

STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

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

TEACHERS' RETIREMENT SYSTEM

In its 101-year history, contributions to CalSTRS have rarely aligned with investment income to meet the promises owed to retired teachers, community college instructors, and school administrators. The 2012 pension reform law lowered long-term costs at CalSTRS by reducing benefit levels and extending retirement ages for new teachers. Even with those changes, and despite recent investment success, the viability of CalSTRS ultimately requires significant new money on an annual basis.

In recognition of the critical need to address this issue, the Budget includes a comprehensive funding solution to close the CalSTRS shortfall—now estimated at \$74.4 billion.

Built on shared responsibility among the state, schools, and teachers, the funding plan will put CalSTRS on a sustainable path and eliminate the unfunded liability in about 30 years. The plan will start modestly in 2014-15 to provide the state, schools, and teachers sufficient time to prepare for future budget costs. The plan directs \$276 million (\$59.1 million General Fund) in additional contributions from all three entities in 2014-15.

Under the plan, teacher contributions will increase from 8 percent to a total of 10.25 percent of pay, phased in over the next three years. School contributions will increase from 8.25 percent to a total of 19.1 percent of payroll, phased in over the next seven years. These school contributions will be paid from existing revenue sources.

The state's total contribution to the Defined Benefit plan will increase from approximately 3 percent in 2013-14 to 6.3 percent of payroll in 2016-17 and ongoing. In addition, the state will continue to pay 2.5 percent of payroll annually for a supplemental inflation protection program—for a total of 8.8 percent.

The plan also provides the CalSTRS board with limited authority to increase the school and state contributions based on changing conditions. The authority also allows the board to reduce school and state contributions if they are no longer necessary.

STATE EMPLOYEES' RETIREMENT

The Budget includes state retirement contributions totaling \$4.6 billion (\$2.7 billion General Fund) for 2014-15. California State University retirement contributions make up \$542.8 million (\$542.5 million General Fund) of this total. This represents a \$600.2 million (\$352.1 million General Fund) increase over the 2013-14 retirement base. Retirement rates increased substantially as a result of the following:

- On February 20, 2014, the California Public Employees' Retirement System (CalPERS) Board of Administration adopted new assumptions as part of a regular review of demographic trends. Key assumption changes included longer post-retirement life expectancy, earlier retirement ages, and higher-than-expected wage growth for State Peace Officers/Firefighters and California Highway Patrol. The impact of the assumption changes will be phased in over three years, with a 20-year amortization, beginning in 2014-15. This action accounts for \$430.1 million (\$254.2 million General Fund) of the total increase.
- Additionally, there were normal changes due to differences in actual versus projected employer contributions, payroll growth, retirement dates, and benefit payments. Of the total incremental increases indicated above, these factors account for \$170.1 million (\$97.9 million General Fund) additional costs.

Figure VAR-01 provides a historical overview of the contributions to CalPERS, 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.

Figure VAR-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 | 4,042 | 543 | 1,559 | 270 | 1,486 | 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 Judges' Retirement System (JRS), Judges' Retirement System II (JRS II), and Legislators' Retirement System (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, California State University (CSU) pension and health care costs are displayed separately.

^{4/} Estimated as of the 2014-15 Budget Act. 2014-15 General Fund costs are \$2,120 million for CalPERS, \$543 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.

EMPLOYEE COMPENSATION

The Budget includes \$189.2 million (\$91.4 million General Fund) for trigger salary increases for 15 of the state's collective bargaining units based on agreements reached during the last 12 months. (Two of these bargaining units recently came to tentative agreements with the state and have yet to ratify them.)

DEFERRED MAINTENANCE

If property taxes are higher than anticipated in 2013-14 (and therefore offset state K-14 costs), up to \$200 million General Fund will be provided to address the most critical statewide deferred maintenance projects. If less than \$200 million is determined to be available, entities would receive a proportionate share of the funds. These funds will start

STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

to address the backlog of deferred maintenance. This will help the state keep its assets functioning longer and reduce the need to build new infrastructure.

The amounts by entity are as follows:

- California State University—\$50 million
- University of California—\$50 million
- Department of Parks and Recreation—\$40 million
- Department of Corrections and Rehabilitation—\$20 million
- Department of Developmental Services—\$10 million
- Department of State Hospitals—\$10 million
- Department of General Services—\$7 million
- State Special Schools—\$5 million
- California Military Department—\$3 million
- Department of Forestry and Fire Protection—\$3 million
- Department of Food and Agriculture—\$2 million

OIL TRANSPORTATION SAFETY

Rail shipments of oil, including North Dakota Bakken oil, are expected to significantly increase from 3 million barrels to approximately 150 million barrels per year by 2016. As part of the Administration's ongoing efforts to improve the safety of the extraction, transportation, processing, and use of fossil fuels in California, the Budget includes additional funding to enhance the Department of Fish and Wildlife's Oil Spill Prevention and Response Program and the Public Utilities Commission's Freight Safety Program.

Significant Adjustments:

- Oil Spill Response Program—\$6.7 million Oil Spill Prevention and Administration Fund and 38 positions to address the increased risk of oil spills by supporting prevention, emergency response preparedness, cleanup, and enforcement measures. This additional funding will be supported by expanding

the existing 6.5 cent-per-barrel fee, which is currently collected at marine ports, to all crude oil sent to California refineries.

- Railroad Safety—\$1.1 million Public Utilities Commission Transportation Reimbursement Account and 7 positions to increase inspections of railroad bridges, tanker rail cars, and railroad track related to the expected increased transport of crude oil in California. The volatility of Bakken crude oil requires additional security measures to enhance public safety.

DEPARTMENT OF TRANSPORTATION

The Department of Transportation (Caltrans) designs and oversees the construction of state highways, operates and maintains the highway system, funds three intercity passenger rail routes, and provides funding for local transportation projects. The Department maintains 50,000 road and highway lane miles and nearly 13,000 state bridges, and inspects more than 400 public-use and special-use airports and heliports.

Significant Adjustment:

- Repayment of General Fund Loans—The Budget includes \$351 million in early General Fund loan repayments. Of this amount, \$100 million is for cities and counties for preservation of local streets and roads. The majority of the remaining amount will be allocated to pavement rehabilitation and maintenance projects on the state highway system and traffic management projects that improve mobility.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. The Budget includes \$1.1 billion, all from non-General Fund sources, for support of DMV.

Significant Adjustment:

- Expanded Eligibility for Driver's Licenses—The Budget includes \$67.4 million Motor Vehicle Account to accept driver's license applications from undocumented immigrants who live in California. The DMV estimates that approximately 1.4 million individuals will apply for a license over the next three years pursuant to the provisions of Chapter 524, Statutes of 2013 (AB 60). The Budget also provides a mechanism

to increase DMV resources if a significantly higher number of applicants request driver's licenses in 2014-15.

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) administers the Unemployment Insurance (UI), Disability Insurance, and Paid Family Leave programs and collects payroll taxes from employers, including the Personal Income Tax. EDD connects job seekers with employers through a variety of job services, programs, and one-stop service centers. The Department also supports workforce training programs.

Significant Adjustment:

- UI Program Administration—Because the federal cost recovery model does not fully fund the UI Program, the Budget reflects a combination of efficiencies and supplemental funding to support the program and provide timely unemployment benefits. Specifically, the Budget provides more than \$100 million in additional funding, including almost \$47 million General Fund, to continue improved customer service as follows:
 - Process all claims for unemployment benefits within three days of receipt.
 - Respond to online inquiries within five days of receipt.
 - Schedule 95 percent of eligibility determinations in a timely manner.
 - Respond to 50,000 calls per week.

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 in response to consumer complaints. When appropriate, cases are referred to the Office of the Attorney General or other law enforcement authorities for administrative action or 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.

Significant Adjustment:

Enforcement and Licensing Resources—The Budget includes \$12.5 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.

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