Statewide Issues and Various Departments

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

Employee Compensation

The Governor's Budget assumed salary increases for 13 of the state's collective bargaining units based on agreements reached in the summer of 2013. These salary increases were tied to the concept of a revenue-based "trigger," provided the Director of Finance makes the determination that revenues at the 2014-15 May Revision are sufficient to fully fund existing statutory and constitutional obligations, existing fiscal policy, and the cost of the trigger-based salary increases. The Governor's Budget included $173.1 million ($82.4 million General Fund) to fund these increases.

The Director of Finance has determined that revenues will meet the criteria listed above. Therefore, the May Revision proposes an additional $9 million ($6.8 million General Fund) for updated salary information for these bargaining units and an additional $1.6 million ($1.1 million General Fund) to include a "trigger" increase recently negotiated with the International Union of Operating Engineers (Bargaining Unit 13). This brings the total funding to $183.7 million ($90.3 million General Fund).

State Employees' Retirement

The May Revision reflects an increase to state retirement contributions of $576.7 million ($342.7 million General Fund) for 2014-15. Of this incremental increase, $65.1 million General Fund is projected for California State University. The projected increase in state retirement contributions are due to the following:

- On February 20, 2014, the 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.
- Retirement rates are higher than originally projected in the Governor's Budget because of normal changes due to differences in actual versus projected employer contributions, payroll growth, retirement dates, and benefit payments. Of the total increases indicated above, these factors account for $146.6 million ($88.5 million General Fund) additional costs.

Figure VAR-01 provides a historical overview of the contributions to 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 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. If the shortfall worsens, the long-term threat to school finances, other budget priorities, and teacher retirement security will continue to multiply.

The Governor's Budget called for the Administration to begin working with stakeholders on a new funding strategy for CalSTRS. In recognition of the critical need to address this

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	1,500	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, CSU pension and health care costs are displayed separately.

4/ Estimated as of the 2014-15 May Revision. 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.

issue, the May Revision includes a comprehensive funding solution to close the CalSTRS shortfall—now estimated at $74.4 billion.

The Administration's proposal—built on shared responsibility among the state, school districts, and teachers—will put CalSTRS on a sustainable path and eliminate the unfunded liability by 2045-46. The funding plan will start modestly in 2014-15, to provide teachers, school employers, and the state sufficient time to prepare for significant, future budget costs. After the state's contribution is fully phased in over three years, the plan will eliminate the unfunded liability in 30 years. The May Revision includes about $450 million ($73.2 million General Fund) in additional funding in 2014-15 for the funding plan.

Under the funding 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 state's share reflects the shortfall that would exist had benefits or contributions not changed after 1990. The Administration proposes increasing the state's contribution to meet its commitment to liabilities based on the 1990 benefit level. The 1990 funding plan was the first time CalSTRS had a long-term sustainable funding plan in place. In 1998, as the pension fund approached a surplus, the Legislature increased retirement benefits and restructured the state's contribution. Additional benefit and contribution changes were later made. Pursuant to Education Code 22955, the state is not responsible for unfunded liabilities based on those changes. However, state funding to support the pre-1990 benefit structure remains insufficient.

Department of Human Resources

The Department of Human Resources (CalHR) is responsible for managing the state's personnel functions and represents the Governor as the "employer" in all matters concerning state employer-employee relations. CalHR is responsible for issues related to recruitment, selection, salaries, benefits, and position classification, and provides a variety of training and consultation services to state departments and local agencies.

Significant Adjustment:

- In-Home Supportive Services (IHSS) Employer-Employee Relations Act—The May Revision includes five positions and $848,000 ($424,000 General Fund) in 2014-15 to provide additional resources for labor relations. Pursuant to Chapter 45, Statutes of 2012 (SB 1036), CalHR will represent the statewide authority on all aspects of labor relations for the IHSS Employer-Employee Relations Act. Positions will become effective over time to align bargaining obligations to when counties are expected to fully implement the Coordinated Care Initiative. This will result in nine ongoing positions starting in 2015-16.

State Controller

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: Independent Assessment—The May Revision provides $2.5 million General Fund and one position on a one-year basis for the State Controller's Office to contract with Department of Technology to oversee an independent assessment of the 21st Century Project.

Debt Service

Current Year Debt Service—General Fund debt service expenditures will decrease by a net of $112.7 million as compared to the Governor's Budget, for a total of $5.4 billion. This reflects reduced General Obligation debt service costs ($4.8 billion total) and no change for lease revenue bond debt service costs ($575.8 million total). The net decrease in General Obligation debt service is primarily related to: (1) increased savings in the form of investor premiums received from the spring 2014 bond sales, (2) savings related to bond refinancings, and (3) reduced variable interest rates and fees.

Budget Year Debt Service—General Fund debt service expenditures will decrease by $81.6 million as compared to the Governor's Budget, to a total of $5.8 billion. This adjustment reflects reduced General Obligation debt service costs ($5.2 billion total) and no change for lease revenue bond debt service costs ($609.9 million total). The net decrease in General Obligation debt service is primarily attributable to: (1) a smaller spring 2014 bond sale than projected, (2) lower variable interest rates and fees, and (3) savings related to bond refinancings this spring. The decrease in the size of the spring 2014 bond sale was accomplished by using existing bond cash and the commercial paper program more efficiently. The Department of Finance continues to work with departments to manage bond cash and ensure bonds are issued only when necessary.

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 are as follows:

- Statewide Project Management Office—The May Revision includes two positions and $208,000 General Fund in 2014-15, and $304,000 General Fund in 2015-16 to establish the Statewide Project Management Office (PMO). These positions will establish the PMO management team that will be responsible for developing the framework for the office which will ultimately consist of experienced project managers who will manage information technology projects across the state.

State Appropriations Limit Calculation

2014-15 State Appropriations Limit (SAL) Calculation—Pursuant to Article XIIIB of the California Constitution, the 2014-15 SAL is estimated to be $89.902 billion. This amount is used for various calculations related to state budgeting. The revised limit is the result of applying the growth factor of 0.48 percent. The revised 2014-15 limit is $564 million below the $90.5 billion estimated in January. This decrease is due to changes in the following factors:

- Per Capita Personal Income
    - January Percentage Growth: 0.26%
    - May Revision Percentage Growth: -0.23%
- State Civilian Population
    - January Percentage Growth: 0.89%
    - May Revision Percentage Growth: 0.95%
- K-14 Average Daily Attendance
    - January Percentage Growth: 0.38%
    - May Revision Percentage Growth: 0.40%