Statewide Issues and Various Departments

This Chapter describes items in the Budget that are statewide issues or related to various departments.

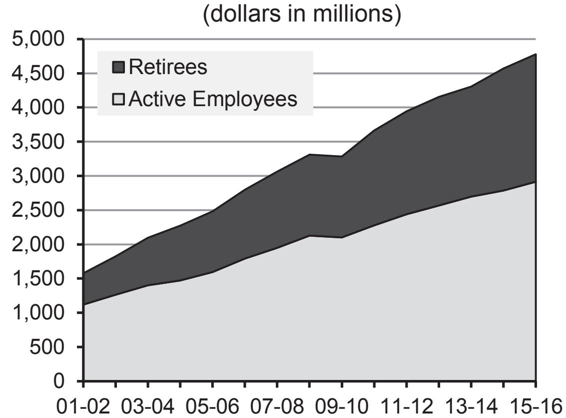
Sustaining State Health Care Benefits While Curbing Costs

The Administration, Legislature, and public employees have taken significant steps recently to reform public pension systems, protecting the retirement security of government workers and maintaining a key recruitment and retention tool for the public-sector workforce. In 2012, Governor Brown signed the Public Employees' Pension Reform Act, which increased cost-sharing for employees, extended retirement ages, and restructured pension formulas. In 2014, Governor Brown signed into law a new funding plan to close a $74 billion shortfall for teacher pensions that increased contributions from the state, school districts, and teachers. With funding plans and cost containments in place for the state's pension plans, the state must turn its attention to the $72 billion unfunded liability that exists for retiree health care benefits.

The Status Quo Must Change

State health care benefits remain one of the fastest growing areas of state government. Figure SWE-01 shows how these costs have tripled since 2001. This far outpaces population and inflation growth during the same period. In total, the state is projected to spend approximately $4.8 billion on health care benefits in 2015-16 for more than

Figure SWE-01
State Health Care Spending
(dollars in millions)



800,000 state employees, retirees, and their family members—about what the state will spend on pensions. In particular, retiree health care costs are growing at an unsustainable pace. The Budget includes nearly $1.9 billion for retiree health care benefits for 2015-16. These payments are fourfold what the state paid in 2001 ($458 million) and now represent 1.6 percent of the General Fund. Fifteen years ago, retiree health care benefits made up 0.6 percent of the General Fund.

Yet, the state's employee and retiree health care has received limited attention in recent years. At a time when many public and private sector employers are examining benefit design changes to address ongoing cost pressures and an Affordable Care Act penalty—the "Cadillac Tax" set to apply in 2018 to high-cost health plans—the state must do more to contain costs.

Cost increases have also impacted state employees. The average amount a state employee pays for health care premiums has doubled in the last 10 years. In contrast, when employees retire, the state subsidizes a larger share of premiums—providing retirees with a health care contribution equal to 100 percent of the average premium costs of the highest enrolled plans.

As a result of these significant cost increases, the Administration is proposing a plan to make health care costs more affordable to the state and, ultimately, its employees. The plan balances a sustainable benefit program with a competitive workforce. The plan preserves retiree health benefits when the private sector is scaling back, maintains health plans, and continues the state's substantial support for employee health care. The plan builds on proven solutions from other states and the federal government. The main components of the plan are described below.

Eliminating the Unfunded Liability

Eliminating the $72 billion unfunded liability for retiree health care will be expensive, complex, and take many decades. Currently, the state pays retiree health care costs on a pay-as-you-go basis. Unlike pension funding, this means the state and employees do not set aside funds during an employee's working years to pay for future benefits. Consequently, funds are not invested and there are no investment returns to help pay for future costs for retirees. Absent any change, the $72 billion liability is expected to increase significantly over the next five years to more than $90 billion. Though the state has established prefunding agreements with three of its labor unions, the state must go further to eliminate this liability.

Paying down the retiree health care unfunded liability is a shared responsibility between employers and employees. The Budget calls for employees and employers to equally share in the prefunding of the normal costs of retiree health care, similar to the new pension-funding standard. The normal costs represent the actuarially determined value of retiree health care benefits that are earned by the employee during a current year. The Administration will seek to phase in this critical, cost-sharing agreement as labor contracts come up for renewal. Once fully implemented, this plan will increase state costs by approximately $600 million annually but ultimately decrease the retiree health care liability, saving billions of dollars in the long term.

Balancing Benefits with Costs

Prefunding retiree health care alone cannot be the only solution to address the growth of state health care benefit costs. The cost structure of these benefits must also be addressed.

Previous efforts at cost containment have fallen short and have not provided employers and employees lower-cost and more affordable health care plans. The current "platinum" level of health coverage leaves the state—and employees—vulnerable to the pending Cadillac Tax. The plan requires the California Public Employees' Retirement System (CalPERS) to offer a High Deductible Health Plan as an option for employees, and the Administration will provide contributions to an employee's Health Savings Account (HSA) to defray higher out-of-pocket expenses for employees who choose the lower-cost plan. HSAs are a tool to help both employers and employees manage health care costs and provide employees with additional savings opportunities. HSAs have federal tax advantages, dollars roll over annually and are not lost if not spent, and they are portable —meaning employees can take an HSA from one job to another and not lose its value.

In addition, the plan will pursue changes to lower the state's premium subsidy, currently based on a formula using the average premiums of the four highest enrolled plans, to encourage employees to select lower-cost health plans.

The plan also calls for encouraging healthy behavior of employees and retirees to prevent the mounting costs of chronic disease care. Governor Brown signed Chapter 445, Statutes of 2012 (AB 2142), a CalPERS-sponsored initiative, which authorized CalPERS to pursue premium credits and penalties for health promotion and disease prevention. Implementing AB 2142 must be a priority for the state's cost containment effort.

Reserving Benefits for Career Workers and Family Members

Consistent with pension reforms that extended retirement ages, employees should work longer to receive state contributions for health benefits in retirement. Most state employees now must work between 10-20 years to receive state subsidies for retiree health care. Beginning with newly hired workers, the plan would only extend this generous benefit to career employees who have accrued 15-25 years of service. Additionally, newly hired workers should not expect a higher subsidy for health care premiums in retirement than what they received during their working years.

The plan also calls for the implementation of practices common outside of the state, such as additional dependent tiers for insurance coverage and surcharges for spouses of state employees who remain on state health plans but can obtain health care coverage through their employers.

CalPERS recently completed a first-ever verification audit of family-member eligibility, resulting in significant savings. The Administration supports ongoing monitoring to ensure the state is enrolling only eligible family members for health care coverage. The Budget also calls on CalPERS to increase efforts to ensure seniors are enrolling in federally subsidized Medicare plans and not remaining on more expensive state-paid plans.

Increasing Transparency and Accountability

The total costs of health care for state employees and retirees necessitate a more full public discussion. The Budget includes several measures to boost transparency of state health care benefit expenses and increase public discussion and legislative engagement.

Many tenets of the plan involve the collective bargaining process. Some will require changes to long-held policies and must be administratively or statutorily instituted. The Administration is committed to working with stakeholders to achieve this plan and bring sustainability to the state's health care benefits program.

Improving the State's Civil Service System

The state's current civil service system is a complicated, inflexible, and highly bureaucratic set of rules, regulations, and policies that has been slow to adapt to generational and demographic changes in the workforce and to emerging trends in the workplace. As a result, California is not optimally positioned to consistently recruit and retain the best and brightest, properly train and support employees to perform to their highest potential, and plan for the succession of future leaders—all key characteristics of a strong and nimble civil service system.

For well over two decades, there have been various calls to improve the state's civil service system. In the 1990s, reports issued from the Legislative Analyst's Office, the Little Hoover Commission, and the California Constitution Revision Commission identified significant problems and potential ways to address them. The California Performance Review in 2004 examined the various components of state government and resulted in several hundred recommendations. The Human Resources Modernization Project, initiated in 2007, sought to produce systemic civil service reforms as well. Unfortunately, many of the previously recommended reforms have failed to be implemented.

The Governor's Reorganization Plan #1 (GRP 1), effective July 2012, merged overlapping functions and aligned resources of the State Personnel Board and the Department of Personnel Administration by creating a new California Department of Human Resources (CalHR). The GRP 1's intent was to better position the state to coordinate civil service issues in a more efficient and streamlined approach.

Building upon the implementation of GRP 1, the state now needs a comprehensive strategy to systemically improve the civil service system. Administrative efforts will be focused on updating and streamlining the state's job classifications; modernizing recruitment, examination, and hiring practices; developing more robust employee and management training programs; reforming probation policies; and improving employee and management evaluation processes. The Administration will also review the state's processes and policies with the goal to eliminate antiquated, unnecessary, and/or duplicative processes and procedures and streamline overly onerous and bureaucratic ones.

Employee groups and the Legislature are important stakeholders in this effort and will be consulted as this reform effort progresses. The Administration will determine which efforts the state can address through the collective bargaining process versus administrative or legislative changes.

Employee Compensation

The Budget includes an additional $560 million ($200 million General Fund) in 2015-16 for employee compensation and health care costs for active state employees. Included in these costs are collectively bargained salary increases for many of the state's rank-and-file employees and state managers and supervisors. Funding has also been included for anticipated 2016 calendar year health care premium increases.

Teachers' Retirement

In 2014, the Governor signed into law a comprehensive funding strategy to address the $74 billion unfunded liability at the California State Teachers' Retirement System (CalSTRS). Consistent with this strategy, the Budget includes $1.9 billion General Fund in 2015-16 for CalSTRS. The funding strategy positions CalSTRS on a sustainable path forward, eliminating the unfunded liability in about 30 years. Based on a model of shared responsibility, the state, school districts, and teachers all have increased their contributions to the system beginning in 2014-15. Specifically, contributions to the system in 2015-16 will increase to 4.9 percent for the state, 9.2 percent for most teachers, and 10.7 percent for school districts. The state also makes an additional contribution of 2.5 percent of teacher compensation to CalSTRS for the Supplemental Benefits Maintenance Account.

State Employees' Retirement

The Budget includes $5 billion ($2.9 billion General Fund) in 2015-16 for state contributions to CalPERS for state pension costs. These costs include the impact of the demographic assumptions adopted by the CalPERS Board in February 2014, which reflect a mortality increase of 2.1 years for males and 1.6 years for females.

Figure SWE-02 provides a historical overview of 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 health care benefits.

Figure SWE-02
State Retirement and Health Care Contributions[1]
(dollars in millions)

	CalPERS[2]	CSU CalPERS	CalSTRS	JRS	JRS II	LRS	Active Health & Dental[3]	Retiree Health & Dental	CSU Retiree Health
2006-07	2,765		959	129	27	0	1,792	1,006	
2007-08	2,999		1,623 [4]	162	37	0	1,948	1,114	
2008-09	3,063		1,133	189	40	0	2,127	1,183	
2009-10	2,861		1,191	184	32	0	2,101	1,182	
2010-11	3,230		1,200	166	54	0	2,277	1,387	
2011-12	3,174		1,259	195	58	0	2,439	1,505	
2012-13	2,948 [5]	449 [5]	1,303	160	51	0	2,567	1,365 [5]	222 [5]
2013-14	3,269	474	1,360	188	52	1	2,697	1,383	225
2014-15[6]	4,042	543	1,486	179	63	1	2,786	1,521	263
2015-16[6]	4,429	604	1,928	190	67	1	2,915	1,600	264

1/ The chart does not include contributions for University of California pension or retiree health care costs.

2/ 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.

3/ These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and CSU.

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

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

6/ Estimated as of the 2015-16 Governor's Budget. 2015-16 General Fund costs are estimated to be $2,318 million for CalPERS, $603 million for CSU CalPERS, $1,595 million for Retiree Health & Dental, and $1,367 million for Active Health and Dental. The remaining totals are all General Fund.

Department of Technology

The Department of Technology, in collaboration with other state departments, has been designing a new Information Technology (IT) project planning and approval process to replace one that has been in use for decades. The traditional process has not provided adequate support for departments to develop realistic cost and schedule estimates at the conception of an IT project. As a result, many projects have experienced significant cost and schedule increases over their lifetime. Additionally, departments invest significant time, effort, and resources in preparing project proposals prior to receiving any input from control agencies, such as the Department of Technology.

Recognizing these weaknesses in the project approval process, the Department of Technology is leading an effort, referred to as the State Technology Approval Reform project, or STAR, to improve the planning and procurement approval phases of IT projects and ultimately increase the likelihood of successful implementation of needed IT systems. STAR will result in approved projects having a strong business case, clear business objectives, appropriate solutions, and more accurate costs and schedules. STAR will also improve communication and collaboration at the beginning of and throughout an IT effort, and develop different approval models that are flexible enough to help expedite approvals for low-risk projects and build additional support for more complex, high-risk projects.

The new approval process will consist of several stages. The first stage, which requires the development of a business analysis justifying a department's business plan, has been in effect since September 2013. The second stage will be effective July 1, 2015 and will require departments to consider a variety of solutions, including business process changes and IT system development that will meet their stated business needs. Should an IT project require a system integration vendor, during stage three, departments are responsible for developing detailed requirements that will help the state and vendor community better understand the scope and magnitude of the IT effort. The requirements will feed into a Request for Proposal to be used in stage four when departments complete the procurement process to select a vendor to build their system. Upon completion of these stages, departments will be better positioned to build a system that ultimately meets the needs of their clients and has stayed within estimated cost and schedule. Stages three and four are currently being refined by the Department of Technology and are anticipated to be implemented during the budget year.

California Department of Food and Agriculture

The California Department of Food and Agriculture (CDFA) promotes and protects a safe, healthy food supply for California residents and enhances the worldwide trade of California's agricultural products. These goals are pursued through the use of efficiencies, innovation, and sound science, with a commitment to environmental stewardship.

Significant Adjustments:

- California Animal Health and Food Safety (CAHFS) Laboratory Network—The Budget includes $4.3 million General Fund for the continued efficacy of the CAHFS laboratory network and to meet the operational needs of the new South Valley Animal Health Laboratory in Tulare. The CAHFS laboratory network protects California's animal agriculture sector from animal disease. The laboratory network is the backbone of California's early warning system to safeguard public health from food-borne pathogens, toxins, and diseases common to animals and humans, and to protect the health of California's livestock and poultry populations. State law requires the CDFA to contract with the University of California, Davis School of Veterinary Medicine to establish and operate animal disease diagnostic laboratories for the purpose of conducting tests and examinations for, and diagnoses of, livestock and poultry diseases.
- California Fairs—CDFA is responsible for fiscal and policy oversight of the network of California fairs. General Fund support for California fairs was eliminated in 2011. Three years later, 15 fairs are fiscally challenged and at risk of closing. In recognition of the impact California fairs have on local economies and their educational and social benefits, the Budget includes $3.1 million General Fund to assist with fair operations, improve the financial stability of smaller fairs statewide, and provide funding to support additional fair board training. The Budget also includes a one-time allocation of $7 million General Fund for deferred maintenance at California fairs, which is part of a larger statewide effort to address the state's infrastructure needs. (See the Infrastructure Section of this Chapter.)
- Healthy Soils—As the leading agricultural state in the nation, it is important for California's soils to be sustainable and resilient to climate change. Increased carbon in soils is responsible for numerous benefits including increased water holding capacity, increased crop yields and decreased sediment erosion. In the upcoming year, the Administration will work on several new initiatives to increase carbon in soil and establish long term goals for carbon levels in all California's agricultural soils. CDFA will coordinate this initiative under its existing authority provided by the Environmental Farming Act.

Hazardous Material Transportation Safety

Rail shipments of oil, including North Dakota Bakken oil, are expected to significantly increase from 6 million barrels to approximately 140 million barrels over the next several years. These shipments and the shipments of other hazardous materials by rail pose significant risks of accidents, especially in rural areas of the State that lack adequate emergency infrastructure to respond. As part of the Administration's ongoing efforts to improve the safety of the transportation of fossil fuels and other hazardous materials in California, the Budget includes $10 million Regional Railroad Accident Preparedness and Immediate Response Fund for the Office of Emergency Services to coordinate with local agencies to better prepare for, and respond to, emergencies involving hazardous materials transported by railroad tank cars. This additional funding will come from the reestablishment of a fee on hazardous materials transported by railroad tank cars throughout California. The Office of Emergency Services will utilize this funding to purchase equipment, such as hazardous materials response trucks, for regional use and to coordinate training and exercises with local response agencies.

Infrastructure

Debt Service

General Obligation (GO) and lease revenue bonds are used to fund major infrastructure improvements. California voters have approved over $103.2 billion of new GO bonds since 2000, including the Water Quality, Supply, and Infrastructure Improvement Act of 2014 (Proposition 1) approved in November 2014. Since 2009, the state has issued nearly $48 billion of new GO bonds. The bonds' proceeds fund projects and programs such as new road construction, flood control levees, and other public infrastructure. As the state issues the remaining voter-authorized bonds, debt service costs will continue to grow.

Estimated General Fund debt service expenditures, after various other funding offsets, will increase by $339 million (6 percent), to a total of $6 billion, over current-year expenditures. This increase is comprised of $285.9 million for GO debt service ($5.4 billion total) and $53.2 million for lease revenue bonds ($657.4 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 continues to take 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 $2 billion by the end of November 2014, excluding the recent fall 2014 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 2015 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. The Plan continues to highlight the significant shortfall in resources for maintenance of existing state facilities and the resulting problems. The Budget proposes a $478 million ($125 million General Fund) package of one-time investments in maintenance of community colleges, universities, and state infrastructure. The General Fund investments are:

- California State University: $25 million
- University of California: $25 million
- Department of Parks and Recreation: $20 million
- Department of Corrections and Rehabilitation: $15 million
- Department of State Hospitals: $7 million
- Network of California Fairs: $7 million
- Department of Developmental Services: $7 million
- Department of General Services: $5 million
- Department of Forestry and Fire Protection: $2 million
- Office of Emergency Services: $3 million
- State Special Schools: $3 million
- California Military Department: $2 million
- Department of Veterans Affairs: $2 million
- Department of Food and Agriculture: $2 million