Statewide Issues and Various Departments

This Chapter describes items in the Budget related to statewide issues and various departments.

Infrastructure

Debt Service

General Obligation (GO) and lease revenue bonds are used to fund major infrastructure improvements. California voters have approved over $95 billion of new GO bonds since 2000, and since 2009 the state has issued nearly $40 billion of new GO bonds. These bonds fund projects and programs such as new road construction, flood control levees, new schools, and other public infrastructure. As the state issues the remaining voter-authorized bonds, debt service costs will continue to grow.

General Fund debt service expenditures, after various other funding offsets, will increase by $416.5 million (7.5 percent), to a total of $6 billion, over current-year expenditures. This increase is comprised of $382.2 million for GO debt service ($5.3 billion total) and $34.3 million for lease revenue bonds ($673.7 million total). The projected increase in total General Fund debt service is attributed to recent bond sales and the planned issuance of additional bonds over the next year.

The Administration has taken actions to better manage this growing area of the Budget, such as requiring GO bond programs to demonstrate an immediate need for additional bond proceeds prior to issuing new bonds. These efforts have helped reduce the amount of unspent GO bond proceeds in the state treasury from approximately $13.9 billion, as of December 2010, to just under $3.5 billion by the end of October 2013, excluding the recent fall 2013 GO bond sales. In addition, only the most critical new lease revenue bond funded projects have been approved.

California Five-Year Infrastructure Plan

In conjunction with the release of the Governor's Budget, the Administration is releasing the 2014 Five-Year Infrastructure Plan. The Plan outlines the Administration's infrastructure priorities for the next five years for the major state infrastructure programs, including transportation and high-speed rail, state institutions, judicial branch, natural resource programs, and education. Given the state's increased debt burden and General Fund constraints, the Plan proposes only limited, new lease-revenue bond authorizations. The Plan also highlights the significant shortfall in resources for maintenance of existing state facilities and the resulting problems. The Budget proposes an $815 million ($800 million General Fund) package of one-time investments in maintenance of state infrastructure, including the following:

- Highway Users Tax Account Loan Repayment: $337 million
- K-12 Schools Emergency Repair Program: $188 million
- California Community Colleges: $175 million
- Department of Parks and Recreation: $40 million
- Department of Corrections and Rehabilitation: $20 million
- Judicial Branch: $15 million
- Department of Developmental Services: $10 million
- Department of State Hospitals: $10 million
- Department of General Services: $7 million
- State Special Schools: $5 million
- Department of Forestry and Fire Protection: $3 million
- California Military Department: $3 million
- Department of Food and Agriculture: $2 million

Major Regulations

Chapter 496, Statutes of 2011 (SB 617), requires an in-depth economic analysis for all new major regulations. Beginning November 1, 2013, all state agencies promulgating a regulation with an economic impact over $50 million dollars in any 12-month period are required to conduct a Standardized Regulatory Impact Assessment. These assessments must discuss the regulation's effect on employment, businesses and consumers, incentives for innovation, and investment in California. The assessment also must study alternative ways of achieving the regulation's goals and compare them to the proposed regulation.

The Department of Finance created standards for agencies to analyze their major regulations. Finance will review each agency's assessment and provide comments to the department. These assessments will allow for a comprehensive discussion of the quantitative and qualitative costs and benefits of a regulation. They will provide more data on the effects of a regulation. The assessments and Finance's comments will be part of the public rulemaking record, and are intended to help the state and affected parties understand the impacts of regulatory choices.

Making Government More Efficient

Government should always look for ways to improve the delivery of services for the most value. This practice became acute — and necessary to balance the budget — during the recent economic decline. Specifically, the 2011 Budget Act included ongoing, operational efficiency savings, some of which were achieved by consolidating departments, boards and commissions, reducing state cell phones and the state vehicle fleet, and lowering department rates for technology services and rental space.

As the economy recovers, there is also an opportunity to invest in more efficient business practices, which can produce additional savings in the long term. The Budget builds on existing efficiencies and efforts to bring government closer to the people. It also includes new approaches to consolidate departments and programs, and coordinate services that will enhance performance for the public. Following are some of the ongoing and new initiatives:

- Coordinate the care of Medicare and Medi-Cal dual-eligibility clients.
- Eliminate the Managed Risk Medical Insurance Board and transfer programs to the Department of Health Care Services.

- Centralize management for the admittance of patients to the state hospitals.
- Reorganize the state's drinking water programs in the Department of Public Health and State Water Resources Control Board.
- Prioritize statewide infrastructure planning and spending.
- Enhance Data Center infrastructure to support future growth and consolidation of information technology systems to leverage economies of scale.

Employee Compensation

Thirteen of the state's collective bargaining contract agreements reached in the summer of 2013 included salary increases tied to the concept of a revenue-based "trigger." Per the contracts, the ability to provide the 2014-15 salary increases is based on the Director of Finance's determination at the 2014-15 May Revision that revenues are sufficient to fully fund existing statutory and constitutional obligations, existing fiscal policy, and the cost of the trigger-based salary increases.

For the majority of these contracts, if the trigger is pulled, employees will receive a salary increase of 2 percent in 2014-15 and 2.5 percent in 2015-16. If the trigger is not pulled, they will receive a 4.5 percent salary increase in 2015-16. Other trigger-based contracts operate in a similar manner but have different economic terms, such as smaller salary increases and/or one-time bonuses.

The Budget assumes the necessary conditions for the trigger-based salary increases in 2014-15 will be met and therefore includes $173.1 million ($82.4 million General Fund) to fund them. A final determination will be made at the May Revision based on the latest revenue projections and updated expenditure information available.

Additionally, the Administration is extending the same general salary increases negotiated for the majority of rank and file members described above to unrepresented state managers and supervisors to avoid salary compaction issues. Managers and supervisors associated with Bargaining Unit 5 – California Association of Highway Patrolmen and Bargaining Unit 6 – California Correctional Peace Officers Association will receive the salary adjustment extended to their rank and file counterparts. The Budget includes $98.6 million ($40.3 million General Fund) in 2014-15 for these salary increases.

Finally, the Budget also includes funding to address salary parity and inequity issues involving specific state managers and supervisors, particularly related to scientists and engineers.

State Employees' Retirement

Chapter 296, Statutes of 2012 (AB 340), established the Public Employees' Pension Reform Act of 2013 (PEPRA). PEPRA provided lower pension benefits and required higher retirement ages for new employees in state and local government and schools hired after January 1, 2013. Additionally, state employees in designated bargaining units and associated excluded employees began making additional payroll contributions to their pension plans beginning July 1, 2013, and others will make additional contributions beginning July 1, 2014.

Under PEPRA, these additional contributions must go toward the state's unfunded liability, which was $45.5 billion as of June 30, 2012. As a result, it is estimated that the state will contribute an additional $67.1 million during 2013-14 and $108.4 million in 2014-15 toward the state's unfunded liability. The Budget estimates approximately $4 billion in total funding for state employee pensions in 2014-15.

Figure SWE-01 below provides an historical overview of contributions to the CalPERS, the California State Teachers' Retirement System (CalSTRS), the Judges' Retirement System (JRS), the Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS) for pension and retiree health care benefits.

Teachers' Retirement

For more than 100 years, the California State Teachers' Retirement System (CalSTRS) has provided retirement benefits to California school teachers. However, the existing funding approach cannot deliver the benefits that will be owed in the long term. CalSTRS faces a growing $80.4 billion unfunded liability and is expected to exhaust its assets in approximately 30 years. CalSTRS estimates that stabilizing the system could cost more than $4.5 billion a year, which could overwhelm other education priorities as well as other policy initiatives.

CalSTRS, like other public retirement systems in California, saw benefits increase then experienced severe investment losses in 2008-09, exposing large liabilities. Other retirement systems have the authority to charge employers—government agencies—more money to make up their funding gaps. For CalSTRS, school district and teacher contributions to the pension fund were established in statute and can be changed only by the Legislature. Because CalSTRS cannot act on its own, the Administration will begin working with the Legislature, school districts, teachers, and the pension system on a plan of shared responsibility to achieve a fully funded, sustainable teachers' pension system within 30 years. It is expected that this plan will be adopted as part of the 2015-16 Budget.

A new funding strategy should phase in contribution increases for employees, employers, and the state to allow parties to prepare for cost increases. Because retirement benefits are part of total compensation costs, school districts and community colleges should anticipate absorbing much of any new CalSTRS funding requirement. The state's long-term role as a direct contributor to the plan should be evaluated.

Figure SWE-01

State Retirement Contributions*

(dollars in millions)

	CalPERS[1]	CSU CalPERS	Retiree Health & Dental	CSU Retiree Health	CalSTRS	JRS	JRS II	LRS
2005-06	2,403		887		1,081	121	24	0
2006-07	2,765		1,006		959	129	27	0
2007-08	2,999		1,114		1,623 [2]	162	37	0
2008-09	3,063		1,183		1,133	189	40	0
2009-10	2,861		1,182		1,191	184	32	0
2010-11	3,230		1,387		1,200	166	54	0
2011-12	3,174		1,505		1,259	195	58	0
2012-13	2,948 [3]	449 [3]	1,365 [3]	222 [3]	1,303	160	51	0
2013-14[4]	3,219	474	1,420	246	1,360	188	52	1
2014-15[4]	3,531	478	1,559	270	1,424	179	56	1

1/ In addition to the Executive Branch, this includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS.

2/ Includes repayment of $500 million from 2003-04 Supplemental Benefit Maintenance Account withholding/lawsuit loss (interest payments not included).

3/ Beginning in 2012-13, CSU pension and health care costs are displayed separately.

4/ Estimated as of the 2014-15 Governor's Budget. 2014-15 General Fund costs are $1,842 million for CalPERS, $477 million for CSU CalPERS, $1,553 million for Retiree Health & Dental, and $177 million for JRS. The remaining totals are all General Fund.

* The chart does not include contributions for University of California pension, retiree health, and retiree dental costs or CSU retiree dental costs.

Workers' Compensation

California law requires employer responsibility for benefits arising from employment related injuries. For the most part, workers' compensation benefits for state employees are self-funded with the State Compensation Insurance Fund acting as the third party administrator.

State employees' workers' compensation costs have increased significantly over the past several years. Cumulative workers' compensation costs were about $460 million in 2008-09 and have risen to about $656 million in 2012-13. Departments have largely absorbed these costs over the years; however, as costs continue to rise, some departments are finding it more difficult to do so. In recognition of these ongoing costs, the Budget proposes $81.1 million ($80.7 million General Fund) to augment the California Department of Corrections and Rehabilitation and the Department of Forestry and Fire Protection for some workers' compensation costs. The Administration will continue to evaluate the factors driving these significant cost increases and the steps necessary to address this growth in the short and long term.

Reduce Reliance on Contractors

The state has at times relied on contractors to provide services, particularly in the areas of information technology and health care, where there may not be the relevant expertise or the required numbers in the state workforce at the time to meet its needs. In recognition that these contracted services can be more costly, and that there is value and utility in training and developing state employees to perform ongoing tasks, the Administration continues to identify ways that the state can reduce its reliance on contractors. The Budget includes numerous proposals that transfer contracted positions to state employees. Examples can be found in departments of Health Care Services, Managed Health Care, Public Health, Child Support Services, and Technology.

Department of Consumer Affairs

The Department of Consumer Affairs (DCA) oversees a wide variety of boards and bureaus that certify, register, and license individuals and entities that provide goods and/or services in the state. The overall purpose of DCA is to promote a fair and competitive marketplace in which consumers are protected. DCA provides exams and licensing as well as mediation and enforcement of consumer complaints. When appropriate, cases are referred to the Attorney General's office or other law enforcement authorities for administrative action, civil and/or criminal prosecution.

There are currently 26 boards, 9 bureaus, 2 committees, a certification program, and a commission under the broad authority of DCA.

Performance-Based Budgeting

Executive Order B-13-11 directed the Department of Finance to modify the state budget process to increase efficiency and focus on accomplishing program goals. Pursuant to this Executive Order, Finance and DCA developed a multi-year plan to evaluate the performance of DCA's programs. This plan included program evaluation of enforcement and licensing functions, development of strategic plans, and reporting of enforcement and licensing data.

- Program Evaluation of Enforcement and Licensing Functions—In the last year, DCA initiated a pilot evaluation of two of its programs, the Dental Board of California and the Bureau of Security and Investigative Services (BSIS). The evaluation of the Dental Board and the BSIS resulted in the implementation of several process improvement initiatives designed to reduce investigative cycle times. DCA will continue to further define, track and report on its performance measures.

- Development of Strategic Plans—DCA requires all of its boards and bureaus to have up-to-date strategic plans. Since July 2012, DCA has worked with 17 boards and bureaus to update or develop new strategic plans, and is currently working with the other boards and bureaus to complete plans.

- Reporting of Enforcement and Licensing Data—The 2013-14 Governor's Budget highlighted DCA's enforcement targets and provided two years of enforcement performance data (2010-11 and 2011-12). The 2014-15 Budget includes enforcement data for 2011-12 and 2012-13. The enforcement data show the amount of time it takes between a complaint being received by a board or bureau and its resolution. DCA is currently unable to uniformly track and report licensing data for its boards and bureaus. However, DCA's licensing and enforcement information technology system, BreEZe, will be utilized to uniformly track licensing data of the boards and bureaus. BreEZe is scheduled to be fully implemented in December 2015, which will allow DCA to display 2015-16 actual licensing data in the 2017-18 Governor's Budget. In addition, DCA will display licensing targets next year in the 2015-16 Governor's Budget.

Enforcement and Licensing Resources

As part of DCA's performance-based budgeting effort, the Budget includes $12.4 million special fund and 90 positions for enforcement workload and $466,000 special fund and 11 positions for licensing workload. The increased workload is primarily driven by growth in DCA's licensee populations resulting in increased enforcement case processing time and license application processing time. These additional resources are intended to reduce those processing times. In addition, the Budget requires DCA to report to the Legislature and the Department of Finance on the impact these additional resources have on reducing enforcement case processing time and license application processing time.

Department of Technology

The Department of Technology is the central information technology (IT) organization for California. It is responsible for the approval and oversight of all statewide IT projects; provides centralized IT services and training to government entities; promulgates statewide IT security policies and procedures; and has responsibility over telecommunication and IT procurements.

Significant Adjustments:

- Information Technology Security Compliance—The Budget provides $684,000 in 2014-15 to fund 5 limited-term positions for a 2-year pilot project within the Office of Information Security. The pilot project will audit state departments' compliance with mandated state and federal IT security policies, which are in place to protect the state's critical IT infrastructure and information assets from loss, theft, and misuse.
- Data Center Growth—The Budget includes $6.7 million to increase the power and cooling capacity of the Gold Camp Data Center in order to accommodate future customer demand. The Data Center continues to absorb large IT systems as departments centralize their IT systems and data processing to the Department of Technology, resulting in reduced costs to departments, more secure systems and applications, and the use of current and more efficient technology to meet business needs.

Franchise Tax Board

The Franchise Tax Board (FTB) administers the state's personal income tax and corporation tax. Activities include tax return processing, filing enforcement, audit, and collection of delinquent amounts owed.

Significant Adjustments:

- Enterprise Data to Revenue Project—The Budget provides $75.1 million General Fund, including $68.5 million for vendor payments, and 71 positions for fourth-year implementation activities related to the project. The six-year project will modernize FTB's tax program operations and systems by automating return processing, data capture, and validation of information. The project will provide improved access to tax account information for FTB's tax programs and for FTB users through secure online taxpayer folders.
- Accounts Receivable Management Program—The Budget provides $7.7 million General Fund to continue 101 limited-term positions for an additional two years to further reduce the accounts receivable inventory. This is expected to generate $108 million General Fund revenues in 2014-15.

Financial Information System for California

The Financial Information System for California (FI$Cal) is a multi-year information technology project that will replace and integrate the functions of numerous aging financial management systems in state government. The new single system will include budgeting, accounting, procurement, and cash management functions. Development of the FI$Cal system resides with four partner agencies: Department of Finance, State Controller's Office (SCO), State Treasurer's Office (STO), and Department of General Services (DGS).

The FI$Cal system is currently scheduled to be deployed in five waves (Pre-Wave and Waves 1 – 4). Pre-Wave was implemented in July 2013 to seven departments. Wave 1 is scheduled to be rolled out July 2014 to another 30 departments, including the Department of Justice and Board of Equalization. However, based on lessons learned from the Pre-Wave launch and in preparing for Wave 1, the Project identified significant risks with Wave 2 deployment scheduled for July 2015. As a result, the project will go forward with Wave 1 as currently planned but will defer some Wave 2 departments and functionality to subsequent waves. This approach will increase the total costs of the project, however, it will reduce the complexity of initial waves and significantly enhance successful implementation of the FI$Cal system.

Significant Adjustment:

- DGS Departmental Functions Move to Wave 2—An additional $4.3 million in 2014-15 as a result of an increase in project scope to replace DGS's aging financial system that was previously scheduled to interface with the FI$Cal system.

State Controller's Office

The State Controller, among other responsibilities, administers the statewide payroll system that issues pay to approximately 294,000 state employees.

Significant Adjustment:

- 21st Century Project—The Budget proposes $6.5 million ($3.6 million General Fund, $2.9 million other funds, and 5 positions) on a one-time basis in 2014-15 to address litigation and related support efforts associated with the payroll system.

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