

STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

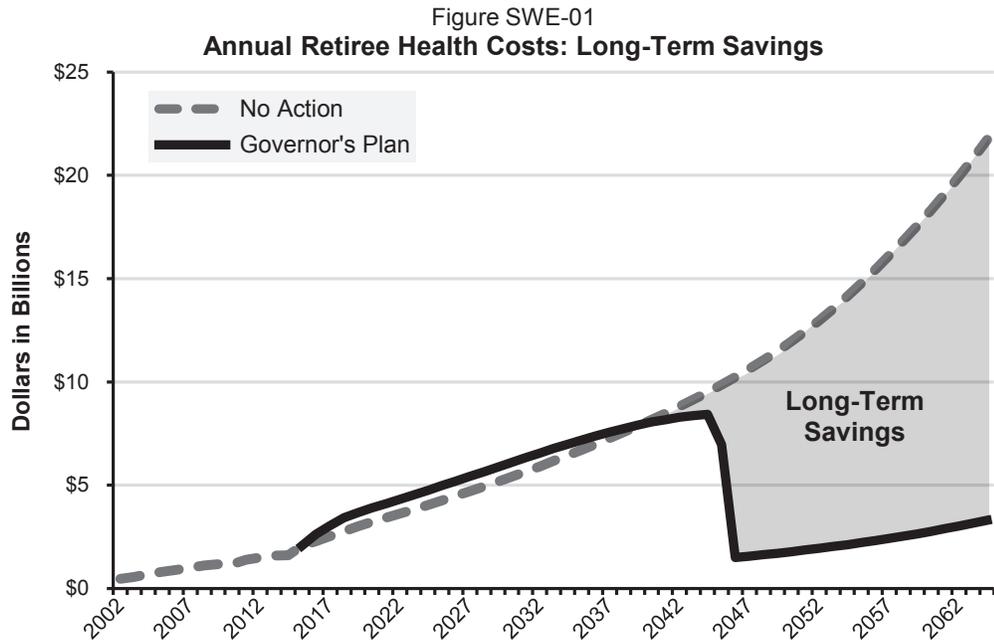
This Chapter describes items in the Budget that are statewide issues or related to various departments.

SUSTAINING STATE HEALTH CARE BENEFITS

The Administration continues to pursue important changes to the state's health care program for state employees and retirees through both the collective bargaining process and legislation to address the continued escalation of premium costs and liabilities, including a \$72 billion unfunded liability for retiree health care that grows every year and will reach more than \$90 billion over the next five years.

Recognizing the inherent unsustainability of these rising costs, which include the pending Affordable Care Act penalty, known as the "Cadillac Tax," the Governor's Budget presented a comprehensive plan to make health care costs more affordable to the state and, ultimately, its employees. A three-pronged approach was introduced to accomplish the goal of sustaining both the affordability of state health care benefits and the benefits themselves.

First, the Governor's Budget proposed partnering with state employees to share in the prefunding of retiree benefits going forward. By holding these contributions in a trust fund that earns investment income, the state can eliminate the large unfunded liability in about 30 years and avoid significant costs in the future. Figure SWE-01 shows that once the state switches from a pay-as-you-go funding model to one that uses prefunding



contributions and investment income—similar to how pensions have been funded for decades—the state’s annual payment for retiree health care benefits is reduced by more than \$8 billion.

Second, the Governor’s Budget proposed controlling costs by reducing the employer subsidy for retiree health care for future state employees and requiring them to work longer to qualify for retiree health care benefits. Figure SWE-01 illustrates that these benefit changes, when combined with the prefunding strategy, will generate almost \$240 billion in cumulative savings over the next 50 years.

Third, the Administration has requested additional reporting requirements and information-sharing about state employee and retiree health plans to increase oversight of the state’s health care administrator—the California Public Employees’ Retirement System (CalPERS)—and more health plan choices for employees through adding lower-cost plans to the benefit menu. The Administration’s trailer bill proposal requires state departments and CalPERS to regularly review the eligibility of dependents enrolling in the state’s health care program and ensure that retirees enroll in federally subsidized Medicare plans when they turn 65. Additionally, the trailer bill establishes a statutory

standard to share prefunding costs with state employees and creates a mechanism to hold investment income gained from prefunding contributions in a trust fund until the retiree health care plan is fully funded.

Health care benefits remain an important part of the recruitment and retention strategy for the state workforce. The Administration recognizes that employees place a high value on these benefits as part of their total compensation package, and is discussing these issues through the collective bargaining process. A second trailer bill concerning retiree health benefit changes has been introduced as a placeholder pending collective bargaining negotiations.

EMPLOYEE COMPENSATION

The May Revision reflects a \$57 million (\$43 million General Fund) increase in employee compensation and retiree health care costs relative to the Governor's Budget. These additional costs are driven primarily by increases in health care premiums and enrollment.

The Administration has begun collective bargaining negotiations with four of the state's bargaining units representing correctional peace officers, engineers, scientists, and craft and maintenance workers. Each of these unit's contracts with the state will expire in early July 2015.

RETIREMENT CONTRIBUTIONS

The May Revision reflects the following adjustments for retirement costs:

- The expected rise in state contributions to CalPERS for pension costs has decreased by \$110 million (\$56 million General Fund) relative to the Governor's Budget. Of this incremental decrease, \$19 million (General Fund) is estimated for California State University. The reduction reflects the impact of employees entering the system under the reduced benefit formula, pursuant to the Public Employees' Pension Reform Act of 2013, strong investment performance, and greater than expected contributions to the system. Overall, state contributions will increase by \$338 million (\$204 General Fund) over 2014-15 levels.
- State contributions to the California State Teachers' Retirement System (CalSTRS) increased by \$6.8 million General Fund due to revised compensation figures for K-12 and community college teachers.

Figure SWE-02 below 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 Healthcare Contributions¹
 (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 | 4,338 | 585 | 1,935 | 190 | 67 | 1 | 2,954 | 1,622 | 267 |

^{1/} The chart does not include contributions for University of California pension or retiree healthcare 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 healthcare costs are displayed separately.
^{6/} Estimated as of the 2015-16 May Revision. 2015-16 General Fund costs are estimated to be \$2,281 million for CalPERS, \$584 million for CSU CalPERS, \$1,617 million for Retiree Health & Dental, and \$1,385 million for Active Health and Dental. The remaining totals are all General Fund.

CIVIL SERVICE SYSTEM

The Administration continues to make progress in its efforts to improve the state’s civil service system. Currently, over 28 different teams (including state employees, public employee representatives, and other stakeholders) are reviewing components of the civil service system to recommend statutory changes and practical administrative solutions to

streamline, improve flexibility, and modernize programs, processes and policies. Several such proposals are described below.

- **Vacant Positions**—Current law includes a provision that requires the elimination of positions, that at the end of a fiscal year, have been vacant for six consecutive months or more. Intended as a mechanism to maintain accurate numbers of authorized personnel, reviews by both the Legislative Analyst’s Office and the Department of Finance in recent years have recommended its repeal due to its ineffectiveness and overly bureaucratic approach. The May Revision proposes abolishing this law and replacing it with a better mechanism to provide monitoring of and greater transparency into departments’ budgets. Neither existing law nor the proposed new mechanism affect how much funding a department receives. The overall goal is to more accurately reflect how departments spend their funds on personnel versus operation expenses. To this end, Finance will develop a bi-annual process for reconciling department budgets, specifically for positions and operating expenses and equipment. This reconciliation process will first take place in the 2015-16 budget year and the results will be utilized to build departments’ baseline budgets in the 2016-17 Governor’s Budget. The appropriate mix of funding between positions and operating budgets will be based on a department’s past three years of expenditures in specified categories.
- **Limited-Term Positions**—Under current practice, when a department’s new work is temporary in nature, it may receive limited-term positions along with temporary funding. In many cases, these positions are difficult to fill because applicants know they will need to look for a new job shortly. Once filled, workers often transfer to a different permanent job as soon as possible. Consequently, from an operational standpoint, limited-term positions make completing the necessary work even more difficult. The May Revision proposes to eliminate the use of limited-term positions going forward. Instead, Finance and the Legislature can approve limited-term spending authority that will act as a control on the number of positions a department can fill in any given year. When combined with the bi-annual reconciliation process described above, departments will be able to manage their personnel levels within budgeted funds to meet operational needs more efficiently and effectively.
- **Hiring Process**—The May Revision proposes eliminating several archaic statutes that impose unnecessary restrictions on departments, preventing them from hiring eligible candidates. Eliminating these restrictions will assist departments in hiring the best candidates for positions in a more timely manner.

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Together, these proposals allow departments greater flexibility in hiring, managing, and ultimately running their programs, while also maintaining proper control agency and legislative oversight—all important characteristics of a nimble and improved civil service system.

Many other efforts are currently underway to review and improve the state’s recruitment, hiring, training and development/retention, performance management, and strategic planning, among other areas. Some of these efforts are:

- Streamline Job Classifications—The California Department of Human Resources (CalHR) is working with a team to abolish over 400 classifications identified as “unused.” Another team is working on recommendations to consolidate similar classifications, clarify classification descriptions, and assess the use of deep classes, ultimately to assist people looking for state jobs to find the opportunities that best suit their education and experience.
- Broaden Recruitment Efforts—Teams are reviewing the statewide recruitment plan and reaching out to various groups, including veterans, mid-career professionals, and the newest generation of employees (those designated “millennials”), to better understand how to attract and retain a diverse, multi-generational workforce that reflects California’s population. Teams are reviewing the use of social media and other online career tools to more effectively recruit and communicate with potential employees.
- Strengthen Training Opportunities and Aligning Curriculum—To ensure a well-trained workforce, teams are looking for ways to better leverage and expand on internships, fellowships, and apprenticeships. Teams are also working with a variety of education stakeholders to consider ways to align college curriculum with the state’s current and anticipated talent needs in order to prepare students for careers in state civil service.
- Revamp Job Examinations—Teams are reviewing exam-related processes for practical ways to help departments conduct job analyses and share resources to conduct consortium exams for multiple departments’ use.
- Expand Department Delegation Authority—In the past several years, CalHR has delegated authority to departments for multiple tasks, including resolving unlawful appointments and approving exceptional allocations (which allow individuals to perform duties different from their assigned classification). This gives departments greater flexibility to address their management and personnel needs. A team is

identifying further opportunities for departments to exercise greater flexibility through delegated authority.

- Enhance Performance Evaluations—A team is reviewing the state’s current evaluation tools and practices in attempts to align them with current trends in effective performance management. The team is exploring various coaching and mentoring programs to create work environments that encourage more employee engagement.

CALIFORNIA ARTS COUNCIL

The California Arts Council develops partnerships with the public and private sectors to provide support to the state’s non-profit arts and cultural community and enhance the cultural, educational, social, and economic development of California.

Significant Adjustment:

- Permanent Funding Increase—\$5 million ongoing General Fund to provide additional grants to local arts organizations. These funds will be used to further the arts in the program areas of Economic and Community Development, Arts Education, Cultural and Community Engagement, and the Creative Economy.

JUDICIAL BRANCH

The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts and the Judicial Council. The trial courts are funded with a combination of resources from the General Fund, county maintenance-of-effort requirements, fees, and other charges. All other portions of the Judicial Branch primarily receive funding from the General Fund. The May Revision includes total funding of \$3.8 billion (\$1.7 billion General Fund) for the Judicial Branch.

Significant Adjustments:

- Trial Court Trust Fund Revenues—The May Revision includes an additional \$15.5 million General Fund to reflect a further reduction of fines and penalty revenues estimated to be collected in 2015-16, for a total of \$66.2 million that is available for transfer to the Trial Court Trust Fund.

DEBT SERVICE

The May Revision reflects the following adjustments for debt service costs:

- Current Year Debt Service—General Fund debt service expenditures have increased by \$35.3 million compared to the Governor’s Budget, for a total of \$5.2 billion. This reflects increased General Obligation debt service costs (\$4.7 billion total) and no change for lease revenue bond debt service costs (\$505.3 million total). The minor increase in General Obligation debt service cost is a result of bond issuances over the previous years increasing debt service costs at a faster pace than bonds being retired.
- Budget Year Debt Service—General Fund debt service expenditures will decrease by \$161.7 million compared to the Governor’s Budget, to a total of \$5.4 billion. This adjustment reflects reduced General Obligation debt service costs (\$4.8 billion total) and lease revenue bond debt service costs (\$535.8 million total). The decrease in General Obligation debt service is primarily attributable to: (1) a smaller spring 2015 bond sale than projected, (2) increased estimated premium on future bond sales, and (3) savings related to bond refinancings this spring. The decrease in lease revenue bond debt service costs is attributable to savings related to bond refinancings this spring. The Department of Finance continues to work with departments to manage bond cash and ensure bonds are issued only when necessary.

STATE APPROPRIATIONS LIMIT CALCULATION

2015-16 State Appropriations Limit (SAL) Calculation—Pursuant to Article XIII B of the California Constitution, the 2015-16 SAL is estimated to be \$94.042 billion. This amount is used for various calculations related to state budgeting. The revised limit is the result of applying the growth factor of 4.55 percent. The revised 2015-16 limit is \$899 million above the \$93.1 billion estimated in January. This increase is due to changes in the following factors:

- Per Capita Personal Income
 - January Percentage Growth: 2.91%
 - May Revision Percentage Growth: 3.82%
- State Civilian Population

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- January Percentage Growth: 0.88%
- May Revision Percentage Growth: 0.94%
- K-14 Average Daily Attendance
 - January Percentage Growth: 0.31%
 - May Revision Percentage Growth: 0.39%

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