0
9900100 - Administration	0	391	391	0	0	0
9900200 - Administration - Distributed	0	-391	-391	0	0	0
Total All Programs	\$0	\$5,500	\$5,500	\$0	\$0	\$0

Personal Services Details

Positions	Salary Information								
	Min	Mid	Max	CY	BY	BY+1	BY+2	BY+3	BY+4
VR00 - Various				0.0	52.0	52.0	0.0	0.0	0.0
Total Positions				0.0	52.0	52.0	0.0	0.0	0.0
Salaries and Wages	CY	BY	BY+1	BY+2	BY+3	BY+4			
VR00 - Various	0	2,214	2,214	0	0	0			
Total Salaries and Wages	\$0	\$2,214	\$2,214	\$0	\$0	\$0			
Staff Benefits									
5150900 - Staff Benefits - Other	0	1,010	1,010	0	0	0			
Total Staff Benefits	\$0	\$1,010	\$1,010	\$0	\$0	\$0			
Total Personal Services	\$0	\$3,224	\$3,224	\$0	\$0	\$0			